[PUBLIC VERSION]

IN THE AUSTRALIAN COMPETITION TRIBUNAL

ACT 1 of 2017

Re:	Proposed acquisition of Tatts Group Limited by Tabcorp Holdings Limited
Applicant:	Tabcorp Holdings Limited

STATEMENT

Statement of:	Cormac Benedict Barry
Address:	367 Collins Street, Melbourne
Occupation:	Chief Executive Officer of Sportsbet Pty Ltd
Date:	28 April 2017

Filed on behalf of	Australian Competition and Consumer Commission		
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I, **Cormac Benedict Barry**, of 367 Collins Street, Melbourne in the state of Victoria, Chief Executive Officer of Sportsbet Pty Ltd, say as follows:

INTRODUCTION

1. Sportsbet Pty Ltd (**Sportsbet**) is an Australian licensed and regulated wagering operator.

2. I am authorised to make this statement on behalf of Sportsbet.

3. I make this statement from my own knowledge and from having consulted relevant staff and records of Sportsbet. Where I make this statement on the basis of information that has been provided to me by relevant staff at Sportsbet. I believe that information to be true.

4. In this statement, the 'proposed transaction' means the proposed acquisition by Tabcorp Holdings Limited (**Tabcorp**) of Tatts Group Limited (**Tatts**).

5. Unless otherwise defined in this statement, terms used in this statement have the same meaning as defined in the Form S (**Form S**) filed by Tabcorp as part of its application for authorisation of the proposed transaction (the **Application**).

Job title and position

6. I am the Chief Executive Officer of Sportsbet.

7. I commenced working at Sportsbet in August 2009. I have held the role of CEO since March 2011. As CEO, I am responsible for the day-to-day management of Sportsbet, and as part of that role I am a member of the Paddy Power Betfair management team.

8. Prior to working in my current role, I served as Commercial Director at Sportsbet (between August 2009 and March 2011), and prior to that I had a number of roles at Paddy Power between January 2000 and July 2009, including Head of Online.

9. I was also Chairman of the Australian Wagering Council, an industry body representing the interests of several prominent Australian wagering operators, between October 2012 and December 2016.

Sportsbet

10. Sportsbet is a corporate bookmaker licenced by the Northern Territory Government under the *Racing and Betting Act 1993* (NT) to conduct a business as a sports bookmaker.

11. Sportsbet is a wholly owned subsidiary of Paddy Power Betfair PLC.

12. Sportsbet offers bookmaking services on a range of activities (including racing and sports) to customers across Australia via telephone and online through its website (http://www.sportsbet.com.au). Sportsbet operates only through online (digital) and telephone channels. Sportsbet does not hold a licence that permits it to conduct a totalisator or a betting exchange or retail, cash-based wagering.

13. Racing, across the three racing codes (thoroughbred, harness and greyhound), generates the majority of Sportsbet's wagering turnover. Sportsbet also offers wagering on a wide variety of sports (for example, AFL, rugby, basketball, etc) and, to a lesser extent, wagering on general entertainment events and political events (ie novelty wagering).

14. Sportsbet predominantly supplies fixed odds wagering products on racing, sporting and other events. Sportsbet also offers a range of 'price matching' products on racing. Although these are referred to in the Form S filed with the Application as 'tote derivative' wagering, not all of Sportsbet's price matching products are derived from totalisator odds – some are derived from odds offered by on course bookmakers. Where Sportsbet offers 'tote derivative' price matching products, the odds offered by Sportsbet may be derived from the odds of two or more totalisators (eg a 'best of the totes' product) or derived from one tote but with an additional margin to attract punters. These products are only offered on racing, not sports or novelty events.

15. Sportsbet does not hold a licence to supply lottery, keno or gaming services.

16. Now shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-1** is a table setting out Sportsbet's wagering turnover, gross gaming revenue and yield, by product type (ie fixed odds / price matching / tote derivative), by event (ie racing / sports), and by channel (ie by digital / telephone). This covers the periods FY15 and FY16. I refer to figures in this **HIGHLY CONFIDENTIAL Annexure CBB-1** in various places in my statement below.

Paddy Power Betfair

17. Paddy Power Betfair PLC is an international, multi-channel sports betting and gaming operator listed on the London Stock Exchange that was formed in 2016 by the merger of Paddy Power and Betfair. Paddy Power Betfair PLC offers online wagering services through its websites which include betfair.com, paddypower.com and other variations of those URLs) and operates over 600 Paddy Power retail betting shops throughout the UK and Ireland. Paddy Power also operates international divisions in Australia (through Sportsbet) and the United States. Its US division consists of TVG, a horseracing TV channel and online pari-mutuel wagering operator active throughout 30 states, and betfaircasino.com, an online casino and horse-racing exchange in New Jersey.

OPERATIONS OF SPORTSBET AS A CORPORATE BOOKMAKER IN AUSTRALIA

18. I do not propose to provide an overview of the wagering industry (from the perspective of a corporate bookmaker) or a history of corporate bookmaking operations in Australia as I understand that this information has been provided in other witness statements, including in the statement of Nicholas Tyshing of CrownBet dated 13 April 2017. I wish however to provide some supplementary information, as it relates to Sportsbet's operations, on matters of key relevance.

Products

19. As I explained above, Sportsbet primarily offers fixed odds wagering. In this type of wagering, the odds in respect of the wager are fixed at the time the wager is placed by the punter. This means the punter is aware of the odds at the time the wager is placed and the punter can expect a fixed return on their wager based only on the odds at the time the wager is placed and the punter can expect a fixed return on their wager based only on the outcome of the event.

20. Fixed odds wagering products comprise the majority of Sportsbet's turnover. The remainder is price matching products. As set out in **HIGHLY CONFIDENTIAL Annexure CBB-1**, [**HIGHLY confidential to Sportsbet**] [redacted]

21. Unlike a totalisator or betting exchange, Sportsbet bears risk in relation to offering fixed odds wagering products and price matching products. The turnover we generate – and the revenue (and yield) derived from that turnover – is dependent upon how we frame markets, how well we manage our book and how many punters are successful, among other factors.

22. Although price matching products are (in some cases) derived from the tote's final odds, unlike the tote, we bear risk in offering these products as we do not know the odds at the time of accepting the wager. Because of the risk in offering these products, Sportsbet imposes payout limits on certain price matching tote derivative products (particularly exotics) in order to manage risk. This means that, despite the odds matching (or exceeding) the tote odds, the price matching tote derivative products we offer are less attractive to punters than the tote. Because the tote bears no risk, it can offer punters the chance to win significant amounts through such exotics. For these reasons, I do not consider these price matching products to be perfect substitutes for totalisator products.

23. Because we bear risk, risk management is a critical part of a corporate bookmaker's operations. Sportsbet would very rarely seek to lay off or hedge with a totalisator operator to spread that risk – the only time we would is where our company/corporate group liability limits would otherwise be exceeded.

Turnover, revenue and yield

Sportsbet turnover, revenue and yield

24. As set out in **HIGHLY CONFIDENTIAL Annexure CBB-1**:

(a) Sportsbet generated [**HIGHLY confidential to Sportsbet**] [redacted]. In the wagering context, 'turnover' is the term used to describe the amount wagered or staked with a wagering operator.

(b) Sportsbet generated [**HIGHLY confidential to Sportsbet**] [redacted] A wagering operator's 'revenue' is the amount that it retains through punters losing bets (it is equivalent to the amount retained by totalisator operators after applying their 'take out' rate or commission). I refer to this sometimes in this statement as 'gross profit' or 'gross win'.

(c) These turnover and gross revenue results translate to a percentage margin or yield (ie gross revenue divided by turnover) of [**HIGHLY confidential to Sportsbet**] [redacted].

Comparison of corporate bookmakers turnover, revenue and yield

25. An operator of a totalisator, such as Tabcorp, makes the same amount of money regardless of which or how many punters are successful – it removes its commission (its take out rate) prior to distributing winnings to punters. It thereby does not bear risk.

26. The means by which revenue is generated, the yield achievable and the risk profile, therefore differs significantly as between totalisator wagering and fixed odds wagering (such as that offered by Sportsbet).

27. The revenue generated by totalisators derives from the take out rate applied. As explained in the Form S, there are statutory caps on these take out rates (for example, Figure 11 of Douglas Freeman's statement records that the statutory cap on commissions on Victorian and NSW is 14.5% on win bets and 20% on exacta bets). These are negotiated as part of the consideration paid by a totalisator for the exclusive pari mutuel licence it obtains.

28. Totalisators such as Tabcorp can charge up to the maximum take out rate applicable (recognising that they offer rebates or discounts off the take out rate to premium punters, which I discuss below). Totalisator operators are also able to seek increases to these rates over time, through their commercial affiliation with the government who granted the licence and the racing industry in a given jurisdiction.

29. By comparison to totalisators, due primarily to the competition that exists in the online wagering market, punters benefit from the fact the take out rate (or yield) that corporate bookmakers such as Sportsbet are able to generate from fixed odds and price matching wagering is much lower.

30. [**HIGHLY confidential to Sportsbet**] [redacted]

[redacted]

31. Due to no competition existing in the retail network, that is, each State and Territory has awarded monopoly retail wagering rights, each of Tabcorp and Tatts is able to generate higher average take out rates (or yields) on fixed odds wagering than a corporate bookmaker. This lack of competition means the retail cash punter is forced to take the poorer odds on offer from Tabcorp and Tatts.

Competition between totalisators for premium punters

32. While I consider that totalisators do not offer punters the same value as corporate bookmakers, I understand that they do offer discounts or rebates off their standard take out rates to what might be termed 'premium' (high volume, sophisticated) punters. I understand all totalisator operators, including both Tabcorp and Tatts offered these rebates in the past and may continue to do so.

33. As we are not licensed to operate a totalisator pool, Sportsbet is not able to compete by offering equivalent totalisator discounts or rebates to these punters. I do not expect any other corporate bookmaker could do so. With the exception of Betfair Australia (which can service this segment to a limited extent), competition for these punters occurs solely between Tabcorp, Tatts and RWWA.

Value proposition

34. Due to the competition that exists in the online market, Sportsbet and other corporate bookmakers operate on lower yields, they offer better odds to punters (ie lower priced products), relative to the prices offered by Tabcorp and Tatts on their totalisator and fixed odds wagering products. That is, Sportsbet provides typically better value, relative to Tabcorp and Tatts.

35. A consequence of this is that corporate bookmakers such as Sportsbet provide more wagers to the average punter, allowing them to have a greater number of bets with the given amount that the average punter has decided to wager. The average punter will have fewer wagers with a totalisator (compared to a lower margin corporate bookmaker) because the totalisator charges a higher price for each wager, thereby eating away at the given amount that average punter has to wager. Competition also currently exists between Tabcorp and Tatts in fixed odds markets. When comparing

Tabcorp and Tatts over rounds (i.e. the margin retained by bookmakers), Tatts through its UBET brand is frequently more competitive, operating with lower over rounds than Tabcorp. This is especially true in the last 5 minutes prior to a race where the majority of turnover is wagered. The higher Tabcorp over rounds mean lower returns to customers which is likely to disadvantage Tatts customers post the proposed merger.

Racing and sports

36. Press reports highlighting recent growth in sports wagering overlook the fact that the size of the racing wagering segment remains significantly larger than sports wagering, despite recent short term material growth in sports wagering (due predominantly to live betting products which are no longer available).

37. Racing remains (and, in my view, will remain) the predominant wagering product in Australia. I do not consider that sports wagering will in the medium or long term reach (much less overtake) racing wagering as the dominant form of wagering in Australia.

38. First, racing contributes the majority of Sportsbet's turnover and revenue. As can be seen in **HIGHLY CONFIDENTIAL Annexure CBB-1**, [**HIGHLY confidential to Sportsbet**] [redacted]

39. Now produced and shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-2** is Sportsbet data that illustrates the size and significance of racing wagering compared to sport, in both turnover and gross win (ie gross revenue) terms. This data shows the individual and collective significance of racing, relative to sports, to Sportsbet's turnover. I believe this data to be accurate. As illustrated in **HIGHLY CONFIDENTIAL Annexure CBB-2**, [**HIGHLY confidential to Sportsbet**]

[redacted]

[redacted]

40. Second, fixed odds wagering on racing is typically a relatively higher margin product than fixed odds betting on sports. We have an incentive to promote racing to customers over sport, as the former is a higher margin product. [**HIGHLY confidential to Sportsbet**] [redacted]

41. Third, there is uncertainty about the future ability of Sportsbet and other wagering operators to advertise in and around sports (due to high profile lobbying to reduce or prohibit such advertising), and a risk that product fees payable in respect of sports will increase in future. Now shown to me and marked **Annexure CBB-3** is an article from The Australian dated 20 April 2017 which discusses proposed new restrictions which would prohibit wagering advertising on live sports events, referred to as a 'siren to siren' ban.

42. Fourth, the recent growth in sports betting in the period covering December 2015 to October 2016 was – in my view – predominantly attributable to live betting via so called 'click to call' and like products, which are now no longer offered by corporate bookmakers. This means it is wholly unreliable to look at this period of growth as an indicator of future growth (or the ability of corporate bookmakers to compete against Tabcorp and Tatts in the future). I discuss this in more detail below.

Click to call live betting products

43. There is important context as to why there was rapid growth in sports wagering in 2015 and 2016 and why that growth is not representative of future growth.

44. The period from April 2015 to October 2016 is unique because it was in this particular, confined period that four major corporate bookmakers (William Hill, Ladbrokes, Bet365 and Sportsbet) offered so-called 'click to call' products to their customers.

45. These products, although the mechanics of each varied as between operators, improved the customer experience for live betting on sport by speeding up the betting process and, in some instances, allowed customers to place bets over the telephone without actually speaking with an operator.

46. The offering of these products occurred as follows:

(a) On 20 April 2015, William Hill launched its 'Click to Call' product;

(b) Ladbrokes launched its 'QuickCall' on about 3 May 2015 and Bet365 launched its similar 'BetCall' product in about June 2015;

(c) On 15 December 2015, Sportsbet launched Bet Live (without any 'above the line' advertising). Sportsbet subsequently began advertising the product with the approval of television networks from 7 February 2016;

(d) On 5 October 2016, a new licence condition came into effect for Northern Territory licensed Sports Bookmakers which banned all 'click to call' type products from that date. The four sports bookmakers offering a 'click to call' type product therefore ceased doing so from 4 October 2016.

47. The popularity of these products during the relevant period was immense. As set out in **HIGHLY CONFIDENTIAL Annexure CBB-1**,[**HIGHLY confidential to Sportsbet**]

[redacted]

48. Now produced and shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-4** is Sportsbet data that illustrates the extraordinary popularity of Sportsbet's Bet Live and contribution to total turnover in 2016. It also includes Sportsbet data which illustrates that the previous growth in sports wagering is unlikely to continue at the same rate in the future. The data in **HIGHLY CONFIDENTIAL Annexure CBB-4** shows that [**HIGHLY confidential to Sportsbet**]

[redacted]

[redacted]

49. Now shown to me and marked **Annexure CBB-5** is Paddy Power Betfair plc Preliminary Results for the year ended 31 December 2016, which refer to the impact of the introduction of Sportsbet's Bet Live click to call product. The results explain (at page 11):

> *The first nine months of the year benefited from strong growth in telephone in-play betting, driven by our 'Bet Live' product. This product was released in December 2015 but was withdrawn on 4 October 2016 following regulatory changes. In the first three quarters of 2016 in-play betting contributed 14% of stakes and 7% of revenue versus 6% and 3%, respectively in the prior year. In the fourth quarter, the in-play mix broadly returned to levels seen prior to the launch of 'Bet Live'*.

50. Operators ceased to offer click to call products in around October 2016 after the Northern Territory Racing Commission imposed a licence condition which banned these products.

51. This occurred in advance of proposed Federal law reform to the *Interactive Gambling Act 2001* (**IGA**) which came in the form of the *Interactive Gambling Act Amendment Bill 2016* (**Bill**). The Bill, introduced into the Federal Parliament in November 2016, proposes to amend the IGA to:

(a) prohibit 'click to call' in-play betting services; and

(b) at the same time, significantly expand the scope for interactive gambling on retail premises.

52. As at 21 April 2017, this Bill was back before the House of Representatives to consider after the Senate passed various amendments to the Bill which relate to a separate issue.

53. If the Bill is passed in its proposed form, it will prohibit wagering operators from offering 'click to call' products but extend and allow online in-play sports wagering to be provided in thousands of retail wagering outlets, pubs and clubs across Australia. This will give Tabcorp and Tatts a substantial competitive advantage by allowing them to offer online in-play betting on sporting events using handheld electronic equipment provided to customers in the retail outlet when the same type of betting is prohibited, for example, on the footpath outside the premises using a smart phone. Tabcorp and Tatts would have the ability to offer online in-play betting in retail stores, pubs and clubs, and the ability to cross-promote their online wagering operations (and their other gaming & lottery operations).

Restrictions on Sportsbet product offerings

54. Sportsbet, as a bookmaker, is prohibited or limited in its ability to offer certain wagering products, in particular:

(a) totalisator products;

(b) retail (cash) betting;

(c) in play online betting on sports; and

(d) virtual racing.

55. Sportsbet may not offer totalisator or retail wagering products anywhere in Australia.

56. Sportsbet may only conduct live 'in play' wagering on sport through telephone. Accepting live bets via the telephone is clunky and less attractive to punters relative to placing a wager with cash or online (or, as demonstrated by their popularity, via click to call mechanisms).

57. Live in play sports wagering through digital channels (eg through a mobile device) is not permitted, so corporate bookmakers cannot offer live betting on sports online. Live in play wagering on sports is only permitted to be conducted within a retail wagering environment, either in cash or through a self-service betting terminal (or SSBT). These are only able to be offered by Tabcorp, Tatts or the WA TAB.

58. Sportsbet may not offer wagering on virtual events. This can be only offered in jurisdictions where this product has been reclassified from an interactive gaming

product to a wagering product. At the moment this is limited to Victoria and NSW, but based on media reports, I believe that should the merger go ahead, Tabcorp will seek a reclassification from the Queensland Government of its KENO gaming product to a virtual racing wagering product. In jurisdictions where wagering on virtual events is allowed, the product can only be offered in a retail environment by Tabcorp and creates a material advantage for them who in the most recent financial year generated $95.5m in revenue from its virtual racing product (or nearly 5% of its revenue for the period). Now produced and shown to me and marked **Annexure CBB-6** is an article from the Courier Mail dated 6 November 2016.

Channels

59. Sportsbet cannot operate retail wagering outlets or venues, or otherwise physically accept cash wagers.

60. Sportsbet is only able to accept wagers through the telephone or online (digital channels).

61. The online channel is where the vast majority of Sportsbet's turnover is generated. Although corporate bookmakers are legally able to offer telephone betting, this makes up a very small percentage of Sportsbet's turnover and revenue.

62. [**HIGHLY confidential to Sportsbet**] [redacted]

63. I consider that the telephone channel is likely to decline in popularity in the future, with increasing uptake of digital. However, telephone does remain the only means by which we can offer 'in-play' wagering on sporting events.

Importance of multi-channel

64. One key structural advantage that Tabcorp and Tatts each have is an offline (retail) presence through their 'TAB' and 'UBET' venues and outlets, which Sportsbet and other corporate bookmakers are precluded (by law) from establishing.

65. Despite rapid online migration, the retail (or 'offline' only) wagering segment (ie TAB retail, pubs, clubs and on-course) continues to be an important channel. Retail (offline) spend is made up from both people who only bet in retail channels (offline only) and those who wager in both retail and remote (online and phone) channels. The consumers betting through both online and retail (or 'multi-channel') are attractive, and valuable, to wagering operators.

66. [**HIGHLY confidential to Sportsbet**] [redacted] Now shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-7** is Sportsbet data that illustrates that multi-channel customers remain the largest segment of the market and one that is continuing to grow.

67. Further, offline consumers migrating to online have a strong preference to continue betting with their offline (retail) provider. [**HIGHLY confidential to Sportsbet**] [redacted] Now shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-8** is Sportsbet data that shows a significant proportion of these bettors will bet with their retail provider online simply because they already bet with them offline.

68. Sportsbet data indicates that [**HIGHLY confidential to Sportsbet**] [redacted]

[redacted] Now shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-9** is Sportsbet data that illustrates this.

69. Now shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-10** is a Sportsbet table with data as to where else Sportsbet's customers wager. [**HIGHLY confidential to Sportsbet**] [redacted]

70. This multi-channel value is a result of Tabcorp and Tatts' respective exclusive retail licenses (which collectively cover all states except WA), giving them branding and communication advantages, customer experiences, and integration of online and offline betting accounts and reward programmes. The retail presence of Tabcorp and Tatts is driving their online businesses, and can be leveraged into the online channel. This is highlighted by Tabcorp's comments in a 2014 Investor Day Presentation, stating that 61% of all account deposits are with cash in retail outlets, with customers representing more than 70% of account turnover transacted with Tabcorp in more than one channel. Cash payments are a key input to wagering online and the ability to take cash is a significant material strategic advantage. Post transaction, the merged entity's extensive retail presence will provide it with enhanced competitive advantage by allowing it to further leverage that retail presence into the digital channel, securing valuable multi-channel punters. There would also potentially be scope to migrate customer wagering to a more favourable jurisdiction from a regulatory or taxation perspective such as, for example, the ACT.

INPUTS TO WAGERING IN AUSTRALIA

71. There are various inputs required to conduct wagering operations in Australia, including the acquisition of a licence, the acquisition of racing and sports media content to provide an enhanced wagering experience to punters; advertising and signage opportunities; and the acquisition of race field or product information from racing or sports bodies, among others. I now make some comments on the acquisition of some of these inputs.

Acquisition of licence

72. Sportsbet (like most other corporate bookmakers) is licensed in the Northern Territory by the Northern Territory Government through the NTRC. The licence confers no exclusive rights or entitlements. We therefore have materially different rights and entitlements provided under our licences than those granted to totalisator operators under their exclusive licences. The tax and funding contribution arrangements corporate bookmakers have reflect those different rights and entitlements. I discuss this below.

Rights to sports media content

73. Rights to broadcast sports vision and / or audio content are controlled by the national sporting governing bodies and are, generally, readily available to punters at little (or no) cost. Some wagering operators have non-exclusive digital rights to sports content, however to my knowledge only Crownbet holds exclusive wagering operator rights to AFL vision. Ease of access to such content, in my view, has been a key factor which has driven turnover on sports wagering.

Rights to racing media content

74. By contrast, while owned by race clubs or racing governing bodies, the vast majority of rights to vision and / or audio content of races are held exclusively by Sky Racing.

75. Based on Sportbet's discussions with racing clubs and governing bodies, it has become apparent to us that these agreements often bundle all currently available and future rights plus have staggered end dates. This makes it very difficult for Sportsbet, or any wagering operator outside of Tabcorp, to establish a broad or aggregated strategy of streaming racing content. Our discussions with rights holders also indicate that these agreements often contain both a warehousing component (i.e. Sky is not even required to use these rights) and/or a pre-emptive or 'first and last' right to secure the media rights exclusively. I note this point is also reflected in the comments of Andrew Catterall in his evidence on behalf of racing.com. This structure of agreements provides very significant barriers to any outside wagering operator seeking to acquire racing content. Based on our discussions I also believe the rights holder is at risk of retribution from Tabcorp and Sky during any negotiation period by Sky either (a) not using their content for distribution, or (b) moving the content to Sky 2 resulting in a negative impact on wagering and rights paid to the

rights holder. This type of behaviour is consistent with the 'black out strategy' employed by Sky and Tabcorp during 2015 in respect of Victorian thoroughbred racing.

Rights to content

76. The rights to broadcast racing held at an individual club's racetrack are held by that individual racing club (or in some instances the racing governing body in that state). For example, the Australian Turf Club holds the broadcasting rights to races held at its Randwick racetrack. In some States, the rights to racing content have been aggregated as racing clubs have assigned their broadcasting rights to the peak racing body in each State and Territory. As a result, Sky Racing holds the rights to Australian thoroughbred racing (outside of Victoria) in relation to each of the following platforms:

(a) digital (eg. streaming content online through a website or app on a device), including digital in respect of archival footage;

(b) international distribution, a growing rights exploitation opportunity for racing and one that can't have value maximised for racing under the current exclusive model of Tabcorp and Sky Racing as some overseas operators (e.g. our parent company, Paddy Power Betfair) are excluded from securing the content even in markets in which Tabcorp does not compete;

(c) free to air TV; and

(d) subscription or pay TV.

77. The demand for each platform differs. Sportsbet, for example, would be primarily interested in digital rights (rather than free to air TV rights).

78. Tabcorp through its media arm, Sky Racing, holds exclusive licenses to racing content across digital, free to air TV and subscription TV in all States and Territories, with the exception of thoroughbred racing in NSW and Victoria. Sky Racing has acquired these exclusive rights as a bundle, which has precluded corporate bookmakers, such as Sportsbet, and other parties from acquiring rights to broadcast racing content on any platform. Victoria is the only state that has effective multi-user, non-exclusive arrangements, unbundled by platform. This means that, in Victoria,

content is available through a free to air channel, digitally through racing.com, and also digitally through Tabcorp / Sky Racing and several corporate bookmakers (including Sportsbet, CrownBet, Ladbrokes and Bet 365). This unbundling of rights by platform in Victoria and the non-exclusivity of broadcasting rights has driven growth in Victorian wagering, and provides benefits to punters through competition among rights holders with respect to innovations for the digital delivery of racing content and the associated experience. I discuss the Victorian experience further below.

79. In NSW, unbundling of rights to thoroughbred racing has only occurred in relation to the digital platform, and while unbundled, the rights have still been provided on an exclusive basis in the corporate bookmaker category (to William Hill). I do not consider that these arrangements will drive wagering to the same extent as Victoria.

Importance of content

80. Racing vision and audio is of paramount importance to the wagering experience of punters. It provides the entertainment aspect of the wagering experience for punters, allowing punters to engage in the complete wagering experience, access live racing information and commentary, view the event upon which they are wagering and learn of the outcome in real time. Access to racing media content is even more critical with the rise in digital devices (such as smartphones), allowing punters to wager in any location and engage in the full wagering experience by viewing the event upon which they are wagering, wherever they are.

81. Racing content particularly lends itself to the digital delivery platform due to the short duration of races, which can be contrasted against (often lengthy) sporting events. Combined with the growth in digital wagering, this means that a wagering operator's ability to provide racing media content on digital platforms is crucial to competition in the wagering market. It means that the ability of corporate bookmarkers to provide innovative and competitive wagering products, and otherwise effectively compete against Tabcorp and Tatts (and a combined Tabcorp / Tatts), is critically dependant on the ability to provide customers with racing vision content in conjunction with the wagering product. The actual and potential value in such content, and its ability to enhance competition among wagering operators, is immense.

Media rights held by Sportsbet

82. Sportsbet has acquired non-exclusive digital broadcasting rights to Victorian thoroughbred racing from Racing Victoria. These same rights are enjoyed by Sky Racing, racing.com, CrownBet and several other corporate bookmakers. Sportsbet does not have broadcasting rights to any other delivery platform for Victorian thoroughbred racing, any other code of racing in Victoria nor any racing code in other States and Territories.

83. Victorian thoroughbred races comprise only a small proportion of races across the three codes of racing in Australia (approx.. 6.3% in FY16), and smaller proportion still in the context of international races. Sportsbet therefore enjoys only a very limited ability to broadcast racing content to its punters through digital platforms.

84. This is in contrast to Tabcorp, which through Sky Racing has exclusive vision (free to air TV, subscription TV and digital) rights and audio (radio) rights to all racing codes in every State and Territory (except non-exclusive rights to Victorian thoroughbred racing and non-exclusive digital rights to NSW thoroughbred racing, as discussed above).

No access from Sky Racing

85. Sportsbet is not able to redistribute or stream content held by Sky Racing. Additionally, Sportsbet is not able to access archival rights for the purpose of enhancing racing form (e.g. replays) as the content rights are held by Sky Racing. Racing media content controlled exclusively by Sky Racing (which is the majority of racing media content) cannot be accessed or redistributed by any corporate bookmaker, as Sky Racing strictly prohibits this.

86. In the case of Tatts (through UBET) and RWWA (through TabTouch), their online customers have access to live racing vision through agreement with Sky Racing. However, in this part of the digital market, Tabcorp and Sky Racing still control content distribution to the point where Sky Racing is promoting Tabcorp offers, promotions, prices and products directly to Tatts and RWWA customers. It is partly for this reason I believe Tatts would be a buyer of racing content direct from the rights holders in the future (refer para 142 below).

87. In addition, Sky Racing distributes the actual feed of SKY1 and SKY2 to UBET and RWWA, with the account holder being able to choose which station they watch. However, this means that both wagering operators are promoting Tabcorp wagering products and offers to their digital customers. The feed from Sky Racing has each of NSW and Vic thoroughbreds 'blacked out', so it has a blank screen with a notice saying 'due to contractual reasons we are unable to show this race' or something similar. So, even in the digital environment with other operators, Tabcorp uses Sky Racing to promote Tabcorp products by having in place wholesale arrangements for the SKY1 and SKY2 digital stream to be provided to totalisator operators UBET in South Australia and Queensland, and RWWA (via its TAB Touch brand) in WA.

Comparative experience in Victoria where rights to content are non-exclusive

88. Rights to thoroughbred racing content have become non-exclusive and available to corporate bookmakers in recent times in Victoria. Through the establishment of racing.com and significantly greater access to content, there has been an increase in turnover and competitive tension, and benefits to consumers. Racing Victoria has stated there has been a positive impact on wagering turnover on Victorian thoroughbred racing, recently (23 February 2017) announcing results for the half year to 31 December 2016 showing "Total turnover on Victorian thoroughbred racing across the 240 approved wagering service providers was up 6.0% with $3.63 billion wagered." The experience in Victoria provides an opportunity to conduct comparisons of the impact of such access. These underscore the value of access to content. Now produced and shown to me and marked **Annexure CBB-11** is Racing Victoria's half year results to 31 December 2016.

Access by Sportsbet

89. In March 2015, Sportsbet entered into a non-exclusive streaming partnership with Racing Victoria (**RVL**). [**HIGHLY confidential to Sportsbet**] [redacted]

90. [**HIGHLY confidential to Sportsbet**] [redacted]

[redacted]

91. Based upon the results of the Victorian streaming agreement, [**HIGHLY confidential to Sportsbet**] [redacted]

Impact of vision blackout

92. Now shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-12** is Sportsbet analysis, in the form of 'natural experiment', comparing the impact on wagering turnover pre, post and during the Sky vision blackout in Victoria in 2015. Between 16 and 25 June 2015, there was no Victorian thoroughbred racing vision content broadcast by Sky Racing. Content was available through streaming by Racing Victoria including through Sportsbet. **Annexure CBB-11** shows the year on year growth rates for thoroughbreds by state. Sportsbet estimates that, during the vision blackout, the Supertab Tote Win Pools year on year decline accelerated by -21%, due to the absence of vision through Sky Racing. Due to the availability of content through Racing Victoria streaming available through Sportsbet, however, Sportsbet saw significant growth of more than 35% during that period.

93. Now produced and shown to me and marked **Annexure CBB-13** is a diagram showing the rolling 7 Day year on year Victorian Racing Growth – Sportsbet vs Supertab Win Pools, for details of this immediate and subsequent impact of the blackout.

(a) Since the commencement of the vision blackout and subsequent free to air TV exposure of Victorian thoroughbred racing, Sportsbet's Victorian thoroughbred turnover has grown considerably year on year. For example, during the blackout period turnover grew by over 35% and although since the blackout period Sportsbet's growth has declined to 23% it is still approximately double of the pre streaming growth rate of 12%.

(b) In comparison to the Supertab Tote Win Pools, Sportsbet's 7 day rolling average year on year growth was:

(i) 28% higher at the commencement of the vision blackout;

(ii) 44% higher at the end of the vision blackout;

(iii) 51% higher as at 30 June 2015.

Access to Hong Kong vision

94. Another 'natural experiment' showing the potential value of access to content is the increase in Sportsbet's turnover following the availability of Hong Kong racing vision on racing.com and 'free to air' Channel 78 since 8 September 2016 (it was previously only available on Sky).

95. Now shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-14** is a Sportsbet table that shows Sportsbet's year on year turnover growth for Hong Kong racing for the periods from 1 January to 8 September and 8 September until 31 December 2016. [**HIGHLY confidential to Sportsbet**] [redacted]

(a) [redacted]

(b)

Other natural experiments / comparisons

96. Now produced and shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-15** is Sportsbet data comparing Sportsbet turnover mix and Sportsbet thoroughbred racing turnover mix by jurisdiction. Domestic thoroughbred racing (which does not include harness and greyhound racing) represents [**HIGHLY confidential to Sportsbet**] [redacted] of Sportsbet's total turnover. Victoria continues to represent the largest proportion of Sportsbet's total thoroughbred turnover, [**HIGHLY confidential to Sportsbet**] [redacted] This is despite NSW being the largest thoroughbred racing state in Australia with data from the Australian Racing Fact Book 2015/2016 showing that NSW had annual wagering turnover in 15/16 on its races of

$3.9b (compared to Victoria's $2.8b) and more TAB races (ie races where off course pari-mutual betting is conducted) than any other state with 4,684 races.

97. In Sportsbet's view, a key reason that Victorian thoroughbred racing represents a greater proportion of Sportsbet's total thoroughbred racing turnover is that, unlike NSW, Racing Victoria permits thoroughbred racing content to be streamed to punters through racing.com, Tabcorp and four Corporate Bookmakers. In NSW, by contrast, the content is only available through Sky Racing (and, more recently, through William Hill exclusively in digital channels in the corporate bookmaker category).

98. These 'natural experiments' outlined above demonstrate the significant value of access to content, and the ability for such access to enhance competition between wagering operators. Sport is a further 'real life' example where non-exclusive access to content and an ability to advertise has driven wagering growth and competition between wagering operators. I discuss this further below.

Advertising

99. In my view, the most effective way to advertise to punters is to advertise wagering on a specific event, in conjunction with the broadcast of that same event. For example, advertising wagering on sports in most effective when shown during the broadcast of sports. Sportsbet generally would not, for example, advertise wagering on racing during the broadcast of a sporting event.

Advertising on racing

100. However, Sportsbet (like other bookmakers) is significantly constrained in its ability to advertise in racing. There are otherwise limited opportunities to advertise in racing. These are confined for example, to sponsoring a form guide or a race track (although the latter is also difficult because of the exclusive racetrack sponsorships held by Tabcorp and Tatts).

101. We are unable to advertise on Sky Racing.

102. Sky Racing strictly precludes advertising of all corporate bookmakers. It only promotes Tabcorp products, brands and prices (as well as totalisator and fixed odds prices offered by Tatts and WA TAB). Corporate bookmakers, including Sportsbet, are precluded from advertising to Sky Racing's audience which predominantly comprises punters and potential punters. This represents a substantial competitive

disadvantage to the wagering operations of Sportsbet and its ability to acquire and obtain customers.

103. Sky Racing's control on advertising exerts significant influence on a punter's choice of wagering provider through integrating branding and advertising for Tabcorp. For example, the attractiveness of retail wagering outlets to punters is enhanced by the availability of Sky Racing through commercial pay TV in those outlets. This extends to the retail networks of Tatts and RWWA, enabling Tabcorp via Sky Racing to promote and advertise Tabcorp offers, promotions, prices and products directly to Tatts and RWWA customers in jurisdictions where Tabcorp does not even hold the exclusive licence. This is in contrast to Sportsbet and other corporate bookmakers who do not have a retail wagering licence and cannot provide access to the breadth of content available on Sky Racing.

104. Tabcorp is able (and, post transaction, the combined Tabcorp / Tatts will be able) to favour its own operations as it has a unique ability to promote its own brands through advertising on the Sky Racing network. The value of this is significant, and it is only currently accessible by Tabcorp and, post-merger, by the merged entity.

105. Sportsbet has estimated the potential annual value of advertising on Sky Racing as approximately **$45m-55m**, **per annum**. This estimate takes account of an analysis and comparison against advertising revenues associated with racing.com which broadcasts Victorian thoroughbred racing. Sportsbet estimates Sky Racing's potential advertising revenue (if opened up to wagering operators) would be materially higher than racing.com because:

(a) as an advertising platform it has a significantly larger viewing audience;

(b) Sky Racing offers 3 channels compared to the 1 channel offered by racing.com;

(c) Due to the volume of rights it holds across three codes of racing, the total number of hours of live racing broadcast (and hence wagered on) each day is far in excess of that of racing.com;

(d) Sky Racing offers thoroughbred racing across all Australian states and territories while racing.com only offers Victorian thoroughbred racing;

(e) Sky Racing has exclusivity to all Australian greyhound and harness racing content; and

(f) Sky Racing has access to international racing (while racing.com currently only offers Hong Kong racing).

Advertising in sport

106. Due to a practical inability to advertise in racing, a significant proportion of our advertising and marketing efforts are directed at sports.

107. Sportsbet, at present, can advertise our sports wagering products reasonably effectively in respect of sports events. The key reason for this is that the vast majority of sport media content is readily available through free to air, subscription TV and / or digital streaming, at little or no cost to punters, and, unlike racing, is not exclusively available through a wagering operator (ie no wagering operator exclusively controls rights to sports media content).

108. In my view, because of the ready access to sports media content and a ready ability to advertise in sports, corporate bookmakers such as Sportsbet have been able to more effectively compete in sports wagering. This more even playing field in terms of media content has, from my perspective, been a key factor behind recent growth in sports wagering. When forced to compete on a level playing field with corporate bookmakers Tabcorp sports wagering turnover declined 3.9% in the most recent period (FY2016). Now produced and shown to me and marked **Annexure CBB-16** is a relevant extract of Tabcorp's 2016 Annual Report.

109. However, while Sportsbet can currently advertise sports wagering products reasonably effectively in respect of sports events, there is considerable uncertainty as to whether this will continue in the future – either due to industry self-regulation seeking to limit advertising in sport or through regulatory action (for example, reforms proposed by Senator Xenophon).

TAXES AND CONTRIBUTION

Taxes

110. Sportsbet, like other corporate bookmakers and totalisators, pays corporate income tax and GST. These are not totalisator wagering specific taxes.

111. Sportsbet, like other corporate bookmakers, must also pay 10% of its gross revenue in annual wagering tax to the Northern Territory Government. This is currently capped at $575,000 per year (see section 106 of the *Racing and Betting Act* (NT)). The NT Government requires sports bookmakers to make a further wider economic contribution to the Northern Territory, in addition to payment of wagering tax.

112. Sportsbet pays wagering tax to the NT Government, irrespective of where a customer's account is opened. Sportsbet do not hold wagering licenses across multiple jurisdictions, and we cannot seek to migrate customers to a more favourable jurisdiction from a regulatory or taxation perspective.

113. I consider that these wagering tax obligations (and the licence fee payable) to the NT are reflective of the rights and entitlements conferred on corporate bookmakers such as Sportsbet. We are precluded from offering cash based (anonymous) retail wagering (both on-course and off-course) and from offering available totalisator wagering, and the licence provides no exclusivity with respect to our operations, products or the channels in which we can operate. The level of these fee and taxes payable does not confer Sportsbet with any 'material' advantage over Tabcorp and Tatts, as Tabcorp claims in its Form S (for example, at paragraph 4.34). In fact, Luxbet, the corporate bookmaking subsidiary of Tabcorp, is itself licensed in the NT.

114. By contrast, the licence fee and ongoing obligations on Tabcorp and Tatts to pay a wagering tax and funding to the racing industry in their respective jurisdictions are critical elements of (and indivisible from) the consideration for the licences providing each of them with totalisator and retail exclusivity in a particular state. They pay these taxes and funding over the term of their exclusive rights, reflecting the significant and enduring rights and entitlements they receive in return, including in many instances, exclusivity on advertising and sponsorship opportunities. The tax and funding arrangements also reflect a negotiated position as between the totalisator, the state and the racing industry for the (and at the time of the) acquisition of those exclusive rights and benefits.

Corporate bookmakers' contribution

115. Tabcorp claims, in its Form S, that corporate bookmakers such as Sportsbet make little contribution or limited payments to the racing industry. I strongly disagree.

116. Sportsbet contributes significantly, including through the payment for product fees, sponsorships, racing media assets and digital streaming [**HIGHLY confidential to Sportsbet**] [redacted] to the racing industry in each state and territory, relative to the non-exclusive licence we hold and the rights and entitlements conferred under that licence (including in respect of the channels we can conduct our operations, and the products that we can offer). Now produced and shown to me and marked **HIGHLY CONFIDENTIAL Annexure CBB-17** is a table containing the above data. Further, the quantum of this contribution at any given time will reflect the size of each bookmaker – as we grow, so too does the contribution we make. In this context, I'm strongly of the belief that if Sportsbet had access to a broader range of racing content that there would be a material uplift in our racing turnover and consequently the amounts we paid to racing bodies of all three codes in all states and territories in product fees, in addition to fees for content.

117. The quantum we pay can also be changed, at any time, by the racing bodies in each state and territory through changing the product fees levied. This provides a means through which funding can be increased, if needed, by the racing industry.

118. The totalisator's relationships with the state or territory governments and the racing industry, through their licence arrangements, provide them with an ability to negotiate and lobby for changes which favour their operations or which increase the costs to corporate bookmakers. An example of this negotiating power is the favourable product fee agreements totalisators have been able to secure whereby totalisator bets are charged at lower rates in some states. This applies also to negotiating and lobbying state or territory governments to secure regulatory changes which favour their operations or which increase the costs to corporate bookmakers. There are a number of examples of state-based arrangements where Tabcorp and Tatts are insulated from the cost of increasing product fees that might be charged by racing bodies. Racing Queensland's Annual Report for financial year ended 30 June 2016 indicates they incurred charges for interstate race fields on behalf of Tatts in the order of $36m last financial year. Now produced and shown to me and marked **Annexure CBB-18** is an extract from Racing Queensland's 2016 Annual Report.

119. One such example is the 'point of consumption' tax being proposed by South Australia (and being considered by other jurisdictions). Sportsbet has actively opposed the introduction of this 'punters tax', and I have stated publicly my concerns about this proposal, which I understand will have limited or no impact on Tatts but hit

corporate bookmakers hard, as the existing taxation arrangements affecting Tatts are adjusted to offset the impact of the new tax. It would make South Australia one of the highest taxed online wagering environment in the world. Corporate bookmakers are going to have two options, either withdraw from that market or make their prices and promotions for South Australian punters worse. If operators withdraw, that would mean no funding to racing and sport, no GST to the Federal Government and no corporate taxes to the Federal government.

120. The individual negotiation and lobbying power of Tabcorp and Tatts would be significantly increased through combining their operations and license arrangements. Collectively, they will be able to exert substantial pressure against every state and territory government and racing body in Australia, except in WA. Even in WA they will be able to exert pressure, through Tabcorp's pooling arrangement with the WA TAB and Sky Racing's control of WA racing media content. This opportunity is enhanced through Tabcorp's use of Sky Racing to directly influence punters and drive punters to the content they specifically want the customers to bet on.

121. I am of the view that the above factors mean there is the opportunity for Tabcorp "to go jurisdiction shopping" in terms of taxation arrangements and customer management to deliver the most profitable outcome relative to its competitors.

Offshore operators

122. In addition to domestic licensed Australian wagering operators such as Sportsbet, there are also offshore wagering operators. These operators are unregulated and unlicensed in Australia, and are not required to comply with the stringent regulatory requirements (including in respect of probity, privacy, integrity, consumer protection and anti-money laundering) that Australian wagering operators must meet, nor comply with responsible gambling practices. They do not pay licence fees, wagering taxes, state or federal taxes, product fees or otherwise make a contribution to the Australian wagering industry or economy more generally.

123. I am aware that the Federal Government conducted a Review into Illegal Offshore Wagering, identifying a range of issues including the ability of domestic operators to compete against offshore operators and the detriments associated with wagering with offshore operators. That Review found that the volume of money being wagered by Australians overseas was very significant, and heard submissions by stakeholders

of estimates between $64m to $400m annually and growing (the latter equating to 26% of the market).

124. One of my concerns with the point of consumption tax in South Australia, and other regulatory or similar steps taken by governments and the racing industry which raise the costs of Australian corporate bookmakers, is that it will, ultimately, push consumers to these offshore wagering operators. Recognising the harm linked with offshore wagering, any measures which push punters to unregulated offshore providers will result in significant consumer detriment.

MARKET CONCENTRATION

125. Sportsbet has prepared pre and post transaction market share data with respect to a national wagering market. This has been prepared from Sportsbet's internal data and estimates of the financial performance of other wagering operators.

126. This market share data is presented by (i) turnover and (ii) by gross revenue (or gross profit). As explained in other statements, turnover in the context of wagering is a headline metric providing a view on how much is wagered or staked with wagering operators, while gross revenue is the amount retained by the wagering operator after payouts to punters are deducted from turnover, ie it is a measure of gross profit. I do not consider that turnover provides an accurate assessment of the relative size or competitive strength of market participants, and so I provide market share data by gross profit as it reflects the underlying ability of operators to generate a return. This data does not include offshore revenues.

127. Now shown to me and marked **Annexure CBB-19** is Sportsbet's market share data. Sportsbet's market share estimates shows that a combined Tabcorp / Tatts would have a combined post-merger market share of 49.9%, by turnover. By gross profit (ie gross revenue), a combined Tabcorp and Tatts would have a post-merger market share of 60.3%.

128. This data illustrates that the merged entity would have the largest share of the national wagering market, whether assessed by turnover or by gross profit (gross revenue). It would have a combined share, post transaction, that exceeds the next largest wagering operator (Sportsbet) by a significant margin, and exceeds all other Australian wagering operators by an even greater margin. For example, the combined Tabcorp / Tatts' would have a market share by gross profit that is nearly 5

times more than that of Sportsbet. By gross profit (gross revenue), a combined Tabcorp /Tatts would have a market share that is greater than all other Australian wagering operators combined. The total market share of the merged entity, if it acquired RWWA, would equate to 68.6% (in excess of two thirds of the total wagering market).

COMPETITIVE ADVANTAGES / DISADVANTAGES OF TOTES V BOOKMAKERS

129. I have read the public version of the statement of Nicholas Tyshing dated 13 April 2017, including the summary he provides of the competitive disadvantages of corporate bookmakers relative to totalisators such as Tabcorp and Tatts, having regard to their different rights and entitlements and the consequential impact on the scope and operations of, and leverage opportunities available to, these wagering operators. I agree with the summary of those competitive disadvantages.

130. Given these matters, I do not agree that the merger is necessary to enable Tabcorp and Tatts to compete more effectively against corporate bookmakers, as claimed by Tabcorp in its Form S (at paragraph 3.8).

TATTS AS A COMPETITOR

131. The market share data I discussed above demonstrates the present and future significance of Tatts (UBET) in the wagering market. Sportsbet's market share estimates in **Annexure CBB-16** show that Tatts (UBET) currently has an estimated market share (by turnover) of 12.2%, which makes it the third largest operator in Australia after Tabcorp and Sportsbet, and a significantly greater market share than the next largest wagering operator. By gross profit (gross revenue), Tatts is the second largest operator after Tabcorp generating \$611m in revenue and EBIT of \$116m from its wagering operations. Its market share by gross revenue is greater than Sportsbet , and significantly greater than the next largest wagering operator.

132. These figures demonstrate to me that Tatts is currently a strong competitor, and would be well placed to continue to be so if the proposed transaction does not proceed. Although it is not the same size as Tabcorp, I do not underestimate its capacity to compete strongly with Tabcorp, and other wagering operators, if the proposed transaction does not proceed.

133. I consider that Tatts' size, resources, capabilities and recent significant investment in rebranding its wagering operations under the UBET and associated investments in its digital and retail offering, all point to Tatts being a strong competitive force in the future. As the holder of retail exclusivity in four jurisdictions, it has the advantages of a deep retail network to leverage into its digital and telephone operations, and otherwise leverage its capabilities across products and channels. Its recent financial report for FY2016, for example, includes a raft of measures and investments designed to improve its offering over the short and longer term. I therefore consider that, absent the proposed transaction, Tatts would provide a strong competitive constraint on Tabcorp and other wagering operators including Sportsbet. Now produced and shown to me and marked **Annexure CBB-20** is an extract from Tatts' 2016 financial report.

IMPACT OF TRANSACTION ON INDUSTRY (REMOVAL OF TATTS AS COMPETITOR)

134. The effect of the proposed transaction will be to remove Tatts as an independent competitive force, and create a single wagering operator with:

(a) totalisator and retail exclusivity across every jurisdiction except WA;

(b) a combined network of thousands of retail outlets and venues, all promoting the one brand with multi-channel advantages ;

(c) on-course advertising exclusivity in a wide range of jurisdictions and codes;

(d) a combined customer base of millions of actual and potential punters;

(e) near exclusive rights to all racing media content, and associated near exclusive rights to broadcast and stream that content to that customer base; and

(f) a combined estimated market share 50.2% by turnover and 63.1% by gross profit (revenue), significantly in excess of the shares of all other operators.

135. I consider that the elimination of Tatts as a competitor, and the consolidation of the two wagering operations, will have adverse impacts on pricing, products, levels of

service (particularly in retail channels) and innovation across both digital and retail channels.

136. In respect of price, for example, the proposed transaction will remove competition between Tabcorp and Tatts:

(a) in respect of totalisator take out rates, including to remove the potential for price based competition through reductions to take out rates;

(b) in respect of payments of rebates or discounts to premium punters in relation to pari mutuel wagering, recognising that other wagering operators cannot and do not compete effectively for those customers for risk reasons;

(c) in respect of fixed odds wagering, recognising that Tabcorp and Tatts publicly stated aim with respect to the proposed transaction is to increase Tatts' yield on fixed odds wagering; and

(d) in respect of acquiring racing content, recognising the critical linkage of wagering operators such as Sportsbet providing vision to their customers and significantly increasing the revenue it pays to racing codes as a result.

137. The elimination of this price competition will flow through to punters in the form of higher prices and reduced value, by reason that (as I discussed above) higher prices translate into the average punter being able to make fewer bets which, in turn, is likely to translate into a reduction in overall wagering turnover.

138. The proposed transaction will affect the number and type of wagering products that can be offered to punters. In particular, it will adversely impact the ability of corporate bookmakers to offer price matching products that are derived from tote odds because there are likely to be fewer totalisator pools. Tabcorp's Application (at section 21.3) refers to, as an apparent benefit of the proposed transaction, the creation of a national single pool. The establishment of such a pool, if it occurred, would mean that corporate bookmakers could no longer offer 'best of the totes' or similar products as they could only price match against one pool.

139. By combining the retail exclusivity - and retail networks - of Tabcorp and Tatts, the proposed transaction will eliminate competition between Tabcorp and Tatts in respect

of their retail offering. In the absence of the proposed transaction, the parties are each likely to continue to invest in those retail networks, including in respect of service levels and offering. It will similarly eliminate competition between Tabcorp and Tatts in respect of retail and digital innovations.

IMPACT OF TRANSACTION ON SPORTSBET / CORPORATE BOOKMAKERS FROM COMBINING TABCORP / SKY WITH TATTS

140. While Tabcorp is already vertically integrated with respect to its wagering operations and its broadcasting vision and radio operations (conducted through its wholly owned Sky Racing arm), I am concerned that the proposed transaction will significantly increase the extent of this vertical integration, leading to adverse impacts on competition and punters.

141. Through the substantial increase in market share, and operating scale, combined with the ability for the merged entity to distribute content rights across its combined national retail network (with the exception of WA),Sky Racing (if owned by a combined Tabcorp / Tatts) would have a significantly increased ability to pay materially more than any other potential bidder for content rights. In addition, once purchased, the merged entity would have an incentive to favour its own downstream wagering business, and to shut out competing wagering operators, by continuing to acquire content on an exclusive, bundled basis from the racing industry and by refusing to provide access to Sky Racing content or advertising opportunities. Without access to content or advertising, Sportsbet and other wagering operators are unable to compete effectively with the merged entity. Because content is crucial, particularly to compete in the digital channels, this will significantly erode our ability to compete over both the short and long term.

142. Sky Racing will have a substantial increase in bargaining power and commercial incentive to acquire racing media content on an exclusive, bundled basis and, inversely, racing bodies will have substantially reduced bargaining power when dealing with Tabcorp and Sky Racing. Sky Racing, through its increased retail network and reach, will have a unique ability to threaten racing bodies with adverse consequences if they propose providing media rights content to other parties. This could include consequence's such as: (a) demoting the racing product from Sky 1 to Sky 2 which will have a material impact on wagering revenues returned to the racing body. I understand the former (i.e. Sky1 drives significantly higher wagering turnover

than Sky2, with racing body estimates in the range of a 150% premium for Sky1), and/or (b) prioritising other states for pooling priority when it comes to national pooling opportunities.).

143. If the proposed transaction does not proceed, and Tatts remains as an independent wagering operator with a retail footprint in four jurisdictions, it will continue to be an actual or potential acquirer of content, and generate actual or perceived competitive tension. This is because Tatts may want to have its own direct streaming arrangements in place so they do not need to obtain vision from Sky Racing and, in doing so, avoid promoting Tabcorp products, prices and promotions. Direct streaming arrangements would also result in benefits to racing bodies as at present the fees paid to Sky Racing by Tatts and RWWA benefit only Tabcorp.

144. In such circumstances, I consider it much more likely that racing bodies will consider unbundling rights to content and / or offering such rights on a non-exclusive basis. In effect, relative to the scenario in which the transaction proceeds, I consider that the element of contestability will remain, and that this will likely lead to greater access to content by corporate bookmakers such as Sportsbet. This will facilitate more effective competition among wagering operators, and drive turnover, and thereby returns, for the racing industry.

IMPACT OF TRANSACTION ON BIDDING MARKETS

Sportsbet / Paddy Power's interest in bidding for future tote licences

145. Sportsbet has not previously made any bid for an exclusive state totalisator licence.

146. However, in 2013, Sportsbet had preliminary discussions with Racing Queensland in relation to the future commercial arrangements for wagering in that state. This was followed by Racing Queensland calling for formal expressions of interest in January 2014 in relation to offering retail wagering in Queensland following the expiration of Tatts' licence at that time (which was due to expire on 30 June 2014). Ultimately, for a variety of reasons, the opportunity did not proceed.

147. There would be a number of factors affecting Sportsbet's assessment of whether it would bid for a totalisator licence in future including, among other things, which State totalisator licence became available, the size of the relevant retail network, the strength and profitability of the offline segment of the wagering market in that State,

when and for how long such a licence became available, the cost of the licence as well as other economic and financial factors relevant at that time.

148. Relative to the status quo, Sportsbet would be significantly less likely to consider bidding for a totalisator licence if the proposed transaction proceeds. Bidding for such a licence or retail right would be much less attractive because the merged entity would be:

(a) the incumbent holder of all totalisator licenses and corresponding exclusive retail rights for each State and Territory (except WA which is a relatively smaller stand-alone opportunity with a geographically disparate retail network);

(b) the holder of exclusive broadcasting vision and radio rights to racing content through Sky Racing;

(c) the only provider of pooling services.

149. In practical terms, Sportsbet would have to bid for a licence in circumstances where it was required to seek pooling services from the incumbent licence holder and competitor bidder for the licence, and where its proposed retail offering was contingent upon obtaining access to vision / content from that same incumbent licence holder and competitor bidder for the licence (who to date has refused to provide access). Even if the merged entity provided access, the content could and would likely heavily promote the merged entity's brand and products into the corporate bookmaker's retail network, diminishing the impact of any investment.

150. If the Proposed Transaction was to proceed this would effectively ‘shut the gate’ for Sportsbet, despite its parent company Paddy Power Betfair Plc having extensive retail wagering experience internationally which could be leveraged by Sportsbet in Australia in appropriate circumstances.

I verify that I have read the contents of this statement and the documents referred to in it and that I am satisfied that to the best of my knowledge, information and belief, it is true and correct in every particular.

Dated: 28 April 2017

Signed: Cormac Barry

Cormac Benedict Barry

INDEX OF ANNEXURES TO STATEMENT OF CORMAC BARRY

Annexure	Title	Confidentiality
CBB-1	Table setting out Sportsbet's wagering turnover and gross gaming revenue for FY15 / FY16	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-2	Sportsbet data comparing racing wagering to sport in turnover and gross win	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-3	Article from The Australian dated 20 April 2017	
CBB-4	Sportsbet data illustrating popularity of Bet Live and contribution to total turnover in 2016	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-5	Paddy Power Betfair plc Preliminary Results for the year ended 31 December 2016	
CBB-6	Article from the Courier Mail dated 6 November 2016	
CBB-7	Multi-channel customers	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-8	Sportsbet data relating to offline consumers migrating to online	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-9	Multi-channel bettors are more likely to bet with TAB (online) than online only betters	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-10	Multi-channel bettors are more likely to bet with TAB (online) than online only betters	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-11	Multi-channel bettors are more likely to bet with TAB (online) than online only betters	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-12	'Natural experiment' – Impact of Sky vision blackout in Victoria	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-13	7 day year on year Victorian Racing growth – Sportsbet v Supertab Win Pools	
CBB-14	Year on year turnover growth for Hong Kong racing	HIGHLY Confidential – Restriction of publication of

		whole document claimed
CBB-15	Sportsbet turnover mix and thoroughbred racing turnover mix by jurisdiction	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-16	Extract of Tabcorp's 2016 Report	
CBB-17	Product fees CY 2016	HIGHLY Confidential – Restriction of publication of whole document claimed
CBB-18	Extract from Racing Queensland's 2016 Annual Report	
CBB-19	Sportsbet's market share data	
CBB-20	Extract from Tatts' 2016 financial report	

[PUBLIC VERSION]

IN THE AUSTRALIAN COMPETITION TRIBUNAL

ACT 1 of 2017

Re:	Application by Tabcorp Holdings Limited under section 95AU of the *Competition and Consumer Act 2010* for an authorisation under subsection 95AT(1) to acquire shares in the capital of a body corporate or to acquire assets of another person
Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-1"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

High Confidential Annexure "CBB-1"

Table setting out Sportsbet's wagering turnover and gross gaming revenue for FY15 / FY16

Filed on behalf of	Australian Competition and Consumer Commission		
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[PUBLIC VERSION]

IN THE AUSTRALIAN COMPETITION TRIBUNAL

ACT 1 of 2017

Re:	Application by Tabcorp Holdings Limited under section 95AU of the *Competition and Consumer Act 2010* for an authorisation under subsection 95AT(1) to acquire shares in the capital of a body corporate or to acquire assets of another person
Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the annexure marked highly confidential **"CBB-2"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Highly Confidential Annexure "CBB-2"

Sportsbet data comparing racing wagering to sport in turnover and gross win

Filed on behalf of	Australian Competition and Consumer Commission		
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[PUBLIC VERSION]

IN THE AUSTRALIAN COMPETITION TRIBUNAL

ACT 1 of 2017

Re:	Application by Tabcorp Holdings Limited under section 95AU of the *Competition and Consumer Act 2010* for an authorisation under subsection 95AT(1) to acquire shares in the capital of a body corporate or to acquire assets of another person
Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the annexure marked **"CBB-3"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Annexure "CBB-3"

Article from The Australian dated 20 April 2017

Filed on behalf of	Australian Competition and Consumer Commission		
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[PUBLIC VERSION]

THE AUSTRALIAN

Sports betting ads to be banned 'siren to siren'

Senator Nick Xenophon.

NICK TABAKOFF, JOE KELLY THE AUSTRALIAN 12:00AM April 20, 2017

The federal government is poised to introduce new laws to ban gambling advertising during live sporting events as early as next week — but the imminent move has prompted angry opposition from sporting bodies, which say the move will dramatically reduce funds for grassroots sport.

The Australian understands that Communications Minister Mitch Fifeld will go to cabinet on Tuesday with the proposal that would affect all betting advertising from "siren to siren", or from the start to the finish of games.

Senator Fifeld has held high-level meetings in the past week with AFL chief executive Gillon McLachlan and NRL chief operating officer Nick Weeks. It is understood he has also asked sporting codes how a siren-to-siren betting advertising ban would affect them, in preparation for the measures to be implemented.

It is understood the move has been most heavily pushed by Scott Morrison. The measures are expected to be approved by cabinet.

But a senior source at a major sporting body claimed yesterday that the move was shortsighted.

"This will drive punters to overseas websites and it will result in no reduction in gambling, but a reduction in taxation to state and federal governments," the source said. "It also has the potential to rob sports of product fees." Product fees are a commission that sporting codes make on each bet waged on their sport with Australian betting agencies.

Malcolm Speed, the executive director of the Coalition of Major Professional and Participation Sports, which represents all of Australia's major codes, has also protested about the prospect of more restrictions. "We don't support a ban on sports betting advertising, on the basis that it is likely to impact on media rights deals or the value of media rights, which is the sports' greatest asset," Mr Speed told *The Australian*.

"We operate in a highly regulated system, where there are limits on placement of sports betting advertising.

"The sports have co-operated with broadcasters and the government to ban live odds during matches. So any restriction or prohibition will inevitably result in lowering investment in community and participation programs, and grassroots development."

As part of the deal, the federal government is expected to engage in a trade-off with free-to-air TV networks, which is likely to see them use the deal as leverage to have their licensing fees reduced. It is not yet clear whether a similar deal will be struck to compensate subscription television.

Senator Nick Xenophon, who has been the driving force behind the bans, said he supported the moves on betting ads.

"Obviously I support tightening up gambling advertising ... I'm not going to stand in the way of restrictions, but if you want it to be sustainable in the long term, you bring the broadcasting industry with you," he said, adding "it should also come with a reduction in licensing fees". He said he would also support subscription networks getting an equivalent discount.

A spokesman for Senator Fifeld would not comment on "speculation about (the government's) deliberations".

Revenue from betting agencies has provided a significant increase in revenues for sports.

Only last year, the NRL made Sportsbet its "official wagering partner", as part of a $60 million, five-year deal. It is understood that the AFL has a $10m-a-year deal with CrownBet.

FROM THE HOMEPAGE

'It's a free country, I'll say my piece'

RACHEL BAXENDALE

Tony Abbott says in a party that "doesn't practice Stalinism", he should be free to comment on the Turnbull government.

ABC should put Australia first

GRAHAM RICHARDSON

Yassmin Abdel-Magied's Anzac Day Facebook post demonstrates what's wrong with the national broadcaster.

'Building house designed to last'

RHIAN DEUTROM, VERITY EDWARDS

Cory Bernardi has disputed claims the merger between his party and Family First proved they couldn't survive alone.

Ships sink, Keating warns US

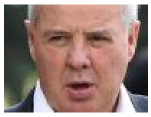
PRIMROSE RIORDAN

Former PM says America should learn from history that conflict in the South China Sea would lead to naval disaster.

AOC man stands down

CHIP LE GRAND

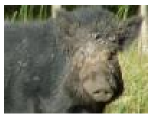
Former AOC chief executive Fiona De Jong has detailed complaints into bullying. Media director Mike Tancred has stood down.



Wild boar take down IS fighters

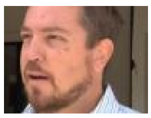
BEL TREW

A herd of wild boar has mauled three Islamic State militants to death and injured five others in Iraq.



One Nation candidate quits

Citing abuse and threats to his family, Mark Ellis decried his targeting by the "leftie media" and "pathetic haters".



Nine urged to dump cricket

MITCHELL BINGEMANN

Nine Entertainment has been pushed to ditch its cricket broadcast deal, as estimated annual losses reach $40m.

[PUBLIC VERSION]

IN THE AUSTRALIAN COMPETITION TRIBUNAL

ACT 1 of 2017

Re:	Application by Tabcorp Holdings Limited under section 95AU of the *Competition and Consumer Act 2010* for an authorisation under subsection 95AT(1) to acquire shares in the capital of a body corporate or to acquire assets of another person
Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-4"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Highly Confidential Annexure "CBB-4"

Sportsbet data illustrating popularity of Bet Live and contribution to total turnover in 2016

Filed on behalf of	Australian Competition and Consumer Commission		
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[PUBLIC VERSION]

IN THE AUSTRALIAN COMPETITION TRIBUNAL

ACT 1 of 2017

Re: Application by Tabcorp Holdings Limited under section 95AU of the *Competition and Consumer Act 2010* for an authorisation under subsection 95AT(1) to acquire shares in the capital of a body corporate or to acquire assets of another person

Applicant: Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the annexure marked **"CBB-5"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Annexure "CBB-5"

Paddy Power Betfair plc Preliminary Results for the year ended 31 December 2016

Filed on behalf of	Australian Competition and Consumer Commission		
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7 March 2017

Paddy Power Betfair plc

Preliminary Results for the year ended 31 December 2016

Paddy Power Betfair plc (the "Group") announces preliminary results for the year ended 31 December 2016.

Highlights

- **2016 Proforma results[1]:**
  - Revenue up 18% to £1,551m, with double-digit growth across all four operating divisions
  - Underlying EBITDA[2,3] up 35% to £400m with EBITDA margin increased to 26% from 22%
  - Underlying operating profit[2,3] and EPS both increased 44%, to £330m and 331p per share, respectively
  - Final dividend of 113p per share results in total dividends for the year of 165p per share[4]
- **Merger integration:**
  - Key integration actions and operational changes required to realise cost synergies completed in 2016
  - 2017 focus is on fully unlocking the Group's potential through the integration of technology platforms
- **Current trading:**
  - Trading in 2017 to date has been in line with our expectations, with Group sportsbook stakes up 22% or 12% in constant currency[5].

Breon Corcoran, Chief Executive, commented:

"2016 was a transformational year for Paddy Power Betfair with much of the integration of the businesses completed sooner and more efficiently than expected.

The integration of our technology platforms is on track and customers are already seeing some benefits, including more markets and better odds.

In keeping with our dual brand strategy, we are serving different parts of the market with distinct value propositions. For instance, at Cheltenham next week Paddy Power has a generous money back offer for second place and Betfair will reward winners with a free bet offer and exceptional odds.

We have created a business with considerable scale that is stronger and better able to compete than either of the individual legacy companies. The Group is well positioned to deliver sustainable, profitable growth".

Financial summary

	Proforma[1], underlying[3] results			*Statutory results*	
	2016 £m	**2015 £m**	**Change %**	**2016 £m**	**2015 £m**
Revenue	1,551	1,318	+18%	1,501	794
EBITDA[2]	400	296	+35%	264	163
Operating profit	330	229	+44%	15	125
Earnings/(loss) per share	330.9p	229.8p	+44%	(7.2)p	239.9p
Dividends per share[4]	165p	n/a			

Notes:

[1] 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 in accordance with generally accepted accounting principles (GAAP) and only include Betfair results since the merger completion on 2 February 2016 and no Betfair results for the 2015 comparative. This announcement also includes results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power and Betfair had always been merged, which combine the full 12 month results of Paddy Power and Betfair for 31 December 2016 and 2015. The directors consider that this is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the results are discussed on a Proforma basis. A reconciliation between the statutory and the non-GAAP proforma, underlying financials is included in Appendix 2 (page 18)

[2] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see Appendix 2 on page 18).

[3] The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see note 4 and page 33 to the financial statements and Appendix 2 on page 18)

[4] Full year dividend includes closing dividends paid on merger relating to January 2016 equating to 12 pence per share, the interim dividend paid in September 2016 of 40 pence per share and the proposed final dividend of 113 pence per share

[5] Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of the prior year comparative at current year exchange rates

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 0844 800 3850 or 0208 996 3900 from the UK, (01) 242 1074 from Ireland and +44 844 800 3850 from elsewhere. The passcode is 284 923 93.

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

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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 615 Paddy Power betting shops across the UK and Ireland*

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 Review

The completion of the merger on 2 February 2016 created a Group with leading positions in the largest regulated online markets as well as an increasing exposure to a number of other international markets. The Group has leading, differentiated sports betting products, a portfolio of distinctive, complementary sports-led brands, and significant in-house technology and marketing capabilities.

Proforma financial performance[1]

For statutory purposes the Group reported a loss of £5.7m which is primarily due to expenses relating to the merger that have been recognised as separately disclosed items. In addition, the statutory results only reflect the contribution from the Betfair business from the merger completion date. Accordingly, underlying proforma results have been presented in this Business Review as this best reflects the performance of the Group. A reconciliation between the statutory and underlying proforma financials is included on page 18.

The Group maintained good trading momentum during a year of considerable operational change. Revenue was up 18% to £1,551m (2015: £1,318m), with good performances across all four operating divisions. This, combined with efficiencies arising from the integration of the businesses and continued operating leverage, resulted in a 35% increase in underlying EBITDA[2,3] to £400m (2015: £296m).

Integration and delivery of cost synergies

Our key focus in 2016 was on integrating the legacy businesses to achieve an optimal operational structure, to create a distinct corporate culture and identity, and to realise cost synergies.

The integration progressed ahead of schedule and the key integration actions and operational changes required to realise the cost synergies are now complete. Therefore, from the 2017 financial year, we will benefit from total cost synergies of £65m per annum (£35m benefit in 2016). The one-off implementation cost to achieve the synergies was £66m and was fully incurred in 2016.

Strategic update

The merger of two strong businesses provided an opportunity to create an even stronger Group by (i) capitalising on our enhanced scale, (ii) combining the best people, assets and practices from each business, and (iii) optimising the positioning of our two main brands. Over the last six months, we have made good progress in each of these areas and have also developed technology and product strategies that we believe best position us for long term success.

1. Capitalising on our enhanced scale

We believe that scale is an important determinant of long-term success in the online betting and gaming industry and that it can facilitate a virtuous cycle of profitable growth. Revenue growth is driven by ongoing investment in the customer proposition and the fixed nature of a significant part of our cost base means that efficiency improves with scale, leading to expansion of operating profit margins and facilitating profitable growth and ongoing investment.

Our enhanced scale enables us to improve our competitive positioning by investing more as a combined group than either legacy business was able to do alone. For example, we now have over 1,000 in-house product development specialists and invest approximately £300m annually in marketing across the Group.

Increased scale is also improving our operating efficiency. In 2016, the average cost to serve our online customers, defined as operating costs excluding marketing spend, decreased by 18% in constant currency, contributing to a 4 percentage point increase in our online EBITDA margin. Efficiency should further improve when our platform integration work is complete.

In addition to driving higher returns within our existing markets, our scale positions us better to withstand regulatory headwinds and when combined with our enhanced technology and operational capabilities, gives us greater capacity to enter new markets as opportunities arise.

2. Combining the best assets and capabilities of each legacy business

The key operational areas where the relative strengths of each legacy business are being used to create a stronger combined business are technology and product development, risk and trading and digital marketing:

Technology and product development

Our objective is to operate an efficient, scalable and flexible platform that supports our multiple brands, channels and jurisdictions. This will enable us to unlock the full potential of the Group's scale and deliver a number of key benefits, including increased pace of development, faster roll out of new product and a reduction in the investment required to enter new markets.

To achieve this, we are enhancing the modular, predominantly in-house architecture of Betfair's existing platform with key functionality of the Paddy Power platform as well as further developing the platform's overall capabilities, flexibility and scalability. Once this is completed, the Paddy Power brand will migrate to this platform.

This integration work is progressing well. The integration onto the Betfair platform of Paddy Power's market leading proprietary pricing and risk management platforms is substantially complete with the majority of the Betfair sportsbook now traded on the integrated platform. Paddy Power's proprietary gaming content is available to Betfair customers, representing approximately 30% of its 'Arcade' revenues. Other changes that have been completed include the harmonisation and upgrade of cyber security protection, and enhancements in areas such as fraud detection, customer verification and payments processing.

We expect to complete the integration of our European online platforms by the end of 2017. Until then, new product releases on the Paddy Power brand will be relatively limited, but on completion customers will see immediate benefits. These include access to an improved cash out product, a new proprietary desktop, greater promotional flexibility and certain product features that are currently only available to Betfair customers.

Importantly, this also means that new products will be immediately available for use on either of our brands, greatly improving the efficiency of our development spend.

Risk and trading

The integration of our risk and trading function is now substantially complete. Moving to an integrated trading platform across the Group is enabling us to operate more efficiently and with greater flexibility across our brands, channels and jurisdictions. The increase in the volume of bets driving our pricing models, the sharing of data and processes between our brands, and the use of our exchange has improved our overall pricing and risk management capability. Importantly, the platform will have the flexibility that means traders can price an event once and then offer different odds across different brands and/or jurisdictions.

The most significant benefits of the integration are being seen on the Betfair sportsbook which, due to its lack of scale prior to the merger, used third party pricing sources for most sports and the majority of its markets. Paddy Power proprietary pricing and risk management tools are now used for over 85% of bets on the Betfair sportsbook, and for 19 sports. Within the next few months, all markets will operate on the integrated platform.

This change has had two major customer-facing benefits: (i) it has enabled a broader range of markets to be offered with, outside of football and racing, a 70% increase in the number of in-play betting events now offered on the Betfair sportsbook; and (ii) it significantly improves the accuracy and responsiveness of pricing, allowing us to provide even better value to customers at any given expected gross win margin. This has facilitated our brand pricing strategy, as described below.

Notwithstanding the integration work, we have continued to invest in our proprietary models. In January 2017, we launched the next generation of our in-house football model. This model enables more accurate pricing, reduced in-play market suspension time (to less than one minute over an average football match, down from around five minutes previously), a greater range of markets, and faster bet acceptance and settlement.

Digital marketing

We are now using the best technology systems and processes from each legacy business, resulting in both our brands having access to a stronger shared digital marketing capability.

In CRM, for example, since December 2016 both brands have been operating on a platform that has more advanced algorithms and greater automation, enabling more efficient, targeted and optimised messaging. This is improving the reach and efficacy of our customer retention activity.

Operating two individual brands on an integrated shared function is also proving to be beneficial for efficiency. The pooling of analytics data has improved our econometric modelling, giving us greater insight into the effectiveness of marketing activity and leading to improved optimisation of spend. For example, we can better test the effectiveness of different approaches to promotions on a particular event and up weight activity that is driving the most effective returns. Co-ordinated bidding for assets, such as keywords on paid search, is also improving the efficiency of our marketing spend.

3. Optimising our brand positioning in the UK and Ireland

Within the UK and Ireland we have two leading sports-led brands which appeal to distinct market segments and have limited customer overlap. Accordingly we believe a dual brand approach is appropriate to that market whilst internationally (excluding Australia and the USA) we will focus exclusively on a single sports brand, Betfair.

In the UK and Ireland we are seeking to maximise growth by optimising the positioning of our two complementary brands across market segments. Accordingly, whilst both brands are supported by shared digital marketing, risk & trading and customer operations, their consumer propositions will remain distinct.

The Betfair brand is primarily focused on customers whose motivations to bet are value-related, and accordingly its marketing communications have a key emphasis on highlighting its strong value proposition along with its leading product functionality. The Paddy Power brand is focused on customers whose primary motivations are social interaction and entertainment, in addition to value. Therefore the brand's marketing communications are focussed on cultivating its distinctive personality, supported by standout headline promotional offers and attractive pricing on the most popular bets.

Each brand's distinct strategy for providing customer value is illustrated by its football proposition. Paddy Power offers market leading odds on the most-backed Premier League favourites alongside attractive promotions such as the current "2 Up – you win" offer, which pays out immediately when the team you back goes two goals up, regardless of the final result. Conversely, the Betfair exchange and sportsbook offer consistently strong pricing on all selections, with market leading overrounds on Premier League matches.

Operating dual brands is also advantageous for targeting customers at key events. At Cheltenham, our brands' headline offers appeal to two distinct customer mind-sets with Betfair rewarding customers with a free bet for each winning bet at odds of 3/1 or higher and Paddy Power compensating customers for near misses with its *'Money-back if 2nd'* offer.

Market research shows that Betfair customers consistently rate Betfair as offering best odds in the market and that Paddy Power customers see the brand as being the most fun and entertaining betting brand. We believe our targeted brand approach allows us to further capitalise on these distinct brand strengths, whilst our overall enhanced product and operations capabilities can also allow both brands to further extend their reach.

Current trading and outlook

The new financial year has started in line with our expectations. Group sportsbook stakes in the year to date are up 22% or 12% in constant currency ("cc"), with Online up 13% (cc 9%), Australia up 47% (cc 19%) and Retail up 15% (cc 7%).

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]

For statutory purposes the Group reported a loss of £5.7m which is primarily due to expenses relating to the merger that have been recognised as separately disclosed items. In addition, the statutory results only reflect the contribution from the Betfair business from the merger completion date. Accordingly, underlying proforma results have been presented in this Operating and Financial Review as this best reflects the performance of the Group. This announcement also includes results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power and Betfair had always been merged, which combine the full 12 month results of Paddy Power and Betfair for 31 December 2016 and 2015. The directors consider that this is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the results are discussed on a Proforma basis. A reconciliation between the statutory and underlying proforma financials is included on page 18.

Group

Proforma[1]	2016 £m	2015 £m	Change %	Constant Currency[5] Change %
Sportsbook stakes	**9,890**	**7,999**	**+24%**	**+16%**
Sportsbook net revenue %	*8.7%*	*8.8%*	*-0.1%*	*-0.1%*
Sports revenue	1,198	1,009	+19%	+11%
Gaming revenue	353	309	+14%	+12%
Total revenue	**1,551**	**1,318**	**+18%**	**+11%**
Cost of sales	(357)	(311)	+15%	+9%
Gross profit	**1,194**	**1,007**	**+19%**	**+12%**
Sales and marketing	(293)	(231)	+27%	+21%
Product and technology	(148)	(147)	+1%	-7%
Operations	(296)	(271)	+9%	+1%
Central costs	(58)	(62)	-8%	-14%
Total operating costs	(794)	(711)	+12%	+4%
Underlying EBITDA[2, 3]	**400**	**296**	**+35%**	**+31%**
Underlying EBITDA margin %	*25.8%*	*22.4%*	*+3.4%*	*+3.8%*
Depreciation and amortisation	(70)	(67)	+4%	-5%
Underlying[3] operating profit	**330**	**229**	**+44%**	**+42%**
Separately disclosed items	(318)	(9)	n/a	n/a
Operating profit	**12**	**219**	**-94%**	**-95%**
Underlying[3] earnings per share	**330.9p**	**229.8p**	**+44%**	
Dividends per share[4]	**165p**	**n/a**		
Net cash at year end[6]	**£36m**	**£84m**		

Group revenue increased by 18% to £1,551m, with sports revenues increasing by 19% and gaming revenues increasing by 14%. Revenue growth included a £78m benefit from the translation of non-UK revenues due to the weakness of sterling versus the prior year. On a constant currency ("cc")[5] basis, revenue growth was 11%.

Sports revenue growth was driven by a 24% increase in sportsbook stakes (cc +16%). During the year, sports results ebbed and flowed between favouring bookmakers and customers. The first quarter saw a high number of favourites winning at the Cheltenham festival, before unfancied results at the Euro 2016 tournament boosted revenues in June and July. The year concluded with customer friendly football results in December. Across the year as a whole, the overall group sportsbook net revenue percentage was broadly in line with the prior year but was marginally lower than our normal expectations.

Revenue from regulated markets represented 95% of total revenues in 2016 (2015: 94%).

Revenue growth combined with operational leverage led to a 35% increase in underlying EBITDA to £400m (2015: £296m), representing an EBITDA margin of 26% (2015: 22%). Underlying operating profit increased by 44% to £330m (2015: £229m). Underlying EBITDA included an £11m foreign exchange translation benefit and increased by 31% on a constant currency basis.

Cost of sales were adversely affected by £7m of new taxes and product fees. Total operating costs increased by 12%, or by 4% on a constant currency basis. Within this, sales and marketing spend increased by £62m or 27% (cc +21%), driven by Euro 2016, increased competitive intensity and continued asset inflation. Other operating cost growth, which benefitted from merger synergies, increased by 4%, which represented a 3% reduction in constant currency.

After separately disclosed items, which related entirely to the merger, the Group recorded an operating profit of £12m (2015: £219m).

Online

Proforma[1]	2016 £m	2015 £m	Change %	Constant Currency[5] Change %
Sportsbook stakes	**5,266**	**4,416**	**+19%**	**+16%**
Sportsbook net revenue %	*6.6%*	*6.6%*	*Flat*	*Flat*
Sports revenue	609	534	+14%	+10%
Gaming revenue	245	214	+14%	+12%
Total revenue	**853**	**748**	**+14%**	**+11%**
Cost of sales	(193)	(178)	+8%	+5%
Gross profit	**661**	**570**	**+16%**	**+12%**
Sales and marketing	(195)	(159)	+23%	+19%
Product and technology	(111)	(117)	-6%	-13%
Operations	(65)	(66)	-2%	-8%
Total operating costs	(371)	(343)	+8%	+3%
Underlying EBITDA[2,3]	**289**	**227**	**+27%**	**+28%**
Depreciation and amortisation	(34)	(36)	-6%	-13%
Underlying operating profit[3]	**255**	**191**	**+34%**	**+36%**
Active customers (000's)^	3,904	3,511	+11%	

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.

Revenue increased by 14% to £853m (cc +11%). Within this, revenue from regulated markets was up 16% (cc +13%) and unregulated market revenues fell by 2% (cc -11%), due primarily to the year-on-year impact on the first half from exiting from Portugal in July 2015. Active customers increased by 11% driven by sportsbook acquisition growth across both our brands, including at Euro 2016.

Sports revenue increased by 14% to £609m (cc +10%). This was comprised of a 19% (cc +16%) increase in sportsbook stakes and 7% (cc +3%) growth in exchange and B2B revenues.

During the year we continued to launch innovative new betting features such as *'Each Way Edge'* on the Betfair sportsbook. The feature builds on the success of *'Acca Edge'* and allows customers to choose their own each way terms on a racing bet, to either increase their chances of winning or enhance their potential winning returns. Since launching in December, the product has proved popular, with 15% of racing customers on the Betfair sportsbook using the feature last month.

We have also enhanced sports streaming from January 2017 on both the Betfair and Paddy Power apps, along with making incremental improvements to our exchange product, including an updated desktop front end, increased personalisation and quicker bet placement.

Gaming revenue increased 14% to £245m (cc +12%), with growth continuing to be driven by cross-sell from sports and mobile. Gaming growth slowed in the fourth quarter, primarily attributable to lower direct gaming activations on our Paddy Power brand, a reduction in Betfair sports customers cross-sold to gaming and reduced year-on-year VIP activity across both brands. Direct activations on Paddy Power were impacted by a reduction in gaming TV advertising and in response we increased TV advertising from mid-December.

Underlying EBITDA increased by 27% to £289m (cc +28%) and underlying operating profit increased by 34% to £255m (cc +36%). Total operating costs increased by 8% (cc +3%) versus the 14% (cc +11%) revenue growth, with 23% growth in sales and marketing costs (cc +19%), driven by continued asset inflation and Euro 2016, offset by the benefit of merger synergies and underlying low cost growth across other cost categories.

Australia[7]

	2016 £m	2015 £m	Change % £	Change % A$
Sportsbook stakes	**2,911**	**2,053**	**+42%**	**+25%**
Sportsbook net revenue %	*10.7%*	*11.3%*	*-0.6%*	*-0.6%*
Revenue	**312**	**232**	**+34%**	**+18%**
Cost of sales	(80)	(58)	+38%	+20%
Gross profit	**231**	**174**	**+33%**	**+17%**
Sales and marketing	(72)	(51)	+41%	+28%
Product and technology	(24)	(19)	+24%	+11%
Operations	(41)	(34)	+22%	+4%
Total operating costs	(137)	(104)	+32%	+17%
Underlying EBITDA[2, 3]	**94**	**70**	**+35%**	**+18%**
Depreciation and amortisation	(10)	(9)	+11%	-2%
Underlying[3] **operating profit**	**84**	**61**	**+38%**	**+21%**
Active customers (000's)	956	767	+25%	

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

Stakes continued to grow strongly in 2016, up 25% to £2.9 billion, despite the intensified level of competition, and was driven by 25% growth in active customers. Revenue, up 18% to £312m, was impacted by adverse sports results, in particular in horseracing during the first half of the year.

The first nine months of the year benefited from strong growth in telephone in-play betting, driven by our 'Bet Live' product. This product was released in December 2015 but was withdrawn on 4 October 2016 following regulatory changes. In the first three quarters of 2016 in-play betting contributed 14% of stakes and 7% of revenue versus 6% and 3%, respectively in the prior year. In the fourth quarter, the in-play mix broadly returned to levels seen prior to the launch of 'Bet Live'.

We continue to invest in Sportsbet's product and marketing to maintain our online market leadership position. Key product releases in 2016 included *'Multibuilder'* and *'Same Game Multi'*, which enhance accumulator betting, and *'Power Play'* which encourages customer loyalty by allowing them to trigger a daily power play that increases the odds on their selection. It was launched on racing ahead of the Spring Carnival and in January 2017 was extended to Big Bash cricket and Australian Open tennis. For the upcoming 2017 seasons we have secured sponsorship of free-to-air TV coverage of AFL to complement our continued sponsorship of the equivalent NRL coverage.

Underlying EBITDA increased by 18% to £94m (2015: £70m). This was driven by 39% growth in the second half of the year which offset a 10% decline in the first half's profits. The improvement in the second half, whilst benefitting from a reduced year-on-year impact from both sports results and product fee rate increases, was primarily driven by a reduction in operating cost growth from 30% to 7%. The slowdown in cost growth partially reflected the lapping of a significant operational expansion during the second half of 2015 but was also due to an increased focus on achieving operating efficiencies.

Retail

	2016 £m	2015 £m	Change %	Constant Currency[5] Change %
Sportsbook stakes	**1,713**	**1,530**	**+12%**	**+4%**
Sportsbook net revenue %	*11.6%*	*11.7%*	*-0.1%*	*-0.1%*
Sports revenue	198	178	+11%	+3%
Machine gaming revenue	97	88	+10%	+10%
Total revenue	**295**	**266**	**+11%**	**+6%**
Cost of sales	(63)	(58)	+7%	+4%
Gross profit	**233**	**208**	**+12%**	**+6%**
Sales and marketing	(7)	(6)	+9%	+3%
Product and technology	(6)	(5)	+10%	+5%
Operations	(158)	(145)	+9%	+5%
Total operating costs	(170)	(156)	+9%	+5%
Underlying EBITDA[2, 3]	**62**	**52**	**+21%**	**+10%**
Depreciation and amortisation	(18)	(15)	+16%	+10%
Underlying[3] operating profit	**45**	**36**	**+23%**	**+10%**
Shops at year end	613	598	+3%	

The Retail division operates 613 Paddy Power betting shops across the UK and Ireland. The business continues to take market share, leading to revenue growth of 11% to £295m (cc +6%). This, along with careful cost control drove a 23% increase in underlying operating profit to £45m (up 10% excluding currency benefit).

Revenues from UK shops increased by 8% and Irish shop revenues were up 2% in local currency. Excluding the impact of new shops and year-on-year currency movements, like-for-like[8] revenues increased by 3% and operating costs increased by 2%. The like-for-like[8] revenue growth was comprised of a 1% increase in both sportsbook stakes and revenues, and a 7% increase in machine gaming growth, primarily driven by growth from B3 slots content.

Our average EBITDA[2] per shop in 2016 was £103,000 which is significantly higher than the average of our major competitors. Our high quality retail estate has been built around providing a fun, social environment focused around live sport and we are continually improving our customer experience with new products. The launch of our exclusive *'Track My Bet'* service on our Self Service Betting Terminals ("SSBTs"), along with in-store self-service online sign-up tablets and cross-channel promotions of our Hotshot Jackpot game successfully target multi-channel customers. In December, we introduced free WiFi to all our stores and in January 2017 we released a new retail app *'Paddy Power Onside'* which allows us to bring some of the benefits of digital into our retail estate and provides another platform for online cross-sell.

During the year we were able to selectively identify additional shop locations which could further enhance the quality and coverage of our estate and we opened 12 new shops in the UK and four in Ireland. We also closed one UK shop.

US[7]

Proforma[1]	2016 £m	2015 £m	Change % £	Change % US$
Sports revenue	79	64	+24%	+10%
Gaming revenue	12	7	+56%	+39%
Total revenue	**91**	**71**	**+28%**	**+13%**
Cost of sales	(21)	(16)	+34%	+18%
Gross profit	**70**	**55**	**+26%**	**+11%**
Sales and marketing	(18)	(15)	+24%	+14%
Product and technology	(8)	(5)	+56%	+44%
Operations	(31)	(26)	+21%	+6%
Total operating costs	(57)	(45)	+26%	+12%
Underlying EBITDA[2,3]	**12**	**10**	**+25%**	**+6%**
Depreciation and amortisation	(9)	(7)	+20%	+5%
Underlying[3] operating profit	**4**	**3**	**+39%**	**+9%**
Active customers (000's)	139	131	+6%	

The US division combines TVG, America's leading horseracing TV and betting network (operating in over 30 states), Betfair Casino, an online casino in New Jersey, and the Betfair New Jersey Exchange.

Revenue increased by 13% to £91m, driven by growth in both our TVG and Betfair New Jersey businesses, and EBITDA increased by 6% to £12m.

In TVG, revenue increased by 9% as the business continued to increase its market share.

The online casino in New Jersey continues to see strong revenue growth, and is now operating at breakeven EBITDA after a couple years of start-up losses.

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 to attract new customers to the overall horseracing betting market.

Regulatory update

In the UK budget in March 2016, it was announced that from August 2017 the treatment of free bets for online gaming point of consumption tax will change to bring it in line with their non-deductibility for sports. We estimate the impact of this change will be approximately £6m per annum.

The British Government has announced that from April 2017 the statutory Horserace Betting Levy will be extended to cover all operators and it will become mandatory to pay the levy at of rate of 10% of gross winnings from all customers in Great Britain betting on British racing. While our Betfair brand already makes contributions to British racing through the Authorised Betting Partner scheme, we estimate that the net incremental impact of the new scheme will be approximately £10m per annum for the Group.

In October 2016, the UK Government launched its Review of Gaming Machines and Social Responsibility Measures, which is reviewing the maximum stakes and prizes for, and the number and location of, gaming machines across all licensed premises (including licensed betting offices) and also is reviewing social responsibility measures to protect players from gambling-related harm, including reviewing restrictions around gambling advertising.

In October 2016, the UK Competition and Markets Authority announced that it was conducting an investigation into UK online gambling operators. The investigation is part of joint programme of work with the Gambling Commission following concerns raised by the Gambling Commission about potential breaches of consumer law and the fairness of licensees' consumer-facing terms amongst operators. The CMA have indicated that they will be providing a further update in April 2017.

In June 2015, the EU 4th Anti-Money Laundering Directive was published. All EU member states have two years to transpose the directive's requirements into national law and therefore we expect any necessary changes to be published ahead of June 2017.

In April 2016, the Australian Federal Government announced an intention to ban credit betting along with a series of consumer protection measures. We do not anticipate that either of these changes will materially affect our business given the limited use of credit by our customers and our pre-existing responsible gambling measures.

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

Responsible gambling

Operating responsibly is essential to the ongoing sustainability of our business and ensuring our customers, across all of our brands and geographies, bet safely and responsibly is of the highest importance. Following the completion of the merger we have continued to develop our systems and processes towards greater transparency and responsibility.

We have standardised and expanded our online and retail tools, enabling customers to better manage their play. We also continue to participate in a wide-range of industry and government initiatives to promote responsible gambling, including being a key participant in the Senet Group and a cornerstone partner of a new Multi Operator Self Exclusion Scheme ("MOSES") in retail.

During 2016, Sportsbet helped to establish Responsible Wagering Australia, an industry group with the objective of ensuring that Australia has the best conducted, socially responsible wagering industry in the world.

Separately disclosed items

Proforma[1]	2016 £m	2015 £m
Merger deal expenses	(50)	(6)
Merger integration expenses	(66)	-
Restructuring costs (pre-merger)	-	(3)
Non-cash merger related items:		
Intangible asset amortisation	(174)	-
Fair value adjustment for replacement share-based payment awards	(22)	-
Impairment of assets	(6)	-
Total separately disclosed items	(318)	(9)

All the 2016 separately disclosed items relate specifically to the merger and therefore are excluded from underlying profits. Merger deal expenses include costs, fees and stamp duty incurred to complete the merger. These costs totalled £56m, with £50m incurred in the first half of 2016 and £6m incurred in the second half of 2015.

Merger integration expenses are one-off costs incurred to achieve recurring cost synergies. These expenses, totalling £66m, were fully incurred in 2016 and related primarily to the costs associated with the rationalisation of duplicated roles, shifting of technology resources to our existing European development centres, the closure of five offices and the consolidation of our data centres.

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 (£174m in 2016), a fair value adjustment on the replacement of legacy Betfair share-based payment awards for equivalent awards in the Group on completion (£22m in 2016) and asset impairments of £6m in relation to assets impaired as a result of integration actions taken.

Taxation

The Group's underlying effective tax rate was 15.5% (2015: 15.6%).

Capital expenditure

The Group had £85m[9] of capital expenditure in 2016 (2015: £92m). Approximately 20% of the expenditure related to our retail business with the remainder primarily related to technology projects and product development.

Cash flow and financial position

Proforma[1]	2016 £m	2015 £m
Underlying EBITDA[2, 3]	400	296
Capex[9]	(85)	(92)
Working capital and tax	(63)	32
Underlying free cash flow	**252**	**236**
Cash flow from separately disclosed items	(104)	(9)
Free cash flow	148	227
Dividends paid	(179)	(88)
Return of capital (including fees)	-	(484)
Interest and other borrowing costs	(2)	(1)
Other	2	(11)
Net decrease in cash	**(31)**	**(357)**
Net cash at start of the year	**84**	**453**
Movement to restricted cash	(8)	-
Foreign currency exchange translation	(9)	(12)
Net cash at year end[6]	**36**	**84**

The Group's profits convert strongly into cash flow, with underlying free cash flow of £252m representing 91% of underlying profit after tax in 2016.

As at 31 December 2016, the Group had net cash of £36m, excluding customer balances.

Dividend and capital structure

In line with our dividend policy, the Board continues to target a pay-out ratio for the Group's dividend of approximately 50% of underlying profits after tax. Accordingly, a final dividend of 113p per share has been proposed, taking the full year dividend for 2016 to 165p per share[4]. The ex-dividend date will be 6 April 2017, the record date will be 7 April 2017 and payment will be on 24 May 2017.

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

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[1] 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 in accordance with generally accepted accounting principles (GAAP) and only include Betfair results since the merger completion on 2 February 2016 and no Betfair results for the 2015 comparative. This announcement also includes results prepared on a "Proforma" basis (non-GAAP basis) for the Group as if Paddy Power and Betfair had always been merged, which combine the full 12 month results of Paddy Power and Betfair for 31 December 2016 and 2015. The directors consider that this is the most appropriate information for understanding and analysing the performance of the Group and accordingly, in the narrative, the results are discussed on a Proforma basis. A reconciliation between the statutory and the non-GAAP proforma, underlying financials is included in Appendix 2 (page 18)

[2] EBITDA is profit before interest, tax, depreciation and amortisation expenses and is a non-GAAP measure (see Appendix 2 on page 18).

[3] The "underlying" measures remove the effects of the Merger exceptional costs that are not part of the usual business activity of the Group and are also excluded when internally evaluating performance, which have been therefore reported as "separately disclosed items" (see note 4 and page 33 to the financial statements and Appendix 2 on page 18)

[4] Full year dividend includes closing dividends paid on merger relating to January 2016 equating to 12 pence per share, interim dividend paid in September 2016 of 40 pence per share and the proposed final dividend of 113 pence per share

[5] Constant currency ("cc") growth throughout this Operating & Financial Review is calculated by retranslating non-sterling denominated component of 2015 at 2016 exchange rates

[6] Net cash at 31 December 2016 is comprised of gross cash excluding customer balances of £250m and borrowings of £214m. The comparative balance shown as at 31 December 2015 is comprised of gross cash excluding customer balances of £86m, borrowings of £143m and Betfair's net cash of £141m (see Appendix 3)

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

[8] Like-for-like growth rates are in constant currency[5] and are calculated by only including in the 2016 results, financial results from shops open prior to 2015 plus the financial results from shops opened during 2015 only from the anniversary of their opening date

[9] Capital expenditure is on a Proforma basis and excludes the intangible assets which were recognised under the accounting for the Merger

[PUBLIC VERSION]

Appendix 1: Divisional Key Performance Indicators

Proforma

£m	Online				Australia				Retail				US				Group			
	2016	2015	% Change	CC[1] % Change	2016	2015	% Change	A$ % Change	2016	2015	% Change	CC[1] % Change	2016	2015	% Change	US$ % Change	2016	2015	% Change	CC[1]% Change
Sportsbook stakes	5,266	4,416	+19%	+16%	2,911	2,053	+42%	+25%	1,713	1,530	+12%	+4%					9,890	7,999	+24%	+16%
Sportsbook net rev %	*6.6%*	*6.6%*	*Flat*	*Flat*	*10.7%*	*11.3%*	*-0.6%*	*-0.6%*	*11.6%*	*11.7%*	*-0.1%*	*-0.1%*					*8.7%*	*8.8%*	*-0.1%*	*-0.1%*
Sports net revenue	609	534	+14%	+10%	312	232	+34%	+18%	198	178	+11%	+3%	79	64	+24%	+10%	1,198	1,009	+19%	+11%
Gaming net revenue	245	214	+14%	+12%	-	-	-	-	97	88	+10%	+10%	12	7	+56%	+39%	353	309	+14%	+12%
Total net revenue	**853**	**748**	**+14%**	**+11%**	**312**	**232**	**+34%**	**+18%**	**295**	**266**	**+11%**	**+6%**	**91**	**71**	**+28%**	**+13%**	**1,551**	**1,318**	**+18%**	**+11%**
Regulated markets	782	676	+16%	+13%	312	232	+34%	+18%	295	266	+11%	+6%	91	71	+28%	+13%	1,480	1,246	+19%	+12%
Unregulated markets	71	73	-2%	-11%	-	-	-	-	-	-	-	-	-	-	-	-	71	73	-2%	-11%
Total net revenue	**853**	**748**	**+14%**	**+11%**	**312**	**232**	**+34%**	**+18%**	**295**	**266**	**+11%**	**+6%**	**91**	**71**	**+28%**	**+13%**	**1,551**	**1,318**	**+18%**	**+11%**
Cost of sales	(193)	(178)	+8%	+5%	(80)	(58)	+38%	+20%	(63)	(58)	+7%	+4%	(21)	(16)	+34%	+18%	(357)	(311)	+15%	+9%
Gross Profit	**661**	**570**	**+16%**	**+12%**	**231**	**174**	**+33%**	**+17%**	**233**	**208**	**+12%**	**+6%**	**70**	**55**	**+26%**	**+11%**	**1,194**	**1,007**	**+19%**	**+12%**
Sales & marketing	(195)	(159)	+23%	+19%	(72)	(51)	+41%	+28%	(7)	(6)	+9%	+3%	(18)	(15)	+24%	+14%	(293)	(231)	+27%	+21%
Product & technology	(111)	(117)	-6%	-13%	(24)	(19)	+24%	+11%	(6)	(5)	+10%	+5%	(8)	(5)	+56%	+44%	(148)	(147)	+1%	-7%
Operations	(65)	(66)	-2%	-8%	(41)	(34)	+22%	+4%	(158)	(145)	+9%	+5%	(31)	(26)	+21%	+6%	(296)	(271)	+9%	+1%
Unallocated central costs																	(58)	(62)	-8%	-14%
Operating costs	**(371)**	**(343)**	**+8%**	**+3%**	**(137)**	**(104)**	**+32%**	**+17%**	**(170)**	**(156)**	**+9%**	**+5%**	**(57)**	**(45)**	**+26%**	**+12%**	**(794)**	**(711)**	**+12%**	**+4%**
Underlying EBITDA	**289**	**227**	**+27%**	**+28%**	**94**	**70**	**+35%**	**+18%**	**62**	**52**	**+21%**	**+10%**	**12**	**10**	**+25%**	**+6%**	**400**	**296**	**+35%**	**+31%**
Depreciation & amortisation	(34)	(36)	-6%	-13%	(10)	(9)	+11%	-2%	(18)	(15)	+16%	+10%	(9)	(7)	+20%	+5%	(70)	(67)	+4%	-5%
Underlying operating profit	**255**	**191**	**+34%**	**+36%**	**84**	**61**	**+38%**	**+21%**	**45**	**36**	**+23%**	**+10%**	**4**	**3**	**+39%**	**+9%**	**330**	**229**	**+44%**	**+42%**
Separately disclosed items																	(318)	(9)	n/a	n/a
Operating profit																	**12**	**219**	**-94%**	**-95%**

[1] Constant currency ("cc") growth is calculated by retranslating non-sterling denominated component of 2015 at 2016 exchange rates

Notes:

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

Half-yearly and quarterly divisional key performance indicators are available on our corporate website: https://www.paddypowerbetfair.com/investor-relations/results-centre/2017

Appendix 2: 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 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	
	2016	2015	2016	2015	2016	2015
Revenue	**1,551**	**1,318**	**50**	**524**	**1,501**	**794**
Cost of sales	(357)	(311)	(11)	(120)	(347)	(191)
Gross Profit	**1,194**	**1,007**	**39**	**404**	**1,154**	**603**
Operating costs	(794)	(711)	(26)	(279)	(767)	(432)
Underlying EBITDA	**400**	**296**	**13**	**125**	**387**	**171**
Depreciation & amortisation	(70)	(67)	(2)	(29)	(68)	(38)
Underlying operating profit	**330**	**229**	**11**	**96**	**319**	**132**
Net interest expense	(4)	(2)	-	(2)	(4)	(1)
Underlying profit before tax	**327**	**226**	**11**	**94**	**316**	**132**
Underlying taxation	(51)	(35)	(2)	(15)	(49)	(20)
Underlying profit for the year	**276**	**191**	**9**	**79**	**267**	**112**
Underlying basic earnings per share (pence)[1]	330.9	229.8	n/a	n/a	n/a	n/a
Underlying operating profit	**330**	**229**	**11**	**96**	**319**	**132**
Separately disclosed items	(318)	(9)	(14)	(2)	(304)	(7)
Operating profit / (loss)	**12**	**219**	**(3)**	**94**	**15**	**125**
Net interest expense	(4)	(2)	-	(2)	(4)	(1)
Profit / (loss) before tax	**8**	**217**	**(3)**	**93**	**12**	**124**
Taxation	(19)	(32)	(2)	(16)	(18)	(16)
(Loss) / profit for the year	**(11)**	**185**	**(5)**	**77**	**(6)**	**108**
Basic (loss) / earnings per share (pence)[1]	(12.8)	223.0	n/a	n/a	(7.2)	239.9
Revenue by operating segment						
Online	853	748	44	452	809	296
Australia	312	232	-	-	312	232
Retail	295	266	-	-	295	266
US	91	71	6	71	85	-
Gross Profit by operating segment						
Online	661	570	35	349	626	221
Australia	231	174	-	-	231	174
Retail	233	208	-	-	233	208
US	70	55	5	55	65	-

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

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

Appendix 3: Reconciliation of 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 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 & movement to restricted cash		Reported cash flow	
	2016	2015	2016	2015	2016	2015	2016	2015
Underlying EBITDA [1]	400	296	(13)	(125)	-	-	387	171
Capex (including retail & HRTV acquisitions) [2]	(85)	(92)	1	45	-	-	(84)	(47)
Working capital & tax [3]	(63)	32	141	(7)	(8)	-	70	25
Underlying free cash flow	**252**	**236**	**129**	**(87)**	**(8)**	**-**	**373**	**149**
Cash flow from separately disclosed items	(104)	(9)	-	2	-	-	(104)	(7)
Free cash flow	**148**	**227**	**129**	**(85)**	**(8)**	**-**	**269**	**142**
Dividends paid	(179)	(88)	14	33	-	-	(165)	(55)
Return of capital (including fees)	-	(484)	-	201	-	-	-	(283)
Interest & other borrowing costs [4]	(2)	(1)	-	(1)	-	-	(2)	(2)
Other [5]	2	(11)	-	(6)	-	-	2	(17)
Transfers from financial assets - deposits	-	-	-	-	-	15	-	15
Net amounts drawn down on borrowings	-	-	-	-	44	140	44	140
Net (decrease) / increase in cash	**(31)**	**(357)**	**143**	**142**	**36**	**155**	**148**	**(60)**
Net cash at start of the year	**84**	**453**	**(141)**	**(284)**	**143**	**(16)**	**86**	**153**
Movement to restricted cash	(8)	-	-	-	8	-	-	-
Foreign currency exchange translation	(9)	(12)	(2)	1	27	4	16	(7)
Net cash at year end	**36**	**84**	**-**	**(141)**	**214**	**143**	**250**	**86**

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

[2] Capex (including retail & HRTV acquisitions) includes loss on disposal of PPE and intangible assets, purchase of property, plant and equipment, purchase of intangible assets, purchase of retail businesses (net of cash acquired), capitalised internal development expenditure, payment of contingent deferred consideration and proceeds from disposal of property, plant and equipment and intangible assets.

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

[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.

CONDENSED CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2016

	Note	Before separately disclosed items 2016 £m	Separately disclosed items (Note 4) 2016 £m	Total 2016 £m	Restated (Notes 18 & 19) Before separately disclosed items 2015 £m	Restated (Note 19) Separately disclosed items (Note 4) 2015 £m	Restated (Notes 18 & 19) Total 2015 £m
Continuing operations							
Revenue	3	1,500.8	-	1,500.8	794.3	-	794.3
Cost of sales		(346.5)	-	(346.5)	(191.3)	-	(191.3)
Gross profit		1,154.3	-	1,154.3	603.0	-	603.0
Operating costs excluding depreciation and amortisation		(767.3)	(123.1)	(890.4)	(432.1)	(7.4)	(439.5)
EBITDA [1]		387.0	(123.1)	263.9	170.9	(7.4)	163.5
Depreciation and amortisation		(67.9)	(180.6)	(248.5)	(38.4)	-	(38.4)
Operating profit / (loss)		319.1	(303.7)	15.4	132.5	(7.4)	125.1
Financial income		1.5	-	1.5	1.4	-	1.4
Financial expense		(5.0)	-	(5.0)	(2.0)	-	(2.0)
Profit / (loss) before tax		315.6	(303.7)	11.9	131.9	(7.4)	124.5
Tax (expense) / credit	5	(49.0)	31.4	(17.6)	(19.7)	3.4	(16.3)
Profit / (loss) for the year – all attributable to equity holders of the Company		266.6	(272.3)	(5.7)	112.2	(4.0)	108.2
(Loss) / earnings per share							
Basic	6			(£0.072)			£2.399
Diluted [2]	6			(£0.072)			£2.358

1 EBITDA is defined as profit for the year before depreciation and amortisation, financial income, financial expense and tax expense / credit. It is considered by the Directors to be a key measure of the Group's financial performance, as it is commonly reported and widely used by investors as an indicator of operating performance and ability to incur and service debt, and as a valuation metric.

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

Notes 1 to 19 on pages 26 to 53 form an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2016

	Note	2016 £m	Restated (Note 19) 2015 £m
(Loss) / profit for the year – all attributable to equity holders of the Company		**(5.7)**	108.2
Other comprehensive income / (loss)			
Items that are or may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges		**7.6**	(4.5)
Fair value of foreign exchange cash flow hedges transferred to income statement		**(9.3)**	8.3
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated entities		**49.7**	(20.2)
Deferred tax on fair value of cash flow hedges		**0.2**	(0.5)
Other comprehensive income / (loss)		**48.2**	(16.9)
Total comprehensive income for the year – all attributable to equity holders of the Company		**42.5**	91.3

Notes 1 to 19 on pages 26 to 53 form an integral part of these condensed consolidated financial statements.

[PUBLIC VERSION]

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Note	31 December 2016 £m	Restated (Notes 18 & 19) 31 December 2015 £m	Restated (Notes 18 & 19) 31 December 2014 £m
Assets				
Property, plant and equipment		**134.0**	92.0	98.7
Intangible assets		**581.2**	60.3	59.5
Goodwill	7	**3,891.1**	79.9	80.1
Deferred tax assets		**8.6**	6.7	6.4
Investments		**0.1**	-	-
Available for sale financial assets	9	**1.3**	-	-
Trade and other receivables	9	**5.8**	-	1.5
Total non-current assets		**4,622.1**	238.9	246.2
Trade and other receivables	9	**55.2**	22.7	25.2
Derivative financial assets	9	**-**	1.8	-
Financial assets – restricted cash	10	**64.8**	60.2	53.7
Financial assets – deposits	10	**-**	-	15.0
Cash and cash equivalents	10	**249.9**	86.1	153.3
Total current assets		**369.9**	170.8	247.2
Total assets		**4,992.0**	409.7	493.4
Equity				
Issued share capital and share premium	11	**417.2**	8.7	39.0
Treasury shares		**(40.7)**	(40.7)	(44.8)
Shares held by employee benefit trust		**(30.9)**	(49.2)	(47.9)
Other reserves		**173.0**	8.5	27.2
Retained earnings		**3,798.0**	123.6	327.9
Total equity attributable to equity holders of the Company		**4,316.6**	50.9	301.4
Liabilities				
Trade and other payables	13	**320.6**	184.1	156.9
Derivative financial liabilities	13	**8.6**	12.5	13.2
Provisions		**4.6**	0.4	0.4
Current tax payable		**38.8**	10.9	13.5
Borrowings	14	**0.2**	0.2	-
Total current liabilities		**372.8**	208.1	184.0
Trade and other payables	13	**26.9**	5.0	4.5
Derivative financial liabilities	13	**-**	-	0.1
Provisions		**1.1**	1.0	0.9
Deferred tax liabilities		**61.0**	2.9	2.5
Borrowings	14	**213.6**	141.8	-
Total non-current liabilities		**302.6**	150.7	8.0
Total liabilities		**675.4**	358.8	192.0
Total equity and liabilities		**4,992.0**	409.7	493.4

Notes 1 to 19 on pages 26 to 53 form an integral part of these condensed consolidated financial statements.

On behalf of the Board

Breon Corcoran
Chief Executive Officer

Alex Gersh
Chief Financial Officer

7 March 2017

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2016

	Note	2016 £m	Restated (Notes 18 & 19) 2015 £m
Cash flows from operating activities			
(Loss) / profit for the year – all attributable to equity holders of the Company		(5.7)	108.2
Separately disclosed items	4	272.3	4.0
Tax expense before separately disclosed items		49.0	19.7
Financial income		(1.5)	(1.4)
Financial expense		5.0	2.0
Depreciation and amortisation before separately disclosed items		67.9	38.4
Employee equity-settled share-based payments expense before separately disclosed items		20.8	12.1
Foreign currency exchange gain		(2.5)	(1.9)
Loss on disposal of property, plant and equipment and intangible assets		0.3	0.2
Cash from operations before changes in working capital		405.6	181.3
(Increase) / decrease in trade and other receivables		(3.5)	0.2
(Decrease) / increase in trade, other payables and provisions		(50.4)	33.6
Cash generated from operations		351.7	215.1
Tax paid		(43.1)	(19.2)
Net cash from operating activities before merger fees and integration and restructuring costs		308.6	195.9
Merger fees and integration and restructuring costs paid		(104.4)	(7.4)
Net cash from operating activities		204.2	188.5
Purchase of property, plant and equipment		(40.8)	(20.2)
Purchase of intangible assets		(32.3)	(21.9)
Purchase of retail businesses, net of cash acquired	8	(0.2)	(4.0)
Cash acquired from merger with Betfair Group plc	8	147.5	-
Capitalised internal development expenditure		(7.0)	-
Payment of contingent deferred consideration	8	(3.8)	(1.1)
Proceeds from disposal of property, plant and equipment and intangible assets		0.2	0.2
Transfers from financial assets – deposits		-	15.4
Interest received		1.3	1.5
Net cash from / (used in) investing activities		64.9	(30.1)
Proceeds from the issue of new shares	11	2.5	2.0
Purchase of shares by employee benefit trust		-	(18.5)
Dividends paid	12	(142.3)	(55.4)
Return of capital to shareholders (including associated costs)		-	(282.8)
Net amounts drawn down on borrowings facility	14	44.1	139.6
Fees in respect of borrowings facility		-	(1.8)
Interest paid		(2.9)	(1.5)
Betfair Group plc closing dividend	12	(22.6)	-
Net cash used in financing activities		(121.2)	(218.4)
Net increase / (decrease) in cash and cash equivalents		147.9	(60.0)
Cash and cash equivalents at start of year		86.1	153.3
Foreign currency exchange gain / (loss) on cash and cash equivalents		15.9	(7.2)
Cash and cash equivalents at end of year	10	249.9	86.1

Notes 1 to 19 on pages 26 to 53 form an integral part of these condensed consolidated financial statements.

[PUBLIC VERSION]

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

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

[PUBLIC VERSION]

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015

	Attributable to equity holders of the Company (see Note 11)									
	Number of ordinary shares in issue millions	Restated Issued share capital and share premium £m	Restated Foreign exchange translation reserve £m	Restated Cash flow hedge reserve £m	Restated Other reserves £m	Restated Treasury shares £m	Restated Shares held by employee benefit trust £m	Restated Share-based payment reserve £m	Restated Retained earnings £m	Restated Total equity £m
Balance at 1 January 2015	*51.1*	39.0	-	(1.8)	1.0	(44.8)	(47.9)	28.0	327.9	301.4
Total comprehensive income / (loss) for the year										
Profit for the year	-	-	-	-	-	-	-	-	108.2	108.2
Foreign exchange translation	-	-	(20.2)	-	-	-	-	-	-	(20.2)
Net change in fair value of cash flow hedge reserve	-	-	-	3.8	-	-	-	-	-	3.8
Deferred tax on cash flow hedges	-	-	-	(0.5)	-	-	-	-	-	(0.5)
Total comprehensive (loss) / income for the year	-	-	(20.2)	3.3	-	-	-	-	108.2	91.3
Transactions with owners of the Company, recognised directly in equity										
Shares issued (Note 11)	-	2.0	-	-	-	-	-	-	-	2.0
Own shares acquired by employee benefit trust – net of B shares' receipt	-	-	-	-	-	-	(18.5)	-	-	(18.5)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	12.1	-	12.1
Equity-settled transactions – vestings	-	-	-	-	-	-	17.2	(14.0)	(2.5)	0.7
Tax on share-based payments	-	-	-	-	-	-	-	-	0.1	0.1
Transfer to retained earnings on exercise of share options (Note 11)	-	-	-	-	-	-	-	(0.6)	0.6	-
Return of capital to shareholders (including related costs) (Note 11)	-	-	-	-	-	-	-	-	(282.8)	(282.8)
Capital reduction – share consolidation	*(5.1)*	(0.7)	-	-	0.7	4.1	-	-	(4.1)	-
Capital reduction – share premium cancellation (Note 11)	-	(31.6)	-	-	-	-	-	-	31.6	-
Dividends to shareholders (Note 12)	-	-	-	-	-	-	-	-	(55.4)	(55.4)
Total contributions by and distributions to owners of the Company	*(5.1)*	(30.3)	-	-	0.7	4.1	(1.3)	(2.5)	(312.5)	(341.8)
Balance at 31 December 2015	*46.0*	8.7	(20.2)	1.5	1.7	(40.7)	(49.2)	25.5	123.6	50.9

Notes 1 to 19 on pages 26 to 53 form an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Paddy Power Betfair plc (the "Company") and its subsidiaries (together referred to as the "Group") is a global sports betting and gaming group, whose headquarters are in Dublin, Ireland. The Group currently operates across four divisions; (i) Online, which includes the online brands of Paddy Power and Betfair, the Paddy Power telephone sportsbook, as well as a number of business-to-business partnerships; (ii) Australia, consisting of Sportsbet, the market leader in the fast-growing Australian online betting market; (iii) Retail, which operates over 600 Paddy Power betting shops across the UK and Ireland; and (iv) 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.

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

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

The financial information presented herein does not comprise full statutory financial statements and therefore does not include all of the information required for full annual financial statements. Full statutory financial statements for the year ended 31 December 2016, prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") together with an unqualified audit report thereon under Section 391 of the Companies Act 2014, will be annexed to the annual return and filed with the Registrar of Companies.

The consolidated financial statements of the Group for the year ended 31 December 2016 comprise the financial statements of the Company and its subsidiary undertakings and were approved for issue by the Board of Directors on 7 March 2017.

2. Basis of preparation and summary of significant accounting policies

The condensed consolidated financial statements are prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules of the Republic of Ireland's Financial Regulator. The condensed consolidated financial statements are prepared on the historical cost basis except for betting transactions and foreign exchange forward contracts (which are recorded as derivative financial instruments), contingent deferred consideration and certain share-based payments, all of which are stated at fair value (grant date fair value in the case of share-based payments). The condensed consolidated financial statements are presented in pounds sterling, a change from the previous presentation currency of euro, and are rounded to the nearest million.

Except as set out below under 'Changes in accounting policies and restatement of comparatives', the financial information contained in these condensed consolidated financial statements has been prepared in accordance with the accounting policies set out in the Group's last annual financial statements for the year ended 31 December 2015.

<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 year ended 31 December 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.

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

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

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

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

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

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

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

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

The revised accounting policy for cost of sales is:

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 3 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.

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

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

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

Neither cash and cash equivalents or restricted cash include certain customer funds deposited in a stakeholder account held by The Sporting Exchange (Clients) Limited, a wholly-owned subsidiary of the Group, on the basis that they are held on trust for customers and do not belong to and are not at the disposal of the Group.

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

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 condensed consolidated income statement. Bank charges and fees that are related to the Group's financing activities are recognised in 'financial expense' in the condensed consolidated income statement.

The impact of the changes, by reporting segment, on the major components of operating profit (before separately disclosed items), on the condensed consolidated statement of financial position, and on the major components of the condensed consolidated statement of cash flows, for the year ended 31 December 2015 is disclosed in Note 18 to the condensed consolidated 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.

Foreign currency transactions
Transactions in foreign currencies are translated at the relevant foreign exchange rate ruling at the date of the transaction. Non-monetary assets that are carried at historical cost are not subsequently retranslated. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to functional currencies at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

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

Gains and losses arising on the retranslation of cash and cash equivalent balances are included within 'other expenses' in the income statement rather than as financial income or expense, as the Directors consider that the gains or losses arising relate to operations, as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised. Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the statement of cash flows.

Foreign currency translation of foreign operations
To the extent that the Group's foreign operations are considered to have functional currencies which are different from the Group's presentation currency, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation and long term intra-group loans that are part of the net investment because repayment is not planned or foreseen, are translated to GBP at the foreign exchange rates ruling at the reporting date. The revenues and expenses of these foreign operations are translated to GBP at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in the condensed consolidated statement of comprehensive income and presented in the foreign currency translation reserve within equity.

Further information on the procedures used to restate comparative information is provided in Note 19 to the condensed consolidated financial statements.

Going concern
The Group has considerable financial resources. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and therefore they continue to adopt the going concern basis in the condensed consolidated financial statements.

Recent accounting pronouncements
The IASB have issued the following standards, policies, interpretations and amendments which were effective for the Group for the first time in the year ended 31 December 2016:

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Annual Improvements to IFRSs 2012–2014 Cycle
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation
- Amendments to IAS 1: Disclosure Initiative

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

Adopted IFRS not yet applied
The following Adopted IFRSs have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements:

- IFRS 9 Financial Instruments (effective date 1 January 2018).
- IFRS 15 Revenue from Contract with Customers (effective date 1 January 2018).
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed).
- Amendments to IAS 7: Disclosure Initiative (effective date to be confirmed).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective date to be confirmed).
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective date to be confirmed).

The following Adopted IFRS has been issued but has not been applied in these financial statements. The Group is currently considering the impact of this amendment on future Annual Reports:

- IFRS 16 Leases (effective date to be confirmed).

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

Basis of consolidation
The Group's financial statements consolidate the financial statements of the Company and its subsidiary undertakings based on accounts made up to the end of the financial year. A subsidiary is an entity controlled by the Company. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation except to the extent that unrealised losses provide evidence of impairment.

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

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

3. Operating segments

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

Reportable business segment information

Subsequent to the Merger, the Group's reportable segments are as follows:
- Online;
- Australia;
- Retail;
- US.

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

The US segment earns its revenues from sports betting (including the exchange sports betting product) and gaming services provided to US customers via the internet.

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

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

3. Operating segments (continued)

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

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

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

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

Reportable business segment information for the year ended 31 December 2015:

	Restated Online £m	Restated Australia £m	Restated Retail £m	Restated US £m	Restated Corporate £m	Restated Total £m
Revenue from external customers	295.5	232.5	266.3	-	-	794.3
Cost of sales	(74.4)	(58.4)	(58.5)	-	-	(191.3)
Gross profit	221.1	174.1	207.8	-	-	603.0
Operating costs excluding depreciation and amortisation	(138.5)	(104.5)	(156.2)	-	(32.9)	(432.1)
EBITDA	82.6	69.6	51.6	-	(32.9)	170.9
Depreciation and amortisation	(14.4)	(8.7)	(15.3)	-	-	(38.4)
Reportable segment profit / (loss) before separately disclosed items	68.2	60.9	36.3	-	(32.9)	132.5
Separately disclosed items (Note 4):						
- Merger fees and associated costs						(4.2)
- Restructuring costs						(3.2)
Operating profit						125.1

3. Operating segments (continued)

Reconciliation of reportable segments to Group totals:

	2016 £m	Restated 2015 £m
Revenue		
Total revenue from reportable segments, being total Group revenue	**1,500.8**	794.3
Profit and loss		
Operating profit	**15.4**	125.1
Unallocated amounts:		
Financial income – non-Australia [1]	**0.6**	0.3
Financial income – Australia	**0.9**	1.1
Financial expense – non-Australia [1]	**(4.9)**	(1.9)
Financial expense – Australia	**(0.1)**	(0.1)
Profit before tax	**11.9**	124.5

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

Geographical segment information

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

Group revenues by geographical segment are as follows:

	2016 £m	Restated 2015 £m
UK and Ireland	**978.3**	539.8
Australia	**311.5**	232.5
US	**84.6**	-
Rest of World	**126.4**	22.0
Total	**1,500.8**	794.3

Revenues are attributed to geographical location on the basis of the customer's location.

Non-current assets (excluding deferred tax asset balances) by geographical segment are as follows:

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
UK and Ireland	**4,137.3**	146.1	149.1
Australia	**94.1**	63.1	65.2
US	**365.0**	-	-
Rest of World	**17.1**	23.0	25.5
Total	**4,613.5**	232.2	239.8

4. Separately disclosed items

	2016 £m	Restated 2015 £m
Merger fees and associated costs	**(35.5)**	(4.2)
Integration and restructuring costs	**(65.7)**	(3.2)
Amortisation of merger related intangible assets	**(174.1)**	-
Replacement share options	**(21.9)**	-
Impairment of property, plant and equipment and intangible assets	**(6.5)**	-
Operating profit impact of separately disclosed items	**(303.7)**	(7.4)
Tax credit on separately disclosed items	**31.4**	0.4
Corporation tax provision	**-**	3.0
Total separately disclosed items	**(272.3)**	(4.0)

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 and its subsidiaries prior to the Merger.

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

Amortisation of merger related intangible assets
Non-cash amortisation of £174.1m has been incurred in the period primarily as a result of intangible assets separately identified under IFRS 3 as a result of the Merger.

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

Impairment of property, plant and equipment and intangible assets
Non-cash impairments amounting to £6.5m in relation to certain property, plant and equipment and intangible assets has also been incurred in light of integration related activities post-Merger.

Corporation tax provision
In 2015, the Group released a specific historic provision of £3.0m that was no longer required.

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

5. Tax expense

	2016 £m	Restated 2015 £m
Recognised in profit or loss:		
Current tax charge	**44.0**	20.9
Prior year over provision	**(1.9)**	(4.0)
Total current tax	**42.1**	16.9
Deferred tax credit	**(25.3)**	(1.4)
Prior year under provision	**0.8**	0.8
Decrease in net deferred tax liability	**(24.5)**	(0.6)
Total tax expense in income statement	**17.6**	16.3

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax is as follows:

	2016 £m	Restated 2015 £m
Profit before tax	**11.9**	124.5
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5%	**1.5**	15.5
Depreciation on non-qualifying property, plant and equipment	**1.4**	1.1
Effect of different statutory tax rates in overseas jurisdictions	**7.6**	4.1
Non-deductible expenses	**10.2**	(1.2)
Interest income taxable at higher rates	**-**	0.1
Effect of changes in statutory tax rates	**(1.7)**	(0.1)
Movement on deferred tax balances not recognised	**(0.3)**	-
Over provision in prior year	**(1.1)**	(3.2)
Total tax expense	**17.6**	16.3

Total tax expense for 2016 includes a credit for separately disclosed items amounting to £31.4m (2015: £3.4m) (see Note 4).

Tax rates

The Group's consolidated effective tax rate on profits including separately disclosed items for 2016 is 148.2%. The tax effect of separately disclosed items in the current year amounted to a tax credit of £31.4m.

The Group's underlying effective tax rate of 15.5% is materially impacted by the geographic mix of profits and reflects a combination of higher and lower headline rates of tax in the various jurisdictions in which the Group operates when compared with the Irish standard rate of corporation tax of 12.5%.

The increase in the tax effect of non-deductible expenses during the year primarily relates to additional disallowable expenditure incurred as a result of the acquisition of Betfair Group plc in February 2016.

No significant changes are expected to statutory tax rates other than those announced and enacted at 31 December 2016; principally the reduction in the headline rate of UK corporation tax to 19% in April 2017 and further to 17% in April 2020.

The effect of the reduction in the UK headline rate of corporation tax on deferred tax balances in the UK is reflected in the above tax reconciliation.

The future effective tax rate of the Group is principally affected by the ongoing geographic mix of profits in accordance with the OECD guidelines in relation to Base Erosion and Profit Shifting.

6. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares has been adjusted for amounts held as Treasury Shares and amounts held by the Group's Employee Benefit Trust ("EBT").

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

The calculation of basic and diluted EPS is as follows:

	2016	Restated 2015
Numerator in respect of basic and diluted earnings per share (£m):		
(Loss) / profit attributable to equity holders of the Company	**(5.7)**	108.2
Numerator in respect of adjusted earnings per share (£m):		
(Loss) / profit attributable to equity holders of the Company	**(5.7)**	108.2
Separately disclosed items (See Note 4)	**272.3**	4.0
Profit for adjusted earnings per share calculation	**266.6**	112.2
Weighted average number of ordinary shares in issue during the year (in 000's)	**79,986**	45,115
Basic (loss) / earnings per share	**(£0.072)**	£2.399
Adjusted basic earnings per share	**£3.333**	£2.488
Adjustments to derive denominator in respect of diluted earnings per share (in 000's):		
Weighted average number of ordinary shares in issue during the year	**79,986**	45,115
Dilutive effect of share options and awards on issue	**-**	780
Adjusted weighted average number of ordinary shares in issue during the year	**79,986**	45,895
Diluted (loss) / earnings per share	**(£0.072)**	£2.358
Adjusted diluted earnings per share	**£3.333**	£2.445

The average market value of the Company's shares of £90.40 (2015: £63.54) was used to calculate the dilutive effect of share options based on the market value for the period that the options were outstanding.

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

7. Goodwill

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

	Online £m	Australia £m	US £m	UK Retail £m	Irish Retail £m	Total £m
Balance at 1 January 2015 (restated)	10.4	40.5	-	16.3	12.9	80.1
Arising on acquisitions during the year (Note 8)	-	-	-	0.4	3.8	4.2
Foreign currency translation adjustment	(0.6)	(2.5)	-	(0.5)	(0.8)	(4.4)
Balance at 31 December 2015 (restated)	9.8	38.0	-	16.2	15.9	79.9
Arising on acquisitions during the year (Note 8)	**3,420.9**	**-**	**324.5**	**0.1**	**0.1**	**3,745.6**
Foreign currency translation adjustment	**1.6**	**7.2**	**52.5**	**1.6**	**2.7**	**65.6**
Balance at 31 December 2016	**3,432.3**	**45.2**	**377.0**	**17.9**	**18.7**	**3,891.1**

The Online segment goodwill amount arose from the acquisition by the Group in 2011 of CT Networks Limited ("Cayetano"), a games developer based in the Isle of Man and Bulgaria, and the Betfair online business (excluding operations in the US) acquired as part of the all-share merger with Betfair Group plc in 2016, described more fully in Note 8.

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

The US segment goodwill amount arose from the acquisition by the Group in 2016 of the US business associated with Betfair Group plc, consisting of TVG, an online horseracing betting operator based in California, and Betfair Casino, an online casino site in New Jersey (see Note 8).

Goodwill on UK Retail arose from the acquisition of two London bookmaking businesses in 2004, the acquisition of a retail bookmaking company in Northern Ireland in 2008 and the acquisition of a number of retail bookmaking shop properties since 2010 (see Note 8).

Goodwill on Irish Retail arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, the acquisition of three retail bookmaking businesses in 2007 and the acquisition of a number of retail bookmaking shop properties since 2009 (see Note 8).

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets
In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2016. Based on the reviews as described above, with the exception of the IAS brand impairment of AUD6.9m initially provided for in 2011, no impairment has arisen.

8. Business combinations

Year ended 31 December 2016

Acquisition of Betfair Group plc

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

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

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

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

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

8. Business combinations (continued)

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

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 eight years.

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

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

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

8. Business combinations (continued)

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

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

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

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

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

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed financial targets for the 12 months following the date of acquisition. The contingent deferred consideration amount of £0.1m at 31 December 2016 represents management's best estimate of the fair value of the amounts that will be payable.

During 2016, the Group settled deferred consideration liabilities of £0.4m in relation to prior years' Retail acquisitions.

8. Business combinations (continued)

Year ended 31 December 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 Great Britain and Ireland.

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

	Restated Fair values 31 December 2015 £m
Identifiable net assets acquired:	
Property, plant and equipment	0.5
Goodwill arising on acquisition – UK Retail and Irish Retail	4.2
Consideration	4.7
The consideration is analysed as:	
Cash consideration	4.0
Contingent deferred consideration	0.7
	4.7

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

Information in respect of revenue, operating profit and cash flows for the acquired businesses in the period from acquisition and for the year ended 31 December 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 financial targets for the 12 months following the date of acquisition. The contingent deferred consideration amount of £0.7m at 31 December 2015 represents management's best estimate of the fair value of the amounts that will be payable.

During 2015, the Group settled deferred consideration liabilities of £1.1m in relation to prior years' Retail acquisitions (see below).

Net cash (inflow) / outflow from purchase of businesses

	31 December 2016 £m	Restated 31 December 2015 £m
Cash consideration – acquisitions in the year	**0.2**	4.0
Cash acquired – acquisitions in the year	**(147.5)**	-
Cash consideration – acquisitions in previous years	**3.8**	1.1
	(143.5)	5.1
Analysed for the purposes of the statement of cash flows as:		
Purchase of retail businesses, net of cash acquired	**0.2**	4.0
Cash acquired from merger with Betfair Group plc	**(147.5)**	-
Payment of contingent deferred consideration	**3.8**	1.1
	(143.5)	5.1

In addition to settlement of deferred consideration liabilities for prior years' Retail acquisitions (£0.4m), the Group also paid £3.4m relating to deferred consideration payable to the Stronach Group, due to Betfair's historical acquisition of HRTV, a horseracing television network based in the US.

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

Non-current assets

	31 December 2016 £m	31 December 2015 £m	31 December 2014 £m
Available-for-sale-financial assets	**1.3**	-	-

Available-for-sale financial assets

As a result of the Merger, the Group at 31 December 2016, has a non-controlling interest in LMAX Limited of 31.4% (£1.2m) and a non-controlling interest in Featurespace of 6.4% (£0.1m). The Group does not have any significant influence over the operations and decision making of LMAX Limited and does not have any representation on the Board.

	31 December 2016 £m	31 December 2015 £m	Restated 31 December 2014 £m
Trade and other receivables			
Prepayments and accrued income	**5.8**	-	1.5

Current assets

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Trade and other receivables			
Trade receivables – credit betting customers	**3.5**	2.5	3.2
Trade receivables – other sports betting counterparties	**6.8**	1.6	1.1
Trade receivables	**10.3**	4.1	4.3
Other receivables	**3.7**	1.1	1.3
Value-added tax and goods and services tax	-	-	1.0
Prepayments and accrued income	**41.2**	17.5	18.6
	55.2	22.7	25.2

Trade and other receivables

Trade and other receivables are non-interest bearing.

	31 December 2016 £m	Restated 31 December 2015 £m	31 December 2014 £m
Derivative financial assets			
Foreign exchange forward contracts – cash flow hedges	-	1.8	-

Foreign exchange forward contracts – cash flow hedges

The notional principal amount of outstanding foreign exchange forward contracts at 31 December 2015 was £74.8m. Gains and losses recognised in the cash flow hedge reserve in equity at 31 December 2015 on foreign exchange forward contracts designated as cash flow hedges under IAS 39, 'Financial Instruments: Recognition and Measurement', were released to the income statement at various dates during 2016.

10. Financial assets and cash and cash equivalents

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Current			
Financial assets – restricted cash	**64.8**	60.2	53.7
Financial assets – deposits	**-**	-	15.0
Cash and cash equivalents	**249.9**	86.1	153.3
Total	**314.7**	146.3	222.0

The effective interest rate on bank deposits at 31 December 2016 was 0.65% (2015: 1.78%, 2014: 1.05%); these deposits have an average original maturity date of 14 days (2015: 12 days, 2014: 41 days). The bank deposits also have an average maturity date of 7 days from 31 December 2016 (2015: 4 days, 2014: 19 days). The Directors believe that all short term bank deposits can be withdrawn without significant penalty.

Financial assets – restricted cash, financial assets – deposits and cash and cash equivalents are analysed by currency as follows:

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
GBP	**185.4**	76.8	74.4
EUR	**41.0**	26.4	93.2
AUD	**52.1**	41.2	51.1
USD	**27.2**	1.8	2.7
Other	**9.0**	0.1	0.6
	314.7	146.3	222.0

Financial assets

Included in financial assets – restricted cash at 31 December 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 31 December 2016, £349.2m (31 December 2015: £Nil, 31 December 2014: £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. Share capital and reserves

The total authorised share capital of the Company comprises 150,000,000 ordinary shares of €0.09 each (2015: 150,000,000 ordinary shares of €0.09 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

The movement in the number of issued ordinary shares during the period was as follows:

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

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

During the year ended 31 December 2016, 318,523 ordinary shares (2015: 77,150) were issued as a result of the exercise of share options under employee share schemes, giving rise to a share premium of £2.5m (2015: £2.0m).

In 2016, following shareholder approval at an Extraordinary General Meeting on 21 December 2015 and court approval on 28 April 2016, the Company cancelled a portion of its share premium account transferring £3.8bn (€4.9bn) to the retained earnings account within reserves. In 2015, following shareholder approval at the Annual General Meeting on 14 May 2015 and court approval on 6 November 2015, the Company cancelled a portion of its share premium account and transferred £31.6m (€44.9m) to the retained earnings account within reserves.

Also in 2015, the Group returned £282m (€391.5m) to shareholders via a B share scheme, and completed a capital reorganisation which involved the consolidation of its ordinary share capital on a nine for ten basis. The transaction involved a number of steps. The existing ordinary shares in issue at the date of the capital reorganisation of 51,118,370 of €0.10 each were converted into 51,118,370 'intermediate' ordinary shares of €0.081 each and 51,118,370 B shares of €0.019 each. An amount of 2,184,000 B shares were issued to the Company and certain of its subsidiaries as a result of treasury shares held. Such shares were not entitled to receive a dividend or redemption payment. The holders of the remaining B shares in issue of 48,934,370 were entitled to receive a payment of €8 per share by way of a once off dividend or a redemption payment. Subsequent to the dividend or redemption payment all B shares were cancelled during the year. The 'intermediate' ordinary shares were consolidated and sub-divided into 46,006,533 'new' ordinary shares of €0.09 each.

A total of 1,965,600 ordinary shares were held in treasury as of 31 December 2016 (31 December 2015: 1,965,600). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to £40.7m as of 31 December 2016 (31 December 2015: £40.7m). The cost of treasury shares held by the Company at 31 December 2016 was £4.2m (2015: £4.2m), with a further £36.5m of shares being held by the Company's subsidiaries (2015: £36.5m).

At 31 December 2016, the Paddy Power Betfair plc Employee Benefit Trust ("EBT") held a further 478,392 (2015: 874,890) of the Company's own shares, which were acquired at a total cost of £30.9m (2015: £49.2m), in respect of potential future awards relating to the Group's employee share plans. The Company's distributable reserves at 31 December 2016 are further restricted by this cost amount. In the year ended 31 December 2016, 396,498 shares with an original cost of £18.3m were transferred from the EBT to beneficiaries of the EBT consequent to the vesting thereof (2015: 410,499 shares with an original cost of £17.2m). During the year ended 31 December 2015, the EBT purchased 327,004 Paddy Power plc ordinary shares for a total consideration of £22.1m and received £3.6m from the B share scheme return of capital to shareholders. No such purchases were made in 2016.

11. Share capital and reserves (continued)

The foreign exchange translation reserve at 31 December 2016 had a credit balance of £29.5m (2015: debit balance of £20.2m), and arose from the retranslation of the Group's net investment in Euro, AUD and USD functional currency entities. The movement in the foreign exchange translation reserve for the year ending 31 December 2016 reflects the strengthening of USD, AUD and Euro against GBP in the year.

Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund and a net wealth tax reserve. The capital redemption reserve fund of £1.4m (2015: £1.4m) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled, and in 2015, the nominal value of shares in the Company cancelled as part of the return of capital to shareholders. The capital conversion reserve fund of £0.2m (2015: £0.2m) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to Euro.

The 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 had entered into foreign exchange forward contracts to hedge a portion of GBP exposures expected to arise from GBP denominated income in the year ended 31 December 2016. No such contracts were outstanding at 31 December 2016.

In 2016, an amount of £25.6m (2015: £0.6m) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of £5.9m of deferred tax relating to the Group's share-based payments was charged to retained earnings in 2016 (2015: credit of £0.1m). An amount of £4.4m of current tax relating to the Group's share-based payments was credited to retained earnings in 2016 (2015: £Nil).

12. Dividends paid on ordinary shares

	2016 £m	Restated 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 2015: €Nil)	**61.9**	-
- Paddy Power plc 1st interim dividend of €0.18 (£0.140) per share (31 December 2015: €Nil)	**6.1**	-
- 2nd interim dividend of £0.40 per share (2015: €0.60 (£0.44))	**33.5**	19.3
Amounts recognised as distributions to equity holders in the year	**142.3**	55.4

The Directors have proposed a final dividend of 113.0 pence per share which will be paid on 24 May 2017 to shareholders on the Company's register of members at the close of business on the record date of 7 April 2017. This dividend, which amounts to approximately £95.0m, has not been included as a liability at 31 December 2016.

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

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

13. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Trade and other payables			
Trade payables	**9.8**	12.1	8.8
Customer balances	**62.2**	58.4	52.3
PAYE and social security	**6.6**	4.7	4.5
Value-added tax and goods and services tax	**0.2**	3.1	-
Betting duty, data rights, and product and racefield fees	**40.4**	26.1	12.6
Employee benefits	**46.1**	25.9	24.3
Contingent deferred consideration – business combinations	**3.7**	0.8	1.5
Accruals and other liabilities	**151.6**	53.0	52.9
	320.6	184.1	156.9
Derivative financial liabilities			
Foreign exchange forward contracts – cash flow hedges	**-**	-	2.1
Sports betting open positions	**8.6**	12.5	11.1
	8.6	12.5	13.2

Non-current liabilities

	31 December 2016 £m	Restated 31 December 2015 £m	Restated 31 December 2014 £m
Trade and other payables			
PAYE and social security	**0.2**	0.1	0.2
Employee benefits	**5.0**	4.1	3.8
Contingent deferred consideration – business combinations	**20.4**	-	0.1
Accruals and other liabilities	**1.3**	0.8	0.4
	26.9	5.0	4.5
Derivative financial liabilities			
Sports betting open positions	**-**	-	0.1
	-	-	0.1

Sports betting open positions

Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Group on initial recognition as financial liabilities at fair value through profit or loss.

The carrying amount of the liabilities is not significantly different from the amount that the Group is expected to pay out at maturity of the financial instruments. Sports bets are non-interest bearing. There is no interest rate or credit risk associated with open sports bets.

Included within non-current liabilities is contingent deferred consideration of £20.4m which 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 31 December 2016 amounted to £23.9m, with £20.4m due after one year from the reporting date.

14. Borrowings

Current liabilities

	31 December 2016	Restated 31 December 2015	Restated 31 December 2014
	£m	£m	£m
Accrued interest on borrowings	0.2	0.2	-

Non-current liabilities

	31 December 2016	Restated 31 December 2015	Restated 31 December 2014
	£m	£m	£m
Revolving credit facility	214.0	143.1	-
Less: expenses relating to revolving credit facility	(0.4)	(1.3)	-
	213.6	141.8	-

In 2015, the Group secured a committed revolving credit bank loan facility ("RCF") of €300m provided by a syndicate of banks which expires in May 2020. At 31 December 2016, €250m (£214.0m) of this facility was drawn down (2015: €195m (£143.1m). During 2016, the Group drew down €211.0m (£170.9m) and repaid €156.0m (£126.8m) under this facility.

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

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

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

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

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

During the year ended 31 December 2016, all covenants have been complied with.

15. Commitments and contingencies

(a) Guarantees

The Group has uncommitted working capital overdraft facilities of £12.4m (2015: £11.7m) with Allied Irish Banks p.l.c. These facilities are secured by a Letter of Guarantee from Paddy Power Betfair plc.

The Group has bank guarantees: (1) in favour of certain gaming regulatory authorities to guarantee the payment of player funds, player prizes, and certain taxes and fees due by a number of Group companies; and (2) in respect of certain third party rental and other property commitments, merchant facilities and third party letter of credit facilities. The maximum amount of the guarantees at 31 December 2016 was £29.1m (2015: £11.2m). No claims had been made against the guarantees as of 31 December 2016 (2015: £Nil). The guarantees are secured by counter indemnities from Paddy Power Betfair plc and certain of its subsidiary companies. The value of cash deposits over which the guaranteeing banks hold security was £0.9m at 31 December 2016 (2015: £Nil).

The Australian corporate sports bookmaking licences issued to Sportsbet require those companies to hold sufficient cash funds to cover monies owed to customers. At 31 December 2016, the total value of relevant customer balances attributable to the Australia business segment was £39.8m (AUD68.0m) (2015: £25.5m (AUD51.8m)) and the combined cash and cash equivalent balances held by Sportsbet at that date totalled £50.9m (AUD86.8m) (2015: £41.2m (AUD83.6m)). The Group holds cash amounts totalling £25.0m in respect of customer funds that are not held on trust in The Sporting Exchange (Clients) Limited in accordance with local regulations. Customer funds that are not held on trust are matched by liabilities of an equal value.

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

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

(b) Contingent liabilities

The Group operates in an uncertain marketplace where many governments are either introducing or contemplating new regulatory or fiscal arrangements.

The Board monitors legal and regulatory developments and their potential impact on the business, however given the lack of a harmonised regulatory environment, the value and timing of any obligations in this regard are subject to a high degree of uncertainty and cannot always be reliably predicted.

(c) Capital commitments

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

	31 December 2016	31 December 2015
	£m	£m
Property, plant and equipment	**3.9**	0.7

15. Commitments and contingencies (continued)

(d) Operating leases
The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases have, on average, approximately six years left to run (if the Group was to exercise available break options), with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December 2016 and 2015, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2016	Restated 31 December 2015
	£m	£m
Within one year	**32.6**	24.8
Between two and five years	**100.1**	77.6
After five years	**52.7**	51.8
	185.4	154.2

The Group has a small number of shop properties that are sublet. Sublease payments of £0.4m (2015: £0.4m) are expected to be received during the year ended 31 December 2017.

During 2016, an amount of £33.3m was recognised in profit or loss in respect of operating leases (2015: £25.3m). Contingent rent expense in profit or loss amounted to a credit of £0.5m (2015: credit of £0.5m). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to £0.4m in 2016 (2015: £0.3m).

Operating leases for licensed betting and other offices are entered into as combined leases of land and buildings. Since the title to the land does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the offices are with the landlord. As such, the Group has determined that the leases are operating leases.

16. Related parties

There were no transactions with related parties during the years ended 31 December 2016 and 2015 that materially impacted the financial position or performance of the Group.

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

17. Events after the reporting date

Dividend
In respect of the current year, the Directors propose that a final dividend of 113.0 pence per share will be paid to shareholders on 24 May 2017. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 7 April 2017. The total estimated dividend to be paid amounts to £95.0m.

18. Changes in accounting policies

Under the new Group accounting policies as outlined in Note 2, payment transaction costs, previously accounted for as operating expenses are accounted for as cost of sales, and affiliate commissions, 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 for the year ended 31 December 2015 are as follows:

	Year ended 31 December 2015					
	Online £m	Australia £m	Retail £m	US £m	Corporate £m	Total £m
Cost of sales						
As reported under previous accounting policies	(79.9)	(60.6)	(57.2)	-	-	(197.7)
Restatement	5.5	2.2	(1.3)	-	-	6.4
As reported under new accounting policies	(74.4)	(58.4)	(58.5)	-	-	(191.3)
Operating costs excluding depreciation and amortisation						
As reported under previous accounting policies	(159.7)	(105.5)	(160.5)	-	-	(425.7)
Restatement	21.2	1.0	4.3	-	(32.9)	(6.4)
As reported under new accounting policies	(138.5)	(104.5)	(156.2)	-	(32.9)	(432.1)
Impact on operating profit	26.7	3.2	3.0	-	(32.9)	-

The total restatement between cost of sales and operating costs excluding depreciation and amortisation for the year ended 31 December 2016 amounted to £6.4m (€8.8m).

Under the new Group accounting policies 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 condensed consolidated statement of cash flows in the year ended 31 December 2015 are as follows:

	2015 As reported under previous accounting policies £m	2015 As reported under new accounting policies £m
Net cash from operating activities	196.2	188.5
Net cash used in investing activities	(30.1)	(30.1)
Net cash used in financing activities	(222.2)	(218.4)
Net decrease in cash and cash equivalents	(56.1)	(60.0)
Cash and cash equivalents at start of year	176.4	153.3
Foreign currency exchange loss on cash and cash equivalents	(8.5)	(7.2)
Cash and cash equivalents at end of year	111.8	86.1

18. Changes in accounting policies (continued)

The impact of the changes on the condensed consolidated statement of financial position as at 31 December 2015 and 31 December 2014 are as follows:

	31 December 2015 As reported under previous accounting policies £m	31 December 2015 As reported under new accounting policies £m	31 December 2014 As reported under previous accounting policies £m	31 December 2014 As reported under new accounting policies £m
Financial assets – restricted cash	34.5	60.2	30.6	53.7
Cash and cash equivalents	111.8	86.1	176.4	153.3

19. 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 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 entities 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.

19. Change in presentation currency (continued)

CONDENSED CONSOLIDATED INCOME STATEMENT

	Before separately disclosed items 2015 As restated in EUR €m	Separately disclosed items 2015 As restated in EUR €m	Total 2015 As restated in EUR €m	Before separately disclosed items 2015 As restated in GBP £m	Separately disclosed items 2015 As restated in GBP £m	Total 2015 As restated in GBP £m
Continuing operations						
Revenue	1,094.0	-	1,094.0	794.3	-	794.3
Cost of sales	(267.5)	-	(267.5)	(191.3)	-	(191.3)
Gross profit	826.5	-	826.5	603.0	-	603.0
Operating costs excluding depreciation and amortisation	(593.5)	(10.2)	(603.7)	(432.1)	(7.4)	(439.5)
EBITDA	233.0	(10.2)	222.8	170.9	(7.4)	163.5
Depreciation and amortisation	(52.6)	-	(52.6)	(38.4)	-	(38.4)
Operating profit / (loss)	180.4	(10.2)	170.2	132.5	(7.4)	125.1
Financial income	1.9	-	1.9	1.4	-	1.4
Financial expense	(2.6)	-	(2.6)	(2.0)	-	(2.0)
Profit / (loss) before tax	179.7	(10.2)	169.5	131.9	(7.4)	124.5
Income tax (expense) / credit	(27.0)	4.8	(22.2)	(19.7)	3.4	(16.3)
Profit / (loss) for the year – all attributable to equity holders of the Company	152.7	(5.4)	147.3	112.2	(4.0)	108.2

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015 As originally reported €m	2015 As restated in GBP £m
Profit for the year – all attributable to equity holders of the Company	147.3	108.2
Other comprehensive income / (loss)		
Items that are or may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	(6.2)	(4.5)
Fair value of foreign exchange cash flow hedges transferred to income statement	11.3	8.3
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated entities	3.9	(20.2)
Deferred tax on fair value of cash flow hedges	(0.6)	(0.5)
Other comprehensive income / (loss)	8.4	(16.9)
Total comprehensive income for the year – all attributable to equity holders of the Company	155.7	91.3

19. Change in presentation currency (continued)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31 December 2015 As restated in EUR €m	31 December 2015 As restated in GBP £m	31 December 2014 As restated in EUR €m	31 December 2014 As restated in GBP £m
Assets				
Property, plant and equipment	125.4	92.0	126.8	98.7
Intangible assets	82.1	60.3	76.4	59.5
Goodwill	108.9	79.9	102.8	80.1
Deferred tax assets	9.1	6.7	8.2	6.4
Trade and other receivables	-	-	2.0	1.5
Total non-current assets	325.5	238.9	316.2	246.2
Trade and other receivables	31.0	22.7	32.4	25.2
Derivative financial assets	2.4	1.8	-	-
Financial assets – restricted cash	81.9	60.2	68.9	53.7
Financial assets – deposits	-	-	19.3	15.0
Cash and cash equivalents	117.3	86.1	196.8	153.3
Total current assets	232.6	170.8	317.4	247.2
Total assets	558.1	409.7	633.6	493.4
Equity				
Issued share capital and share premium	6.8	8.7	50.1	39.0
Treasury shares	(51.8)	(40.7)	(57.5)	(44.8)
Shares held by employee benefit trust	(63.1)	(49.2)	(61.5)	(47.9)
Other reserves	40.9	8.5	34.8	27.2
Retained earnings	136.5	123.6	421.1	327.9
Total equity attributable to equity holders of the Company	69.3	50.9	387.0	301.4
Liabilities				
Trade and other payables	250.7	184.1	201.4	156.9
Derivative financial liabilities	17.0	12.5	17.0	13.2
Provisions	0.6	0.4	0.5	0.4
Current tax payable	14.9	10.9	17.4	13.5
Borrowings	0.3	0.2	-	-
Total current liabilities	283.5	208.1	236.3	184.0
Trade and other payables	6.8	5.0	5.8	4.5
Derivative financial liabilities	0.1	-	0.1	0.1
Provisions	1.3	1.0	1.2	0.9
Deferred tax liabilities	3.9	2.9	3.2	2.5
Borrowings	193.2	141.8	-	-
Total non-current liabilities	205.3	150.7	10.3	8.0
Total liabilities	488.8	358.8	246.6	192.0
Total equity and liabilities	558.1	409.7	633.6	493.4

19. Change in presentation currency (continued)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	2015 As restated in EUR €m	2015 As restated in GBP £m
Cash flows from operating activities		
Profit for the year – all attributable to equity holders of the Company	147.3	108.2
Separately disclosed items	5.5	4.0
Tax expense before separately disclosed items	27.0	19.7
Financial income	(1.9)	(1.4)
Financial expense	2.6	2.0
Depreciation and amortisation before separately disclosed items	52.6	38.4
Employee equity-settled share-based payments expense before separately disclosed items	16.8	12.1
Foreign currency exchange gain	(2.1)	(1.9)
Loss on disposal of property, plant and equipment and intangible assets	0.3	0.2
Cash from operations before changes in working capital	248.1	181.3
Decrease in trade and other receivables	0.5	0.2
Increase in trade, other payables and provisions	45.0	33.6
Cash generated from operations	293.6	215.1
Tax paid	(26.3)	(19.2)
Net cash from operating activities before merger fees and integration and restructuring costs	267.3	195.9
Merger fees and integration and restructuring costs paid	(10.2)	(7.4)
Net cash from operating activities	257.1	188.5
Purchase of property, plant and equipment	(27.8)	(20.2)
Purchase of intangible assets	(30.1)	(21.9)
Purchase of retail businesses, net of cash acquired	(5.5)	(4.0)
Payment of contingent deferred consideration	(1.5)	(1.1)
Proceeds from disposal of property, plant and equipment and intangible assets	0.3	0.2
Transfers from financial assets – deposits	21.0	15.4
Interest received	2.0	1.5
Net cash used in investing activities	(41.6)	(30.1)
Proceeds from the issue of new shares	2.7	2.0
Purchase of shares by employee benefit trust	(25.3)	(18.5)
Dividends paid	(76.3)	(55.4)
Return of capital to shareholders (including associated costs)	(392.1)	(282.8)
Net amounts drawn down on borrowings facility	195.0	139.6
Fees in respect of borrowings facility	(2.5)	(1.8)
Interest paid	(2.1)	(1.5)
Net cash used in financing activities	(300.6)	(218.4)
Net decrease in cash and cash equivalents	(85.1)	(60.0)
Cash and cash equivalents at start of year	196.8	153.3
Foreign currency exchange gain / (loss) on cash and cash equivalents	5.6	(7.2)
Cash and cash equivalents at end of year	117.3	86.1

[PUBLIC VERSION]

IN THE AUSTRALIAN COMPETITION TRIBUNAL

ACT 1 of 2017

Re:	Application by Tabcorp Holdings Limited under section 95AU of the *Competition and Consumer Act 2010* for an authorisation under subsection 95AT(1) to acquire shares in the capital of a body corporate or to acquire assets of another person
Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the annexure marked **"CBB-6"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Annexure "CBB-6"

Article from the Courier Mail dated 6 November 2016

Filed on behalf of	Australian Competition and Consumer Commission		
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Tabcorp-Tatts Group merger touted as solution to 're-igniting wagering' in Queensland

NATHAN EXELBY, The Courier-Mail
November 6, 2016 5:00pm

TABCORP chief executive David Attenborough is adamant a successful merger with Tatts Group will ensure significantly higher revenues for racing in Queensland.

If the merger between Tatts Group and Tabcorp goes ahead, the UBET brand will be shelved, replaced by the more famous TAB branding within two years.

"The TAB brand is stronger in Queensland than the UBET brand," Attenborough said.

"If you look at the actual retail activity and the propensity to bet on racing and wagering, there is far less wagering per head in Queensland than there is in New South Wales or Victoria."

Attenborough attributed that "absolutely" to the retail network not keeping pace.

"It's only wagering that is well down on what you would expect and that has to be to the quality of the product," he said.

Asked if he was confident he could reverse that trend and provide a product that would return more dollars to the Queensland racing industry, Attenborough said "Yes".

He said: "Despite the turnover growing every year on Australian racing, Queensland racing is under pressure, it has had to lower prizemoney and it is feeling the pinch.

"And that's mainly because its incumbent tote, UBET, is struggling to compete.

"It's sitting there with a set of technology that isn't quite up to where it needs to be yet and they know it.

"What this transaction brings, is a truck roll across Queensland where every single pub and club will get new equipment rolled out.

Tabcorp chief executive David Attenborough is confident the merger will return more dollars to the Queensland industry.

"It won't work unless we roll out all our equipment."

The merger would come with the likelihood of a virtual racing product being introduced to help build racing revenues, while the existing 30-year funding deal would likely be revisited if and when a national tote pool was introduced.

"There is an opportunity when the deal is done to look at how we can create a better, maybe more aligned, sustainable industry around the country," Attenborough said.

"The (contracts) probably can't be revisited in terms to get this deal done, (but) it's absolutely certain they would have to be revisited over coming years to get a national pool over the line."

Attenborough was hopeful the merger deal could be completed by mid-2017.

"If we look at Australian racing as a whole, it is recognised as one of the best funded in the world, but with a model that is taking strain," he said.

"There has been quite a shift of share to the corporate bookmakers and when that share shifts, a lot less flows back to racing."

Attenborough said there was still some uncertainty, in terms of approvals and regulatory processes, but he was confident the deal would get the green light.

"There are other stakeholders, like the racing industry, we have to spend time with and it's quite a process to line everything up, but ultimately the timing we think can be brought together to mid-2017."

@xlbnathan_cmail

IN THE AUSTRALIAN COMPETITION TRIBUNAL

ACT 1 of 2017

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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-7"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Highly Confidential Annexure "CBB-7"

Multi-channel customers

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-8"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Highly Confidential Annexure "CBB-8"

Sportsbet data relating to offline consumers migrating to online

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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[PUBLIC VERSION]

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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-9"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

High Confidential Annexure "CBB-9"

Multi-channel bettors are more likely to bet with TAB (online) than online only betters

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-10"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Highly Confidential Annexure "CBB-10"

Sportsbet table with data as to where else Sportsbet's customers wager

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-11"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Highly Confidential Annexure "CBB-11"

Racing Victoria's half year results to 31 December 2016

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-12"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

High Confidential Annexure "CBB-12"

'Natural experiment' – Impact of Sky vision blackout in Victoria

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the annexure marked **"CBB-13"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Annexure "CBB-13"

7 day year on year Victorian Racing growth – Sportsbet v Supertab Win Pools

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
Law firm	DLA Piper		
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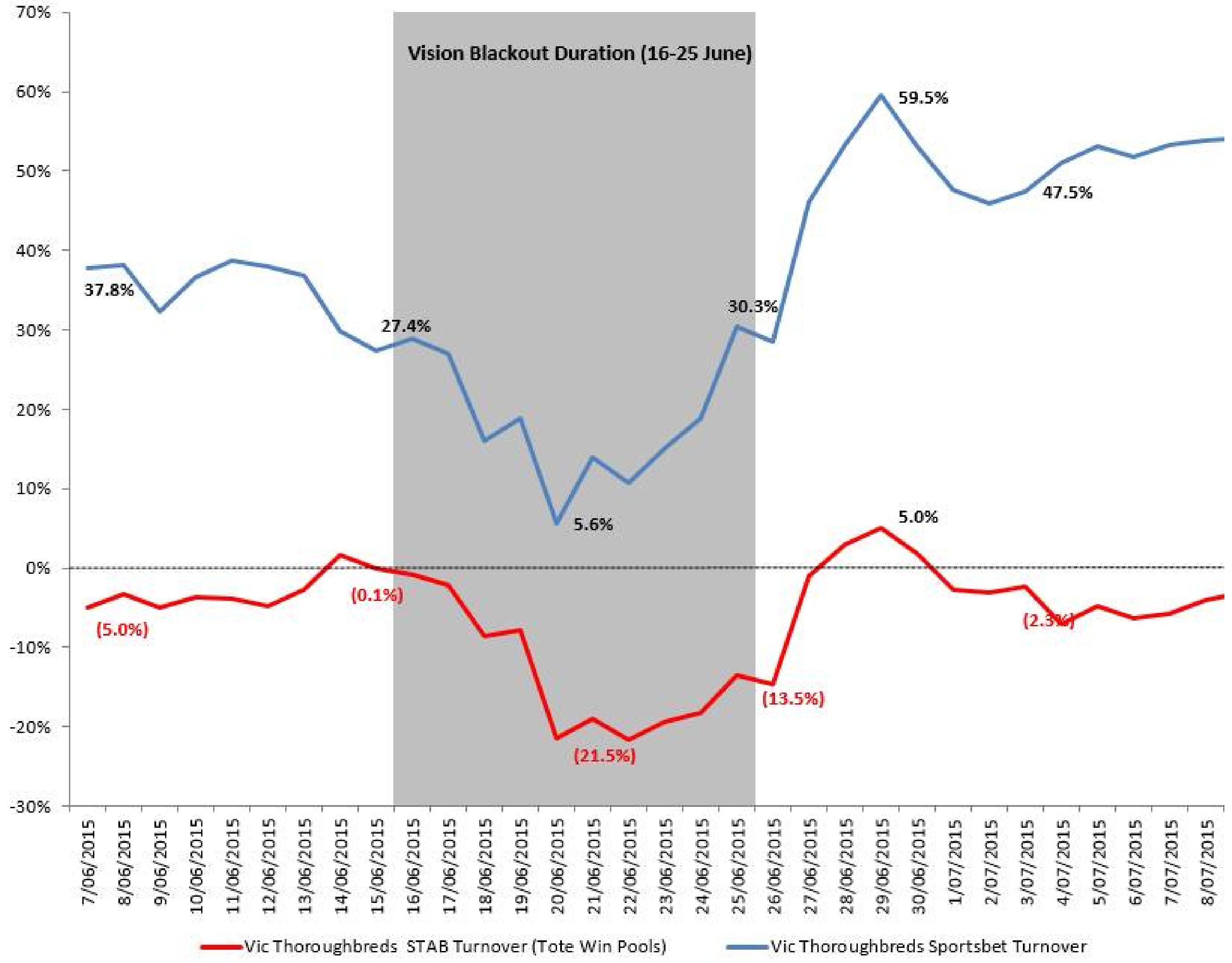
[PUBLIC VERSION]



[PUBLIC VERSION]

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ACT 1 of 2017

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Applicant: Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-14"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Highly Confidential Annexure "CBB-14"

Year on year turnover growth for Hong Kong racing

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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ACT 1 of 2017

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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-15"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Highly Confidential Annexure "CBB-15"

Sportsbet turnover mix and thoroughbred racing turnover mix by jurisdiction

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
Law firm	DLA Piper		
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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the annexure marked **"CBB-16"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Annexure "CBB-16"

Extract of Tabcorp's 2016 Report

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
Law firm	DLA Piper		
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	Revenue FY 2016	Growth	% of Wagering Revenue
	$'m	%	%
Tote	1,182.7	(4.4%)	58.0%
Fixed Odds Racing	500.1	16.40%	24.5%
Total Racing	**1,682.8**	**1.0%**	**82.6%**
Sport	210.6	(3.9%)	10.3%
Trackside	95.5	(4.4%)	4.7%
Luxbet	48.8	(8.1%)	2.4%
Total	**2,037.7**	**0.0%**	

[PUBLIC VERSION]

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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the highly confidential annexure marked **"CBB-17"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Highly Confidential Annexure "CBB-17"

Product fees CY 2016

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the annexure marked **"CBB-18"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Annexure "CBB-18"

Extract from Racing Queensland's 2016 Annual Report

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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Queensland All Codes Racing Industry Board
Trading As Racing Queensland
ABN 80 730 390 733
Notes to and forming part of the Financial Statements
for the year ended 30 June 2016

	Consolidated 2016 $'000	Consolidated 2015 $'000	Parent Entity 2016 $'000	Parent Entity 2015 $'000
2. Wagering Revenue & Expense				
Wagering Revenue				
Product Fee	129,830	132,229	129,830	132,229
Fixed Fee	15,181	15,000	15,181	15,000
Sports Retail	210	336	210	336
Race Information Fee	59,662	54,839	59,662	54,839
	204,883	202,404	204,883	202,404
Queensland Product Rebate	(1,536)	-	(1,536)	-
Total Wagering Revenue	**203,347**	**202,404**	**203,347**	**202,404**
Wagering Expense				
Race Information Deductions	36,228	34,984	36,228	34,984
Total Wagering Expense	**36,228**	**34,984**	**36,228**	**34,984**

Wagering Revenue Recognition

(i) Wagering revenue is recognised when Product Fee monies are due and payable from UBET QLD Limited.

(ii) Fixed fee revenue due and payable from Ubet QLD Limited is received in July and amortised throughout the year based on rolling prior three year actual revenue.

(iii) Sports Retail wagering revenue is recognised when due and payable from UBET QLD Limited.

(iv) Race Information Fees are brought to account as income during the period to which the amounts relate.

Wagering Expense Recognition

Wagering expenses comprise of overseas and inter-state race information expenses incurred by UBET QLD Limited in generating their wagering revenue.

QAO certified statements

[PUBLIC VERSION]

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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the annexure marked **"CBB-19"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Annexure "CBB-19"

Sportsbet's market share data

Filed on behalf of	Australian Competition and Consumer Commission		
Prepared by	Simon Uthmeyer		
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Email	Simon.Uthmeyer@dlapiper.com		
Address for service	DLA Piper 140 William Street Melbourne VIC 3000		

Financial Year End June 2016 - Market Share by Turnover (Table)

	Total Turnover	Total Wagering Market Share
Tabcorp (including Luxbet)	12,695	37.6%
Tatts (UBET)	4,125	12.2%
Tabcorp (incl. Luxbet and Tatts)	**16,820**	**49.9%**
Sportsbet	4,766	14.1%
Other	12,132	36.0%
Total	**33,719**	

Financial Year End June 2016 - Market Share by Gross Win (Table)

	Total Gross Win	Total Wagering Market Share
Tabcorp (including Luxbet)	2,038	46.4%
Tatts (UBET)	611	13.9%
Tabcorp (incl. Luxbet and Tatts)	**2,648**	**60.3%**
Sportsbet	565	12.9%
Other	1,176	26.8%
Total	**4,389**	

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Applicant:	Tabcorp Holdings Limited

ANNEXURE CERTIFICATE

This is the annexure marked **"CBB-20"** annexed to the statement of **Cormac Benedict Barry** dated 28 April 2017.

Annexure "CBB-20"

Extract from Tatts' 2016 financial report

Filed on behalf of	Australian Competition and Consumer Commission		
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Address for service	DLA Piper 140 William Street Melbourne VIC 3000		

Wagering Review

FY16 WAGERING HIGHLIGHTS

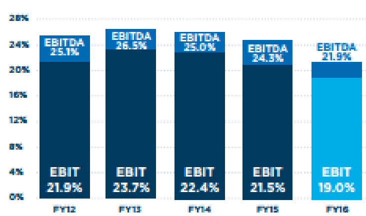
- Turnover growth of 4.1% compared to a decline of 0.9% in FY15
- Exceptional growth in digital sales lifting 22.5%, with this channel now representing 30.2% of wagering sales (FY15: 25.7%)
- 162 new UBET branded retail stores, which generated 8.4% turnover growth
- 9% spontaneous brand recognition
- 25,000 new digital customers acquired
- Awarded a new exclusive 20-year tote licence and fixed-price betting licence for retail operations in the Northern Territory
- 24.1% increase in fixed-price sales to $1.97 billion
- $222.9 million paid to state and territory governments and racing industry (FY15: $224.3 million)

WAGERING PERFORMANCE

Fourteen months into the launch of UBET, our wagering operation is showing encouraging signs in a crowded and competitive market. With our renewal actions well in train, we remain strongly positioned in the Australian market:

- the second largest Australian wagering operation by revenue
- the leading blended win-rate in the segment
- the third most profitable wagering operation in Australia
- maintaining one of the highest EBITDA margins in the segment

FIGURE 5 EBITDA/EBIT MARGIN



Pleasingly we were able to improve our turnover position with our wagering operation reporting turnover growth for the first time in three years, with a 4.1% lift compared to a 0.9% decline in FY15 and a 0.3% decline in FY14 (see Figure 7).

Our turnover position was greatly assisted by the very strong digital outcomes achieved in the year. The outstanding 22.5% increase in our digital sales, saw a record 30.2% of our wagering turnover (FY15: 25.7%) generated from our digital channels in FY16. This growth is ahead of our immediate peer set in Australia and supports the focus placed on the UBET digital platform. This outstanding result was driven from initiatives that included:

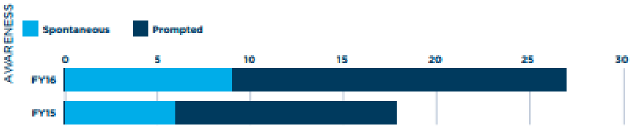
- the introduction of A/B testing[1];
- commencing our first affiliate partnership;
- promoting a 'sign up' bonus in eligible jurisdictions;
- leveraging real time in app messaging;
- launching a new affiliates marketing platform;
- introducing event-based automation for mobile push and SMS campaigns;
- developing a 'best offer' model across sport and racing enabling delivery of personalised content and offers to customers via email and mobile channels; and
- leveraging the capabilities of our market-leading CRM system.

The key metrics in FY16 which demonstrate the traction our wagering operation is starting to achieve online are:

- 163,000 UBET app downloads (FY15: 41,000);
- $2.6 million given back to customers in loyalty rewards (FY15: $0.2 million);
- 2.4 million emails sent out to customers (FY15: 1.9 million);
- $3.6 million offered to customers through event driven dynamic bet offers (FY15: nil);
- Circa 700,000 mobile messages sent to customers (FY15: 200,000).

1 Sometimes called split testing, this involves comparing two versions of a web page or app to see which one performs better.

FIGURE 6 UBET BRAND AWARENESS



Our UBET brand position continues to build in the Australian market with our spontaneous brand awareness increasing to 9% up from 6% in FY15. A similar profile was achieved in terms of our prompted brand awareness with awareness lifting from 22% in FY15 to reach 27% in FY16.

Our turnover performance was achieved despite continuing retail softness in some of our geographies that continued to be impacted by regionally specific issues. Most significantly, regional Queensland continued to be challenged by the commodities downturn and drought. In combination, these factors continued to 'bite' with turnover in this region down 5.8% on last year. South East Queensland lifted retail sales 1.7% on the prior period. Overall, our retail network showed a 1.5% decline in sales (compared to a decline of 2.4% in FY15). Running against this trend, the 162 revitalised UBET retail outlets produced 8.4% turnover growth compared to outlets with older branding in their immediate geographical vicinity. Phone-based sales, as expected, continued to decline (down 7.7%), however the increase in digital sales more than offset this decline, outpacing the decline in phone sales by a factor of ten.

The continued rollout of rebranded UBET retail stores into FY17 (a target of 270 in the year), installation of new generation cash-handling self-service terminals, and the associated expansion of our 'UBET Live' in-venue in-play betting modules, make us confident that we can bring our retail network into growth.

Fixed-price sales on racing and sports continued to display an impressive growth profile, lifting 24.1% in aggregate, and now exceed total sales generated from the traditional tote products. Racing continues to dominate the fixed-price book, comprising 83.6% of the book (FY15: 82.6%), with sports making up the remainder at 16.4% (FY15: 17.4%). Following the introduction of our more compelling and expansive sports offering under UBET, we have had strong growth in the American-based sports of basketball, American football and baseball. These growth sports now represent 24.4% of our total sports book, up from 19.3% in FY15.

The year saw the business achieve an overall lower blended win-rate of 14.8% (FY15: 16.0%) being the reality of operating in a very competitive market and this blended rate including the cost of rewards and bonuses provided to customers. The win-rate also reflects the migration from higher margin parimutuel offers to fixed-price—fixed-price sales on racing and sports increased 24.1% while parimutuel betting declined 11.7%. We expect the decline in win-rate to stabilise, noting that UBET continues to sit at the top of the range compared to our Australian competitor cohort, which ranged from 3-15%. The resultant impact of the win-rate position was a 3.6% reduction in revenue to $609.9 million (FY15: $632.9 million).

Our FY16 EBITDA margin of 21.9% fell short of our targeted EBITDA margin of 23.5% for the year. This reflected the significant lift in marketing spend; the dynamic bet offers to customers in the second half of FY16; and the blended win-rate outcome. The reality is that UBET needs to remain competitive in terms of its fixed-book prices on offer relative to the market, and to build customer loyalty through its loyalty scheme and dynamic bet offers. As a result, we expect EBITDA margins to be reflective of the actuality of our operating environment for the foreseeable future.

Finally, the competitive process in the Northern Territory for the new Totalisator Licence and the extension of the fixed-price licence was concluded during FY16 with Tatts awarded 20-year exclusive retail licences.

WAGERING FINANCIAL PERFORMANCE

	FY16 $M	FY15 $M		CHANGE %
Turnover	4,125.1	3,963.7	↑	4.1%
Net win-rate	14.8%	16.0%	↓	1.2%
Revenue	609.9	632.9	↓	3.6%
EBITDA	133.3	153.5	↓	13.2%
EBIT	115.7	135.9	↓	14.8%

FIGURE 7 WAGERING TURNOVER GROWTH