

# COOKING UP MISCHIEF

A PRACTICAL GUIDE TO HORSEPLAY



SIX DELICIOUS  
**HORSE MEAT  
RECIPES**

FROM STABLE TO TABLE



**PADDYPOWER.**

**PADDYPOWER.**

ANNUAL REPORT 2012

2012 WAS A GREAT YEAR. YES, THE RESULTS WERE GOOD, BUT WE ALSO HAD MORE FUN AND COOKED UP MORE MISCHIEF THAN EVER BEFORE!

THE CORE INGREDIENTS WERE HANDED TO US ON A PLATTER. WE HAD A EUROPEAN FOOTBALL CHAMPIONSHIP RUN BY AN IVORY TOWER ORGANISATION, THE BIGGEST SPORTING EVENT IN LONDON'S HISTORY RUN BY THE FUN POLICE, AN INTERCONTINENTAL GOLF TOURNAMENT RUN BY A HUMOURLESS COMMITTEE AND THE WORLD'S SUPERPOWER RUN BY AN EIGHT TIMES REMOVED IRISHMAN.

THERE'S SOMETHING ABOUT PADDY POWER THAT'S UNIQUELY PADDY POWER. NOBODY IS REALLY SURE WHAT IT IS SO WE CAN'T GIVE YOU THE RECIPE FOR THAT "SECRET SAUCE", BUT WE CAN SHARE WITH YOU EVERYTHING ELSE THAT WENT INTO LAST YEAR'S MISCHIEF!

BON APPÉTIT!

Paddy  
Power





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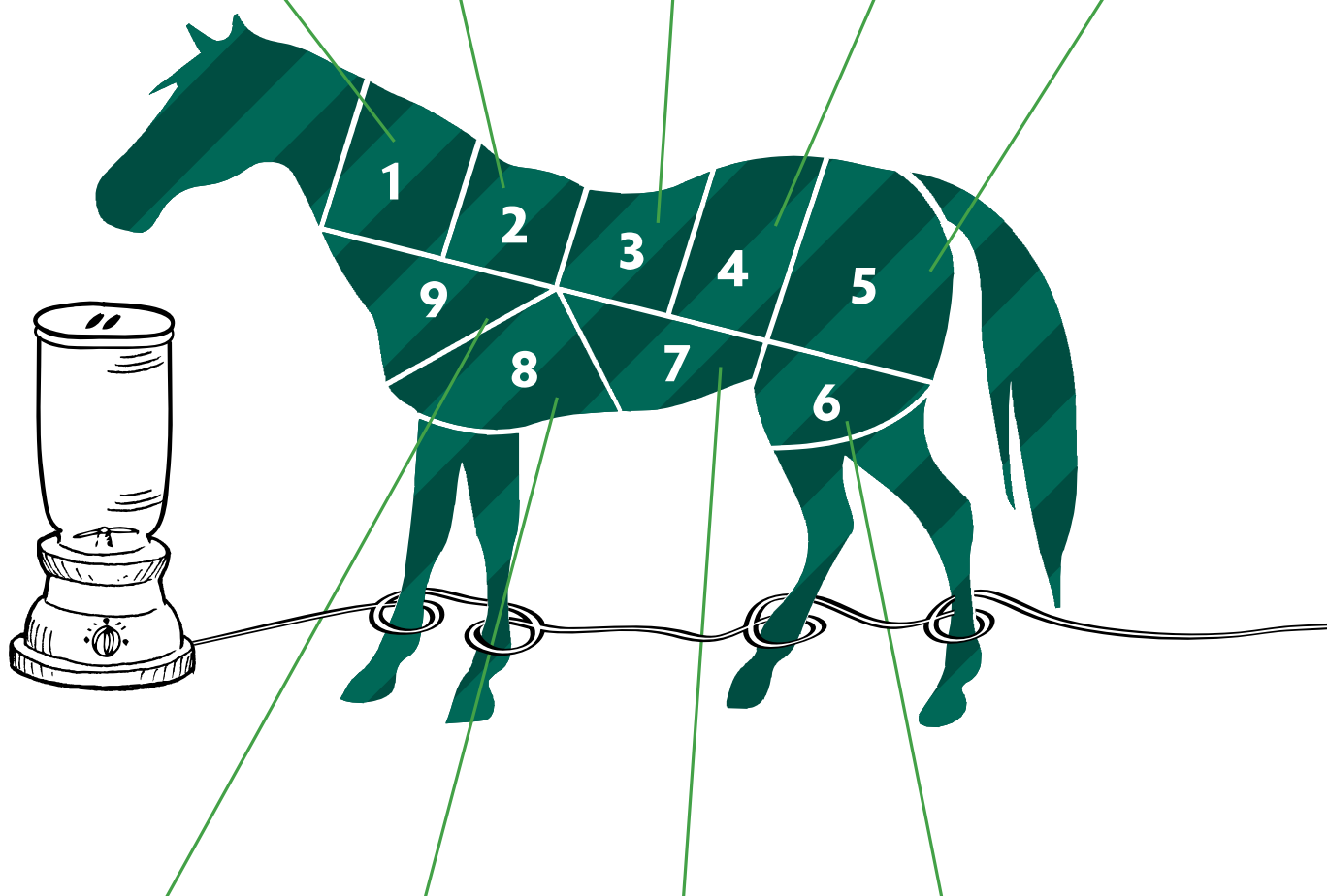
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# DIRECTORS AND OTHER INFORMATION

## Directors

Nigel Northridge *Chairman*

Patrick Kennedy *Chief Executive*

Cormac McCarthy *Chief Financial Officer*

Tom Grace *Non-executive Director*

Danuta Gray *Non-executive Director*

Ulric Jerome *Non-executive Director*

Stewart Kenny *Non-executive Director*

Jane Lighting *Non-executive Director*

Pádraig Ó Ríordáin *Non-executive Director*

David Power *Non-executive Director*

## Company Secretary and Registered Office

Jack Massey

Power Tower

Belfield Office Park

Beech Hill Road

Clonskeagh

Dublin 4

## Stockbrokers

Goodbody Stockbrokers

Ballsbridge Park

Ballsbridge

Dublin 4

Credit Suisse Securities (Europe) Limited

One Cabot Square

London

E14 4QJ

## Legal advisers

Arthur Cox

Earlsfort Centre

Earlsfort Terrace

Dublin 2

## Auditor

KPMG

1 Stokes Place

St Stephen's Green

Dublin 2

## Principal bankers

Allied Irish Banks plc

Barclays Bank PLC

Lloyds TSB Bank plc

National Australia Bank Limited

## Registrars

Computershare Investor Services (Ireland) Limited

Heron House

Corrig Road

Sandyford Industrial Estate

Dublin 18

## Registered number

16956



## 2012 GROUP FINANCIAL HIGHLIGHTS

### AMOUNTS STAKED\*

**€5,694M** **+25%**  
2011: €4,555M

### INCOME\*

**€654M** **+31%**  
2011: €499M

### DIVIDENDS PER SHARE

**120.0c** **+20%**  
2011: 100.0c

### ADJUSTED DILUTED EARNINGS PER SHARE \*\*

**€2.48** **+17%**  
2011: €2.12

\* Amounts staked by customers represent amounts received in respect of bets placed on sporting and other events that occurred during the year and net winnings, commission income and fee income earned on gaming and other activities. Income (or 'net revenue') represents the net gain on betting transactions (stake less payout) plus the gain or loss on the revaluation of open positions at year end, net winnings on fixed odds and online casino gaming activities, and commission income and tournament fees earned from peer to peer games, financial spread betting and business-to-business services. The costs of customer promotions and bonuses are deducted from income.

\*\* Exceptional gains, excluded from adjusted earnings per share, of €18m arose in 2011 (see Note 6).

# CHAIRMAN'S STATEMENT

DEAR SHAREHOLDER,

I AM PLEASED TO REPORT ON ANOTHER YEAR OF STRONG GROWTH AT YOUR COMPANY.

THE GROUP ACHIEVED RECORD TURNOVER OF €5.7 BILLION AND OPERATING PROFIT OF €136M. EARNINGS PER SHARE GREW BY 17% AND THE BOARD'S PROPOSED FINAL DIVIDEND MAKES FOR A TOTAL 2012 DIVIDEND OF 120 CENT PER SHARE, AN INCREASE OF 20% VERSUS 2011. ALL DIVISIONS ACHIEVED HIGHER REVENUES AND DOUBLE-DIGIT PROFIT GROWTH (BEFORE INVESTMENT IN FOUR NEW ONLINE VENTURES).

THE GROUP  
ACHIEVED  
RECORD  
TURNOVER OF  
**€5.7BN**

€m	2012	2011	% Change	% Change in Constant Currency (‘CC’)
Amounts staked	5,694	4,555	+25%	+19%
<i>Sportsbook gross win %</i>	<i>9.4%</i>	<i>8.8%</i>		
<b>Net revenue</b>	<b>653.8</b>	<b>499.3</b>	<b>+31%</b>	<b>+25%</b>
Gross profit	553.6	428.2	+29%	+24%
Operating costs	(417.6)	(308.6)	+35%	+31%
<b>Operating profit</b>	<b>136.0</b>	<b>119.5</b>	<b>+14%</b>	<b>+6%</b>
<b>Profit before tax</b>	<b>139.2</b>	<b>121.2</b>	<b>+15%</b>	<b>+7%</b>
EPS, adjusted diluted	248.1 cent	212.3 cent	+17%	
Dividends	120.0 cent	100.0 cent	+20%	
<b>Net cash at year end</b>	<b>€209m</b>	<b>€136m</b>		

Note 1: Results throughout this statement exclude net after-tax one-off gains of €18m in 2011.

Business development activity was also strong last year. We launched in the Italian online market, and whilst we still have much to do, progress to date has been encouraging. We also advanced our positions in key growth areas such as smartphone and tablet betting, social media and social gaming and increased our proprietary product content. We opened a record 44 shops in the UK last year, with our estate in the UK now larger than in Ireland.

Overall, the year illustrates great progress on our strategy to develop a leadership position in the increasingly global betting market through sustained investment in people, product, value and brand.

## Betting Regulation & Taxation

The global betting and gaming industry is becoming more regulated, and more taxed, which presents both opportunities and challenges for Paddy Power.

### Online

In Ireland and the UK, the proposed new online license and tax regimes on a ‘point of consumption’ basis have been well flagged and are expected to increase our costs, as detailed within the Operating & Financial Review under Taxation.

We urge governments when implementing point of consumption taxation to recognise the highly competitive nature of the industry, the challenges of enforcing taxes on rogue offshore operators and the propensity for consumers to migrate to the best value offers. High-tax regimes can drive consumers to non-compliant operators that are more price competitive, as they neither pay the betting tax nor observe player protection regulations, thereby frustrating the original policy objectives. Therefore to be effective, a point of consumption taxation and licensing regime requires appropriate resourcing and implementation of a wide range of enforcement mechanisms.

Similar considerations arise where governments prohibit some or all types of online betting activity. Rogue offshore operators fill the consumer demand without adherence to player protection regulations, sports integrity measures, paying local taxes or providing local employment. Thus there is a strong case for countries to move from prohibition to responsible regulation and taxation. Such developments would enable us to broaden our product offer in Australia, Italy and Canada, and possibly enter new geographies.



### Retail

Betting shops and casinos in the UK are allowed to offer gaming machines (known as B2/B3 machines) which take stakes of up to £100 and pay prizes of up to £500. The Government and Association of British Bookmakers have called for an 'evidence based debate' on how customers use B2/B3 machines. We fully support this and look forward to seeing the results of the Responsible Gambling Trust's major research project into machine gaming.

In Ireland, we welcome the proposals within the Betting (Amendment) Bill 2012 which will give us the option of opening our shops until 10pm during September to April, irrespective of whether there is an evening Irish race meeting.

### Employment & Tax

Paddy Power has a strong track record of providing high quality jobs and making a significant tax contribution in the countries in which we operate. We provided 3,767 jobs at the end of 2012 and paid total taxes and duties of €159m during the year.

	Employment 31 Dec 2012	% Change in 2012	Tax/Duty Paid 2012	% Change in 2012
Ireland	2,166	+15%	€70m	+22%
UK	1,129	+22%	€52m	+54%
Australia and Rest of World	472	+48%	€37m	+24%
<b>Group</b>	<b>3,767</b>	<b>+20%</b>	<b>€159m</b>	<b>+32%</b>

### The Board

David Power has advised me that he will retire from the Board at the conclusion of the 2013 AGM. We thank David for his fundamental contribution to Paddy Power's success, both as a co-founder in 1988 and as a non-executive director since that date.

### Financial Position and Dividends

Net cash at the end of 2012 was €209m, an increase of €74m compared to a year earlier, notwithstanding a 37% increase in dividends paid to shareholders and significant investment in new shops and our new and existing online businesses.

The Board is proposing an increase in the final dividend of 16% to 81.0 cent per share. This would bring the total dividend in respect of 2012 to €58.9m or 120.0 cent per share, an increase of 20% on 2011, and equivalent to a 49% payout ratio of underlying 2012 earnings.

While the Board remains committed to capital discipline, as demonstrated by the upward trend in its payout ratio and previous share buybacks, it also wants to maintain flexibility for future growth. The current pace of change in the global betting industry emphasises the need for such flexibility.

### Outlook

Trading in January to February has been strong and has also benefitted from favourable sports results. Sportsbook amounts staked are up 19% and total net revenue is up 34% in the first two months (in constant currency versus the same days last year). However, current Sterling and Australian dollar exchange rates against the euro, if they continue, would reduce operating profits by approximately €10m in 2013. The Board remains confident of the Group's prospects for 2013 and I look forward to updating you on progress at our AGM in May.



**Nigel Northridge**  
Chairman

# THE DOUBLE DANISH

(EURO 2012)

## INGREDIENTS

- 1 100ft statue
- 1 giant vuvuzela truck
- 1 Danish Team member

6,000 pairs of lucky pants

5m tweets

800 separate online news stories

£10m worth of exposure

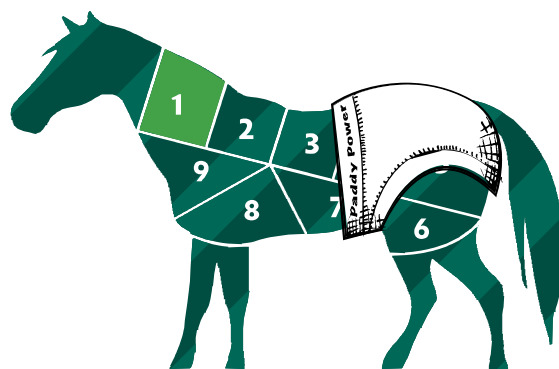
## METHOD

We always like to cook up something special for major events like the European Championship. We reckoned that installing 'Roy the Redeemer' on the White Cliffs of Dover, a 100ft statue of the England manager visible from France, and driving a giant vuvuzela truck around the streets of London and Dublin would be key Euro 2012 highlights for Paddy Power. Then Nicklas Bendtner came along and everything changed.

In the words of the respected marketing magazine, Brand Republic, "Nicklas Bendtner scored twice, once for Denmark and once for Paddy Power" when, after hitting the net against Portugal, he jogged towards the live match cameras and pulled down his shorts to reveal a pair of Paddy Power Lucky Pants.

Within a two-week period, the combined reach of Paddy Power on Twitter had passed the five million mark, with the Bendtner story, which had been covered in every Irish and UK daily newspaper, also garnering over 800 separate online news stories internationally. Paddy Power also trended worldwide on Twitter.

An overwhelming demand for Lucky Pants from punters saw the creation of a Lucky Pants app on our Facebook channel with over 6,000 pairs of replica pants given out, driving further interaction by encouraging consumers to post pictures of themselves in their pants to our social media channels – a sight for even the sorest eyes! MediaCom Denmark estimated the worldwide value of the spectacular at £10m. We believe it was priceless.







# CHIEF EXECUTIVE'S REVIEW

## INTRODUCTION

THE TRACK RECORD OF STRONG FINANCIAL PERFORMANCE AT PADDY POWER CONTINUED LAST YEAR. SINCE ITS FIRST YEAR AS A PUBLIC COMPANY IN 2001, THE GROUP HAS ACHIEVED COMPOUND ANNUAL GROWTH OF 25% IN REVENUES, 30% IN EARNINGS PER SHARE AND 33% IN DIVIDENDS PER SHARE.

THIS HISTORIC PERFORMANCE IS ENCOURAGING BUT OUR FOCUS IS VERY MUCH ON THE FUTURE. WE DO NOT UNDERESTIMATE THE POTENTIAL IMPACT OF INCREASED TAXATION, REGULATION OR COMPETITION BUT WE BELIEVE THE EFFECTIVE EXECUTION OF OUR STRATEGY WILL CONTINUE TO DELIVER LONG TERM GROWTH AND VALUE FOR OUR SHAREHOLDERS GIVEN:

- THE ATTRACTIVENESS OF OUR MARKETS;
- OUR STRONG POSITIONS WITHIN THOSE MARKETS;
- OUR SIGNIFICANT AND SUSTAINED LEVEL OF INVESTMENT;
- OUR PAYBACK AND MOMENTUM.

### Attractive Markets

#### Online

Our existing online markets are large, legal regulated markets which have consistently averaged double-digit growth rates. We expect smartphones, tablet computers, social media and migration from retail to continue to drive strong online market growth.

Our markets are becoming less fragmented over time as continuous innovation puts pressure on sub-scale operators, with consumers naturally migrating to the strongest products, services and brands. Market research in the UK indicates that in the year to September 2012, regular gamblers that use just one brand increased from 48% to 55% of those surveyed, while those that use four or more brands fell from 23% to 12% of respondents.

There is also a global trend towards countries regulating their online gambling markets, which has already opened up new markets for us, most recently Italy. Paddy Power may also benefit, at some point, from the regulation of products currently not allowed within our existing online markets, such as betting-in-play in Australia.

Overall, only 9% of the €333 billion global gambling market is currently online.

#### Retail

While retail faces challenges from online migration, on-going product innovation such as Self Service Betting Terminals, plus the attractions of betting in a social environment and in cash, do help make betting in shops a distinct and appealing proposition for many customers. Market research in the UK in September 2012 shows that one in two regular online gamblers still use betting shops on a monthly basis.

THE GROUP  
HAS ACHIEVED  
COMPOUND  
ANNUAL  
GROWTH  
OF 30% IN  
EPS SINCE 2001





## Strong Positions

### Scale

Paddy Power has developed a position of some scale in the industry, with net revenue of €654m, over 1.6m online active customers and 422 shops in 2012. This scale allows us to continue to invest, particularly in our e-commerce and technology capabilities, to maintain a virtuous circle of revenue growth, generating more cash for investment to drive further revenue growth.

### Mobile

Paddy Power is disproportionately large within the fast growing mobile segment, holding a leadership position in all our major markets. In the UK, we have approximately a 27% share of the mobile sports betting market, which is around double our share of the total online sports betting market. In Australia, a market leading 32% of regular online bettors on sport surveyed cited Sportsbet as the brand they used most often for mobile betting.

### Brand

Innovative marketing and exploiting new ways to engage with an increasingly online and mobile customer base is crucial in our industry. Market research in the UK and Australia, and now Italy as well, consistently shows that we are the only brand in the sector with a real personality, built on leading on key metrics such as 'entertaining', 'modern' and 'value for money'. Social media have enabled us to communicate this distinctive brand personality even more effectively online. For example, every man over the age of 18 on Facebook in the UK (of which there are 13 million) is now connected to at least one Paddy Power fan, giving us the opportunity to market to them on Facebook via a friend of theirs.

### Retail Unit Profitability, Growth Potential and Resilience

Our retail positions in Ireland and the UK continue to stand out. In Ireland, our turnover per shop is 118% higher than the rest of the market. In the UK, our turnover is 92% higher than the average of our quoted competitors. This top-line outperformance feeds through to very attractive EBITDA levels and returns on capital. Last year, average EBITDA for our UK shops of £140,000 compared to a capital cost per organic opening of £254,000.

With less than a 3% share of the shops in the UK market, we also have a unique opportunity to grow our estate materially in the UK. Even with our selective approach to new openings, we successfully opened 44 shops last year increasing our average UK shop numbers by 28% and operating profits by 29% in constant currency.

Top line outperformance also gives our shops a different level of resilience in the face of any adverse developments relative to the shops of our competitors. Since August 2008 our competitors have closed some 341 shops in Ireland, while we have opened 25 units and closed none.

### B2B & B2C Capabilities

New geographies may regulate in a way which does not allow, or may not make attractive, a market entry by Paddy Power on a B2C basis. This was the case in France and in Canada; however we successfully entered both markets on a B2B basis, establishing credentials for possible further partnerships. We have also successfully entered new geographies on a B2C basis both organically (UK) and via acquisition (Australia).

IN IRELAND, OUR  
TURNOVER PER  
SHOP IS **118%**  
**HIGHER THAN**  
THE REST OF THE  
MARKET

# THE EURO SAVER

(THE RYDER CUP)

## INGREDIENTS

- 2 teams, one US, one European
- 1 gathering of golf fans (preferably loud)
- 5 stunt planes
- 1 missing Tiger
- 40 Sky Tweets
- 1 dash of Kaymers

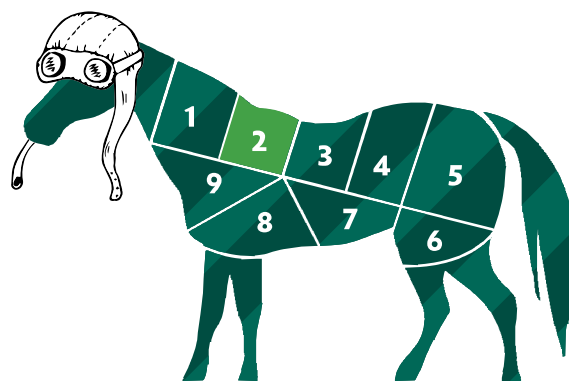
## METHOD

Take one Team America Captain, Davis Love III, and stoke the flames for a fiery confrontation by stirring up US fans to deliver the loudest frenzy ever seen at the tournament. Then add an audacious plan to redress the balance for Team Europe and in the process redefine blue sky thinking. Using Twitter, call on Team Europe fans to tweet messages of support using the hashtag 'goeurope', a selection of which will be 'sky-written' directly above the Ryder Cup golf course at 10,000ft in the world's first social media campaign of its kind.

The computer-controlled messages were delivered by a squadron of five stunt planes flying in formation wing-to-wing and spelling out each character of the message with a vapour trail that was turned on and off as letters were built.

During the course of the Ryder Cup weekend we managed to sky-write 40 tweets of support for Team Europe and even set a new world record for the longest message to be written in the sky (GOOD LUCK TIGER! LOVE RACHEL, MINDY, JAMIE, CORI, KALIKA, HOLLY, JOSLYN, JAMIE, LOREDANA, JULIE, THERESA AND RAYCHEL X #GOEUROPE).

The result was better than we dared wish for, drawing praise from players including Rory McIlroy and Graeme McDowell along with Team Europe captain Jose Maria Olazabal. It was one of the best comebacks in Ryder Cup history and another high flying success for Team Paddy Power.





HAS ANYONE SEEN TIGER?  
MADDY POWER



# CHIEF EXECUTIVE'S REVIEW

(CONTINUED)

## Significant Investment

Paddy Power has been investing aggressively in recent years in both existing and new capabilities in order to drive future performance.

Our internal product development capabilities were boosted with the acquisition in November 2011 of Bulgarian based games developer, Cayetano. We now employ 74 staff in Sofia compared with 32 on acquisition, who delivered 25 games since July (which are generating higher average revenue per game than our new third party games).

Other online and technology headcount has been increased dramatically, from 338 to 918 over the last three years, with new specialist teams focussed on mobile development, mobile marketing, social media, customer intelligence and 24x7 technical operations. We continue to invest in our Risk Quants team, thereby delivering more betting opportunities, greater efficiency and better margin control. Last year, we introduced new proprietary mathematical models for cricket, US basketball, NFL and darts.

Our new online ventures, particularly our Italian launch, have great potential if we can replicate the success we have achieved elsewhere, particularly given the size of the markets being targeted. These investments also give us additional insights and capabilities which can position us for future opportunities.

Every year, we also invest significantly in our unique approach to offering better value to our customers, and in building the distinctiveness of our brand. Last year delivered some spectacular successes including our Ryder Cup 'Sky Tweets', Nicklas Bendtner in Lucky Paddy Power pants, and our largest ever Money-Back Special. Being able to showcase the distinct personality of the Paddy Power brand in such a variety of different ways, across a wide range of media, is a key asset in competitive markets with significant marketing inflation.

## Payback & Momentum

The compelling combination of attractive market positions and significant investment is evident in our strong payback and momentum. Over the last three years, we have achieved average annual growth in online customer acquisition of 44% and online active customers of 41%, with growth actually accelerating last year, off a much higher base. Over the same period, we have also boosted our Retail profitability, despite the economic conditions, with average annual growth in EBITDA per shop of 14% in the UK and 1% in Ireland (and like-for-like net revenue in constant currency increased by 7% in both estates last year).

## Conclusion

Paddy Power is well positioned in growing and attractive markets. We have made significant investment in our brand, operational capabilities and people. These investments are paying back strongly and we expect that this will continue. Underlying this, a strong balance sheet gives us further opportunities to create value for shareholders. We look forward to 2013 and beyond with confidence.



**Patrick Kennedy**  
Chief Executive

4 March 2013





# OPERATING & FINANCIAL REVIEW

## INTRODUCTION

PADDY POWER IS AN INTERNATIONAL BETTING AND GAMING GROUP. THREE QUARTERS OF PROFITS LAST YEAR CAME FROM THE FAST GROWING ONLINE SEGMENT. IN ADDITION, THE GROUP BENEFITS FROM BEING A MULTI-CHANNEL OPERATOR IN THE UK AND IRELAND. SHOPS BOOST BRAND RECOGNITION, TRUST AND SCALE, AS WELL AS DIRECTLY CONTRIBUTING 22% OF OPERATING PROFIT IN 2012.

THREE  
QUARTERS  
OF PROFITS  
FROM  
ONLINE  
SEGMENT

### Operating Profit by Division

	2012		2011		% Change
	€m	% of Group	€m	% of Group	
Online (ex Australia)	72.7	53%	74.3	62%	(2%)
Online Australia	30.8	23%	22.8	19%	+35%
Irish Retail	14.4	11%	10.9	9%	+32%
UK Retail	15.3	11%	10.5	9%	+46%
Telephone	2.7	2%	1.1	1%	+156%
<b>Group Operating Profit</b>	<b>136.0</b>	<b>100%</b>	<b>119.5</b>	<b>100%</b>	<b>+14%</b>

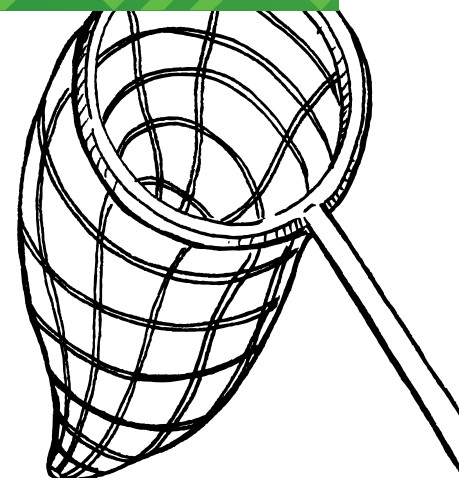
*(Online (ex Australia) % Change' is after an increase in start-up losses of €19.0m in 2012 on four new online ventures)  
(Online Australia also includes legacy telephone operations accounting for less than 10% of gross and operating profit)*

In recent years, Paddy Power has been spreading around the world faster than a video of a cat playing a piano with online betting services now provided to consumers in Italy, Australia and to business-to-business clients in France and Canada. Customers outside Ireland accounted for 74% of total operating profit last year. This was unchanged compared to 2011, primarily due to start-up losses in Italy offsetting a significantly increased contribution from customers in the UK and Australia.

### Operating Profit by Geography

	2012		2011		% Change
	€m	% of Group	€m	% of Group	
UK	81.7	60%	64.1	54%	+27%
Australia	30.8	23%	22.8	19%	+35%
Ireland and Rest of World	23.5	17%	32.6	27%	(28%)
<b>Group Operating Profit</b>	<b>136.0</b>	<b>100%</b>	<b>119.5</b>	<b>100%</b>	<b>+14%</b>

*(Online and Telephone operating profit allocated by geography based on average divisional profit margins applied to net revenue)*



# THE GOB SMACKER

(CHELTENHAM 2012)

## INGREDIENTS

1 world-famous hill carving

200 metres of lightweight canvas

500 tiny tent pegs

110 foot tall jockey

## METHOD

As always around the Cheltenham Festival we like to capture people's attention in order to make horse racing a little more fun and interesting.

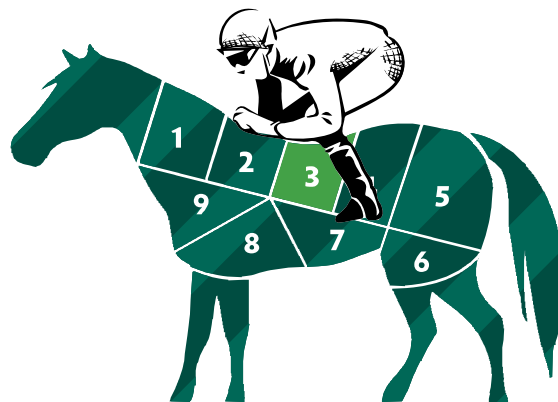
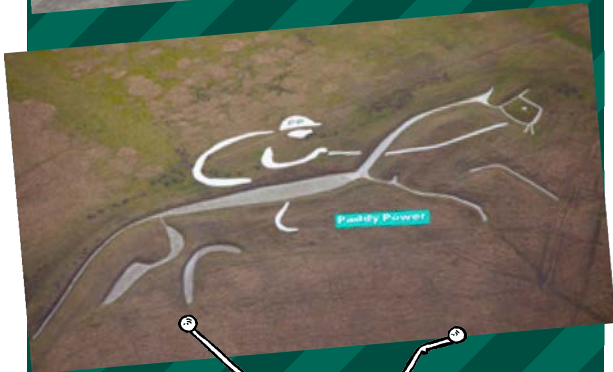
Some might think we just got a graphic designer to draw a jockey on the giant 3,000 year-old prehistoric hill carving of the horse. It probably would have been a little cheaper! But we don't do things by half measure.

Now before anyone starts to complain about defacing the iconic White Horse of Uffington, there are two things you should know. Firstly, we were super careful not to cause any damage and, secondly, it was your idea.

One of our army of Twitter followers asked us if we'd be getting up to any mischief for the 2012 Cheltenham Festival and we didn't want to disappoint. Sure what's a horse without a rider anyway? Yes, it's still a horse, but it's one that can't win at Cheltenham.

The White Horse was carved into the hills of Uffington, Oxfordshire, over 3,000 years ago by men without iPods. An iconic figure of a horse, the size of a football pitch, famed the world over, it has inspired writers, artists and mischief making bookmakers for millennia.

For thousands of years it has been waiting for Stonehenge to fall over to become the First Wonder of Britain. Now thanks to Paddy Power's team of mischief makers, the Uffington White Horse has been promoted into the world league of wonders.







# OPERATING & FINANCIAL REVIEW

(CONTINUED)

## Sports Results & Trading

Based on our current expectations for normal gross win percentages, sports results had an overall immaterial impact on profits last year, but there were still a fair few hairy moments.

We regularly come unstuck at Cheltenham and the Grand National but actually came out ahead on both last year, despite our biggest ever Money-Back Special refunding all losing bets when Sprinter Sacre won the Arkle, and our usual generous offer paying an extra place on the world's most unpredictable steeplechase.

We expected to be out of harm's way until Ascot and the Euros. We certainly didn't count on losing our shirt in the second half of May from an accumulation of relatively small bookie-beating results in racing, golf, boxing, rugby and the Champions League final. With Chelsea riding their luck all the way to Munich, we were confident our offer of 'Money-Back if the Blues lifted the trophy' would never come to pass but we were left with a refund that looked like Tiger Woods' divorce bill.

At least results in the Euros went well (eventually), with the Group taking stakes of €78m and gross win of €7.6m. The London Olympics were another big event to showcase Paddy Power. We were the only bookie to offer bets on the winners of every single event, and to challenge the draconian brand police by advertising our official sponsorship of 'the largest athletic event in London' – our egg-and-spoon race in London, France that is!

The show was back on the road – then the wheels came off, again. Whether you call him Irish, British or simply this generation's Leo Sayer, the fantastic curls of Rory McIlroy started the slide with victory in the USPGA. He then played his part in an expensive Ryder Cup. In fairness to Rory, it was Tiger that left us feeling like we'd crashed the SUV into a tree by conceding the final putt to ensure a European win rather than the draw. We really shouldn't bait him so much!

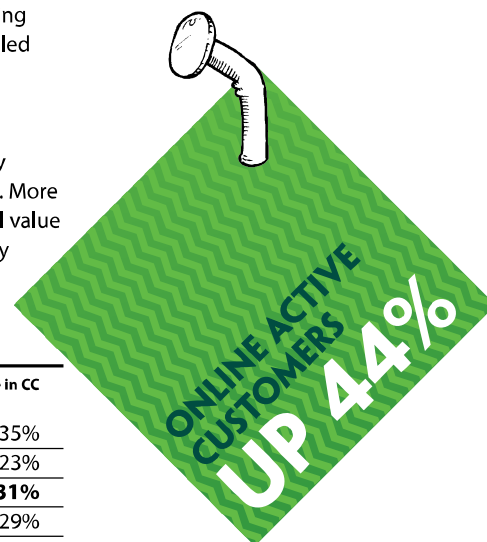
While things weren't exactly going our way, we never let that affect our unique long term approach in all our geographies to give value to customers. In Italy, we decided punters shouldn't suffer because the referee decides to disallow a goal while on the way home after the match (well practically) and we paid out on the win for both Catania and Juventus. Nor should our customers lose money if a national hero shows less bottle than six tinnies of VB – with one hand on the Claret Jug, Adam Scott bogeyed the last four holes to lose the Open, so it was 'Justice Payout' time in Australia. We're also exporting extra-place-payouts to the Aussies, with our four places on the Melbourne Cup new and unrivalled in the market. Despite this generosity, the Spring carnival was one of many highlights for us in November, and even with one final kicking in UK and Irish Christmas racing, we finished ahead.

Last year illustrates that even with all the benefits of more diversification, technology and geeky maths folk, our short term profitability can still be influenced by the vagaries of sporting results. More importantly, it shows our unstinting emphasis on entertainment, great product and exceptional value for customers. This approach consistently resonates with punters across all our markets, strongly contributing to the 51% increase in online customer acquisition achieved last year.

## Online

€m	2012	2011	% Change	% Change in CC
Sportsbook net revenue	300.5	210.3	+43%	+35%
Gaming & other net revenue	109.1	85.0	+28%	+23%
<b>Total net revenue</b>	<b>409.6</b>	<b>295.3</b>	<b>+39%</b>	<b>+31%</b>
Gross profit	338.2	248.0	+36%	+29%
Operating costs	(236.1)	(153.3)	+54%	+48%
<b>Operating profit</b>	<b>102.1</b>	<b>94.8</b>	<b>+8%</b>	<b>+0%</b>
% of Group operating profit	75%	79%		
<b>Active customers</b>	<b>1,628,198</b>	<b>1,130,912</b>	<b>+44%</b>	

(Active customers defined as those who have deposited real money and have bet in the year, excluding indirect B2B customers)





We grew online profits by 8% (or 27% before investment in four new ventures) to €102m last year and dramatically added to our online scale. Active customers of 1.6 million increased 44% versus 2011 and almost doubled as compared to 2010, all via organic growth, solely in regulated markets. Mobile revenue increased by 185% in constant currency to an industry-leading 32% of total online revenue. Improvements in our risk management and business mix increased our actual and expected online sportsbook gross win percentages, notwithstanding the outstanding value we offer customers.

We invested heavily to drive and support this growth, and to take Paddy Power into new markets. Online operating costs were up €15.8m due to our entry into the Italian online market, plus investments in a new mobile casino product and brand (*Roller*), a sports betting based social game (*BetDash*) and proprietary gaming development through *Cayetano*.

Excluding these four new ventures, online operating costs increased by 38% in constant currency, broadly in line with the growth in customers, stakes and revenues. This continuing investment was across people, operations, technology, brand and product – an approach that has driven our growth for many years – and included:

- An upgraded technology infrastructure to significantly increase availability, resilience and capacity, as well as addressing increased complexity from different mobile channels and devices;
- Investing in new media for ongoing growth as consumers' media consumption shifts to social, online and mobile channels;
- Expansion in betting markets, betting events and gaming content, for both online and mobile;
- An increase of 337 or 52% last year in online and technology headcount.

#### Online Division (Excluding Australia)

€m	2012	2011	% Change	% Change in CC
Amounts staked	2,112	1,561	+35%	+29%
Sportsbook net revenue	154.0	114.2	+35%	+29%
Sportsbook gross win %	8.4%	8.2%		
Gaming & other net revenue	109.1	85.0	+28%	+23%
<b>Total net revenue</b>	<b>263.1</b>	<b>199.2</b>	<b>+32%</b>	<b>+27%</b>
Gross profit	226.1	175.1	+29%	+24%
Operating costs	(153.4)	(100.8)	+52%	+49%
<b>Operating profit</b>	<b>72.7</b>	<b>74.3</b>	<b>(2%)</b>	<b>(9%)</b>
New ventures	(20.5)	(1.5)		
<b>Underlying profit</b>	<b>93.2</b>	<b>75.8</b>	<b>+23%</b>	<b>+15%</b>



Underlying profit for our Online Division (ex Australia) was up 23%, although operating losses in our new online ventures increased by €19.0m to €20.5m, resulting in €1.6m lower operating profit. Net revenue increased 27% in constant currency to €263m. Active customers of 1.3 million were up 44% last year and almost triple the 2009 level. Excluding our new online ventures, online operating costs increased by 34% in constant currency.

Our organic entry into the Italian online market is still at an early stage but has started well. We are positioning Paddy Power as the leading innovator for betting product, for mobile, for social media and for customer service. Key developments to date have included:

- Going live, on schedule, with sports betting in mid-May;
- Stepping-up marketing activity in August with our first national TV advertising campaign;
- Launching our casino product in December (coinciding with the regulation of online slots).

We are gradually building a critical mass of customers and ended the year with in excess of 5% of the online sports betting market by turnover. We have also established Paddy Power's usual distinctive brand positioning in Italy. This year, we are looking forward to an expected extension in the range of betting products which the regulator allows and to adding more gaming product, including Games, 'live' casino, mobile casino product and Bingo.

# THE DIVINE INTERVENTION

(PADDY POWER LAUNCHES IN ITALY)

## INGREDIENTS

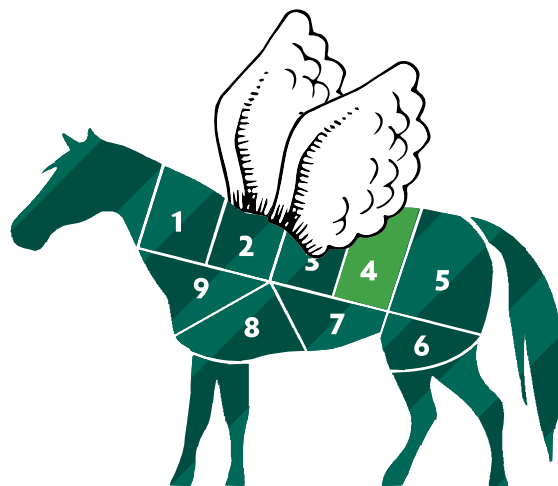
- 1 TV advertising campaign
- 1 God-like character
- 3 main Italian TV networks
- 30 gufi

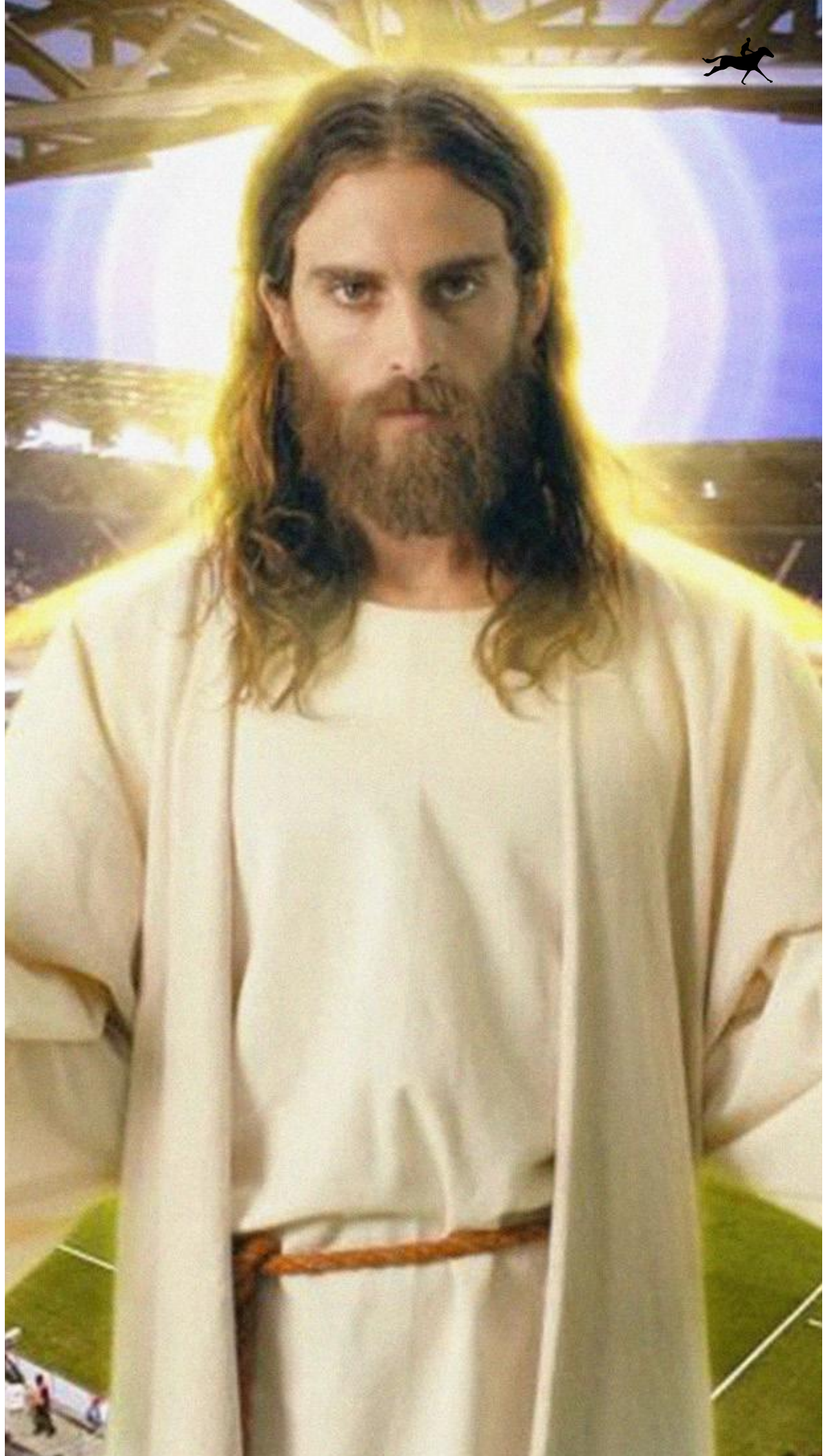
## METHOD

2012 saw Paddy Power take on the Italians. Paddypower.it launched its sportsbook in the market last May, with Casino following in December. In the true spirit of 'We hear you' we travelled the length and breadth of Italy meeting Italian punters, introducing them to Paddy Power and getting their feedback. The result, a bespoke 'We Hear You' ('Ti Ascoltiamo') TV advertising campaign for Italy. With a little help from Jesus, the TV Ads tapped into the current frustrations within Italian football, such as corrupt referees, empty stadiums, match fixing and players who are more into personal beauty rather than the beautiful game (il bel gioco!).

The campaign kicked off in August coinciding with the 2012/13 Serie A season, and ran for ten weeks. We targeted the main Italian TV networks, including Sky Italia, Eurosport and ESPN. To kick off the Euros Italian style, we took over the Spanish Steps in Rome dressed as Owls! (Context: in Italian, the word 'gufo' ('owl') has a second meaning, 'jinx', so obviously we put a jinx on the Spanish team in advance of the first game for Italy).

Later in the Summer, Jesus also popped up at the Venice film festival to help us announce our arrival. Having met the Press in Milan at launch, we like to think they weren't too surprised. But between stealing market share and Bendtner's lucky pants making their way into Italian headlines, it was a busy first couple of months. This was reflected in independent market research covering the last quarter of 2012 where Paddy Power was rated number one versus the competition in Italy for being 'fun', 'value for money' and 'mischievous', whilst also achieving a top 5 position for spontaneous brand awareness, and we've only just begun!





# OPERATING & FINANCIAL REVIEW

(CONTINUED)

In other new business developments, we now have 25 Cayetano games live since their roll-out started in July. The games have strong graphical themes, engaging gameplay and are exclusive to Paddy Power, making them highly popular – in the second half of the year, the average revenue per Cayetano game per month was over twice the average for the 40 third party games launched. October saw us launch a new casino product for the fast growing UK tablet and smart phone gaming market. As planned, we launched the product under a second brand, *Roller*, and also made it available under the *Paddy Power Vegas* brand last month. *Betdash* went live in August, winning the E-Gaming Review award for ‘best innovation in gaming’ and giving us further insights and credentials in social gaming.

## Online (Ex Aus) Active Customers

	2012	2011	% Change
UK	1,021,517	710,043	+44%
Ireland and Rest of World	285,181	196,680	+45%
<b>Total</b>	<b>1,306,698</b>	<b>906,723</b>	<b>+44%</b>

## Online (Ex Aus) Customers Product Usage

	2012	2011	% Change
Sportsbook only	767,566	513,201	+50%
Gaming only	146,752	118,404	+24%
Multi-product customers	392,380	275,118	+43%
<b>Total</b>	<b>1,306,698</b>	<b>906,723</b>	<b>+44%</b>

*(Active customers defined as those who have deposited real money and bet in the year, excluding indirect B2B customers)*

### (A) Online Sportsbook

The amounts staked on the online sportsbook increased by 29% in constant currency to €2.0 billion. Within this, bet volumes grew 41% to 135.2m, while the average stake per bet decreased by 8% in constant currency to €14.72. Net revenue increased by 29% in constant currency.

We continue to use our scale and momentum to develop our products, and while continuous innovations in technology do create some complexity and cost, they also provide a rich pipeline of development and differentiation opportunities not readily accessible by smaller operators. Last year, we enriched our mobile offer with easier to use racing pages including exclusive Racing Post content, bespoke apps for Cheltenham, Euro 2012 and the Premier League and a unique TV bet feature – simply point the app at the TV when watching the Premier League and it will bring up the latest odds. Mobile turnover increased by 121% to €807m last year, with 61% of sportsbook customers transacting with us via mobile last month generating 50% of sportsbook turnover.

Other sportsbook innovations included new football ‘my team’ personalised pages, suggested bets wizardry from our proprietary ‘stats likely’ data analysis and over 4,500 extra streaming events a year for football, tennis and basketball.

### (B) Online Gaming & B2B

Gaming and other revenue increased by 23% in constant currency to €109m driven by growth in Games, Casino, Bingo and B2B. Gaming growth was particularly strong in the last quarter of 2012 helped by mobile revenues, which reached 25% of total gaming revenue in December 2012, as compared to 6% a year earlier. Our Poker business continues to perform well relative to its peers but faces a challenging industry backdrop.

Exciting new content remains a key driver of gaming growth and we launched 91 new titles for Games last year. Our range brings together the best games from over 20 different suppliers, proprietary Paddy Power slots from Cayetano and other exclusive content developed with third party suppliers (such as our Deal-or-No-Deal® app). Our mobile products available directly from the app store were significantly expanded with the roll-out of Casino, Bingo and *Roller* and extra titles for Games. This also more than triples to 64 the games accessible from our sportsbook mobile app, which helps us to use that number one market position to grow mobile gaming.





Our B2B supply of sports betting risk management and pricing expertise to British Columbia Lottery Corporation ('BCLC') in Canada launched on schedule in July. Our product is now also supplied to neighbouring Manitoba Lotteries, via BCLC, creating additional revenue (in return for toning down our Celine Dion and Bryan Adams jokes). In January, our B2B partner in France, PMU, reported 62% growth in its online sports turnover in 2012, as compared to overall market growth of 19%.

### Online Australia Division

€m	2012	2011	% Change	% Change in CC
Amounts staked	1,710	1,370	+25%	+15%
<b>Net revenue</b>	<b>156.4</b>	<b>107.4</b>	<b>+46%</b>	<b>+34%</b>
<i>Sportsbook gross win %</i>	<i>9.4%</i>	<i>8.1%</i>		
Gross profit	119.4	81.1	+47%	+36%
Operating costs	(88.6)	(58.3)	+52%	+40%
<b>Operating profit</b>	<b>30.8</b>	<b>22.8</b>	<b>+35%</b>	<b>+24%</b>
Active customers	324,341	226,513	+43%	

*(Active customers defined as customers who have deposited real money and have bet in the year)  
(The division also includes legacy telephone operations accounting for less than 10% of its gross and operating profit)*



Our Australian Division had an excellent year, increasing its online market share and growing its operating profit by 35%, notwithstanding a very competitive market. This performance was driven by the cumulative impact of increased investment since 2011, when the Group acquired 100% of Sportsbet, including:

- Enhancement of our product offer with more betting markets, mobile product and streaming;
- Implementation of improved customer analytics, acquisition and retention techniques;
- Progressing a differentiated 'Paddy-Power-like' brand personality, through our unique approach to value, social media activity and the occasional bit of mischief;
- Expansion of our headcount by 124 to 370 over the two years to December 2012, including the addition of new specialist teams;
- Structural improvements to the expected normal gross win percentage.

Last year, the gross win percentage, including legacy telephone operations, increased by 1.3% to 9.4%.

In constant currency, operating costs grew by 40%, online net revenue by 41% and online stakes by 27% (24% in the first half and 28% in the second half, notwithstanding more difficult comparatives). Online active customers grew by 43% and new active customers by 62%. In constant currency, mobile turnover increased almost five-fold to €360m last year, with 59% of our online customers transacting with us via mobile last month, generating 32% of sportsbook turnover.

As a result of the decision of the High Court in March 2012 to allow the turnover based product fees charged by Racing New South Wales, some other racing and sporting bodies started to levy higher fees over the course of the year. This increased the level of deductions between net revenue and gross profit, although the impact was partially mitigated by the higher gross win percentage.

The Australian Department of Broadband, Communications and the Digital Economy published an Interim Report of its review of the 2001 Interactive Gambling Act in May. Its recommendations included the regulation of online betting-in-running, new responsible gambling measures, a five year trial of online tournament poker and increased enforcement against unlicensed offshore operators. Nonetheless, given the political reaction to date and a general election in 2013, it seems unlikely there will be any regulatory change in the short term.

# THE BLACK CAVIAR

(ROYAL ASCOT 2012)

## INGREDIENTS

1 unbeaten Aussie wonder-mare

1 slightly unhinged 'bodyguard'

22,000 mile roundtrip

80,000 racegoers

1 almost calamitous jockey error

1 short head victory

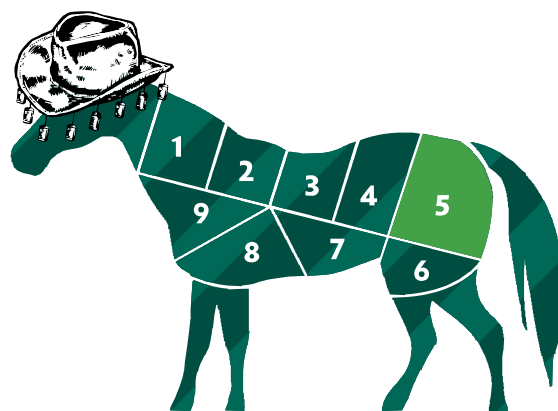
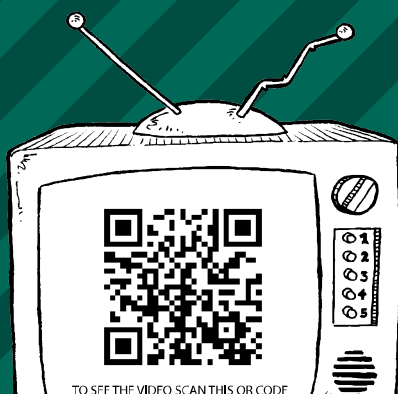
## METHOD

Royal Ascot 2012 will be remembered for the appearance of Australian mare, Black Caviar, who remained unbeaten – but only just – after jockey Luke Nolen lit his cigar too soon before realising he should carry on riding! We couldn't let a global sprinting superstar like her arrive in England without getting involved, so our marketing team down in Sportsbet arranged for a bodyguard to accompany her and tell everyone: "Oi Poms! Hands Off Our Girl!"

The message was loud and clear that home fans could look but not touch and bodyguard/ stalls handler Glen Darrington was there to keep the local riff raff at bay! This was the first time that any international horse had been allowed to have their own stalls handler at Her Majesty's track and it could well be the last after we decided to introduce our own bit of guerrilla marketing into the equation. Darrington himself became something of a media darling, conducting numerous television interviews from Ascot. (The bodyguard was also treated to some sightseeing in England's capital city, and was spotted wearing a suitably branded t-shirt in full top hat and tails in front of the Houses of Parliament).

The race was watched live by 80,000 racegoers, while a global TV audience included thousands in Melbourne's Federation Square (think London's Trafalgar Square) watching the England vs. Australia battle live on large screens in the middle of their night.

Being a bodyguard to a flighty female like Black Caviar requires brains as well as brawn, and canny Darrington was well aware that the Pommy authorities might not take too kindly to his sporting a fetching blue jacket emblazoned with sportsbet.com.au on the front, back and sleeves! So our intrepid superhero wore his fashion accessory under his Ascot jacket and stripped off to the Sportsbet number a few minutes before the off (à la Superman but without the jacket being made of indestructible material from Krypton).







sportsbet  
.com.au

says:

OI POMS!

KEEP YOUR  
HANDS OFF  
OUR GIRL!

# OPERATING & FINANCIAL REVIEW

(CONTINUED)

## Retail

Our retail profits increased by €8.3m or 39% last year, with the benefits of improved sports results, new openings and product development more than compensating for the economic conditions, some migration online and increased weather-related racing cancellations.

Both Irish and UK Retail experienced a better year-on-year gross win percentage, with Irish Retail's up 1.0% to 12.0% and UK Retail's up 0.3% to 11.3%. The improvement in Irish Retail was more pronounced helped by a complete reversal of fortunes for Irish trained horses at Cheltenham in 2012 versus 2011. That Cheltenham bounce back was less marked for UK Retail which also had less favourable results in Euro 2012 given the relative showings of the Irish and English teams. Our normal expected gross win percentage in Retail is 11% to 13%, significantly less than our competitors in the UK reflecting the materially better value offered by Paddy Power. We are, for example, the only major bookmaker in the UK offering the same odds over-the-counter as we do online. We believe this approach, as well as being more sustainable, strongly contributed to our UK sports betting stakes per shop being 92% higher than the average of our quoted competitors last year.

This higher turnover per shop also supports a better invested estate, with better product. For example, we were the first bookmaker to offer a Self Service Betting Terminal in all our shops in Great Britain in July 2011. We continue to lead that market and have more than doubled the number of terminals installed across our combined UK and Irish estate since the start of 2012. We also enhanced our machine gaming offer last year with the introduction of a loyalty programme (now rolled-out across our estate), new cabinet bays and 15 new games (giving us the largest selection of games of all the major bookmakers). In addition, we completed the roll-out of our dedicated 'virtual' product channel; a popular addition given the extent to which 'real' product was rained-off last year.

Cost management continues to be a priority. In our Irish estate over the last five years, average direct costs per shop have been reduced by 21%. Our full estate of 430 shops is now managed under a new Head of Retail position, filled by Andy McCue, our Head of UK Retail since 2009. This structure will make it easier to share insights, make best use of our scale and achieve other synergies between the two estates.

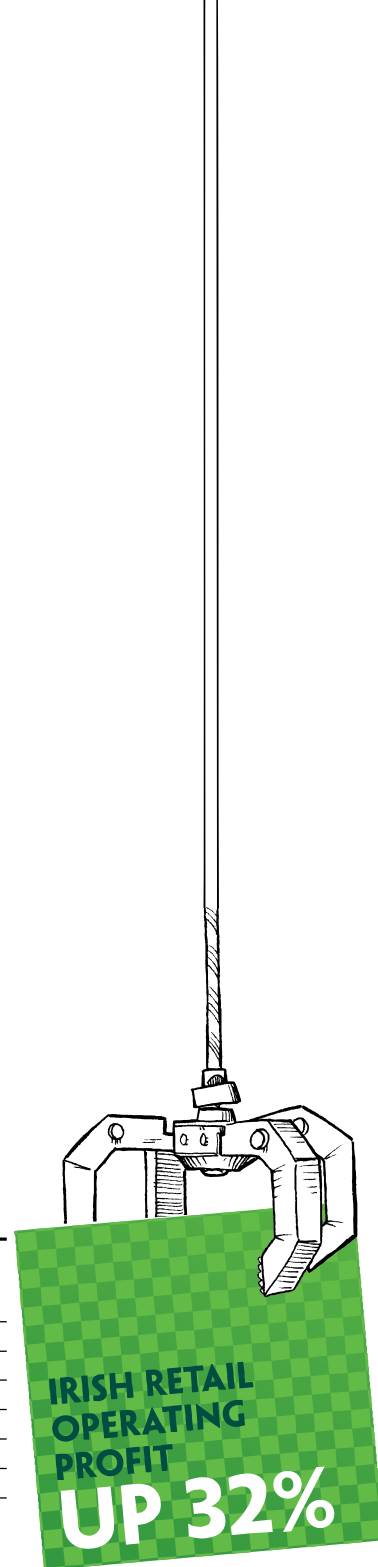
## Irish Retail Division

€m	2012	2011	% Change
Amounts staked	927	935	(1%)
<b>Net revenue</b>	<b>110.4</b>	<b>102.8</b>	<b>+7%</b>
Gross win %	12.0%	11.0%	
Gross profit	100.5	93.2	+8%
Operating costs	(86.1)	(82.3)	+5%
<b>Operating profit</b>	<b>14.4</b>	<b>10.9</b>	<b>+32%</b>
Shops at year end	213	210	+1%

Irish Retail operating profit increased by 32% to €14.4m, driven by the return to a more normal run of sports results. While the amounts staked declined by 1% to €927m, net revenue was up 7% to €110m.

We opened three new shops last year. Excluding the impact of new units, like-for-like amounts staked were down 2%, net revenue was up 7% and operating costs (including central costs) increased by 3% in constant currency. The reduction in like-for-like stakes was driven entirely by a fall in average stake per slip of 8% to €15.44, with a 7% increase in like-for-like bet volumes.

Our market share in Irish retail was approximately 35% in 2012, as compared to some 26% five years ago.





## UK Retail Division

€m	2012	2011	% Change	% Change in CC
Amounts staked	531	377	+41%	+31%
Sportsbook net revenue	53.9	37.5	+44%	+34%
<i>Sportsbook gross win %</i>	<i>11.3%</i>	<i>11.0%</i>		
Machine gaming net revenue	47.5	34.6	+37%	+28%
<b>Total net revenue</b>	<b>101.3</b>	<b>72.2</b>	<b>+40%</b>	<b>+31%</b>
Gross profit	85.3	61.1	+40%	+31%
Operating costs	(70.0)	(50.6)	+38%	+31%
<b>Operating profit</b>	<b>15.3</b>	<b>10.5</b>	<b>+46%</b>	<b>+29%</b>
Shops at year end	209	165	+27%	

(Machine net revenue above and throughout this statement excludes VAT at 20%; 'Sportsbook' includes over-the-counter and SSBTs)

UK Retail profits continued to grow strongly with an increase of 46% from €10.5m to €15.3m. The new shops we opened in 2012 and a full year impact from the shops we opened in 2011 were the main drivers of this growth, but our existing shops also increased their profitability, notwithstanding a weak economy and an increasingly competitive environment.

In constant currency, turnover grew 31% to €531m, while net revenue also increased by 31% to €101m. Like-for-like net revenue grew 7% in constant currency, which comprised machine gaming net revenue growth of 1% and sportsbook net revenue growth of 13% on like-for-like sportsbook turnover up 10%. Like-for-like bet volumes were up 11%, while the average sportsbook stake per bet decreased by 1% in constant currency to €16.48.

The average gross win per gaming machine per week including VAT was in line with 2011 at £1,210, primarily reflecting increased competition. We progressed a number of enhancements to our offer last year, including a loyalty programme, new cabinet bays and extra content, and have seen a return to growth in February 2013. There were 831 gaming machines installed at 31 December 2012, an increase of 176 compared to the previous year, entirely as a result of new shops.

Operating costs grew 31% in constant currency primarily driven by a 28% increase in average shop numbers. Like-for-like shop operating costs were up 2% in constant currency.

We opened 44 new shops last year, including nine which we acquired, at an average capital cost per unit of €350,000 (£284,000) including lease premia and the costs of acquisition and refit for acquired units. The average cost per unit for organic openings was €314,000 (£254,000). EBITDA per shop pre central costs averaged €172,000 (£140,000).

As announced by HM Treasury in March 2012, the VAT and Amusement Machine License Duty regime for machine taxation has been replaced by Machine Gaming Duty ('MGD') at 20% on net revenue effective from February 2013. The new regime would have reduced operating profit by €2.2m in 2012.



# THE SOCIAL MISCHIEF

(SOCIAL MEDIA)

## INGREDIENTS

1,112,000 fans

195,000 followers



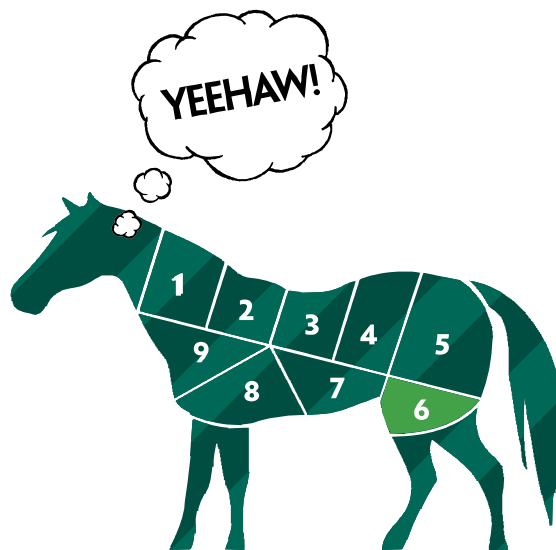
## METHOD

We love the smell of mischief in the morning and 2012 witnessed a green-hued global social media explosion. Punters flocked to Paddy Power's social media channels as we became the go-to destination for online banter, mischief and breaking news. Paddy's Facebook growth puts Jose Mourinho's ego in the shade. Between Paddy Power and Sportsbet in Australia, we now have more than 1,112,000 Facebook fans, up from less than 100,000 at the start of last year. Every man over the age of 18 on Facebook in the UK (of which there are 13 million) is now connected to at least one Paddy Power fan. Cheers, JT, couldn't have done it without you. Over on Twitter, Paddy's at it 24 hours a day, which has fairly scuppered his own sex-life but keeps 195,000 followers across Europe and Australia on the edge of their seats. Some cunning stunts, or 'ambush marketing' if you want to be stuffy, played a huge part in Paddy Power's success on social media in 2012.

**BOOM!** When Nicklas Bendtner decided to drop his football shorts at Euro 2012 and reveal a resplendent choice of undergarments (Paddy Power Lucky Pants), it reached 22 million people and got 'Paddy Power' trending worldwide. More than 5,000 tweets contained both Paddy Power and Bendtner in the week after and reached nearly five million unique users. Nothing pants about that.

**KAPOW!** "Golf can best be defined as an endless series of tragedies obscured by the occasional miracle." So goes one famous quote. And Europe needed a miracle to win the Ryder Cup in one of the great sporting comebacks. This was fuelled, in part, by Paddy Power customers and messages sent via Twitter to the skies above Medinah. These tweets exploded on digital media with a reach of 31 million people and more than 68,000 interactions just that weekend.

**YEEHAW!** All this great work was recognised in November 2012 when Paddy Power's social and editorial teams scooped the Grand Prix (Best in Show) prize at the prestigious Social Buzz Awards in London. So, it's not all hard work.





**FOUR MORE YEARS**...OF THESE JOHN TERRY JOKES



**Paddy Power**

# OPERATING & FINANCIAL REVIEW

(CONTINUED)

## Telephone Division

€m	2012	2011	% Change	% Change in CC
Amounts staked	415	312	+33%	+27%
<b>Net revenue</b>	<b>22.5</b>	<b>17.8</b>	<b>+26%</b>	<b>+22%</b>
Gross win %	5.8%	6.2%		
Gross profit	22.2	17.7	+26%	+21%
Operating costs	(19.5)	(16.6)	+17%	+15%
<b>Operating profit</b>	<b>2.7</b>	<b>1.1</b>	<b>+156%</b>	<b>+97%</b>

Our telephone channel once again grew its turnover strongly in the UK, more than offsetting the impact of competition from the internet and the downturn in Ireland. In constant currency, amounts staked increased by 27%, driven by the strong 13% growth in UK active customers and the average stake per bet increasing by 22% in constant currency to €65.99.

While the gross win percentage fell by 0.4% in comparison with 2011, net revenue increased by 22% in constant currency driving the €1.6m increase in operating profit to €2.7m.

### Telephone Channel Active Customers

	2012	2011	% Change
UK	58,916	52,026	+13%
Ireland and Rest Of World	24,119	24,280	(1%)
<b>Total</b>	<b>83,035</b>	<b>76,306</b>	<b>+9%</b>

*(Active customers defined as those who have deposited real money and have bet in the year)*

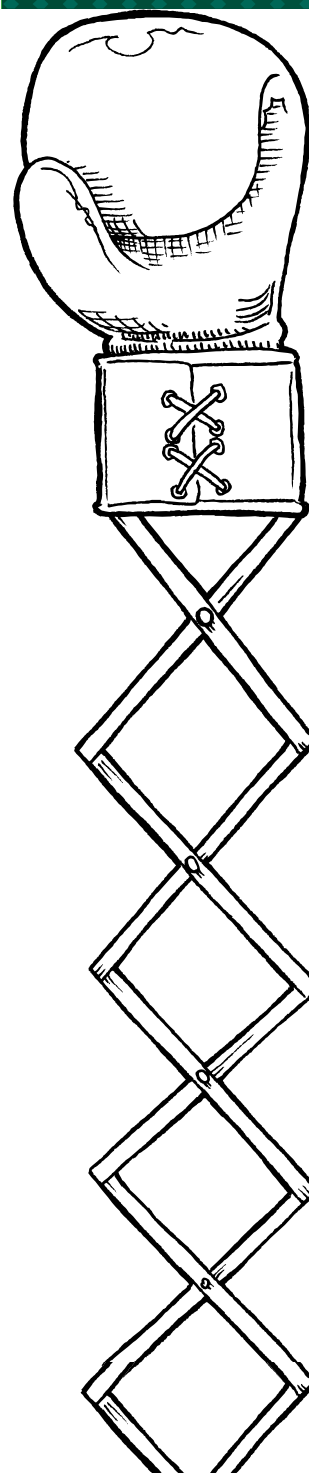
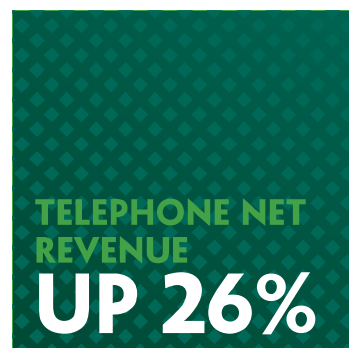
## Brand & Marketing

Paddy Power took its entertainment ambitions to a whole new level last year. Consistent with putting customers at the heart of everything we do, we started with a new campaign based on responding to punters' comments on social media. 'We Hear You' launched in time for Cheltenham with our cross-dressed themed inaugural ad, Ladies' Day. Sadly that lasted about as long as a Chelsea manager and it was taken off air after just four days – a record even by our standards! But we were quickly back in business with a viral ad depicting Chavs being 'selectively removed' by a Paddy Power vet at the course. The two ads received over 2.4 million views on YouTube.

The campaign ramped up for the Euros with everything from a giant Vuvuzela mounted on a truck, to a 100ft 'Roy the Redeemer' statue towering over the White Cliffs of Dover, and of course the now infamous revealing of a very lucky pair of pants sported by Nicklas Bendtner after scoring his equalising goal against Portugal. That story featured on over 2,000 online news sites and made the Lucky Pants the eighth biggest news story in the world that day on Twitter.

We found that Italian punters also love a bit of Paddy Power mischief. Admittedly, the launch TV ad was always likely destined for the 'YouTube only' box – bunga bunga politicians are one thing but depicting Jesus saving Italian football is another, and the ad was banned after a week. Similar typical-Paddy-Power activity, adapted for local tastes, is helping us successfully establish the same distinctive brand positioning in Italy, as we have in the UK, Ireland and Australia. During the last quarter of 2012, independent market research shows us rated number one versus the competition in Italy for being 'fun', 'value for money' and 'mischievous', whilst also achieving a top 5 position for spontaneous brand awareness.

September saw a stunt combining punters' comments on social media and five pimped out planes sky-writing the messages of support to the European Ryder Cup team. We like to think #helpayanktoshank was the tipping point for victory! The 'Sky Tweets' reached a combined Twitter audience of over 31 million people.





We were voted Britain's Most Admired Company for our marketing again last year in a Management Today / Accenture poll. We also collected a number of major social media honours including the Grand Prix at the Social Buzz Awards.

Of course, what really matters is what our punters think, and they tell us we are hitting the mark. Independent market research shows significant increases in our leadership on key brand attributes last year such as 'fun', 'value for money' and 'cool', as well as stronger brand awareness, advertising awareness and association with mobile betting ('handsome' and 'attractive to the opposite sex' haven't yet featured, but we live in hope). We also achieved a more than twelve-fold increase in our Facebook fans and Twitter followers to over 1.3 million people across the world, with Euro 2012 engagement rates that peaked higher than some of the biggest global brands out there...eat your heart out Nike!



### Taxation

The underlying effective tax rate was 13.0%, as compared to an underlying rate of 13.5% in 2011.

In March 2012, the UK Government confirmed its intention to change the tax regime on remote gambling from a 'point of supply' tax on operators based in the UK, for which a 15% rate currently applies, to a 'point of consumption' tax on all remote gambling operators supplying UK customers. It indicated that it currently expects to implement the new regime from December 2014, however the exact timing and rate will be reviewed as part of an ongoing process. Depending on the tax rate, this change could add significantly to our costs. If the tax was in place at a rate of 15% of net revenue throughout 2012, it would have increased our tax payable by €31m (2011: €22m), although opportunities exist to mitigate this gross impact through lower revenue share and marketing costs, and potential market share gains from weaker operators forced to exit or compromise their offer.

In July, the Irish Government published the Betting (Amendment) Bill 2012 which will introduce a licensing regime for remote bookmakers and betting exchanges supplying Irish consumers. As expected, this will facilitate the extension of the 1% tax on Irish retail stakes to online and telephone sportsbooks in respect of bets taken from customers in Ireland. Such a tax would have cost the Group €6m in 2012.

### Cash Flow & Cash Balances

Profit growth at Paddy Power converts strongly into increased cash flow. Operating cashflow (after LTIP trust share purchases and estimated maintenance capex of €16m) was €160m or 132% of profit after tax in 2012, in line with the average of the last five years. Estimated enhancement capex of €35m mainly related to new shop openings and technology spending for product improvements and new businesses. As at 31 December 2012, the Group had net cash of €209m or €153m excluding customer balances (2011: €136m and €86m respectively).

### Foreign Exchange Risk and Impact of Sterling Weakness

Sterling and Australian Dollar denominated operating profits were approximately £124m and AUD49m respectively last year. Accordingly, Group operating profit can be positively impacted by a weaker Euro versus these currencies and adversely impacted by a stronger Euro versus these currencies.

In order to reduce this volatility, the Group periodically sells Sterling forward for Euro and has sold approximately half of its expected 2013 Sterling denominated operating profit for settlement in 2013 at an average rate of 0.812. Notwithstanding these transactions, weakness in Sterling and Australian dollar exchange rates against the euro since the Group's November trading update, if applied to the whole year, would reduce operating profits by approximately €10m in 2013.

**Patrick Kennedy**  
Chief Executive

**Cormac McCarthy**  
Chief Financial Officer

# THE HAWAIIAN MITTBUSTER

(US PRESIDENTIAL ELECTION)

## INGREDIENTS

2 Presidential candidates

332 Electoral College votes

£400,000 early pay-out

4 more years!



## METHOD

With Mitt Romney last spotted hauling groceries into the back of his SUV, it's easy to forget that a week before the 2012 Presidential Election the Romney versus Obama showdown was judged too close to call by many political pundits.

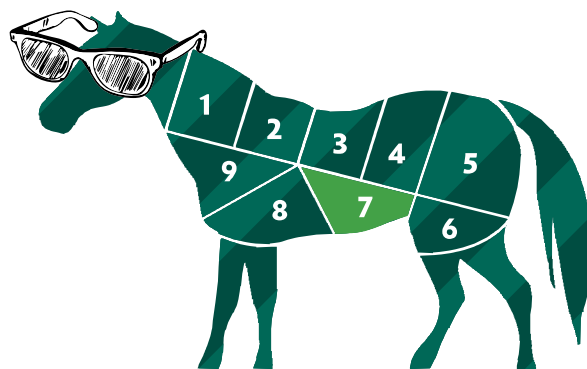
But with more than 24 hours to go before America was to vote, we decided that the fat lady had well and truly sung and paid out on an Obama victory. The gutsy call saw us put our neck on the line for over £400,000 with nothing more than a sheet of ballot paper between the two candidates.

In the end, President Obama surpassed even our expectations, securing all of the battleground states including Florida at 11/10 to win a resounding 332 Electoral College votes and secure a second term in the White House.

One sore loser was Donald Trump who, two weeks earlier, had announced to the world that he was going to derail Obama's campaign with a huge secret. We were taking bets on what 'The Donald's' big announcement would be. Options included 'illegal drug use', 'the moon landing was staged' and hot favourite, 'Obama not to be American'.

Needless to say, the mega-millionaire developer's eventual announcement was full of hot air when he revealed that, if President Obama released his college records and passport application, he would give a \$5 million cheque to charities of Obama's choosing.

We also teamed up with President Obama's eighth cousin, Henry Healy, to place a charity bet on behalf of Paddy Power's charity of the year, the Irish Heart Foundation, for Obama to win a second term in the White House. Henry's shrewd punting returned a tidy €2,000 for charity but as the saying goes, always bet on black!







**SORRY  
ROMNEY**

**YOU'RE NOT  
BLACK,  
OR COOL**

**WE'RE PAYING  
OUT EARLY  
ON AN OBAMA  
VICTORY**



**WE HEAR YOU!**

**Paddy Power**

# CORPORATE SOCIAL RESPONSIBILITY

## INTRODUCTION

PADDY POWER IS COMMITTED TO ACTING FAIRLY AND PROPERLY IN ITS DEALINGS WITH ALL STAKEHOLDERS ACROSS ALL THE COUNTRIES IN WHICH IT OPERATES. AS OUR BUSINESS GROWS AND ENTERS NEW MARKETS IT IS CRUCIAL THAT WE CONTINUE TO ENGAGE AND COMMUNICATE WITH ALL OUR STAKEHOLDERS ON THE ISSUES THAT REALLY MATTER TO THEM AND TO US.

PADDY POWER HAS A CLEAR FRAMEWORK OF POLICIES AND INITIATIVES TO MANAGE ITS GOVERNANCE AS WELL AS ITS ENVIRONMENTAL AND SOCIAL IMPACTS.

### **Employees**

The people who work at Paddy Power are key to the continued success of the business. Paddy Power is fortunate to have a group of talented people who epitomise our devotion to entertainment, customer service, product excellence and customer value. We want Paddy Power to be an employer of choice so we have clear strategies for employee communication, professional development and retention of our talent.

### **Organisation effectiveness & change**

As a result of our continued growth, Paddy Power moved offices in January 2012 to a modern fit-for-purpose building in Clonskeagh. This move has facilitated the centralisation of all of our teams into one building, enabling us to deliver greater productivity, with the capacity for future growth.

Following the success of our Dublin move, we will be consolidating our London offices in a new location in the summer of 2013. This underpins our commitment to our growing London team and will deliver the same benefits that we have seen with our Dublin move.

In our efforts to improve our workplace and culture, we engaged with "Great Place to Work" to help us better understand what is important to our employees and what they believed we could improve. This project has provided us with increased insight into what we can prioritise to retain and attract the best possible workforce.

### **Talent sourcing**

Our Talent Acquisition team is dedicated to recruiting high quality candidates that fit our culture and can help drive our future success. We have implemented a more strategic and competency based interview process which is delivering excellent results.

As we strive to hire the best talent for Paddy Power, we incentivise our employees to refer their previous colleagues, friends, and family for assessment.

Our graduate recruitment has also progressed this year with a strong Paddy Power presence in the major graduate recruitment events across the UK and Ireland. We will hire 25 graduates in 2013, which more than doubles the size of our graduate intake from last year. This demonstrates our commitment to developing talent and the niche skills needed for the future.

### **Communication and learning**

As Paddy Power continues to grow at a rapid pace, we have developed a 'Lunch and Learn' programme to help our employees keep abreast of various internal and external developments. These sessions allow employees to learn about the business, understand the direction the company is taking, and promote cross-team collaboration.

### **Sports and social**

To encourage our employees to create strong working relationships, we have set up a Sports and Social Committee, which is responsible for organising company events and sporting activities. The Sports and Social Committee has been instrumental in organising weekly soccer games, Zumba classes, monthly golfing events, a cycling club and a family Christmas party.



PADDY POWER IS  
**COMMITTED**  
TO ACTING FAIRLY  
AND PROPERLY  
IN ITS DEALINGS  
WITH ALL  
STAKEHOLDERS



### Safety, Health and Welfare at Work Act 2005

Paddy Power is committed to the safety and well-being of employees at work in compliance with the Safety, Health and Welfare at Work Act 2005. The Act imposes certain obligations on employers in respect of health and safety in the workplace. Appropriate measures have been taken to ensure that health and safety standards are complied with at all relevant locations and that all applicable Group companies meet the requirements of the Act. These measures include on-going updates of Safety Statements at all locations and training in health, fire and general safety for all new employees, conducted by our area trainers at the start of employees' induction training. All of our appointed contractors must submit an up to date Health and Safety Statement and proof of their public liability insurance before we award any contract. Prior to the commencement of any major works within the Group, the appointed contractor must submit a 'method statement' describing how the proposed works will be carried out safely. We service all of our essential emergency and fire alarm systems on a six-monthly basis to protect our staff and to ensure we comply with relevant statutory regulations.

### Responsible gambling

For most people, gambling is a fun leisure activity, which causes no harm. For some, however, this is not the case and we strive to protect any of our customers who may have difficulties with gambling. It is also illegal for anyone under the age of 18 to gamble and we work hard to prevent those underage from gambling.

We take our responsibilities in these areas very seriously. We aim to operate the most responsible practices in the industry. We are committed to doing so. We seek specialist external advice from authoritative experts in gambling addiction to inform our approach. We review our policies and safeguards on a regular basis to keep abreast of best practice.

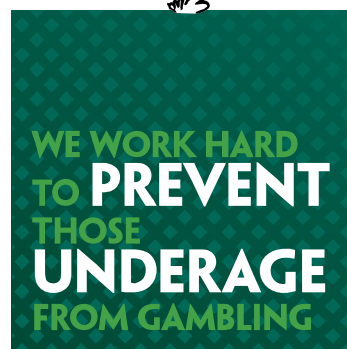
Our close association with GamCare, a leading authority on the provision of information, advice and practical help to promote responsible gambling, helps us to protect our customers. We also provide significant funding to GamCare via agreed contributions to the Responsible Gambling Trust, which raises money from the gambling industry to minimise problem gambling and gambling-related harm in society through effective education and prevention techniques.

All of our customer service agents are certified by GamCare. They undergo regular GamCare training to ensure they offer the most professional service possible to those who might be suffering from a problem with gambling. Our training on all aspects of problem gambling is carefully documented. GamCare also audits our websites and mobile applications annually from a Responsible Gambling perspective, and provides certification that both are of a responsible standard. We also display information about GamCare in all of our shops.

We provide our customers with comprehensive information about problem gambling including self-assessment questionnaires, information on the various forms of treatment available, relevant contact information and advice on software to block access to gambling sites. This information is available in the responsible gambling section of all our websites, with a link to this section included on every page of the site and in the footer of every welcome email to customers.

We now also work closely with Gambling Therapy who provide international support to customers seeking help or advice. Their support website provides customers with an array of options and contact methods in line with our own customer contact methods (live chat, phone, email, forums).

We empower our customers to stay in control of their own gambling activity by enabling them to set limits on the value and frequency of deposits to their account. Customers have the ability to also close off a particular channel. In addition, we have strict processes in place to ensure that any customer who wishes to go further and exclude themselves completely from transactions with us can do so. We offer this self-exclusion option to our customers directly through our customer service agents and offer any customer who closes their account the option to close for responsible gambling reasons. Should the customer choose this option then we utilise bespoke technology to do our utmost to ensure that they do not re-open this account or create another account with us.



# THE OLYMPIC DING DONG

(THE 2012 LONDON GAMES)

## INGREDIENTS

- 1 Olympic Games
- 2 towns called London
- 3 48-sheet poster sites
- 4 days of keeping the lawyers busy

## METHOD

The Olympic Games come along every four years, but hadn't been to London in over half a century. Given the profile of the event and the fact that it was happening in our back yard, it felt rude not to crank up the mischief machine.

As London Games organisers, LOCOG, started to roll out the enforcement of their newly created brand protection laws, anti-LOCOG sentiment began to grow with both consumers and media alike. News outlets began to widely publicise LOCOG's heavy-handed approach to brand enforcement – reports ranged from charities being banned from selling a doll because it had an Olympic logo on it, to caterers at official events being banned from selling chips at the bequest of McDonalds.

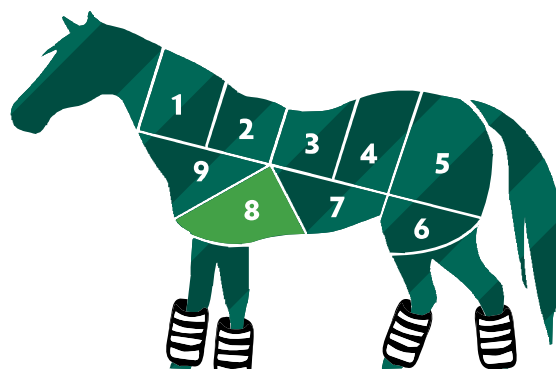
Given our fondness for tackling topical issues head-on we just couldn't resist the challenge to take on LOCOG and have some fun around the Games.

The idea was reasonably straightforward if a little ambitious – we would become the official sponsor of the 'biggest athletics event in London this year' – London, France that is! We discovered a sleepy little village called London on the outskirts of Bordeaux in France and decided to host our own version of the Games there, involving an egg and spoon race!

This allowed us run an advertising campaign in the other (bigger) London promoting our sponsorship of the Games.

As sure as night follows day, LOCOG reacted immediately by demanding that the media owners take our 48-sheet ads down, which added further fuel to the fire in terms of media and consumer interest. In the end, LOCOG backed down and the posters remained in place.

As the Daily Mirror reported, it was most definitely 'Paddy Power 1-0 LOCOG'!





COLIN HART WROTE:  
ANY MISCHIEF PLANNED TO UPSET LOGOS PADDY?

**OFFICIAL SPONSOR OF THE  
LARGEST ATHLETICS EVENT  
IN LONDON THIS YEAR!**  
**THERE YOU GO, WE SAID IT  
(AH, LONDON  
FRANCE THAT IS)**



**Olympic venues** ↗

Underground → Southwark Crown Court → City Hall, ...  
London Bridge → London Bridge Hospital →



# CORPORATE SOCIAL RESPONSIBILITY

## (CONTINUED)

As part of our commitment to Responsible Gambling, in 2011 we engaged a respected expert in the field of responsible gaming, Professor Mark Griffiths, Professor of Gambling Studies and Director of the International Gaming Research Unit in Nottingham Trent University, to both review our existing responsible gaming practices and to compare them with other operators in the industry. He concluded that "Paddy Power's social responsibility policies and initiatives constitute some of the most innovative and socially responsible practices that an online gambling operator can engage in. Paddy Power provides a comprehensive and integrated social responsibility infrastructure." Notwithstanding this commendation, we remain committed to on-going enhancements to help customers stay in control of their betting activity and are actively working on implementing further customer protection initiatives.

In Australia, Sportsbet has numerous harm minimisation measures in place, including: voluntary pre-commitment, self-exclusion, display of contact details for counselling services on our site, and provision of the 'Gamblers Anonymous Self-Assessment 20 Questions Test' on site. All Sportsbet customer-facing employees also undergo responsible gambling training. Sportsbet is actively supporting the establishment of a National Gambling Council in Australia to oversee a set of national standards covering responsible gambling, advertising, licensing requirements, probity standards and research.

It is illegal for anyone under the age of 18 to bet with us and we have a range of procedures in place to prevent underage transactions. We use age verification software to carry out electronic checks whenever a potential customer is proposing to use a payment method that might be available to someone under 18 years of age, and the public data infrastructure exists for us to complete such checks. We work closely with age verification software providers to help develop new and better ways of verifying the age of potential customers over the increasing range of payment methods available. We also recommend that our online customers install web filtering software if they share their computer with anyone under the age of 18. Employees in our betting shops are trained to be vigilant and not to accept bets from anyone under the age of 18, requesting reliable proof of age if they are in any doubt. We implement regular internal audits of these processes to ensure compliance.

### Environment

Paddy Power has a proactive approach to helping all its people conduct business in a manner that protects the environment. The Group encourages efficient use of resources, recycling wherever possible, and is compliant with all relevant environmental legislation. The Group has introduced a complete waste management policy in its head office and retail shops and we now recycle almost 100% of all waste. Examples of environmental initiatives in place during 2012 included:

- use of long life energy efficient light bulbs in all shops;
- use of more efficient, and lower cost, combined heat and power ('CHP') generated electricity in our shops;
- replacement of night storage heating in shops with lower electricity consumption split heating and cooling systems;
- using only eco-friendly cleaning products in our shops;
- reducing the level of packaging waste in respect of all cased goods and furniture;
- installation of more water efficient flushing systems in newly fitted-out shops to reduce water consumption;
- running a charity-administered mobile phone and used inkjet cartridge re-cycling programme in our offices;
- our Dublin head office is fitted with an environmentally friendly centrally controlled air conditioning system;
- all areas in our Dublin head office are fitted with low energy lighting, with light sensors fitted so if an area is unoccupied the lighting will switch off; and
- electricity and gas usage in our Dublin head office is minimised through the use of temperature stats and sensors, and water usage is reduced through the fitting of flow restrictors to taps, shower heads and toilet cisterns.

Paddy Power is also a participant in the Carbon Disclosure Project, an investor sponsored scheme for collating company data on climate change issues.





### Supply chain

Paddy Power works closely with a range of suppliers and it is important that all our suppliers support our commitment to our corporate responsibility objectives. We expect our suppliers to maintain high levels of responsible financial, social, ethical and environmental behaviour. All our suppliers are subject to the requirement to conform to accepted best practice in terms of safety, employment, staff welfare and human rights, wherever they are based in the world.

### Community

Paddy Power believes that a responsible approach to developing relationships between companies and the communities they serve is a vital part of delivering business success. We maintain relationships with a large number of charitable organisations, ranging from those supporting the local communities in which our shops play a key role, through to national charities focusing on the welfare of specific groups. Our Charity Committee, which is comprised of employees from across the Group, has responsibility for maximising the effectiveness of the Group's charitable strategy and for the implementation and management of that strategy. During the year, the Group made charitable donations of €477,000 (2011: €476,000) and was involved in a number of major charitable initiatives some of which are described further below by the Charity Committee.

*In 2012, we planned to set our hearts racing, so who better than the Irish Heart Foundation to partner with as our Charity of the Year. Our main summer fundraising event was the inaugural 'Paddy Power Race to the Races' where 52 fearless Paddy Power souls took on the two day, two hundred kilometre cycling challenge from Dublin to the Galway Races. With only a handful of scrapes and bruises picked up along the way, the event raised over €20,000 for the Irish Heart Foundation and plans are already in place to make the 2013 event an even larger affair.*

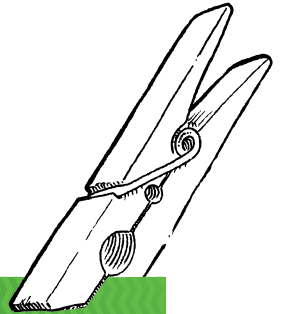
*We were firmly on board the Obama bandwagon well before his re-election as we again sponsored the American Independence Festival which took place in the President's spiritual home of Moneygall in July. Our support went a long way to helping the community raise much needed funds for their new GAA pitch.*

*Partas, the local enterprise development and training company, thought that they had hit on a great idea for using vacant units in their Enterprise centre in Tallaght, Dublin. They converted the units to much needed training space but couldn't use them, as in order to qualify for FÁS funded training the first floor space needed to be fully accessible to all potential trainees or visitors – in short they needed an elevator. The cash-strapped non-profit organisation thought their ideas were scuppered until we stepped in and gave them, quite literally, a lift!*

*In September, we joined forces with the Boys in the Blue (not the Dublin football team but the Garda) and sponsored their 'Tour de Force' event in aid of The Marie Keating Foundation. Irish crooner Ronan Keating was there in person to offer up a ballad or two to set the guards off in style on their 600km marathon cycle.*

*In November, our in-house experts gave a little back by sharing their in-depth knowledge with 32 charities during our 'Master Class in Online Marketing'. The day involved over 20 staff members giving their time to help the charities understand how each aspect of online marketing contributes to Paddy Power and, more importantly, how attendees could apply this knowledge to their own cause. This is an event that we look forward to making bigger and better in 2013!*

*The week before Christmas we had our annual cake sale where senior staff auction off their best and sometimes woeful efforts in the kitchen. A healthy combination of Christmas and competitive spirit proved to be the perfect recipe for success as the auction raised over €12,000 for the Simon Community.*



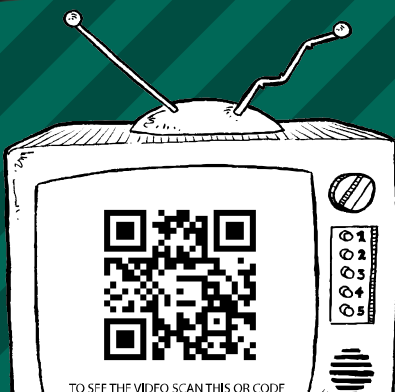
**MAINTAIN  
RELATIONSHIPS  
WITH A LARGE  
NUMBER OF  
CHARITABLE  
ORGANISATIONS**

# THE WE HEAR YOU

(2012 BRAND ADVERTISING CAMPAIGN)

## INGREDIENTS

- 5 transgender racegoers
- 1 veterinary assassin
- 1.7 million views on YouTube
- 3 days of forest raving



## METHOD

In 2012 the sporting world was a mess. Big business and big money had taken over and no one gave a toss about what the punters thought. Nobody was listening to them.

JT was too busy celebrating other people's victories, Wenger was too busy looking for a scapegoat and Tiger was too busy, well, you know...

Then Paddy Power waded in with a cry of "We Hear You!"

Whenever there was a cry of discontent from a sports fan, we heard their pain and then fought their corner, sticking up two fingers at the sporting establishment in our own mischievous and slightly unhinged way.

For the overpaid sports stars, the badly run clubs and the billionaire buffoons that were ruining our beloved sports, there was no escape. We were relentless in our mission to get the little man heard.

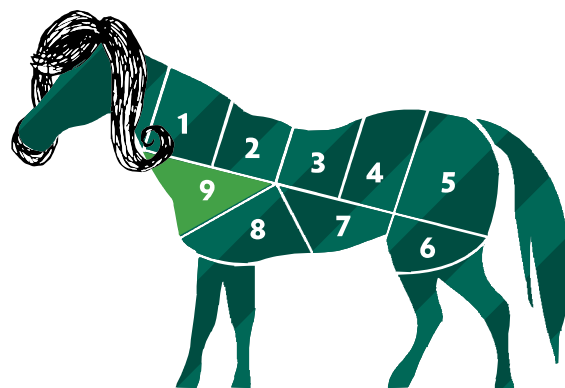
When the chavs invaded Cheltenham, we got rid of them, veterinary style, earning us 1.7 million views on YouTube. When the England team was in disarray with a new manager and a team of misfits at Euro 2012, we put on a three day forest rave to encourage some old school team bonding.

When Europe was chasing a lost cause at the Ryder Cup, our Sky Tweets enabled golf fans to give the Americans some stick from above; and succeeded in causing the Yanks to Shank.

And the fans loved us for it.

From the football terraces to the golf course, from Wimbledon to Cheltenham, Paddy Power became part of sports fans' conversations.

With the sporting establishment now down on their knees begging for us to stop, there's only one thing we can do: remove the gloves!







# BOARD OF DIRECTORS

## Executive directors

### PATRICK KENNEDY

Patrick Kennedy (aged 43) is the Chief Executive. He joined the Group in an executive capacity in September 2005 and became Chief Executive in January 2006. Patrick was already a Board member, having been appointed as a non-executive director in March 2004. Before joining Paddy Power, Patrick was Chief Financial Officer of Greencore Group plc, having previously been Group Development Director. Patrick has also worked with KPMG Corporate Finance both in Ireland and the Netherlands, and as a strategy consultant with McKinsey & Company in London, Dublin and Amsterdam. Patrick is also a non-executive director of Elan Corporation, plc and Bank of Ireland Group plc. Patrick has been a member of the Risk Committee since January 2006.

Current Age: **Aged 43**  
 Joined FP here: **Sep 05**

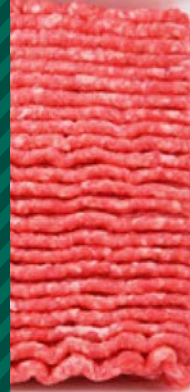


## Non-executive directors

### NIGEL NORTHRIDGE

Nigel Northridge (aged 57), Chairman, was appointed as a non-executive director in July 2003 and as Chairman from January 2009. He has extensive experience working with consumer products companies in international markets, in the roles of executive, non-executive director and Chairman. Nigel spent 32 years with Gallaher Group plc in sales and marketing roles, becoming Group Chief Executive in 2000, a position in which he oversaw significant growth in shareholder value, leading to the sale of the company in 2007 for £9.4 billion. Nigel is Chairman of Debenhams plc and a non-executive director of Inchcape plc, where he also chairs the Remuneration Committee. Nigel has been a member of Paddy Power's Nomination Committee since September 2003 (becoming Committee Chairman in January 2009) and of the Remuneration Committee since July 2007.

Current Age: **Aged 57**  
 Joined FP here: **Jul 03**



### CORMAC MCCARTHY

Cormac McCarthy (aged 50) is the Chief Financial Officer. Cormac joined the Group as a non-executive director in September 2011 and was appointed Chief Financial Officer in October 2012. A Chartered Accountant, Cormac was Chief Executive of Ulster Bank from 2004 to 2011, where he also served as a member of the Royal Bank of Scotland ('RBS') Group Management Committee and as Deputy Chief Executive of RBS UK Retail. He was previously Chief Executive of the RBS Retail and Commercial Division in Europe and the Middle East and Chief Executive of the bank's European Consumer Finance Division. Prior to 2004, Cormac was Chief Executive of First Active plc. Cormac is a non-executive director of BWG Limited, the Irish-owned food retail and wholesale distribution business.

Current Age: **Aged 50**  
 Joined FP here: **Sep 11**



### TOM GRACE

Tom Grace (aged 64) was appointed as a non-executive director and Audit Committee Chairman in January 2006. He became Senior Independent Director in January 2009 and was appointed as a member of the Nomination Committee in July 2012. Tom was a partner with PricewaterhouseCoopers from 1983 to 2005, where he led the Insolvency Department from 1987 onwards. With 34 years' experience in total at PricewaterhouseCoopers, Tom also worked in the audit and management consultancy divisions, principally in the area of financial advice. Tom has significant financial experience given his former role as a partner at PricewaterhouseCoopers, which is particularly relevant for his role as Chairman of the Audit Committee. Tom is also well known as a former rugby international and is currently honorary treasurer of the Irish Rugby Football Union. He won 25 international rugby caps for Ireland between 1972 and 1978 and captained the side on eight occasions. He also toured as a British and Irish Lion in 1974.

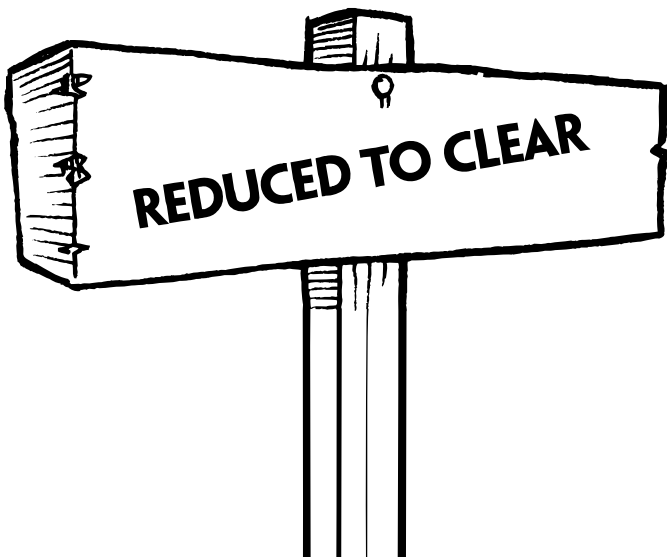
Current Age: **Aged 64**  
 Joined FP here: **Jan 06**



### DANUTA GRAY

Danuta Gray (aged 54) was appointed as a non-executive director and as a member of the Remuneration Committee in January 2013. Danuta brings to the Board significant leadership experience as the former Chief Executive Officer of O2 Ireland, a position she held from 2001 to 2010. Prior to that, she was Senior Vice President of BT Europe in Germany and, previous to that, was General Manager at BT Mobile in the UK. Danuta is currently a non-executive director of Aer Lingus plc. She holds a B.Sc. in Biophysics and an MBA and is a Board member of Barretstown Children's Charity and of Headstrong, a charity supporting the mental health of young people in Ireland.

Current Age: **Aged 54**  
 Joined FP here: **Jan 13**






## Non-executive directors

### ULRIC JEROME

Ulric Jerome (aged 35) was appointed as a non-executive director and as a member of the Audit Committee in December 2012. Born in Paris, Ulric studied in France before completing his degree in economics in Montréal. He was a founding partner and executive director of Pixmania, the only pan-European online retailer of digital photographic and consumer electronic goods, and has extensive experience of consumer technology in the online sector. Ulric was instrumental in the growth and development of Pixmania from a start-up to a business with revenues of over €800 million that operates in 26 countries across Europe through bespoke transactional websites. He is a partner and Chief Operating Officer of Matches Fashion, a UK multi-channel online and retail business.

Current Age: **35** | Joined PP herd: **Dec 12** | 



## Non-executive directors

### PÁDRAIG Ó RÍORDÁIN


Pádraig Ó Ríordáin (aged 47) was appointed as a non-executive director in July 2008. Pádraig is an internationally recognised lawyer with extensive experience advising on regulated industries in Ireland and international markets. He is a Corporate Partner in Arthur Cox, the leading Irish law firm, where he served as Managing Partner from 2003 to 2011. In 2009, he was named European Managing Partner of the Year. He studied law in the National University of Ireland and Harvard Law School and has practiced in New York and Dublin. He is Chairman of Dublin Airport Authority and is a non-executive director of TVC Holdings plc, where he also chairs its Remuneration Committee. Pádraig has been Chairman of Paddy Power's Remuneration Committee since August 2008 and a member of the Nomination and Risk Committees since August 2009 and December 2011, respectively.

Current Age: **47** | Joined PP herd: **Jul 08** | 



### STEWART KENNY


Stewart Kenny (aged 61) was a co-founder of Paddy Power in 1988. He has considerable experience in the betting industry and has established two successful bookmaking firms. He trained with Ladbrokes in London for two years before establishing a chain of betting shops, Kenny O'Reilly Bookmakers. He sold that business to Coral in 1986 and subsequently re-entered the business, opening ten betting shops between 1986 and 1988. He was Group Chief Executive from 1988 to 2002, and Chairman from 2002 to 2003. Stewart has been a member of the Risk Committee since June 2006 and was appointed as a member of the Nomination Committee in July 2012.

Current Age: **61** | Joined PP herd: **Jun 88** | 



### DAVID POWER

David Power (aged 66) co-founded Paddy Power in 1988 and has been a non-executive director since that date. He is an on-course bookmaker and has long-standing experience in the betting industry. He merged a significant proportion of the betting shops controlled by him and trading as Richard Power Bookmakers with Paddy Power in 1988. He has been Chairman of the Risk Committee since September 2003.


Current Age: **66** | Joined PP herd: **Jun 88** | 



## Secretary

### JANE LIGHTING

Jane Lighting (aged 56) was appointed as a non-executive director in September 2009 and as a member of the Audit and Remuneration Committees in October 2009. Jane has significant experience in the international media industry, in particular in the UK, one of the Group's largest markets. She was Chief Executive of Five, the UK's fifth terrestrial television channel, until 2008. Prior to joining Five in 2003, Jane was Chief Executive of Flextech plc. Jane is a Trustee and Fellow of the Royal Television Society and a Council Member of the British Screen Advisory Council and is a non-executive director of Trinity Mirror Group plc, where she also chairs the Remuneration Committee.

Current Age: **56** | Joined PP herd: **Sep 09** | 



### JACK MASSEY

Jack Massey (aged 44) was appointed as Director of Finance and Company Secretary in October 2012. A Chartered Accountant, Jack joined the Group as Finance Director in 2006. He was previously Chief Operating Officer with ITG Europe, the European division of the NYSE quoted company, Investment Technology Group, Inc. Prior to that he worked with Ulster Bank Markets and, previous to that, Arthur Andersen.

Current Age: **44** | Joined PP herd: **Oct 12** | 



# DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2012.

## Principal activities

The Group provides sports betting services through the internet ('paddypower.com', 'paddypower.it', 'sportsbet.com.au' and 'iasbet.com.au'); through a chain of licensed betting offices ('Paddy Power Bookmaker'); and by telephone ('Dial-a-Bet'). It also provides online gaming services principally through 'paddypower.com', 'paddypowergames.com', 'paddypowercasino.com', 'paddypowerbingo.com', 'paddypowerpoker.com', 'paddypowervegas.com', 'rollercasino.com' and 'betdash.com'. It provides these services principally in the United Kingdom, Ireland and Australia. The Group also supplies business to business services globally.

## Results

The Group's profit for the year of €121.0m reflects an increase of 15% on the 2011 profit (pre-exceptional items) of €104.8m. Basic earnings per share (before exceptional items) amounted to €2.511 compared with €2.175 in the previous year, an increase of 15%. The financial results for the year are set out in the consolidated income statement on page 61. Total equity attributable to Company equity holders at 31 December 2012 amounted to €277.7m (2011: €230.4m).

## Dividends

An interim dividend amounting to 39.0 cent per share was paid during 2012 (2011: 30.0 cent per share). The directors recommend that a final dividend of 81.0 cent per share (2011: 70.0 cent per share), amounting to €39.8m (2011: €34.4m), be paid on 24 May 2013 to shareholders registered at close of business on 15 March 2013. This would make a total distribution of profit to shareholders of €58.9m in respect of the year ended 31 December 2012 (2011: €49.0m).

## Business review and key performance indicators

A detailed commentary incorporating key performance indicators by channel including like-for-like growth, active customers, average bet values, bet volumes, gross win, gross profit and operating costs is contained in the Operating & Financial Review on pages 13 to 29.

## Principal risks and uncertainties

The Group and Company are exposed to a number of risks and uncertainties that could affect their operating results, financial position and/or prospects. The principal such risks and uncertainties include those that could arise from adverse developments in the areas below. These should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties and additional items that are not currently known to the Board or which the Board currently deem immaterial could also arise.

- The economic, demographic, technological, consumer behaviour and other macro factors affecting demand for the Group's products especially in the Group's current primary markets of the UK, Ireland, Australia and Italy.
- Changes in current tax law, interpretation or practice in the areas of betting tax, value added tax, payroll, corporation or other taxes, particularly in Ireland, the UK, Australia, the Isle of Man and Italy.
- Increased payment obligations to racing and sporting bodies either directly or indirectly through related obligations to government authorities.
- The intensity of competition in the Group's markets and the Group's ability to successfully compete.
- The regulatory, consumer protection or legislative environment, including interpretations or practices, applicable to the Group's activities and the related risks from limitation of business activities or litigation by third parties or the Group.
- Social, media or political sentiment towards the Group, its brands and its businesses.
- Changes in the exchange rates between the euro and the foreign currencies in which the Group transacts business, primarily the pound sterling and the Australian dollar.
- The ability of the Group to maintain, develop and avoid disruption to its key information technology systems and/or to adequately protect customer and other key data and information.
- Relationships with and performance by key suppliers, particularly those supplying software platforms, payment processing and data to support the Group's products.
- Relationships with and performance for business-to-business customers.
- Disruption to the sporting calendar or the broadcasting of major sporting events due to weather or other factors.
- The ability of the Group to attract and retain key employees.
- The performance of the Group in managing bookmaking risk so as to achieve gross win margins within expected percentage ranges.
- The performance of the Group in managing credit risk arising from credit betting customers and treasury activities.
- The ability of the Group to enter new markets, launch new products or introduce new technologies or systems in a successful, cost effective and/or timely manner.
- The ability of the Group to successfully defend its intellectual property rights or claims alleging infringement of the intellectual property rights of others.

The Board regularly monitors all of the above risks and appropriate actions are taken to mitigate those risks or address their potential adverse consequences.

The composition and responsibilities of the Audit Committee and Risk Committee are set out on pages 50 to 52. The Board has also established financial risk management objectives and policies which have been implemented by executive management, details of which are given in Note 3 to the consolidated financial statements on pages 76 to 79.



### Research and development

The Group performs research and development activities to ensure that it continues to be a recognised innovator in the betting and gaming industry. These activities support the introduction of new products, the creation of new betting markets, improved online customer experience and the development of better processes and systems. Continued research and development contributes to the Group's future growth and profitability. The Group incurred research and development expenditure (calculated by reference to Irish and Australian research and development tax credit rules) in 2012 of €1.3m (2011: €3.9m).

### Market research

The Group undertakes market research across all business divisions in the UK, Ireland, Australia and Italy.

### Events since the year end and future developments

The only significant event affecting the Group since the year end is the recommendation to pay a dividend to shareholders as noted above. The directors do not anticipate any substantial changes in the nature of the business.

### Amendment of Articles of Association

The Company's Articles of Association may only be amended with the approval of a special resolution of the shareholders.

### Rights and obligations attaching to the Company's shares

As at 4 March 2013, the Company had 50,856,030 shares in issue, all of which are of the same class and carry the same rights and obligations (apart from 1,734,000 shares held by the Group as treasury shares which have no voting rights and no entitlement to dividends). With regard to the Company's shares: (i) there are no restrictions on their transfer; (ii) no person holds shares carrying special rights with regard to the control of the Company; (iii) there are no shares to which an employee share scheme relates carrying rights with regard to the control of the Company; (iv) there are no restrictions on the voting rights attaching to the Company's shares; and (v) there are no agreements between shareholders that are known to the Company that may result in restrictions on the transfer of securities or on voting rights. Further information on the Company's share capital is set out in Note 21 to the consolidated financial statements.

### Own shares held

The Paddy Power plc Employee Benefit Trust (the 'Trust') manages the Long Term Incentive Plan and also managed the Managers' Deferred Share Award Scheme (collectively referred to as the 'share award schemes'). Further information on the Long Term Incentive Plan is presented in the Remuneration Committee Report on page 57. During the year ended 31 December 2012, the Trust purchased 627,808 (2011: 240,587) Paddy Power plc shares at a cost of €36.3m (2011: €9.6m). During 2012, the Trust transferred 535,435 (2011: 518,925) ordinary shares that had vested to beneficiaries of the Trust. At 31 December 2012, the Trust held 1,270,442 (2011: 1,178,069) ordinary shares in Paddy Power plc, representing 2.50% (2011: 2.32%) of the issued share capital. Further information is set out in Note 23 to the consolidated financial statements.

As of 31 December 2012 and 2011, the Company's ordinary shares held in treasury totalled 1,734,000 shares and represented 3.41% (2011: 3.42%) of the issued share capital. The treasury shares have no voting rights and have no entitlement to dividends. Further information is set out in Note 21 to the consolidated financial statements.

### Substantial holdings

As at 31 December 2012 and 4 March 2013, details of interests of over three per cent in the ordinary share capital carrying voting rights (excluding directors) which have been notified to the Company are:

	Notified holding 31 December 2012	Notified holding 4 March 2013	% Holding 4 March 2013
The Capital Group Companies, Inc. (1)	4,415,163	4,415,163	8.99%
FMR LLC	2,958,181	3,475,366	7.07%
Standard Life Investments Limited	3,424,106	3,424,106	6.97%
BlackRock Inc.	-	2,037,277	4.15%
Marathon Asset Management LLP (2)	1,954,060	1,954,060	3.98%
John Corcoran	1,500,000	1,500,000	3.05%

(1) SMALLCAP World Fund, Inc. ('SWF') and EuroPacific Growth Fund ('EGF') have notified the Company that they are interested in 3.42% and 3.97% respectively of the Company's ordinary share capital carrying voting rights, and that SWF's and EGF's voting rights have been delegated to Capital Research and Management Company ('CRMC'). CRMC's holdings under management are reported in aggregate by The Capital Group Companies, Inc. Accordingly, SWF's and EGF's interests are included in the 8.99% interest notified by The Capital Group Companies, Inc. and disclosed above.

(2) Marathon Asset Management LLP has notified the Company that of its total holding of 1,954,060 ordinary shares, it has discretion authority to vote on 1,619,759 ordinary shares (3.30% of the Company's ordinary share capital).

### Directors' power to purchase and allot Company shares

With the approval of a special resolution of the shareholders, the directors may (i) allot shares for cash up to five per cent of the nominal value of the Company's shares and (ii) make market purchases of the Company's shares up to ten per cent of the nominal value of the Company's shares.

### Board of Directors and Company Secretary

Ulric Jerome and Danuta Gray were appointed to the Board on 13 December 2012 and 17 January 2013, respectively, and are proposed for election by the shareholders at the AGM to be held on 14 May 2013. In line with best practice principles set out in the UK Corporate Governance Code 2010, the Group has adopted a policy of annual re-election for all Board directors. David Power has advised the Chairman of his intention to retire from the Board at the conclusion of the 2013 AGM and therefore will not go forward for re-election.

# DIRECTORS' REPORT

(CONTINUED)

## Directors' remuneration

Details of directors' remuneration are given in the Remuneration Committee Report on pages 54 to 57 and in Note 8 to the financial statements on page 84. No director or employee is entitled to any compensation for loss of office or employment occurring as a result of a takeover of the Company.

## Directors' and Secretary's interests

The interests of the directors and Company Secretary (including those of their spouses and minor children) who held office at 31 December 2012 in the share capital of Paddy Power plc, all of which were beneficially owned, were as follows:

	Number of ordinary shares of €0.10 each	
	31 December 2012	31 December 2011 (or date of appointment if later)
Nigel Northridge	6,000	6,000
Patrick Kennedy	441,111	350,247
Cormac McCarthy	1,000	1,000
Tom Grace	-	-
Ulric Jerome	-	-
Stewart Kenny	428,502	420,222
Jane Lighting	870	-
Pádraig Ó Riordáin	8,000	8,000
David Power	3,858,692	3,858,692
Jack Massey (Secretary)	59,058	61,047

There have been no changes in the above shareholdings between 31 December 2012 and the date the directors approved these financial statements.

## Share ownership and dealing

The Company has established share ownership guidelines for executive directors to ensure the interests of executive directors are aligned with those of shareholders. Further details are set out within the Remuneration Report on page 57.

The Company has a policy on dealing in shares that applies to all directors and senior management. This policy adopts the terms of the Model Code as set out in the Listing Rules published by the UK Listing Authority and the Irish Stock Exchange. Under this policy, directors and senior management are required to obtain clearance before dealing in Paddy Power plc shares. Directors and senior management are prohibited from dealing in Paddy Power plc shares during designated close periods and at any other time when they are in possession of Inside Information (as defined by the Market Abuse (Directive 2003/6/EC) Regulations 2005).

The executive directors and the Company Secretary, who held office at 31 December 2012, had the following movements in share options during the year and held the following share options at 31 December 2012 (all under the terms of the Company's Sharesave Scheme (see Note 23)):

	Number of options at start of year	Options granted during the year	Options lapsed during the year	Number of options at end of year	Exercise price	Exercise period
Patrick Kennedy	1,236	-	-	1,236	€9.45	4 December 2013 – 3 June 2014
	-	279	-	279	€41.36	4 December 2015 – 3 June 2016
Cormac McCarthy	-	-	-	-	-	-
Jack Massey (Secretary)	650	-	-	650	€27.79	4 December 2014 – 3 June 2015

*The market price of the Company's shares at 31 December 2012 was €62.05 and, for the year then ended, the Company's daily closing share price ranged between €41.20 and €63.10 (2011: ranged between €28.25 and €44.51 and was €44.51 at year end).*

During the year ended 31 December 2012, the executive directors and the Company Secretary had the following interests and were conditionally granted the following share awards under the Long Term Incentive Plan scheme:

	Date awards granted	Awards outstanding at start of year	Granted during year	Dividend shares	Vested during year	Lapsed during year	Awards outstanding at end of year	Weighted average share price at date of grant	Cost of shares vested to directors during the year €'000
Patrick Kennedy	2010 & 2011	320,000	-	3,064	(113,064)	-	210,000	€26.70	2,262
	5 March 2012	-	100,000	-	-	-	100,000	€45.00	
Cormac McCarthy	20 November 2012	-	35,000	-	-	-	35,000	€57.00	
Jack Massey	2010 & 2011	80,000	-	847	(30,847)	-	50,000	€26.53	600
(Secretary)	5 March 2012	-	22,500	-	-	-	22,500	€45.00	



The awards are subject to the rules of the scheme and will vest if testing growth performance targets are met over the allowable vesting period. Further details of the scheme are outlined in the Remuneration Committee Report and in detail in Note 23 to the consolidated financial statements. Included in vestings are a small number of vested shares which relate to dividends earned over the vesting period in respect of the shares vested during the year. The cost of shares vested during the year included in the table above represent the value of shares at original cost vested from the Long Term Incentive Plan (see Note 23) to directors during the year.

Transactions with directors and parties related to them have been disclosed in Note 8 to the consolidated financial statements on page 84. The directors and secretary have no beneficial interests in shares in any other Group companies.

#### Political donations

No political donations were made by the Group during the year that require disclosure in accordance with the Electoral Acts 1997 to 2002.

#### Books of account

The measures which the directors have taken to ensure that proper books of account are kept are: the appointment of suitably qualified personnel, the adoption of suitable policies for recording transactions, assets and liabilities, and the appropriate use of computers and documentary systems. The Group and Company books of account are kept at Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4.

#### Regulation 21 of SI 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006'

For the purpose of Regulation 21 of Statutory Instrument 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006', the information given under the following headings on page 98 (Share capital and reserves), pages 40 and 41 (Board of Directors), page 55 (Performance bonus), pages 55 to 57 (Long Term Incentive Plan), page 57 (Share options), page 57 (directors' service contracts) and pages 99 to 103 (Share schemes) is deemed to be incorporated in the Directors' Report. The Company's outsourcing contract with PMU can be terminated by PMU in some circumstances if there is a change of control in the Company.

#### SI 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2007'

As required by Statutory Instrument 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2007', the following sections of the Company's Annual Report shall be treated as forming part of this report:

1. The Chairman's Statement on pages 4 and 5, the Chief Executive's Review on pages 8 to 12 and the Operating & Financial Review on pages 13 to 29 which include a review of the external environment, key strategic aims and financial and other key performance measures.
2. The Directors' Statement on Corporate Governance on pages 46 to 53.
3. The Corporate Social Responsibility report on pages 32 to 37.
4. Details of earnings per share on page 88.
5. Details of shares purchased by the Company on page 103.
6. Details of derivative financial instruments on pages 112 to 114.

#### SI 450/2009 'European Communities (Directive 2006/46/EC) Regulations 2009'

For the purpose of Statutory Instrument 450/2009 'European Communities (Directive 2006/46/EC) Regulations 2009', the Directors' Statement on Corporate Governance on pages 46 to 53 is deemed to be incorporated in the Directors' Report.

#### Auditor

In accordance with Section 160(2) of the Companies Act 1963, the auditor, KPMG, will continue in office.

#### Going concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

**Patrick Kennedy**  
Chief Executive

**Cormac McCarthy**  
Chief Financial Officer

4 March 2013

# DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

The Board is committed to maintaining the highest standards of corporate governance. This statement describes how the Group applies the UK Corporate Governance Code (the 'UK Code') and the Irish Corporate Governance Annex (the 'Irish Annex') which set out principles of good governance and a code of best practice.

## Board of Directors – role and responsibilities

Your Board has overall responsibility for the leadership, control and oversight of the Group. Responsibility for the day-to-day management of the Group has been delegated by the Board to executive management. This delegation is effected through the Chief Executive, who is accountable to the Board.

The functions of Chairman and Chief Executive are not combined and both roles' responsibilities are clearly divided. A number of responsibilities of the Board are delegated to sub-committees of the Board, details of which are set out on pages 50 to 52.

## Matters reserved for the Board

While the Board has delegated day-to-day responsibility for the management of the Group to the Chief Executive, certain matters are formally reserved for the Board. The Board has overall responsibility for Group objectives; strategy; annual budgets; major acquisitions and capital projects; and treasury policy. It sets governance policies and ensures implementation thereof. It defines the roles and responsibilities of the Chairman, Chief Executive, other directors and the Board sub-committees. In addition, the Board approves the interim management statements, half-yearly and annual financial statements, reviews the Group's systems of internal control and approves any significant changes in accounting policies. It approves all resolutions and related documentation put before shareholders at general meetings. The Board sets the Group's dividend policy, approves the interim dividend and recommends the final dividend.

## Board composition

The Board currently comprises ten directors who are listed below.

Director	Status	Independent / non-independent	Tenure (in years)
Nigel Northridge	Current	Independent (Chairman)	9
Patrick Kennedy	Current	Non-independent (Executive)	9
Cormac McCarthy	Current	Non-independent (Executive)	1
Tom Grace	Current	Independent	7
Danuta Gray	New	Independent	-
Ulric Jerome	New	Independent	-
Stewart Kenny	Current	Non-independent (Founder)	24
Jane Lighting	Current	Independent	3
Pádraig Ó Ríordáin	Current	Independent	4
David Power*	Current	Non-independent (Founder)	24

\* David Power will retire from the Board at the conclusion of the 2013 AGM and will not seek re-election.

The Board comprises the mix of the necessary business skills, knowledge and experience required to provide leadership, control and oversight of the management of the business and to contribute to the development and advancement of business strategy. In particular, the Board combines a group of directors with diverse backgrounds within the betting industry, technology industry, media industry and financial services sector, among others, which combine to provide the Board with rich expertise and experience to drive the continuing development of Paddy Power.

## Board refreshment and renewal

The Board is committed to a policy of on-going Board refreshment and renewal and, through the Nomination Committee, continually reviews the composition and diversity, including gender diversity, of the Board and the skills and experience of each of the directors. The relevant skills and experience of each director are set out under individual biographies which are detailed on pages 40 and 41.

In September, William Reeve was appointed as Head of Operations for the Group and resigned from the Board as a non-executive director and Audit Committee member.

Having joined the Board as a non-executive director in September 2011, Cormac McCarthy was appointed as Chief Financial Officer in October 2012 and became an executive director.

David Johnston resigned as Company Secretary in October 2012 in order to focus on leading an enlarged legal and compliance function as Group General Counsel. Jack Massey was appointed as Company Secretary in October 2012. He resigned as an executive director on assuming the role of Director of Finance and Company Secretary.





During 2012, and following an external evaluation of the Board, the Nomination Committee engaged in a process to recruit two new independent non-executive directors to the Board. The objective was to appoint one director who would bring specific technology industry experience to the Board and a second director who would bring significant business experience to the Board. Candidates were identified through a variety of methods. The Nomination Committee engaged external search and recruitment agents to identify potential candidates and to assist in selecting and recommending candidates.

In December 2012, Ulric Jerome was appointed as an independent non-executive director. Ulric brings significant experience in online retailing to the Group. In January 2013, Danuta Gray was appointed as an independent non-executive director. Danuta brings significant business experience in the telecoms and consumer sectors to the Board. Ulric's and Danuta's biographies are set out on pages 40 and 41.

David Power has advised of his intention to retire from the Board at the conclusion of the 2013 AGM. David is a founder member of the Group and has made a fundamental contribution to the Group's success both as a co-founder in 1988 and as a non-executive director since that date. David's betting industry experience has been particularly valuable to the Board during his tenure as a director and he has played a key role in overseeing the Group's management of its bookmaking risk through his Chairmanship of the Risk Committee.

Consequently, while David will no longer serve as a non-executive director of the Group, the Nomination Committee has recommended, and the Board has unanimously approved, inviting David to remain as Chairman of the Group's Risk Committee and for me to join the Risk Committee from the conclusion of the AGM. David will be paid the standard fee for chairing a Board committee of €12,000 per annum for his services. As Chairman of the Risk Committee, David will be subject to the share dealing restrictions and disclosures of a PDMR (Person Discharging Managerial Responsibilities).

Stewart Kenny, a founder member of the Group, has served on the Board for longer than nine years. In line with the principles of the UK Code, and consistent with the Group's policy on re-election, he is subject to annual re-election. The Board reviewed the appropriateness of this long-standing director continuing to serve on the Board. The Board believes that Stewart's experience within the industry remains central to your Group's continued development and success and that his continuance in office is in the best interests of the Group and its shareholders.

#### **Board size**

The Board currently comprises two executive directors, two non-independent non-executive directors and six independent non-executive directors (including the Chairman), with one non-independent non-executive director retiring at the conclusion of the 2013 AGM. The Nomination Committee has reviewed the size and performance of the Board during the year. A Board size of eight to ten directors is a size which functions effectively; is not so large as to be unwieldy; comprises the skills and expertise required by Paddy Power plc; and meets corporate governance best practice guidelines on independence.

#### **Gender policy**

Following the appointment of Danuta Gray in January 2013, the gender split of the Board is 80:20 male to female. While the focus of the Board, through the Nomination Committee, is to maintain a Board which comprises the necessary mix of business skills, knowledge and experience to advance the Group's commercial objectives and drive shareholder value, Paddy Power recognises the benefits gender diversity may bring.

#### **Directors' independence**

The UK Code states that at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent.

The Group has determined that Tom Grace, Jane Lighting, Pádraig Ó Ríordáin, Ulric Jerome and Danuta Gray are independent. The Chairman, Nigel Northridge, was independent on his appointment to the Board as a non-executive director in July 2003 and as Chairman in January 2009. David Power and Stewart Kenny are founder members of the Group and have served on the Board for longer than nine years and are not considered by the Board to be independent. There are two executives on the Board (Patrick Kennedy and Cormac McCarthy).

Excluding the Chairman, the Board comprises five independent non-executive directors, two non-executive directors and two executive directors and is compliant with the UK Code such that at least half the Board, excluding the Chairman, comprises directors determined by the Board to be independent.

# DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

## (CONTINUED)

As part of its annual review, the Board considered the independence of Mr Pádraig Ó Ríordáin, given his role as a Partner with Arthur Cox, one of the Group's legal advisors. The Board has concluded that, notwithstanding this relationship, Pádraig is independent in character and judgement and is accordingly an independent non-executive director within the spirit and meaning of the Corporate Governance Code. He has a demonstrated record of such independence, including his appointment in 2007 by the then Minister for Finance to the Irish Government's Advisory Forum on Financial Legislation, on which he served as Independent Chairman. He was also appointed as a member of ILEG, the advisory body to the European Commission on the future crisis management and resolution regime for the European banking sector. The Board considered the fees paid to Arthur Cox for its legal services and, in particular, considered the test of 'materiality', as set out by some of the proxy advisors, relating to the level of fees paid to Arthur Cox. The Board concluded that the fees are not material to Pádraig's independent judgement given the scale of the operations and financial results of Arthur Cox and the work it has done for the Group. Pádraig has not provided any legal services to the Group since his appointment to the Board.

### Re-election of directors

In line with best practice principles set out in the UK Code, the Group has adopted a policy of annual re-election for all Board directors. Directors seeking re-election have, in the past, been subject to a performance appraisal, which is overseen by the Nomination Committee. This is an annual process for all directors under the policy of annual re-election. In addition, the Group has recently undertaken an external evaluation of the Board and its committees, further detail on which is set out under 'Board performance evaluation' on page 49.

### The Chairman's role

I have been Chairman of the Group since January 2009. The Chairman is responsible for the leadership of the Board, ensuring its continued effectiveness in carrying out its duties and setting its agenda. The Chairman is also responsible for ensuring that all directors receive accurate, timely and clear information. The Chairman facilitates the effective contribution of his non-executive colleagues, encourages openness, debate and challenge at Board meetings, and ensures constructive relationships exist between executive and non-executive directors. He is the guarantor of effective communications with shareholders and ensures that the Board is apprised of the views of shareholders. I am available to meet shareholders on request and during the course of 2012, I met with certain institutional shareholder representatives with Tom Grace, our Senior Independent Director.

As Chairman, I also meet with the non-executive directors independently of the executive directors. I meet regularly with the Chief Executive to discuss all aspects of the business's performance and, on an occasional basis, we meet with other senior members of the management team together.

### Senior Independent Director

The Board has appointed Tom Grace as the Senior Independent Director. Tom is available to shareholders who have concerns that cannot be addressed through the Chairman, Chief Executive or Chief Financial Officer.

### Audit Committee financial expert

The Board has determined that Tom Grace, who chairs the Audit Committee, has recent and relevant financial experience and is the Audit Committee financial expert. He is a former Partner at PricewaterhouseCoopers. His biography is set out on page 40.

### Company Secretary

The appointment and removal of the Company Secretary is a matter for the Board. All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The Company Secretary ensures that the Board members receive appropriate induction and on-going training and development to enable them to discharge their duties. The Company Secretary is also responsible for advising the Board on all corporate governance matters.

### Induction and development of non-executive directors

New directors are provided with extensive induction materials and are comprehensively briefed on the Group, its operations, corporate governance best practice and their duties as a director.

Non-executive directors are briefed by the executive directors and senior management on a regular basis. During 2012, at each Board meeting, senior management from various parts of the Group made presentations on the progress of and prospects for their area of responsibility.

Throughout the year, directors are also provided with detailed briefing materials on the performance of the Group and with feedback from institutional shareholders and analysts regarding their perspectives on the Group.

Individual directors may seek independent professional advice, at the expense of the Group, in the furtherance of their duties as a director. No such professional advice was sought by any director during the year.

The standard terms of the letter of appointment of non-executive directors are available, on request, from the Company Secretary.



### External non-executive directorships

The Board believes that it is of benefit to the Group if executive directors accept non-executive directorships with other companies in order to broaden and deepen their skills, knowledge and experience. The Board has adopted a policy on external appointments. Under the Group's policy, executive directors should not normally take on more than two non-executive directorships of a public company or any chairmanship of such a company. Directors are permitted to retain any fees paid in respect of such appointments.

The Board also believes that a broadening of the skills, knowledge and experience of non-executive directors is also of benefit to the Group. The Group welcomes the participation of the non-executives on the boards of other companies. To avoid potential conflicts of interest, non-executive directors inform the Chairman before taking up any external appointments. Details of the non-executive positions held by each director in public companies are set out under individual biographies which are detailed on pages 40 and 41.

### Directors' fees

In 2008, the standard non-executive fee was set at €70,000 and the Chairman's fee was set at €200,000. At that time, the additional fee for the Audit Committee chair was set at €20,000 while a fee for the chairs of other committees was set at €12,000.

Directors' fees were reviewed in 2012 by the Board. An independent external advisor was engaged to perform a benchmarking study to compare directors' fees with those of other Irish and UK comparable-sized companies and the Group's peers. Following the review, it was agreed that the standard non-executive director's fee would remain unchanged. In addition, it was agreed that the Chairman's fee would be increased to €230,000, the Senior Independent Director would be paid a fee of €12,000 and that the fee for the Remuneration Committee chair would be increased to €20,000 in line with that of the chair of the Audit Committee. Fees for chairs of other committees remain unchanged at €12,000. No additional fees are paid if a committee is chaired by the Chairman.

Non-executive directors are not eligible to participate in the Group's bonus schemes, option plans or share award schemes. None of the remuneration of the non-executive directors is performance related. The non-executive directors' fees are not pensionable and non-executive directors are not eligible to join any Group pension plans. Non-executive directors are reimbursed for their reasonable travel expenses incurred in connection with the Board and its related committees.

### Board performance evaluation

As Chairman, it is my responsibility to ensure that the performance of all directors is at the levels required. During 2012, the Board engaged an external advisor to complete an independent evaluation of the performance and effectiveness of the Board, the Chairman, the directors and each of the committees. This evaluation is in line with the recommendations of the UK Corporate Governance Code which requires an external Board evaluation to be conducted at least once every three years. The company engaged to perform the evaluation has no business connection or relationship with the Group, its directors or senior management.

The Senior Independent Director also conducted a review of my performance with the non-executive directors, while also taking into account the views of executive directors, the results of which were discussed with me.

Following the Board evaluation, the findings were presented to the Board. Consequent upon these findings, the Board tasked the Nomination Committee to recruit two new independent directors who would bring additional experience to the Board particularly in the online retail and technology sectors; and broad business experience. Following this process, as outlined above, Ulric Jerome and Danuta Gray were appointed to the Board.

# DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

(CONTINUED)

## Attendance at Board and committee meetings

The Board holds at least eight Board meetings each year. The Board may meet more frequently as required. The number of meetings of Board sub-committees each year varies by committee.

There were nine full meetings of the Board in 2012. The attendance at Board and sub-committee meetings by the directors who held office in 2012 is set out below. The Board places considerable importance on attendance at both scheduled Board and sub-committee meetings. During the year, no director attended less than 85% of scheduled Board meetings which they were entitled to attend.

All of the directors were in attendance at the 2012 AGM on 17 May 2012.

	Note	Board	Audit	Remuneration	Nomination	Risk
Number of meetings held in 2012		9	5	8	3	2
Attended by:						
N Northridge*		9		8	3	
T Grace*	(1)	9	5		1	
U Jerome*	(2)	1	1			
S Kenny**	(3)	9			1	2
J Lighting*		9	5	8		
P Ó Ríordáin*	(4)	8	-	8	3	2
D Power**		9				2
W Reeve*	(5)	6	4			
P Kennedy***		9				2
C McCarthy***	(6)	8			2	
J Massey***	(7)	7				

\* Independent non-executive director

\*\* Non-executive director

\*\*\* Executive director

- (1) Tom Grace was appointed to the Nomination Committee on 10 July 2012. There was one Nomination Committee meeting after his appointment, which he attended.
- (2) Ulric Jerome was appointed to the Board and the Audit Committee on 13 December 2012. There was one Board meeting and one Audit Committee meeting after his appointment, both of which he attended.
- (3) Stewart Kenny was appointed to the Nomination Committee on 10 July 2012. There was one Nomination Committee meeting after his appointment, which he attended.
- (4) Pádraig Ó Ríordáin was appointed to the Audit Committee on 5 September 2012 and resigned on 13 December 2012. There were no Audit Committee meetings during his period of appointment.
- (5) William Reeve resigned from the Board and Audit Committee on 5 September 2012. Prior to his resignation, there were six Board meetings and four Audit Committee meetings, all of which he attended.
- (6) Cormac McCarthy became an executive director and resigned from the Nomination Committee on 15 October 2012. There were three Nomination Committee meetings prior to his resignation, two of which he attended.
- (7) Jack Massey resigned from the Board on 15 October 2012. There were seven Board meetings prior to his resignation, all of which he attended.

## Board sub-committees

The Board has established four permanent sub-committees to assist in the execution of its responsibilities. These are: the Audit Committee; the Remuneration Committee; the Nomination Committee; and the Risk Committee. Attendance at meetings held in 2012 is set out in the table above. Ad-hoc committees are formed from time to time to deal with specific matters.

The composition of the Board committees as at 4 March 2013 was as follows:

### Audit

Tom Grace (Chair); Jane Lighting; Ulric Jerome.

### Remuneration

Pádraig Ó Ríordáin (Chair); Jane Lighting; Nigel Northridge; Danuta Gray.

### Nomination

Nigel Northridge (Chair); Pádraig Ó Ríordáin; Tom Grace; Stewart Kenny.

### Risk

David Power (Chair); Patrick Kennedy; Stewart Kenny; Pádraig Ó Ríordáin.

Each of the permanent Board sub-committees has terms of reference under which authority is delegated to them by the Board. These terms of reference are available on the Group's website [www.paddypowerplc.com](http://www.paddypowerplc.com). The chairman of each sub-committee attends the Annual General Meeting and is available to answer shareholder questions.



### **Audit Committee**

The primary role of the Group's Audit Committee is to ensure the integrity of the Group's financial statements and the Group's internal controls. To discharge its functions effectively, the Audit Committee has unrestricted access to the Group's external and internal auditors, with whom it meets at least twice a year, with and without management. These meetings ensure that there are no restrictions on the scope of their audits, and allow discussion of any matters that the auditors did not wish to raise in the presence of management.

In line with best practice, the Audit Committee is comprised of three directors all of whom have been determined by the Board to be independent. The Board has determined that Tom Grace, the Chairman of the Committee, has recent and relevant financial experience and therefore satisfies the requirements of the UK Code and is the Committee's designated financial expert.

William Reeve resigned from the Board and Audit Committee on 5 September 2012. On William's resignation, Pádraig Ó Riordáin was appointed to the Audit Committee. Ulric Jerome was appointed to the Board and the Audit Committee on 13 December 2012 and, following Ulric's appointment, Pádraig Ó Riordáin resigned from the Audit Committee. There were no Audit Committee meetings during Pádraig's period of appointment.

### **Meetings**

The Audit Committee meets a minimum of four times a year. During 2012, the Committee met five times. Attendance at meetings held is set out in the table on page 50. The Committee also meets privately with the external auditors and separately with the executive management.

### **2012 review**

The activities undertaken by the Audit Committee in 2012 included:

- monitoring the integrity of the financial statements of the Company and Group;
- reviewing the Group's internal controls;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- approving the remuneration and terms of engagement of the external auditor;
- evaluating the performance of the external auditor, including their independence and objectivity;
- approving non-audit services provided by the auditor in accordance with the Group's policy on non-audit services;
- reviewing arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- ensuring that there are appropriate procedures in place to monitor and evaluate the general business risks to which the Group is exposed.

### **External auditor and non-audit work**

The Audit Committee is responsible for ensuring that external auditor objectivity and independence is safeguarded where the auditor also provides non-audit services to the Group and recognises that the perceived independence and objectivity of an auditor may be compromised in circumstances where non-audit fees exceed the annual audit fee. During 2012, the Committee reviewed the letter from the Group's external auditors confirming their independence and objectivity. The Committee also performed a review of the audit and non-audit services provided by the external auditors, and the fees charged for those services, to ensure there was no impairment of objectivity or independence.

An analysis of the non-audit fees provided by the Group's auditor in 2012 is set out on page 86. For 2012, non-audit fees, paid to KPMG, amounted to 79% of audit related fees paid to the firm as compared to 87% in 2011. The level of non-audit fees paid to KPMG is within the Committee's policy that non-audit fees should not exceed audit fees.

### **Remuneration Committee**

The Remuneration Committee is primarily responsible for making recommendations to the Board on remuneration policy for the Group's executive directors and other senior executives. The report of the Remuneration Committee is set out on pages 54 to 57.

The Remuneration Committee is comprised of three independent non-executive directors and the Group Chairman. In line with best practice, the Committee is not chaired by the Group Chairman.

### **Nomination Committee**

The Nomination Committee is primarily responsible for recommending candidates to the Board for appointment as directors and ensuring that appropriate procedures are followed for all such appointments. On behalf of the Board, the Nomination Committee also continually reviews the composition and diversity of the Board and the skills and experience of each of the directors, to ensure that Paddy Power has a Board which is fit for purpose and capable of protecting and creating value for shareholders. The relevant skills and experience of each director are set out under individual biographies which are detailed on pages 40 and 41.

The Nomination Committee comprises the Group Chairman, two independent directors and one non-independent, non-executive director. In line with best practice, at least half of the Committee is comprised of independent directors.

# DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

## (CONTINUED)

### 2012 review

During 2012, consistent with a commitment to on-going Board refreshment and renewal, and following an external evaluation of the Board, the Nomination Committee engaged in a process to recruit two new independent non-executive directors to the Board. The objective was to appoint one director who would bring specific technology industry experience to the Board; and a second director who would bring significant business experience to the Board. Candidates were identified through a variety of methods. The Nomination Committee engaged external search and recruitment agents to identify potential candidates and to assist in selecting and recommending candidates.

In December 2012, Ulric Jerome was appointed as an independent non-executive director. In January 2013, Danuta Gray was appointed as an independent non-executive director. Ulric and Danuta both bring specific and relevant business expertise to the Board. Biographies are set out on pages 40 and 41.

Stewart Kenny, a founder member of the Group, has served on the Board for longer than nine years. Given his tenure on the Board, he has been subject to annual re-election for a number of years, consistent with best practice. In line with the principles of the UK Corporate Governance Code, all directors are now subject to annual re-election. The Board reviewed the appropriateness of this long-standing director continuing to serve on the Board. The Board believes that Stewart's experience within the industry remains central to your Group's continued development and success and that his continuance in office is in the best interests of the Group and its shareholders.

### Risk Committee

The Risk Committee is responsible for ensuring that policies in respect of betting risk are appropriate to a group of Paddy Power's size, for monitoring that such policies are being correctly applied and that the expertise and systems within the organisation are consistent with the level of risk undertaken. The Committee also sets overall policy for betting risk. Limits are agreed with the Committee and set annually but are subject to review by the Committee at any time.

### Internal control

The UK Code states that:

1. The Board should maintain a sound system of internal control to safeguard the shareholders' investment and Group assets.
2. The directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls, and risk management systems.

The directors have overall responsibility for the Group's system of internal control and have delegated responsibility for the implementation of this system to executive management. This system includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records.

The Board has also established a process of compliance which addresses the Board's responsibility to maintain, review and report on all internal controls.

The principal processes comprising the system of internal control are that:

- budgets are prepared for approval by executive management and the Board;
- income and expenditure are regularly compared to budgets;
- the consolidated financial statements are prepared subject to the oversight and control of the Chief Financial Officer. An appropriate control framework has been established to ensure that correct data is captured in respect of all Group companies, appropriate eliminations and other adjustments are recorded, and all the information required for disclosure in the consolidated financial statements has been provided;
- the Board establishes appropriate treasury policies for implementation by executive management;
- compliance with risk limits is reported on by the risk management department and reviewed by senior management and internal audit;
- all material commitments for expenditure and payments are compared to previously approved budgets and are subject to prior approval by personnel designated by the Board of Directors;
- regular financial results are submitted to and reviewed by the Board of Directors;
- the directors, through the Audit Committee, review the effectiveness of the Group's system of internal control; and
- an internal audit and security department, independent of operations, monitors and audits betting operations. They also undertake internal control reviews throughout the Group. The head of this department meets regularly with the Audit Committee.

The Board, through the Audit Committee, is responsible for conducting a review of the effectiveness of the Group's systems of internal control. This review has been performed in respect of the year ended 31 December 2012. The directors consider that the procedures necessary to implement the Turnbull guidelines on internal control in the UK Corporate Governance Code have been properly established.



### Relations with shareholders

The Group is committed to on-going and active communication with its shareholders. The Group maintains an investor relations section on its corporate website ('www.paddypowerplc.com'). This contains copies of investor presentations and annual reports as well as providing access to Regulatory News Service ('RNS') statements and corporate press releases. All shareholders are encouraged to attend the Annual General Meeting where they are afforded the opportunity to question the Board.

There is regular discussion between Group management and analysts, brokers and institutional shareholders, ensuring that the market is appropriately informed on business activities. Visits to the Group's headquarters are encouraged and a significant number of existing and prospective institutional shareholders visited the Group's offices in 2012. In addition, tours of our retail outlets are undertaken regularly and a number of existing and prospective institutional shareholders also visited our operations in Australia. Feedback from major shareholders and reports by analysts are communicated to directors so that directors can, in line with the UK Code, understand the issues and concerns of shareholders.

The short-term financial performance of Paddy Power can be significantly influenced throughout the financial year by the run of sporting results. This is normal in the sports betting industry. For example, a disproportionate number of favourites winning at a major horse racing festival will depress short-term profitability, whereas a disproportionate number of outsiders winning will have the opposite effect. The experience of the industry is that this typically balances out over a more extended period. Accordingly, the Board does not believe that the typical levels of short-term profit volatility intrinsic to our business should significantly influence the investment decisions of a reasonable investor or that it should be likely to have a significant effect on the Group's share price.

The Board and management of Paddy Power carefully monitor any significant variances in financial performance to assess, based on the experience of the Group, whether such variances are attributable to the run of sporting results and therefore likely to be short-term in nature or reflect a trend which may impact on the overall performance of the Group going forward. The Board considers these two categories of variances to be fundamentally different as to their likely influence on the investment decisions of a reasonable investor and therefore on the Group's share price. The Board makes its judgements in respect of announcements to the market and its obligations under the disclosure rules to which the Group is subject against this background.

### Compliance

The directors confirm that the Group has complied throughout the accounting period with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex.

### Conclusion

I would invite you all to consider the above carefully, and encourage any shareholders who have questions relating to this Corporate Governance statement to contact me by email at [nigel.northridge@paddypower.com](mailto:nigel.northridge@paddypower.com).

**Nigel Northridge**  
Chairman

4 March 2013

# REMUNERATION COMMITTEE REPORT

## The Remuneration Committee

The Remuneration Committee operates within agreed terms of reference and has responsibility for making recommendations to the Board on the Group's general policy relating to executive remuneration, and to determine, on behalf of the Board, specific remuneration packages for the executive directors. The Committee uses the services of external independent consultants to provide advice on compensation and remuneration matters as required. In addition to the remuneration of the executive directors, the Committee is also responsible for approving the remuneration of those other senior executives who report directly to the Chief Executive ('senior executives').

The Remuneration Committee consists of non-executive directors all of whom are independent with no personal financial interest, other than as shareholders, in the decisions of the Committee. By invitation, other members of the Board may attend the Committee's meetings. The Chief Executive, Patrick Kennedy, is not a member of this committee but may be invited to attend meetings; however, he is not present when his own remuneration is discussed. Membership of the Remuneration Committee is set out on page 50.

The remuneration of the Chairman of the Board is determined by the Remuneration Committee. The remuneration of the non-executive directors is determined by the Board, including the non-executive directors.

## Meetings

The Remuneration Committee meets at least three times a year. During 2012, the Committee met eight times. Details of attendance at the meetings held during the year are set out on page 50.

## Remuneration policy

The Remuneration Committee determines the Group's policy on executive directors' and senior executives' remuneration. The objectives of the policy are:

- to reward executive directors and senior executives in a manner that ensures that they are properly incentivised and motivated to perform in the best interests of shareholders over the long term; and
- to provide the level of remuneration required to attract and retain high calibre executive directors and senior executives.

Salaries and other benefits are reviewed annually. As part of this process, the Remuneration Committee takes into account the performance of the individual, comparisons with peer group companies, institutional guidelines and reports from external independent consultants. The experience of the individual and his/ her level of responsibility are also taken into account.

Consistent with this policy, the total remuneration packages awarded to executive directors are intended to be competitive and should comprise performance-related and non-performance-related remuneration, designed to motivate them, align interests with shareholders and comply with corporate governance best practice.

## 2012 activities

During 2012, the Committee reviewed the Company's Remuneration policy and practice. The underlying remuneration policy of Paddy Power has always been, and will continue to be, heavily weighted towards delivering long term performance. The Committee believes this policy remains appropriate and it is consistently applied to both the executive directors and the senior executives.

As disclosed in last year's Remuneration Committee Report, the Committee removed the re-testing provision in the current Long Term Incentive Plan ('LTIP') (which expires in 2014), with a view to reviewing the Company's entire remuneration arrangements ahead of the 2013 Annual General Meeting. The Committee has engaged with institutional shareholders and investor bodies including the IAİM (Irish Association of Investment Managers) and ISS to solicit their input and feedback on a new LTIP to replace the current plan and will seek shareholder approval for the plan at the Annual General Meeting. Further details regarding the proposed plan are set out on pages 55 and 56.

As part of its review, the Committee engaged Kepler Associates during 2012 to provide advice on compensation and remuneration-related matters, including advice on remuneration best practice developments. Kepler Associates is a signatory to the Remuneration Consultants Group Code of Conduct and any advice was provided in accordance with this code. Kepler Associates had no other connection with the Group during the year.

During its review of remuneration of the Company's executive directors, the Committee noted that the current total cash compensation opportunity (salary plus performance bonus) for executive directors is around lower quartile (relative to peers and comparable-sized Irish & UK companies). However, the executive directors have the potential to earn above upper quartile pay (relative to peers and comparable-sized Irish and UK companies) only if stretching long term performance is delivered for shareholders.

The Committee concluded that the current performance bonus opportunity is appropriate and should remain unchanged. However, the Committee has increased the shareholding guidelines in place for the executive directors to further reinforce the alignment between executive director remuneration and shareholder interests.





The Company believes that shareholders are entitled to have a 'say on pay' and accordingly, the Remuneration Committee is again presenting this report to shareholders at the Company's Annual General Meeting for the purposes of an advisory vote.

### Basic salaries and benefits

The basic salaries of executive directors are reviewed annually having regard to personal performance, Group performance, significant changes in their responsibilities and competitive market practice. Employment-related benefits relate principally to medical, life and health insurances and to the provision of a company car or car allowance. No separate directors' fees are payable to executive directors.

Following its review of remuneration during the year, the Committee approved a two per cent increase in the Chief Executive's salary for 2013 (effective from 1 March 2013) given the continued growth in the business, and being mindful of his lower quartile positioning on total cash compensation.

No salary increase was awarded to the Chief Financial Officer and no changes were made to existing employment-related benefits for either the Chief Executive or the Chief Financial Officer.

### Performance bonus

Under current arrangements, which are reviewed annually by the Remuneration Committee, executive directors have targeted bonuses of 40% to 50% of salary subject to the attainment of specific and stretching targets set for each individual. The level earned in any one year depends on the Remuneration Committee's assessment of each individual's performance and the overall performance of the Group against predetermined turnover and profitability targets for the year. Performance targets are weighted 70% towards the Group's financial performance and 30% towards personal performance. The Remuneration Committee reviews targets and the weighting of performance measures each year. These specific financial performance targets are not publicly disclosed for competitive reasons.

The maximum payout under the bonus scheme can be twice the bonus target (i.e. a maximum of 80% to 100% of salary) and this will only be achieved with substantial out-performance in the year under review.

The Committee has considered deferring a portion of the executive directors' performance bonus into shares in Paddy Power plc but did not believe it was appropriate to do so given the lower quartile total cash opportunity, and also as their interests are already sufficiently aligned with shareholders through their long-term incentive arrangements and shareholdings. However, the Committee has increased the shareholding guidelines in place for the executive directors, details of which are set out below.

### Pension entitlements

The Group does not operate any pension scheme or make pension provision for non-executive directors. Both executive directors receive cash allowances in lieu of pension contributions.

### Targeted remuneration

Based on the 2012 LTIP grants, the composition of each director's target annual remuneration (excluding sundry benefits) is as follows:

	Performance related	Non-performance related
<b>Executive</b>		
Patrick Kennedy	73%	27%
Cormac McCarthy	67%	33%
<b>Non-executive</b>		
Nigel Northridge	-	100%
Tom Grace	-	100%
Danuta Gray	-	100%
Ulric Jerome	-	100%
Stewart Kenny	-	100%
Jane Lighting	-	100%
Pádraig Ó Riordáin	-	100%
David Power	-	100%

### Proposed Long Term Incentive Plan ('LTIP')

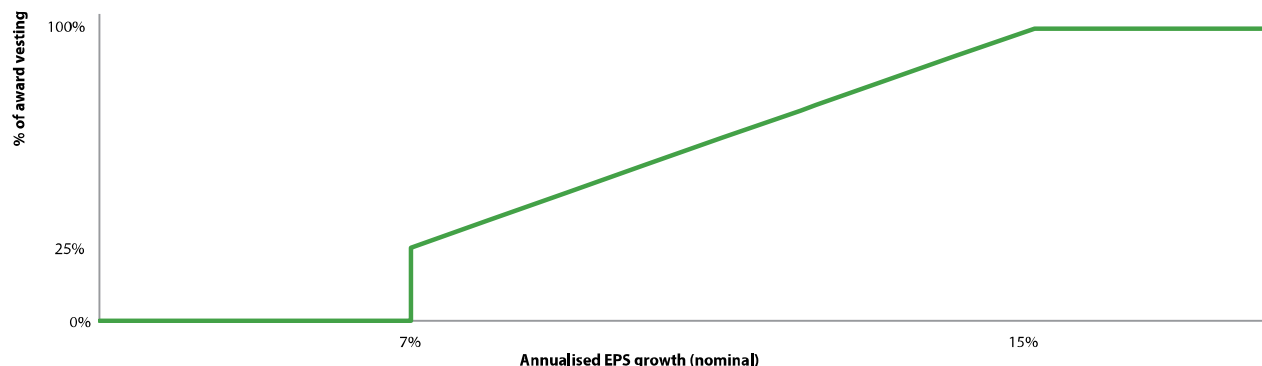
Following the review of executive remuneration, the Committee concluded that the current LTIP has served the Company well over the last nine years and has been one of the key drivers of the outstanding growth that Paddy Power has delivered for shareholders. The proposed LTIP is therefore broadly similar to the current scheme (details of the current scheme are provided in the next section). The changes in the new LTIP, relative to the original rules of the current plan, such as the introduction of clawback provisions on unvested awards, the removal of automatic full vesting on a change of control, and the exclusion of retesting provisions, which the Committee also removed last year from the current LTIP, aim to better align the plan with the interests of shareholders and best practice guidelines. A summary of the key design features of the proposed new LTIP is provided below. Further detail can be found in the Letter to the

# REMUNERATION COMMITTEE REPORT

(CONTINUED)

- **Retesting:** In line with our commitment to shareholders last year, the proposed LTIP does not have retesting. Performance is tested at the end of year three; there is no retesting of performance after year three.
- **Dilution limits:** In any rolling ten year period, the total number of shares placed under award across all incentive schemes may not exceed ten per cent of the issued share capital. A further three per cent limit would apply over a three year period. These limits would only apply to awards settled using newly issued shares.
- **Cap on individual awards:** No change is proposed to the award limit for an individual, i.e. the aggregate of all outstanding awards granted in the preceding ten year period, across all schemes, would be capped at eight times annual remuneration. Historically, the Committee tended to grant awards as a fixed number of shares to provide alignment with the shareholder experience. However, given the continued increase in the Group's share price, the Committee will actively review the value of shares being granted to each individual to ensure award sizes remain appropriate.
- **Performance condition:** Earnings per share ('EPS') continues to be the most important long-term performance indicator for Paddy Power and therefore the most appropriate measure for the LTIP. Instead of 'cliff' vesting at Consumer Price Index ('CPI') plus 12% per annum, a sliding scale vesting schedule would be introduced based on nominal EPS growth over three years as illustrated below.

## Vesting schedule for 2013 awards



The target range shown above represents a significant level of stretch above what is typically seen at our comparators. A 100% vesting for EPS growth of 15% per annum reinforces our policy to pay only if outstanding levels of growth are delivered for shareholders. 25% of an award vests for EPS growth of 7% per annum with sliding scale vesting in between. The Committee will review the performance targets at the start of each cycle to ensure they remain appropriately stretching.

As Paddy Power continues to expand into new markets, there is no one right or consistent measure for inflation. Today, this is assessed using a weighted average inflation rate for the main regions in which we operate. This is becoming increasingly complex and opaque for participants. The Committee is therefore proposing to remove this reference and increase the maximum vesting target commensurately. This will also help to improve line-of-sight and will thus be more motivational for individuals. The Committee will however continue to monitor inflation, and reserve the discretion to adjust targets at the start of each new cycle if there is a significant movement in the relevant indices.

- **Discretion to adjust target:** As under the existing plan, the Committee will retain discretion to amend a condition that it no longer deems appropriate, provided that it is reasonable in the circumstances and is neither materially more nor less difficult to satisfy than was originally intended. Such discretion is important to ensure that outcomes are fair to both shareholders and participants. For example, as referred to in the Operating & Financial Review, the Board of Paddy Power is aware that a number of jurisdictions (e.g. UK and Ireland) may increase or introduce new taxes/ fees specific to the betting industry that could have a significant impact on the Group's profits. These taxes are considered to be outside of management control and the Remuneration Committee would therefore have the ability to adjust the EPS targets to ensure the outcome fairly reflects underlying performance. This will ensure that profit is being measured on a consistent basis; any tax 'windfalls' will be similarly adjusted (i.e. excluded from the calculation of EPS).
- **Treatment on change-of-control:** Under the current plan, all outstanding awards vest in full, i.e. are not pro-rated for time. Following feedback from shareholders, the proposed plan fully aligns this provision with best practice. In the event of a change of control, awards will be pro-rated for time and performance. As is normal practice, the Committee will retain overall discretion to ensure that vesting outcomes are fair to both participants and shareholders if such an event occurs.
- **Clawback:** Following feedback from shareholders, the Committee has introduced clawback provisions on unvested awards. In line with market practice, these provisions will apply in the events of material financial statement misstatement or where an individual (or group of individuals) is responsible for serious reputational damage to the Company.



### 2004 Long Term Incentive Plan

At the Annual General Meeting held on 22 June 2004, shareholders approved the 2004 Long Term Incentive Plan ('2004 LTIP'). This plan, which has been one of the most important elements of the Group policy on executive directors' and senior executives' remuneration and a key driver of long term growth for the Group, allows shares conditionally awarded to executives to be earned subject to the achievement of a testing growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) over a minimum vesting period of three years. Until the vesting of the award in accordance with the rules of the scheme, the award holder will have no rights over or in respect of the shares subject to the award and, on vesting, the award holder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the scheme. Upon the vesting of a share award, as part of the award holders' rights they also receive a small number of additional shares in respect of dividends on those shares between the award and vesting dates, regarded as a de facto part of the original share award.

Details of share awards to the executive directors and the Company Secretary are included with the directors' and secretary's interests in the Directors' Report on page 44.

### Shareholding guidelines

The Group has put in place share ownership guidelines for executive directors to ensure the interests of executive directors are aligned with those of shareholders. Following its review, the Committee increased these to 2 times salary for the Chief Executive (previously 1.5 times) and 1.5 times salary for other executive directors (previously 1 times) to further improve alignment with shareholders' interests. In addition, if share ownership guidelines are not met, then individuals must retain up to 50% of the vested LTIP award (net of tax).

### Share options

Details of options granted to executive directors under the Sharesave Scheme are included with the directors' and secretary's interests in the Directors' Report on page 44. Options granted under these Revenue approved all-employee sharesave schemes are granted at a discount of 25% of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option. Further details of this plan are given in Note 23 to the consolidated financial statements.

The market price of the Company's shares at 31 December 2012 was €62.05 (€44.51 at 31 December 2011) and, for the year then ended, the Company's daily closing share price ranged between €41.20 and €63.10 (2011: ranged between €28.25 and €44.51).

### Executive directors' service contracts

The notice period for Patrick Kennedy is 12 months, and it is six months for Cormac McCarthy. Both executive directors are employed on contracts with a normal retirement age of 65. Neither executive director is entitled to any contractual termination payment other than for payment in lieu of notice, which includes salary and benefits only.

### Non-executive directors' fees

As set out on page 49, the standard non-executive director's fee was set at €70,000 in 2008 and the Chairman's fee was set at €200,000. At that time, the additional fee for the Audit Committee chair was set at €20,000 while the fee for the chairs of other committees was set at €12,000.

Directors' fees were reviewed by the Board in 2012. An independent external advisor was engaged to perform a benchmarking study to compare directors' fees with those of other Irish and UK comparable-sized companies and the Group's peers. Following the review, it was agreed that the standard non-executive director's fee would remain unchanged. It was, however, agreed that the Chairman's fee would be increased to €230,000, the Senior Independent Director would be paid a fee of €12,000 and that the fee for the Remuneration Committee chair would be increased to €20,000 in line with that of the chair of the Audit Committee. I abstained from the vote regarding the change to my fee as chair of the Remuneration Committee. Fees for chairs of other committees remain unchanged at €12,000.

### Non-executive directors' service contracts

Non-executive directors, in accordance with best practice, are not appointed on service contracts, rather they are issued with a letter confirming the terms of their appointment. Non-executive directors are expected to give three months' notice of resignation, but this is without prejudice to their right to resign immediately if they feel it appropriate. None of the non-executive directors have an entitlement to a termination payment.

### Directors' detailed emoluments

Full details of the emoluments of the directors are set out in Note 8 to the consolidated financial statements on pages 84 and 85.

**Pádraig Ó Riordáin**  
*Chairman, Remuneration Committee*

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU, and have elected to prepare the Company financial statements in accordance with generally accepted accounting practice in Ireland, comprising applicable law and the financial reporting standards issued by the Accounting Standards Board in the UK and promulgated by the Institute of Chartered Accountants in Ireland.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Acts 1963 to 2012 provide in relation to such financial statements that references in the relevant part of the Acts to financial statements giving a true and fair view are references to their achieving a fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and Company will continue in business.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with the law and those Rules. In particular, in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the 'Transparency Regulations'), the directors are required to include in their report a fair review of the business and a description of the principal risks and uncertainties facing the Group and Company and a responsibility statement relating to these and other matters, included below.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Group and Company, and which enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2012, and, as regards the Group financial statements, Article 4 of the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 (the 'IAS Regulation'). They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Responsibility Statement, in accordance with the Transparency Regulations

Each of the directors, whose names and functions are listed in the Board of Directors section on pages 40 and 41, confirm that, to the best of each person's knowledge and belief:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2012 and of the profit of the Group for the year then ended;
- the Company financial statements, prepared in accordance with generally accepted accounting practice in Ireland, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2012; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board



**Patrick Kennedy**  
Chief Executive



**Cormac McCarthy**  
Chief Financial Officer



# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF PADDY POWER PLC

We have audited the Group and Company financial statements (the 'financial statements') of Paddy Power plc for the year ended 31 December 2012, which comprise the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Financial Position, the consolidated Statement of Cash Flows, the consolidated Statement of Changes in Equity, the Company Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein. The financial reporting framework that has been applied in the preparation of the Group financial statements is Irish law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union, and, as regards the Company financial statements, Irish law and the financial reporting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland ('Generally Accepted Accounting Practice in Ireland').

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 58, the directors are responsible for the preparation of financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Ethical Standards for Auditors issued by the Auditing Practices Board.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Company circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012 and Article 4 of the IAS Regulation;
- the Company financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs as at 31 December 2012; and
- the Company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2012.

### Matters on which we are required to report by the Companies Acts 1963 to 2012

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

The financial statements are in agreement with the books of account and, in our opinion, proper books of account have been kept by the Company.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2012 a financial situation which under Section 40(1) of the Companies (Amendment) Act 1983 would require the convening of an extraordinary general meeting of the Company.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF PADDY POWER PLC (CONTINUED)

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Acts 1963 to 2012 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Under the Listing Rules of the Irish Stock Exchange we are required to review:

- the directors' statement, set out on page 45, in relation to going concern;
- the part of the Directors' Statement on Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review; and
- the six specified elements of disclosures in the report to shareholders by the Board of directors' remuneration.



**David Meagher**  
For and on behalf of



**Chartered Accountants, Statutory Audit Firm**

Dublin

4 March 2013



# CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2012

	Note	2012 €'000	Before exceptional items 2011 €'000	Exceptional items (Note 6) 2011 €'000	2011 €'000
Amounts staked by customers		<b>5,694,496</b>	4,554,919	-	4,554,919
<b>Continuing operations</b>					
<b>Income</b>	4	<b>653,750</b>	499,330	-	499,330
Direct betting costs	5	<b>(100,197)</b>	(71,170)	27,277	(43,893)
<b>Gross profit</b>		<b>553,553</b>	428,160	27,277	455,437
Employee expenses	7	<b>(202,184)</b>	(143,795)	-	(143,795)
Property expenses		<b>(44,288)</b>	(36,386)	-	(36,386)
Marketing expenses		<b>(67,878)</b>	(43,336)	-	(43,336)
Technology and communications expenses		<b>(35,033)</b>	(30,931)	-	(30,931)
Depreciation, amortisation and impairment		<b>(32,159)</b>	(27,125)	(5,423)	(32,548)
Other expenses, net		<b>(36,011)</b>	(27,041)	363	(26,678)
<b>Total operating expenses</b>		<b>(417,553)</b>	(308,614)	(5,060)	(313,674)
<b>Operating profit</b>		<b>136,000</b>	119,546	22,217	141,763
Financial income	9	<b>3,440</b>	2,187	-	2,187
Financial expense	9	<b>(285)</b>	(571)	-	(571)
<b>Profit before tax</b>		<b>139,155</b>	121,162	22,217	143,379
Income tax expense	11	<b>(18,156)</b>	(16,400)	(4,242)	(20,642)
<b>Profit for the year</b>		<b>120,999</b>	104,762	17,975	122,737
<b>Attributable to:</b>					
Equity holders of the Company		<b>120,999</b>	103,513	17,975	121,488
Non-controlling interest		-	1,249	-	1,249
		<b>120,999</b>	104,762	17,975	122,737
<b>Earnings per share</b>					
Basic	12	<b>€2.511</b>			€2.553
Diluted	12	<b>€2.481</b>			€2.492

Notes 1 to 36 on pages 67 to 117 form an integral part of these consolidated financial statements.

On behalf of the Board

**Patrick Kennedy**

**Cormac McCarthy**

4 March 2013

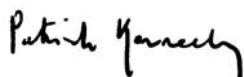
# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2012

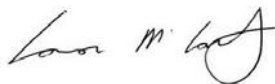
	Note	2012 €'000	2011 €'000
Net change in fair value of cash flow hedge reserve	9	515	-
Foreign exchange gain on translation of the net assets of foreign currency denominated subsidiaries	9	237	2,829
Deferred tax on fair value of cash flow hedges	24	(64)	-
Deferred tax on share-based payments	24	294	(409)
<b>Other comprehensive income</b>		<b>982</b>	<b>2,420</b>
<b>Profit for the year</b>		<b>120,999</b>	<b>122,737</b>
<b>Total comprehensive income for the year</b>		<b>121,981</b>	<b>125,157</b>
<b>Attributable to:</b>			
Equity holders of the Company		121,981	124,406
Non-controlling interest		-	751
<b>Total comprehensive income for the year</b>		<b>121,981</b>	<b>125,157</b>

Notes 1 to 36 on pages 67 to 117 form an integral part of these consolidated financial statements.

On behalf of the Board



**Patrick Kennedy**



**Cormac McCarthy**

4 March 2013





# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Note	31 December 2012 €'000	31 December 2011 €'000
<b>Assets</b>			
Property, plant and equipment	13	105,536	95,599
Intangible assets	14	62,482	51,000
Goodwill	15	96,582	93,607
Financial assets – restricted cash	16	5,359	6,409
Deferred tax assets	24	6,561	2,594
Trade and other receivables	18	4,837	6,735
<b>Total non-current assets</b>		<b>281,357</b>	<b>255,944</b>
Trade and other receivables	18	26,063	31,165
Derivative financial assets	19	375	-
Financial assets – restricted cash	20	32,961	18,149
Financial assets – deposits	20	42,014	-
Cash and cash equivalents	20	129,004	111,139
<b>Total current assets</b>		<b>230,417</b>	<b>160,453</b>
<b>Total assets</b>		<b>511,774</b>	<b>416,397</b>
<b>Equity</b>			
Issued share capital	21	5,085	5,072
Share premium		40,038	37,826
Treasury shares		(34,177)	(34,177)
Shares held by long term incentive plan trust		(56,191)	(33,397)
Other reserves including foreign currency translation, cash flow hedge and share-based payment reserves		38,593	36,976
Retained earnings		284,308	218,086
<b>Total equity attributable to equity holders of the Company</b>		<b>277,656</b>	<b>230,386</b>
<b>Liabilities</b>			
Trade and other payables	25	173,467	136,925
Derivative financial liabilities	25	11,767	9,715
Provisions	26	460	593
Current tax payable		18,287	11,408
<b>Total current liabilities</b>		<b>203,981</b>	<b>158,641</b>
Trade and other payables	25	23,663	20,347
Derivative financial liabilities	25	228	194
Provisions	26	1,419	1,649
Deferred tax liabilities	24	4,827	5,180
<b>Total non-current liabilities</b>		<b>30,137</b>	<b>27,370</b>
<b>Total liabilities</b>		<b>234,118</b>	<b>186,011</b>
<b>Total equity and liabilities</b>		<b>511,774</b>	<b>416,397</b>

Notes 1 to 36 on pages 67 to 117 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy

Cormac McCarthy

4 March 2013

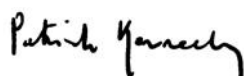
# CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2012

	Note	2012 €'000	Before exceptional items 2011 €'000	Exceptional items (Note 6) 2011 €'000	2011 €'000
<b>Cash flows from operating activities</b>					
Profit before tax		139,155	121,162	22,217	143,379
Financial income		(3,440)	(2,187)	-	(2,187)
Financial expense		285	571	-	571
Depreciation, amortisation and impairment		32,159	27,125	5,423	32,548
Employee equity-settled share-based payments charge		12,462	10,323	-	10,323
Foreign currency exchange gain		(472)	(2,438)	-	(2,438)
Loss on disposal of property, plant and equipment and intangible assets		123	94	-	94
<b>Cash from operations before changes in working capital</b>		<b>180,272</b>	154,650	27,640	182,290
Decrease / (increase) in trade and other receivables		7,359	(10,109)	(11,025)	(21,134)
Increase / (decrease) in trade and other payables and provisions		40,632	17,813	(1,103)	16,710
<b>Cash generated from operations</b>		<b>228,263</b>	162,354	15,512	177,866
Income taxes paid		(15,361)	(16,588)	-	(16,588)
<b>Net cash from operating activities</b>		<b>212,902</b>	145,766	15,512	161,278
<b>Investing activities</b>					
Purchase of property, plant and equipment		(32,743)	(33,532)	-	(33,532)
Purchase of intangible assets		(18,702)	(7,634)	-	(7,634)
Purchase of businesses, net of cash acquired	17	(3,705)	(7,729)	-	(7,729)
Payment of contingent deferred consideration	17	(857)	(50)	-	(50)
Proceeds from disposal of property, plant and equipment and intangible assets		80	81	-	81
Transfers to financial assets – deposits		(42,639)	-	-	-
Interest received		3,410	2,120	-	2,120
<b>Net cash used in investing activities</b>		<b>(95,156)</b>	(46,744)	-	(46,744)
<b>Financing activities</b>					
Proceeds from the issue of new shares under option arrangements		2,237	3,734	-	3,734
Purchase of shares by long term incentive plan trust		(36,281)	(9,623)	-	(9,623)
Purchase of non-controlling interest	17	-	(85,311)	-	(85,311)
Dividends paid	22	(53,477)	(38,944)	-	(38,944)
Movements in current and non-current restricted cash balances		(12,738)	(518)	-	(518)
Repayment of non-controlling shareholder loans		-	(1,038)	-	(1,038)
Payment of dividends to non-controlling shareholders	22	-	(9,244)	-	(9,244)
Secured bank loan repayments		-	(2,197)	-	(2,197)
Finance lease repayments		-	(1,206)	-	(1,206)
Interest paid		(128)	(445)	-	(445)
<b>Net cash used in financing activities</b>		<b>(100,387)</b>	(144,792)	-	(144,792)
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>17,359</b>	(45,770)	15,512	(30,258)
<b>Cash and cash equivalents at start of year</b>		<b>111,139</b>	139,581	-	139,581
<b>Foreign currency exchange gain in cash and cash equivalents</b>		<b>506</b>	1,816	-	1,816
<b>Cash and cash equivalents at end of year</b>	20	<b>129,004</b>	95,627	15,512	111,139

Notes 1 to 36 on pages 67 to 117 form an integral part of these consolidated financial statements.

On behalf of the Board



Patrick Kennedy



Cormac McCarthy

4 March 2013



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2012

Attributable to equity holders of the Company (see Note 21)											
	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation reserve €'000	Cash flow hedge reserve €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share- based payment reserve €'000	Retained earnings €'000	Total equity €'000
Balance at 1 January 2012	50,725,021	5,072	37,826	13,873	-	1,185	(34,177)	(33,397)	21,918	218,086	230,386
<b>Total comprehensive income for the year</b>											
Profit	-	-	-	-	-	-	-	-	-	120,999	120,999
Foreign exchange translation	-	-	-	237	-	-	-	-	-	-	237
Net change in fair value of cash flow hedge reserve	-	-	-	-	515	-	-	-	-	-	515
Deferred tax on cash flow hedges (Note 24)	-	-	-	-	(64)	-	-	-	-	-	(64)
Deferred tax on share-based payments (Note 24)	-	-	-	-	-	-	-	-	-	294	294
Total comprehensive income for the year	-	-	-	237	451	-	-	-	-	121,293	121,981
<b>Transactions with owners of the Company, recognised directly in equity</b>											
Shares issued (Note 21)	125,827	13	2,212	-	-	-	-	-	-	-	2,225
Own shares acquired by the long term incentive plan trust – 627,808 ordinary shares (Note 23)	-	-	-	-	-	-	-	(36,281)	-	-	(36,281)
Other (Note 21)	-	-	-	-	-	55	-	-	-	(55)	-
Equity-settled transactions – expense recorded in income statement (Note 23)	-	-	-	-	-	-	-	-	12,462	-	12,462
Equity-settled transactions – vestings (Note 21)	-	-	-	-	-	-	-	13,487	(10,929)	(2,198)	360
Transfer to retained earnings on exercise of share options (Note 21)	-	-	-	-	-	-	-	-	(659)	659	-
Dividends to shareholders (Note 22)	-	-	-	-	-	-	-	-	-	(53,477)	(53,477)
Total contributions by and distributions to owners of the Company	125,827	13	2,212	-	-	55	-	(22,794)	874	(55,071)	(74,711)
Balance at 31 December 2012	50,850,848	5,085	40,038	14,110	451	1,240	(34,177)	(56,191)	22,792	284,308	277,656

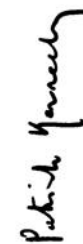
# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

Attributable to equity holders of the Company (see Note 21)												
	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation reserve €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
Balance at 1 January 2011	49,954,114	4,995	20,876	10,572	1,217	(34,177)	(33,890)	21,910	236,936	228,439	15,798	244,237
<b>Total comprehensive income for the year</b>												
Profit	-	-	-	-	-	-	-	-	121,488	121,488	1,249	122,737
Foreign exchange translation	-	-	-	3,327	-	-	-	-	-	3,327	(498)	2,829
Deferred tax on share-based payments (Note 24)	-	-	-	-	-	-	-	-	(409)	(409)	-	(409)
Total comprehensive income for the year	-	-	-	3,327	-	-	-	-	121,079	124,406	751	125,157
<b>Transactions with owners of the Company, recognised directly in equity</b>												
Shares issued (Note 21)	770,907	77	16,950	-	-	-	-	-	-	17,027	-	17,027
Own shares acquired by the long term incentive plan trust – 240,587 ordinary shares (Note 23)	-	-	-	-	-	-	(9,623)	-	-	(9,623)	-	(9,623)
Purchase of non-controlling interest – Sportsbet (Note 17)	-	-	-	-	-	-	-	-	(101,451)	(101,451)	(7,271)	(108,722)
Discount on loans from non-controlling interest	-	-	-	(26)	21	-	-	-	5	-	-	-
Repayment of non-controlling interest loans	-	-	-	-	(53)	-	-	-	-	(53)	(34)	(87)
Other	-	-	-	-	-	-	-	-	(50)	(50)	-	(50)
Equity-settled transactions – expense recorded in income statement (Note 23)	-	-	-	-	-	-	-	10,323	-	10,323	-	10,323
Equity-settled transactions – vestings (Note 21)	-	-	-	-	-	-	10,116	(9,218)	(586)	312	-	312
Transfer to retained earnings on exercise of share options (Note 21)	-	-	-	-	-	-	-	(1,097)	1,097	-	-	-
Dividends to shareholders (Note 22)	-	-	-	-	-	-	-	-	(38,944)	(38,944)	(9,244)	(48,188)
Total contributions by and distributions to owners of the Company	770,907	77	16,950	(26)	(32)	-	493	8	(139,929)	(122,459)	(16,549)	(139,008)
Balance at 31 December 2011	50,725,021	5,072	37,826	13,873	1,185	(34,177)	(33,397)	21,918	218,086	230,386	-	230,386

Notes 1 to 36 on pages 67 to 117 form an integral part of these consolidated financial statements.

On behalf of the Board



Patrick Kennedy



Cormac McCarthy

4 March 2013



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

Paddy Power plc (the 'Company') and its subsidiaries (together referred to as the 'Group') provide online interactive sports betting services ('paddypower.com', 'paddypower.it', 'sportsbet.com.au' and 'iasbet.com.au'), sports betting and machine gaming services through a chain of licensed betting offices ('Paddy Power Bookmaker') and telephone sports betting ('Dial-a-Bet'). The Group also provides online gaming services through 'paddypower.com', 'paddypowergames.com', 'paddypowercasino.com', 'paddypowerbingo.com', 'paddypowerpoker.com', 'paddypowervegas.com', 'rollercasino.com' and 'betdash.com'. It provides these services principally in the United Kingdom, Ireland and Australia. It also provides business-to-business services globally.

The Company is a public limited company incorporated and domiciled in the Republic of Ireland and has its primary listing on the Irish Stock Exchange. The address of its registered office is set out on page 2 of this Annual Report.

The consolidated financial statements of the Group for the year ended 31 December 2012 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 4 March 2013.

## 2. Basis of preparation and summary of significant accounting policies

The consolidated financial statements are prepared on the historical cost basis except for betting transactions and foreign exchange forward contracts (which are recorded as derivative financial instruments), contingent deferred consideration and certain share-based payments, all of which are stated at fair value (grant date fair value in the case of share-based payments). The consolidated financial statements are presented in euro, the Company's functional currency, rounded to the nearest thousand.

Further to IAS Regulation (EC1606/2002, 'Accounting standards adopted for use in the EU'), EU law requires that the annual consolidated financial statements of the Group be prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted by the European Union ('EU'). The consolidated financial statements have been prepared on the basis of IFRSs adopted by the EU and effective for accounting periods ending on or before 31 December 2012. The accounting policies set out below have been applied consistently by Group entities.

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently during the year and prior year, except as highlighted below in 'Recent accounting pronouncements'.

### Recent accounting pronouncements

The IASB have issued the following standards and interpretations which were effective for the Group in the year ended 31 December 2012:

#### *Amendments to IFRS 7, 'Financial Instruments Disclosures – Transfers of Financial Assets'*

From 1 January 2012, the Group has applied Amendments to IFRS 7, 'Financial Instruments Disclosures – Transfers of Financial Assets'. The amendments address disclosures required to help users of financial statements evaluate the risk exposures relating to the transfer of financial assets and the effect of those risks on an entity's financial position. These amendments did not have a significant impact on the Group's consolidated financial statements.

#### *Amendments to IAS 12, 'Deferred Tax: Recovery of Underlying Assets'*

From 1 January 2012, the Group has applied Amendments to IAS 12, 'Deferred Tax: Recovery of Underlying Assets'. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40, 'Investment Property'. These amendments did not have a significant impact on the Group's consolidated financial statements.

The following provides a brief outline of the likely impact on future financial statements of relevant IFRSs which are not yet effective and have not been adopted early in these consolidated financial statements:

- Amendments to IAS 1, 'Presentation of Items of Other Comprehensive Income', (effective for the Group's 2013 consolidated financial statements).
- Amendments to IFRS 7, 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities', (effective for the Group's 2013 consolidated financial statements).
- Amendments to IAS 32, 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities', (effective for the Group's 2014 consolidated financial statements).
- IFRS 10, 'Consolidated Financial Statements', (effective for the Group's 2014 consolidated financial statements).
- IFRS 11, 'Joint Arrangements', (effective for the Group's 2014 consolidated financial statements).
- IFRS 12, 'Disclosure of Interests in Other Entities', (effective for the Group's 2014 consolidated financial statements).
- IFRS 13, 'Fair Value Measurement', (effective for the Group's 2014 consolidated financial statements).
- IAS 27, 'Separate Financial Statements', (effective for the Group's 2014 consolidated financial statements).
- IAS 28, 'Investments in Associates and Joint Ventures', (effective for the Group's 2014 consolidated financial statements).
- Amendments to IAS 19, 'Employee Benefits', (effective for the Group's 2013 consolidated financial statements).
- Improvements to IFRSs 2009-2011 (effective for the Group's 2013 consolidated financial statements).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

### Basis of consolidation

The Group's financial statements consolidate the financial statements of Paddy Power plc 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. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. 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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group equity therein. Non-controlling interest comprises the amount of such interests at the date of original business combination, either as a proportion of the fair value of identifiable assets acquired or at full fair value, and the non-controlling interest's share of changes in equity since the date of original combination.

### Judgements and estimates

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes and in Note 36:

- Note 15 – measurement of the recoverable amounts of cash generating units containing goodwill and indefinite life licences and brands intangible assets.
- Note 17 – business combinations.
- Note 23 – measurement of share-based payments.
- Note 25 – contingent deferred consideration and sports betting open positions.
- Note 27 – credit risk arising from trade and other receivables.

### Income

The services provided by the Group comprise sports betting, fixed odds games betting, online casino and games, peer to peer games including online poker and bingo, financial spread betting and business-to-business services. Income is stated exclusive of value added tax. The costs of customer promotions (including free bets) and bonuses are deducted from income.

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

Income from online sportsbook, retail and telephone 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.

Income 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 the cost of customer promotions and bonuses incurred in the period.

Income from peer to peer games and financial spread betting 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. Income from business-to-business services represents fees charged for the services provided in the period.

These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the income line as this represents the Group's principal activity. Commission and other fee income earned is also recorded within income but is analysed separately in the notes to the financial statements.

### Amounts staked

Amounts staked does not represent the statutory revenue of the Group. It comprises gross takings received and receivable from sports betting and business to business activities and gross win received and receivable from gaming machine and online gaming activities in the period.



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

### **Research and development**

Expenditure on research activities is recognised in the income statement as an expense in the period in which it is incurred. Expenditure on development activities is recognised as an internally generated intangible asset only when the necessary criteria are met; including demonstrating the technical feasibility of the product and having sufficient certainty over future revenue or cost savings that will be generated from the product. The qualifying expenditure capitalised represents costs directly attributable to the development of the asset. This expenditure is capitalised from the point at which the asset is available for use. If the criteria are not met the expenditure is recognised in the profit and loss as an expense in the period in which it is incurred. Capitalised development expenditure assets are amortised on a straight-line basis from the date they are available for use over their useful economic life.

### **Financial income**

Interest income is recognised on an accruals basis by reference to the principal outstanding and the effective rate of interest. Financial income includes changes in the fair value of financial assets at fair value through profit or loss.

### **Financial expense**

Financial expense comprises interest expense on borrowings (except in respect of borrowing costs relating to qualifying assets), interest on guarantee contracts entered into with third parties, and the unwinding of the discount on provisions and other non-current liabilities.

### **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 (ex Australia), Online Australia, Irish Retail, UK Retail and Telephone are its reportable operating segments. See Note 4 for further information on operating segments.

### **Foreign currency**

#### ***Functional and presentation currency***

The Group and Company financial statements are presented in euro which is also the Company's functional currency. 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 is primarily the euro, pound sterling and Australian dollar.

#### ***Foreign currency transactions***

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

Gains and losses arising on the retranslation of cash and cash equivalent balances are included within '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 euro at the foreign exchange rates ruling at the reporting date. The revenues and expenses of these foreign operations are translated to euro at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in the consolidated statement of comprehensive income and presented in the foreign currency translation reserve within equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

### Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The cost of acquisition is measured at the date of purchase and represents the aggregate of the fair values of assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree and fair value of previously held equity interests. The identifiable assets and liabilities of the acquiree are recognised at their fair values at the date of acquisition.

Goodwill recognised under Irish Generally Accepted Accounting Practice ('GAAP') prior to the date of transition to IFRS is stated at net book value as at the transition date. Goodwill recognised subsequent to 1 January 2004, representing the excess of purchase consideration over the fair value of net identifiable assets acquired defined in accordance with IFRS 3, 'Business Combinations (2008)', is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is tested for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises. Goodwill is recognised only when control of the acquiree is initially achieved. Following the acquisition of control, no goodwill is recognised on subsequent purchases of equity interests in the acquiree and instead the difference between the cost of such acquisitions and the fair values of the relevant net assets acquired is dealt with through retained earnings.

Costs relating to the acquisition of businesses that occurred since 1 January 2010 are expensed to the income statement when incurred. Costs related to the acquisition of non-controlling interests are recognised directly in retained earnings.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' percentage interest in the net fair value of the assets, liabilities and contingent liabilities recognised. Subsequently, the non-controlling interests are allocated their share of results recognised in the income statement and the statement of comprehensive income.

### Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing items and restoring the sites on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Previously, the Group would have immediately recognised all borrowing costs as an expense.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'total operating expenses' in profit or loss.

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight line basis over their useful lives; the estimated useful lives of leasehold improvements are the unexpired terms of the leases, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease when it is reasonably certain that the Group has the intention of renewing the lease. Land is not depreciated. The estimated useful lives are as follows:

Buildings: Freehold	50 years
Fixtures and fittings	3 – 7 years
Computer equipment	3 – 5 years
Motor vehicles	3 – 5 years

Assets in the process of construction are stated at cost less impairment losses. Depreciation of these assets begins when the assets are ready for their intended use.

The residual value of property, plant and equipment, if not insignificant, is reassessed annually.





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

### Intangible assets

Intangible assets, principally comprising computer software, licences and brands, are capitalised and amortised over their estimated useful economic lives on a straight line basis.

Computer software includes the costs incurred in acquiring and bringing specific software programs into use and the fair value of software acquired in business combinations. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business (as the existence of a premises is a pre-requisite for obtaining such licences) and licences for electronic point of sale ('EPOS') system software.

Brands represent the fair value of brands and trade mark assets acquired in business combinations.

The estimated useful economic lives of intangible assets, according to which amortisation is calculated, are as follows:

Computer software	3 – 5 years
Licences – shop licences and EPOS software licences	5 – 20 years

The licences intangible assets recognised on the acquisition of the D McGranaghan Limited business in 2008, the acquisition of an additional betting shop in Northern Ireland in 2011 and the brands intangible assets recognised on the acquisition of Sportsbet Pty Limited and International All Sports Limited are not amortised for the reasons set out in Note 14.

### Impairment

#### **Financial assets (including receivables)**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

### **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives (such as certain licences and brands) or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash generating unit', or 'CGU'). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **Other non-derivative financial instruments**

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

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

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

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

Restricted cash represents cash held by the Group but which is ring fenced or used as security for specific arrangements (such as cash held in client funds accounts or as collateral for a bank guarantee), and to which the Group has restricted access for a period of time. Restricted cash is classified as held to maturity and carried at amortised cost. Restricted cash balances are further classified as current or non-current depending on when the restriction first ends.

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

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

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

### **Derivative financial instruments**

The Group holds certain derivative financial instruments which are initially recognised at fair value.



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

### **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.

### **Separable embedded derivatives**

The Group, in 2011, had certain Sportsbet buyout call options, which were characterised as embedded derivatives. Embedded derivatives are separated from their host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss. Separable embedded derivative financial assets and liabilities are netted where they relate to the same host contract. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

### **Hedge accounting**

The Group uses derivative financial instruments, specifically foreign exchange forward contracts, to hedge its exposure to foreign currency exchange risks arising from operational activities (pound sterling denominated transactions). The Group does not enter into speculative transactions.

Derivative financial instruments are measured at fair value at each reporting date. The fair value of foreign exchange forward contracts is calculated by reference to current forward foreign exchange rates for contracts with similar maturity profiles and equates to the market price at the statement of financial position date.

Gains or losses on re-measurement to fair value are recognised immediately in the income statement except where derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Derivative financial instruments entered into by the Group are, for the purposes of hedge accounting, classified as cash flow hedges which hedge exposure to fluctuations in future cash flows derived from a particular risk associated with a highly probable forecast transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of hedged items and whether the actual results of each hedge are within a range of 80 to 125 per cent.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecasted transaction that could affect profit or loss, the effective part of any changes in the fair value of the derivative financial instrument is recognised in other comprehensive income and presented in the cash flow hedge reserve within equity. Any ineffective portion of changes in fair value is recognised in the income statement. The associated gains or losses that had previously been recognised in other comprehensive income are transferred to the income statement at the same time as the hedged item affects the profit or loss. Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, is terminated or exercised, or no longer qualifies for hedge accounting. If the hedged transaction is still expected to occur, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecast transaction occurs, with future changes in fair value recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is reclassified to the income statement in the period.

### **Leases**

Leased assets, under the terms of which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. The assets acquired by way of finance lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability, and the charge is allocated to the income statement during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases and are not recognised in the statement of financial position.

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

### **Income tax**

Income tax in the income statement comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied by the same taxation authority.

### **Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is considered probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

### **Long service leave**

The provision for long service leave (that arises under the provisions of Australian state legislation) is measured at the present value of expected future payments to be made in respect of services rendered by employees of the Online Australia operating segment up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

### **Lease reinstatement**

Where there exists a legal obligation for properties held under operating leases to be reinstated to their original condition on expiry of the lease, a provision is established to recognise the estimated cost of such reinstatement work on a straight line basis over the term of the lease.

### **Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract by the Group are less than the unavoidable costs of meeting its obligations under the terms of the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### **Employee benefits**

#### **Pensions**

The Group operates a number of defined contribution schemes under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the income statement as the obligation falls due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.



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

### **Long term incentive bonus plans**

The Group accounts for obligations relating to long term incentive bonus plans for executive directors and other employees at the present value of the defined benefit obligation at the reporting date. The service cost relating to such plans is allocated to the financial years over which service under the plan is rendered by the employee. The income statement expense represents the increase in the present value of the defined benefit obligation resulting from employee service in the current period, in addition to any associated finance costs where material.

### **Share-based payments**

The Group operates or has operated certain equity-settled long term incentive plans (being the Long Term Incentive Plan and the Managers' Deferred Share Award Scheme, collectively referred to as the 'share award schemes') for selected senior executives and other key management under which they are conditionally awarded shares which vest upon the achievement of predetermined earnings targets and/ or future service periods. The fair value is measured at the award grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

The Group operates an equity-settled share save scheme ('SAVE') for employees under which employees acquire options over Company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Group has operated equity-settled share option schemes for employees under which employees acquired options over Company shares. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Group operates certain cash-settled long term incentive plans for selected senior executives (other than directors) and other key management under which they are conditionally awarded notional Company shares which vest upon the achievement of predetermined earnings targets and future service periods. The estimated costs of the awards are spread over the period during which the employees become unconditionally entitled to the payment. The beneficiaries are paid in cash based on the Company's share price on the date of vesting and the liability is re-measured at each reporting date using the closing share price on that day.

### **Share capital**

#### **Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

#### **Shares held by long term incentive plan trust**

The costs of purchases of the Company's shares by the long term incentive plan trust, which have been conditionally awarded to executives under the terms of the share award schemes, are shown separately as deductions from equity in the consolidated statement of financial position.

#### **Repurchase of share capital (treasury shares)**

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. The repurchased shares are classified as treasury shares and are presented as a deduction from total equity. Transaction costs relating to the purchase by the Company of its own shares are recognised directly in retained earnings. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is recognised in retained earnings.

Where the Company purchases its own shares and subsequently cancels those shares, the cost of the shares cancelled is written off directly to retained earnings. The nominal value of the shares cancelled is transferred from share capital to the capital redemption reserve fund.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

### **Dividends**

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the reporting date are disclosed in Note 35.

### **Earnings per share**

The Group presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include awards under share award schemes and share options granted to employees.

### **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 'total operating expenses' in the consolidated income statement. Bank and credit card charges and fees that are related to the Group's financing activities are recognised in 'financial expense' in the consolidated income statement.

### **Exceptional items**

The Group has applied an income statement format which seeks to highlight exceptional items within Group profit or loss for the period. Exceptional items are those that in management's judgement need to be disclosed by virtue of their size or incidence. Such items are included within the income statement caption to which they relate, and are separately disclosed either on the face of the consolidated income statement or in the notes thereto.

## 3. Financial risk management

The Group has the following risk exposures in relation to its use of financial instruments:

- Market risk;
- Interest rate risk;
- Credit risk; and
- Liquidity risk.

Set out below is information on the Group's exposure to each of the above risks, and what its objectives, policies and processes are for measuring and managing those risks. Information is also provided on how the Group manages its capital. Quantitative disclosures in respect of these risks are included throughout these consolidated financial statements and, in particular, in Notes 27 to 32.

### **General**

The Board of Directors of Paddy Power plc has overall responsibility for the management of the Group's risks. This responsibility is delegated to a number of committees over which the Board has oversight. The primary Board committees set up to manage risks are the Risk Committee and the Audit Committee. Both these Committees report regularly to the Board on their activities. The oversight of the Group's treasury operations is performed by an Investment Committee, chaired by the Chief Financial Officer, who reports in turn to the Board on its activities.

### **Market risk**

Market risk relates to the risk that changes in prices, including sports betting prices/ odds, foreign currency exchange rates and interest rates (see also 'Interest rate risk' section below), will impact the Group's income or the value of its financial instruments. Market risk management has the function of managing and controlling the Group's exposures to market risk to within acceptable limits, while at the same time ensuring that returns are optimised.

The management of market risk is performed by the Group under the supervision of the Risk Committee and the Investment Committee and according to the guidelines approved by them. The Group will utilise hedges where there is an identified requirement to manage profit or loss volatility.



### 3. Financial risk management (continued)

#### **Sports betting prices/ odds**

Managing the risks associated with sportsbook bets is a fundamental part of the Group's business. The Group has a separate Risk Department which has responsibility for the compilation of bookmaking odds and for sportsbook risk management. This function reports directly to the Group Chief Executive and to the Risk Committee of the Board. The Risk Department is responsible for the creation and pricing of all betting markets and the trading of those markets through their lives. A mix of traditional bookmaking approaches married with risk management techniques from other industries is applied, and extensive use is made of mathematical models and information technology. The Group has set predefined limits for the acceptance of sportsbook bet risks. Stake and loss limits are set by reference to individual sports, events and bet types. These limits are subject to formal approval by the Risk Committee. Risk management policies also require sportsbook bets to be hedged with third parties in certain circumstances to minimise potential losses. The profits and losses recorded on sportsbook hedging activities are recorded in 'income' in the income statement.

#### **Foreign currency risk**

The Group is exposed to currency risk in respect of income, expenses, receivables, cash and cash deposits, and other financial assets and financial liabilities (primarily trade payables and accruals, and customer balances) that are denominated in currencies that are not the functional currency of the entities in the Group. The currencies in which transactions are primarily denominated are the euro ('EUR'), the pound sterling ('GBP'), the Australian dollar ('AUD') and the US dollar ('USD'). The Group does not accept business from residents of the United States of America and USD transactions arise primarily from USD-denominated poker customer play.

It is Group policy to ensure that foreign currency denominated liabilities are broadly matched by foreign currency denominated assets, primarily cash deposits. This is generally achieved by monthly sales of net foreign currency inflows into euro (or the subsidiaries' functional currency) at spot rates. The Group's Australian activities are conducted by separate subsidiaries whose functional currency is AUD. Foreign exchange impacts therefore arise on the retranslation of their income and expense into euro for Group reporting purposes. Subject to Investment Committee approval, the Group may make use of forward contracts, intentional imbalances between foreign currency denominated liabilities and assets, and other derivatives to manage foreign currency exposures on expected future cash flows.

While the Group generally maintained a naturally hedged balance sheet, as described in the preceding paragraph, prior to 30 June 2012, it remained exposed to exchange rate risk in respect of its expected future foreign currency denominated income and expenses in its foreign operations. In the first six months of 2012, the Group, for the first time, entered into foreign exchange forward contracts. The contracts were to hedge a portion of expected GBP cash flows in the six months ended 31 December 2012 in order to reduce the volatility to which the Group was exposed. The average EUR-GBP rate at which these contracts were entered into was 0.8210, which compares to the actual average EUR-GBP rate of 0.7994 for the same period. At 31 December 2012, the Group had hedged GBP57.3m of expected 2013 cash flows at an average EUR-GBP rate of 0.8094. A derivative financial asset of €375,000 (2011: €nil) in respect of foreign exchange forward contracts due to mature in 2013 has been recorded in the Group's consolidated statement of financial position at 31 December 2012 (see Note 19).

The average GBP exchange rate against the euro increased by approximately 7% in 2012 versus 2011 (decreased by 1% in 2011 versus 2010), while the AUD exchange rate increased by 8% (increased by 7% in 2011 versus 2010) and the USD exchange rate increased by approximately 8% (decreased by 5% in 2011 versus 2010). The weakening in the value of the euro against these currencies positively impacted the Group's profit for the year ended 31 December 2012, with a (primarily GBP) currency movement-driven profit increase of €9.2m being recorded in the year (2011: currency movements did not, on a net basis, significantly impact the Group's profit).

The Group's foreign currency translation exposure in relation to its Australian subsidiaries, whose functional currency is the Australian dollar, are not hedged. Transactions by these subsidiary companies are primarily AUD denominated. Gains and losses on the retranslation of the Group's net investment in AUD and GBP functional currency subsidiaries are included in the foreign exchange translation reserve in equity.

The gain on retranslation of cash and cash equivalent balances in the year ended 31 December 2012 was €506,000 (2011: gain of €1,816,000). Within the cash retranslation gains are gains of €689,000 (2011: gains of €1,034,000) that have been included within 'other expenses' in the income statement rather than as a financial expense, as the directors consider that the gain or loss relates to operations as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised (as described above). Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Included within the loss on retranslation of non-cash assets and liabilities of €217,000 in 2012 (2011: gain of €1,404,000) is a gain of €547,000 (2011: gain of €1,047,000) relating to the retranslation of short term intercompany receivables from the Online Australia operating segment. Gains and losses on foreign currency retranslation are separately analysed into their components in the consolidated statement of cash flows, with further analysis presented in Notes 9 and 10.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 3. Financial risk management (continued)

### Interest rate risk

Excess cash funds are invested in interest-bearing bank deposits on which the interest rate is fixed for the term of the deposit. Group treasury policy imposes limits on the terms over which cash can be placed on deposit. As a consequence of the financial market instability in recent years and to minimise the credit risk of cash deposits, the Group has at times reduced the average maturity period of deposits placed and invested cash with financial institutions with only the highest credit standing. In 2012, the maturity profile of deposits was lengthened in order to achieve higher interest returns subject to compliance with appropriate counterparty risk limits.

### Credit risk

The Group's credit risk represents the risk that a financial loss may result in the event that a counterparty to a financial instrument, a trading partner or customers of (primarily) the Australian businesses fail to meet their contractual obligations.

### Trade and other receivables

The Group's sports betting and gaming businesses (excluding Australia) are predominantly cash and credit card/ debit card businesses where there is a requirement that the customer pays in advance when a transaction is entered into. An option for customers to avail of credit is normal practice in the Australian online and telephone sports betting markets and, accordingly, the Australian sports betting business model is one where credit is sometimes granted to customers. Trade receivables (after provisions for impairment) amounted to €7,129,000 at 31 December 2012 (2011: €7,294,000); included in this balance are receivables from credit betting customers (primarily in Australia) of €5,975,000 (2011: €5,927,000). Credit lines are provided to customers on a case by case basis for higher value customers or based on credit ratings for smaller value customers. Individual credit limits are decided upon by the credit control function in the first instance after taking into account credit and background reference checks. The collectability of outstanding trade receivable balances is closely monitored by reference to aged receivables and other reports and any receivable balances considered to be uncollectible are provided against when identified. Trade and other receivables impairment allowances are established against individual receivable balances when there is objective evidence that such balances are likely to be uncollectible, either in full or in part. The impairment allowance also includes a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. There is no material concentration of sales with individual customers.

### Cash investments and foreign exchange forward contracts

It is Group treasury policy to limit investments in cash deposits and foreign exchange forward contracts to counterparties that have a Moody's (or equivalent) long term credit rating of Aa3 or higher and a Moody's (or equivalent) short term credit rating of P1, unless otherwise specifically approved by the Investment Committee (as at the date of this report there are specific approvals for a number of lower rated banks where they have been guaranteed by the Irish state or invested in by the UK government and are perceived by the Investment Committee to be systemically important).

A list of approved counterparties is maintained by the Group. There are also limits on the percentage of total cash on deposit that can be invested with any individual counterparty. Management does not expect any counterparty to fail to meet its obligations as of the reporting date and the date of this report. There are also restrictions on the types of cash products that can be invested in.

The Group continues to carefully measure counterparty risk by monitoring credit agency ratings, Credit Default Swap spread prices and other public information, and to take action to mitigate such risks as are identified. The Group has accordingly restricted its cash deposit investments to counterparties that had higher credit ratings and has, when required, shortened the maturities of deposits placed. As noted above, in 2012, the maturity profile of deposits was lengthened in order to achieve higher interest returns subject to appropriate counterparty risk, and deposit financial assets (representing deposits with original maturities of greater than three months) totalling €42,014,000 were recorded on the Group consolidated statement of financial position for the first time (see Note 20).

### Guarantees

The Group's policy is generally to provide guarantees only in respect of certain commitments of wholly-owned subsidiaries of the Group. The guarantees entered into are primarily in respect of certain third party obligations of subsidiaries, such as overdraft and bank guarantee facilities. As of 31 December 2012, there were no amounts outstanding in the consolidated financial statements under these guarantees (2011: €nil).

The Group has put in place certain third party bank guarantees in favour of a number of regulatory bodies and other third parties. Some of these guarantees (which are more fully described in Note 32) are required by the terms of gambling licences and have in the past covered the value of player funds held by certain Group companies. The Group also utilises client funds bank accounts to guarantee payment of player funds. The third party bank guarantee in favour of the Isle of Man Gambling Commission, which secured the payment of player funds relating to the Group's Isle of Man regulated businesses, was terminated in 2012 and replaced by cash held in such client funds bank accounts. Certain of these guarantees have been partly or fully cash backed by cash deposits and such deposits, together with cash held in client funds accounts, have been classified as either non-current or current financial assets depending on when the relevant restrictions first end (see Note 20).





### 3. Financial risk management (continued)

The Australian corporate sports bookmaking licences issued to Sportsbet and IAS require those companies to hold sufficient liquid funds to cover monies owed to customers. At 31 December 2012, the total amount of relevant customer balances attributable to the Online Australia operating segment was €25,546,000 (AUD32,474,000) (2011: €24,790,000 (AUD31,541,000)) and total cash balances amounted to €64,747,000 (AUD82,307,000) at that date (2011: €43,939,000 (AUD55,904,000)).

#### Liquidity risk

This represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy for liquidity management is to ensure that there is sufficient liquidity in place to meet its liabilities as they fall due, both under normal or potential adverse conditions, and without resulting in undue loss or damage to the Group.

The Group performs regular cash projections to ensure that there is sufficient cash on hand to meet its expected obligations as they fall due. The nature of the Group's business and the potential volatility in sporting results can result in significant differences between expected and actual short term cash flows. Consequently, a conservative approach is applied to cash forecasting and flexibility is built into the forecast to cover potentially adverse sporting results. Cash deposit placement time periods are decided upon by reference to cash inflows forecast and expected requirements in respect of the Group's financial obligations. The Group's treasury policy sets a maximum maturity on deposits of up to six months. Information on the overall maturity of deposits at 31 December 2012 and 2011 is set out in Note 20. It is the directors' belief that the Group's cash deposit balances can be withdrawn without significant penalty.

The Group has the following lines of credit:

- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling €7.5m. Interest is payable thereon at the bank's prime overdraft rate plus 0.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of Allied Irish Banks plc.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling GBP6.5m (€8.0m). Interest is payable thereon at the bank's sterling base rate plus 3.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of AIB Group (UK) plc.

At 31 December 2012, none of the bank overdraft facilities were being utilised.

#### Capital management

The Group has historically funded its operations through internally generated cash. Borrowings historically have not formed part of its capital structure, apart from the consolidation of debt within its majority-owned subsidiaries in Australia during 2009, 2010 and part of 2011. This debt has since been repaid. The Group's financing and capital structure is kept under review by the Board. The Board is committed to capital discipline; however in the current environment a strong cash balance gives Paddy Power financial strength and flexibility for expansion organically or via acquisition, thereby creating more opportunity for the Group.

The Group has the authority to buy back up to ten per cent of the Company's issued share capital between the dates of its Annual General Meetings ('AGM's), subject to the annual approval of its shareholders at the Company's AGM. No shares were acquired under this authority in 2012 or 2011. Shares bought back may either be cancelled or held in treasury. Since its first share buybacks in 2007, a total of 3,873,443 of the Company's own shares have been bought back at an average share price of €21.11, of which 2,139,443 were cancelled and the remaining 1,734,000 are held in treasury.

The Company's ordinary shares are also acquired on the market periodically by the Paddy Power plc Employee Benefit Trust (the 'Trust') to meet the Trust's obligations under share award schemes. These shares are held by the Trust and ownership is transferred to the Trust's beneficiaries if and when the related share awards vest.

There were no significant changes in the Group's approach to capital management during 2012.

At 31 December 2012 and 31 December 2011, neither the Company nor any of its subsidiaries were subject to externally imposed capital requirements.

In the year ended 31 December 2012, the Group earned a return on capital of 47.6% (2011: 53.0% or 47.0% when the exceptional items are excluded). Capital is defined by the Group as total equity attributable to equity holders of the Company. Return on capital is calculated by dividing the profit for the year attributable to equity holders of the Company (€120,999,000 (2011: €121,488,000 or €103,513,000 pre-exceptional items)) by the average capital attributable to the equity holders of the Company for the year. Average capital is calculated by taking the average of the start and end of year capital balances (the average of €230,386,000 and €277,656,000 respectively, being €254,021,000 (2011: average of €228,439,000 and €230,386,000 respectively, being €229,413,000, or the average of €228,439,000 and €212,411,000 respectively, being €220,425,000, for the pre-exceptional rate of return calculation)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 4. Operating segments

The income, operating profit and net assets of the Group relate to the provision of betting and gaming activities, the vast majority of which are conducted in the United Kingdom ('UK'), Australia and the Republic of Ireland.

### Income

Income for the years ended 31 December 2012 and 2011 is analysed as follows:

	2012 €'000	2011 €'000
Income in respect of sportsbook and gaming activities	641,730	482,756
Other commission and fee revenue (included in Online (ex Australia) income)	12,020	16,574
Total income	653,750	499,330

As more fully described in our accounting policies, betting activities are considered to be derivative financial instruments as set out in IAS 39, 'Financial Instruments: Recognition and Measurement'. Other commission and fee revenue is earned from peer to peer gaming, financial spread betting and business-to-business services and, as these activities do not involve customers taking a direct position against the Group, such revenue is not classified as income from derivative financial instruments.

The Group's reportable segments are divisions that are managed separately, due to a combination of factors including method of service delivery (online, retail shops, telephone), geographical segmentation and the different services provided.

### (a) Reportable business segment information

The Group considers that its reportable segments are as follows:

- Online (ex Australia);
- Online Australia;
- Irish Retail;
- UK Retail; and
- Telephone.

The Online (ex Australia), Irish Retail, UK Retail and Telephone segments all derive their revenues primarily from sports betting and/or gaming (gaming machines, casino, poker, games, bingo and financial spread betting). Online (ex Australia) services are delivered primarily through the internet, Telephone through the public telephony system and Irish and UK Retail through licensed bookmaking shop estates. The Online (ex Australia) and Telephone segments derive their revenues primarily from the UK and Ireland, the Irish Retail segment from retail outlets in the Republic of Ireland and UK Retail from retail outlets in Great Britain and Northern Ireland. The Online Australia segment earns its revenues from sports betting services provided to Australian customers using both the internet and the public telephony system.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies set out in Note 2 above. Central operating expenses are allocated to reportable segments based on internal management allocation methodologies. Any expenses that are not directly allocated to reportable segments in internal management reports are shown in the reconciliation of reportable segments to Group totals. The Group does not allocate income tax expense or interest. Treasury management is centralised for the Online (ex Australia), Irish Retail, UK Retail and Telephone segments. The Online Australia 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.



#### 4. Operating segments (continued)

Reportable business segment information for the year ended 31 December 2012:

	Online (ex Australia) €'000	Online Australia €'000	Irish Retail €'000	UK Retail €'000	Telephone €'000	Total reportable segments €'000
Income from external customers	263,065	156,427	110,434	101,428	22,396	653,750
Inter-segment trading	-	-	(2)	(83)	85	-
<b>Total income</b>	<b>263,065</b>	<b>156,427</b>	<b>110,432</b>	<b>101,345</b>	<b>22,481</b>	<b>653,750</b>
Direct betting costs	(36,955)	(37,006)	(9,969)	(15,998)	(269)	(100,197)
<b>Gross profit</b>	<b>226,110</b>	<b>119,421</b>	<b>100,463</b>	<b>85,347</b>	<b>22,212</b>	<b>553,553</b>
Depreciation and amortisation	(9,130)	(7,469)	(7,724)	(6,567)	(1,269)	(32,159)
Other operating expenses	(144,243)	(81,116)	(78,366)	(63,440)	(18,229)	(385,394)
<b>Reportable segment profit</b>	<b>72,737</b>	<b>30,836</b>	<b>14,373</b>	<b>15,340</b>	<b>2,714</b>	<b>136,000</b>

Reportable business segment information for the year ended 31 December 2011:

	Online (ex Australia) €'000	Online Australia €'000	Irish Retail €'000	UK Retail €'000	Telephone €'000	Total reportable segments €'000
Income from external customers	199,162	107,401	102,791	72,153	17,823	499,330
Inter-segment trading	-	-	-	39	(39)	-
<b>Total income</b>	<b>199,162</b>	<b>107,401</b>	<b>102,791</b>	<b>72,192</b>	<b>17,784</b>	<b>499,330</b>
Direct betting costs	(24,074)	(26,342)	(9,599)	(11,056)	(99)	(71,170)
<b>Gross profit</b>	<b>175,088</b>	<b>81,059</b>	<b>93,192</b>	<b>61,136</b>	<b>17,685</b>	<b>428,160</b>
Depreciation and amortisation	(5,217)	(5,180)	(9,780)	(5,834)	(1,114)	(27,125)
Other operating expenses	(95,569)	(53,121)	(72,525)	(44,764)	(15,510)	(281,489)
<b>Reportable segment profit before exceptional items</b>	<b>74,302</b>	<b>22,758</b>	<b>10,887</b>	<b>10,538</b>	<b>1,061</b>	<b>119,546</b>
Exceptional items	-	22,217	-	-	-	22,217
<b>Reportable segment profit</b>	<b>74,302</b>	<b>44,975</b>	<b>10,887</b>	<b>10,538</b>	<b>1,061</b>	<b>141,763</b>

#### Reconciliation of reportable segments to Group totals:

	2012 €'000	2011 €'000
<b>Income</b>		
Total income from reportable segments, being total Group income	653,750	499,330
<b>Profit and loss</b>		
Total profit and loss from reportable segments	136,000	141,763
<i>Unallocated amounts:</i>		
Financial income – non-Online Australia <sup>(1)</sup>	695	555
Financial income – Online Australia	2,745	1,632
Financial expense – non-Online Australia <sup>(1)</sup>	(279)	(156)
Financial expense – Online Australia	(6)	(415)
<b>Profit before tax</b>	<b>139,155</b>	<b>143,379</b>

<sup>(1)</sup> Non-Online Australia above comprises the Online (ex Australia), Irish Retail, UK Retail and Telephone operating segments. Financial expense relating to these segments is primarily in respect of guarantee fees payable and the unwinding of discounts on provisions and other non-current liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 4. Operating segments (continued)

### (b) Geographical segment information

The Group considers that its primary geographic segments are 'UK', 'Australia' and 'Ireland and rest of world'. The UK geographic segment consists of the UK Retail bookmaking business, online and telephone sports betting from UK customers, and online gaming from UK customers. The Australia geographic segment consists of online and telephone sports betting from Australian customers. The Ireland and rest of world geographic segment is composed of the Irish Retail bookmaking business, online and telephone sports betting from Irish and rest of world customers, and online gaming from Irish and rest of world customers. Revenues from customers outside the UK, Australia and Ireland are not considered sufficiently significant to warrant separate reporting.

Group revenues by geographical segment are as follows:

Income	2012 €'000	2011 €'000
UK	310,252	220,140
Australia	156,427	107,401
Ireland and rest of world	187,071	171,789
<b>Total</b>	<b>653,750</b>	<b>499,330</b>

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

(b) Revenues from any single customer do not amount to ten per cent or more of the Group's revenues.

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

Non-current assets	2012 €'000	2011 €'000
UK	104,854	89,531
Australia	91,764	93,302
Ireland and rest of world	72,819	64,108
<b>Total</b>	<b>269,437</b>	<b>246,941</b>

## 5. Direct betting costs

Direct betting costs comprise:

	2012 €'000	Before exceptional items 2011 €'000	Exceptional items (Note 6) 2011 €'000	2011 €'000
Betting taxes	33,165	25,492	(27,277)	(1,785)
Software supplier costs	22,676	16,553	-	16,553
Other direct betting costs	44,356	29,125	-	29,125
<b>Direct betting costs</b>	<b>100,197</b>	<b>71,170</b>	<b>(27,277)</b>	<b>43,893</b>

Betting taxes comprise betting taxes levied on gross win and amounts staked, and Goods and Services Tax ('GST') on Online Australia segment gross win.

Software supplier costs comprise direct costs incurred under supplier agreements for the provision of online casino, poker, bingo, fixed odds gaming services and retail betting machines.

Other direct betting costs comprise payments to third parties for new online customers acquired, product and racefield fees payable to Australian state racing authorities, data rights which mainly comprise costs incurred in respect of British Horseracing Board and UK statutory levies, customer bad debt charges and other miscellaneous direct betting costs.



## 6. Exceptional items

	2012 €'000	2011 €'000
Goods and Services Tax ('GST') refund	-	27,277
GST refund – related interest and legal costs	-	363
Provision against carrying value of IAS brand	-	(5,423)
Operating profit impact of exceptional items	-	22,217
Income tax expense on GST refund	-	(8,180)
Release of deferred tax liability – Sportsbet brand	-	3,938
Income tax expense impact of exceptional items	-	(4,242)
Total exceptional items	-	17,975

### GST refund

On 26 July 2011, the Federal Court of Australia found in favour of Sportsbet and IAS in a case brought by them against the Australian Commissioner of Taxation relating to the interpretation and application of certain legislation pertaining to Australian Goods and Services Tax ('GST'). The judgement related to the calculation of GST for tax periods between 2005 and 2009, with the relevant legislation being changed in April 2010 to remove the uncertainty of interpretation at issue. The Commissioner of Taxation subsequently decided not to appeal the decision to a higher court.

Income of €27.6m (AUD35.9m) in respect of the GST refund, interest and related legal costs was recognised as an exceptional item. This income was taxable at the standard Australian corporation tax rate of 30%, with a related income tax charge of €8.2m being recognised as part of the exceptional item. During 2011, Sportsbet and IAS received €16.4m (AUD21.3m) in the form of cash in respect of court-ordered GST repayments (plus associated interest) and revised GST returns for the period December 2009 to November 2010; after deduction of associated costs and expenses, the net cash receipt in 2011 amounted to €15.5m (AUD20.1m). The remainder of the exceptional item is composed of amounts that were expected to be received as credits against future GST payments over the next seven years approximately and an estimate of interest and legal costs to be awarded.

### Provision against value of IAS brand

In 2011, the Group decided to cease investing in and trading under the IAS brand. It was and is currently intended that existing customers of IAS will be migrated to the existing Sportsbet brand at a point in the future. Accordingly, full provision was made against the carrying value of the IAS brand at 31 December 2011, which amounted to €5,423,000 (AUD6,900,000) at that date. There was no tax impact arising from this provision.

### Release of deferred tax liability – Sportsbet brand

Following a restructuring of the Group's Australian operations after the acquisition by the Group in March 2011 of the non-controlling interest in Sportsbet (see Note 17), the deferred tax liability initially recognised on the acquisition of 51% of Sportsbet in July 2009 (€3,938,000 or AUD5,010,000) was derecognised due to a change in the Australian tax base of the related Sportsbet assets.

## 7. Employee expenses and numbers

	2012 €'000	2011 €'000
Wages and salaries	145,383	107,608
Social security costs	14,870	6,953
Defined contribution pension and life assurance costs	5,844	3,962
Share-based payments costs	22,264	15,347
Other staff costs	13,823	9,925
	<b>202,184</b>	<b>143,795</b>

	2012	2011
The average number of persons employed by the Group (including executive directors), all of whom were involved in the provision of sports betting and gaming services, during the year was	<b>3,457</b>	2,788

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 8. Directors' emoluments and transactions with key management personnel

Included in directors' emoluments are the following emoluments in respect of directors who were in office during the year and prior year:

	Fees €'000	Salary €'000	Pension costs €'000	Benefits €'000	Annual bonus €'000	Total 2012 €'000	Total 2011 €'000
<b>Executive</b>							
Patrick Kennedy <sup>(1)</sup>	-	746	-	239	462	1,447	1,572
Cormac McCarthy <sup>(2)</sup>	55	109	-	18	56	238	23
Breon Corcoran <sup>(3)</sup>	-	-	-	-	-	-	960
Jack Massey <sup>(4)</sup>	-	255	51	25	92	423	603
<b>Non-executive</b>							
Nigel Northridge <sup>(5)</sup>	210	-	-	-	-	210	200
Tom Grace <sup>(6)</sup>	100	-	-	-	-	100	90
Fintan Drury <sup>(7)</sup>	-	-	-	-	-	-	67
Ulric Jerome <sup>(8)</sup>	3	-	-	-	-	3	-
Stewart Kenny	70	-	-	-	-	70	70
Jane Lighting	70	-	-	-	-	70	70
Pádraig Ó Riordáin <sup>(9)</sup>	89	-	-	-	-	89	82
David Power <sup>(10)</sup>	82	-	-	-	-	82	82
William Reeve <sup>(11)</sup>	47	-	-	-	-	47	70
Brody Sweeney <sup>(12)</sup>	-	-	-	-	-	-	47
	<b>726</b>	<b>1,110</b>	<b>51</b>	<b>282</b>	<b>610</b>	<b>2,779</b>	<b>3,936</b>
Cost of shares vested from Long Term Incentive Plan						<b>2,862</b>	<b>3,353</b>
	<b>726</b>	<b>1,110</b>	<b>51</b>	<b>282</b>	<b>610</b>	<b>5,641</b>	<b>7,289</b>

(1) Patrick Kennedy is also a non-executive director of Elan Corporation, plc for which he received and retained fees of €58,504 in the year ended 31 December 2012 (2011: €53,695). He was also awarded 15,186 (2011: 18,382) Restricted Stock Units over Elan Corporation, plc shares. He is also a non-executive director of Bank of Ireland and he received fees of €78,750 in 2012 (2011: €78,375) for his services.

(2) Cormac McCarthy was appointed Chief Financial Officer on 15 October 2012 and was appointed originally to the Board on 1 September 2011. The fees he earned during the year ended 31 December 2012 relate to the period prior to 15 October 2012 when he was a non-executive director. He is also a non-executive director of BWG Limited for which he received and retained fees of €10,548 in respect of the period since his appointment as an executive director of the Company on 15 October 2012.

(3) Breon Corcoran resigned from the Board on 10 November 2011.

(4) Jack Massey resigned from the Board on 15 October 2012 and was appointed Director of Finance and Company Secretary on that date. The emoluments disclosed above are in respect of the period during which he served as a director.

(5) Nigel Northridge is Chairman of the Company.

(6) Tom Grace is the Senior Independent Director and is Chairman of the Audit Committee.

(7) Fintan Drury resigned from the Board on 14 December 2011.

(8) Ulric Jerome was appointed to the Board on 13 December 2012.

(9) Pádraig Ó Riordáin is Chairman of the Remuneration Committee.

(10) David Power is Chairman of the Risk Committee.

(11) William Reeve resigned from the Board on 5 September 2012.

(12) Brody Sweeney resigned from the Board on 1 September 2011.

Benefits provided to executive directors include provision of a company car or car allowance, life and medical insurance and, in the case of Patrick Kennedy and Cormac McCarthy, cash allowances in lieu of pension contributions (included under 'Benefits' in the table above). Not included in the above table are accruals made in respect of the long term incentive bonus plan and share-based payment costs in respect of unvested shares in the Group's Long Term Incentive Plan (see Note 23). Details of the number and value of shares vested to executive directors from the Long Term Incentive Plan during the year are set out in the Directors' Report on pages 44 and 45.

### Other transactions with directors

There were no loans outstanding to any director at any time during the year. Details of directors' interests in share awards and share options are set out on pages 44 and 45. Other related party transactions between the Group and the directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

In addition to the directors' emoluments disclosed above, in the year ended 31 December 2012, directors were paid the following:

- Stewart Kenny received €180,000 (2011: €80,000) in respect of consulting fees. The increase in fees reflected an increased volume of consulting work performed by Stewart for the Group;

- Pádraig Ó Riordáin is a Partner in Arthur Cox. During the year ended 31 December 2012, the Group incurred fees of €659,418 (2011: €690,308) relating to legal and taxation advice received from Arthur Cox;

- the Group engages in transactions with David Power in his capacity as an on-course bookmaker. In aggregate, the Group placed no bets in 2012 (2011: bets losing €12,125) with Richard Power On-Course Bookmakers and that firm placed bets with the Group winning €177,256 (2011: winning €19,839). In addition, the Group paid rent of €38,727 (2011: €38,727) during the year for retail properties owned by David Power and occupied by the Group under long term leases.



## 8. Directors' emoluments and transactions with key management personnel (continued)

### Transactions with key management personnel comprising executive and other senior management

Key management personnel compensation is as follows:

	2012 €'000	2011 €'000
Wages and salaries	9,149	8,043
Social security costs	1,340	1,572
Defined contribution pension and life assurance costs	467	504
Provision for executive director long term incentive bonus plan <sup>(1)</sup>	-	(1,389)
Share-based payments costs	10,615	9,969
Non-executive directors' fees	726	801
Other staff costs	486	364
	<b>22,783</b>	<b>19,864</b>

	2012 €'000	2011 €'000
Executive directors (excluding share-based payments)	2,053	3,135
Non-executive directors	726	801
Other key management personnel (excluding share-based payments)	8,049	5,776
Provision for executive director long term incentive bonus plan <sup>(1)</sup>	-	(1,389)
Social security costs	1,340	1,572
Share-based payments costs	10,615	9,969
	<b>22,783</b>	<b>19,864</b>

(1) Breon Corcoran had a long term incentive bonus plan under which he was entitled to certain payments based on the Online (ex Australia) and Telephone divisions, and the Online Australia division, achieving very challenging operating profit targets in the year ended 31 December 2012 and year ended 30 June 2012, respectively. As a result of his resignation in November 2011, Breon no longer had any entitlement to receive any benefits under this plan. Accordingly a credit of €1,389,000 was recorded in 2011 in respect of costs that had been accrued for his bonus scheme up to 31 December 2010. This amount has not been included in the table of directors' emoluments on page 84.

## 9. Financial income and expense

	2012 €'000	2011 €'000
<b>Recognised in profit or loss:</b>		
Financial income:		
<i>On financial assets at amortised cost</i>		
Interest income on bank deposits	3,440	2,187
	<b>3,440</b>	<b>2,187</b>
Financial expense:		
<i>On financial liabilities at amortised cost</i>		
Bank loans	-	349
Bank guarantees	121	75
Finance leases	-	59
Unwinding of the discount on provisions and other non-current liabilities	164	88
	<b>285</b>	<b>571</b>
	<b>2012 €'000</b>	<b>2011 €'000</b>
<b>Recognised in other comprehensive income:</b>		
Effective portion of changes in fair value of cash flow hedges	(1,324)	-
Fair value of foreign exchange cash flow hedges transferred to income statement	1,839	-
Net change in fair value of cash flow hedge reserve	515	-
Foreign exchange gain on translation of the net assets of foreign currency denominated subsidiaries	237	2,829
	<b>752</b>	<b>2,829</b>

No amounts were recorded in the income statement in respect of ineffective cash flow hedges in the year ended 31 December 2012 (2011: €nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 10. Statutory and other information

	2012 €'000	2011 €'000
Directors' emoluments	5,641	7,289
Auditor's remuneration for audit services	377	396
Depreciation – owned assets	22,597	19,433
Amortisation of intangible assets	9,562	7,692
Impairment charges – intangible assets	-	5,423
Loss on disposal of property, plant and equipment and intangible assets	123	94
Foreign currency exchange gain – cash and cash equivalents	(689)	(1,034)
Foreign currency exchange loss / (gain) – other monetary items	217	(1,404)
Operating lease rentals, principally premises	23,191	19,677
Research and development	1,327	3,881
Operating lease income (representing sub-lease income)	(438)	(351)

### Remuneration to Group external auditors (KPMG Ireland)

In accordance with the requirements of Regulation 120 of Statutory Instrument 220/2010, 'European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010', the auditor's remuneration figures presented below represent fees paid to KPMG Ireland only and are exclusive of value added tax. Audit relates to the audit of the Group financial statements only. Audit fees in relation to the audit of subsidiary companies by KPMG Ireland are classified as other assurance services.

	2012 €'000	2011 €'000
Audit	125	130
Other assurance services – audit of subsidiaries	35	35
Other assurance services – miscellaneous	21	115
Tax advisory services	36	92
Tax-related audit work	-	42
<b>Total</b>	<b>217</b>	<b>414</b>

Further analysis of the total fees paid to the Group auditor, KPMG, worldwide for audit and non-audit services is presented below:

### Analysis of total auditor's remuneration for audit services

	2012 €'000	2011 €'000
Audit of Group (KPMG Ireland)	125	130
Audit of other subsidiaries (KPMG Ireland)	35	35
Tax-related audit work (KPMG Ireland)	-	42
Value added tax on audit fees – Group and other subsidiaries (KPMG Ireland)	37	45
Audit of other subsidiaries (other KPMG offices)	151	138
Other assurance services – miscellaneous	29	6
<b>Total</b>	<b>377</b>	<b>396</b>

### Analysis of amounts paid to the auditor in respect of non-audit services

	2012 €'000	2011 €'000
Tax advisory services (KPMG Ireland)	36	92
Value added tax on fees – tax advisory services (KPMG Ireland)	8	19
Tax advisory services (other KPMG offices)	254	118
Assurance services	-	117
<b>Total</b>	<b>298</b>	<b>346</b>
Tax advisory services – once-off Sportsbet acquisition (included above)	-	(112)
Assurance services – once off Sportsbet acquisition (included above)	-	(110)
<b>Total – excluding once-off acquisition costs</b>	<b>298</b>	<b>124</b>





## 11. Income tax expense

	2012 €'000	2011 €'000
<b>Recognised in profit or loss:</b>		
Current tax charge	<b>24,250</b>	21,059
Prior year (over) / under provision	<b>(1,800)</b>	747
	<b>22,450</b>	21,806
Deferred tax (credit) / charge	<b>(4,664)</b>	827
Prior year under / (over) provision	<b>370</b>	(1,991)
Decrease in net deferred tax liability (Note 24)	<b>(4,294)</b>	(1,164)
Total income tax expense in income statement	<b>18,156</b>	20,642

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

		2012 €'000		2011 €'000
Profit before tax		<b>139,155</b>		<b>143,379</b>
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5%	12.5%	<b>17,394</b>	12.5%	17,922
Depreciation on non-qualifying property, plant and equipment	0.2%	<b>274</b>	0.3%	392
Effect of different statutory tax rates in overseas jurisdictions	0.9%	<b>1,304</b>	2.3%	3,327
UK tax loss deferred tax asset utilised in year	0.0%	-	0.7%	994
Brands and licences	(0.3%)	<b>(434)</b>	(2.1%)	(2,948)
Other differences	0.7%	<b>990</b>	1.5%	2,143
Interest income taxable at higher rates	0.0%	<b>58</b>	0.0%	56
Over provision in prior year	(1.0%)	<b>(1,430)</b>	(0.9%)	(1,244)
Total income tax expense	13.0%	<b>18,156</b>	14.4%	20,642

### Tax rates

No significant changes are expected to statutory tax rates in Ireland or Australia. The UK Budget in 2012 announced that the UK corporation tax rate was to reduce to 21% over a period of three years from 2012. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted in July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted in March 2011 and July 2011 respectively. The Finance Act 2012, which was substantively enacted on 17 July 2012, amended the main rate of corporation tax to 24% effective from 1 April 2012 and to 23% effective from 1 April 2013. This will reduce the group's future current tax charge accordingly. UK deferred tax balances have been calculated based on the rate, 23%, substantively enacted at the reporting date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 12. Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year as follows:

	2012	2011
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	<b>120,999</b>	121,488
Numerator in respect of adjusted earnings per share (€'000):		
Profit attributable to equity holders of the Company	<b>120,999</b>	121,488
Less: Exceptional items (Note 6)	-	(17,975)
Profit for adjusted earnings per share calculation	<b>120,999</b>	103,513
Denominator in respect of basic earnings per share:		
Ordinary shares in issue at beginning of year	<b>50,725,021</b>	49,954,114
Adjustments for weighted average number of:		
– ordinary shares issued during year	<b>36,838</b>	417,314
– ordinary shares held in treasury	<b>(1,734,000)</b>	(1,734,000)
– ordinary shares held by long term incentive plan trust	<b>(843,957)</b>	(1,054,758)
Weighted average number of ordinary shares	<b>48,183,902</b>	47,582,670
Basic earnings per share	<b>€2.511</b>	€2.553
Adjusted earnings per share	<b>€2.511</b>	€2.175
Denominator in respect of diluted earnings per share:		
Basic weighted average number of ordinary shares in issue during year	<b>48,183,902</b>	47,582,670
Adjustments for dilutive effect of the Share Option Scheme, Sharesave Scheme, share award schemes and shares held by long term incentive plan trust	<b>581,723</b>	1,170,636
Weighted average number of ordinary shares	<b>48,765,625</b>	48,753,306
Diluted earnings per share	<b>€2.481</b>	€2.492
Adjusted diluted earnings per share	<b>€2.481</b>	€2.123

At 31 December 2012, 325,826 options and awards were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.



### 13. Property, plant and equipment

	Land, buildings & leasehold improvements €'000	Fixtures & fittings €'000	Computer equipment €'000	Motor vehicles €'000	Total €'000
<b>Cost</b>					
Balance at 1 January 2011	61,177	93,410	33,399	836	188,822
Additions	9,963	13,055	13,469	266	36,753
Additions – business combinations (Note 17)	-	647	6	-	653
Disposals	(177)	(388)	(165)	(209)	(939)
Transfers (Note 14)	(42)	881	(906)	-	(67)
Foreign currency translation adjustment	154	71	267	1	493
Balance at 31 December 2011	71,075	107,676	46,070	894	225,715
Additions	<b>6,282</b>	<b>11,732</b>	<b>13,432</b>	<b>153</b>	<b>31,599</b>
Additions – business combinations (Note 17)	-	<b>1,070</b>	-	-	<b>1,070</b>
Disposals	<b>(1,862)</b>	<b>(6,689)</b>	<b>(4,126)</b>	<b>(404)</b>	<b>(13,081)</b>
Transfers (Note 14)	-	-	<b>(92)</b>	-	<b>(92)</b>
Foreign currency translation adjustment	<b>(46)</b>	-	<b>(43)</b>	<b>1</b>	<b>(88)</b>
Balance at 31 December 2012	<b>75,449</b>	<b>113,789</b>	<b>55,241</b>	<b>644</b>	<b>245,123</b>
<b>Depreciation and impairment</b>					
Balance at 1 January 2011	22,283	64,582	23,724	435	111,024
Depreciation charges	5,234	8,615	5,428	156	19,433
Disposals	(130)	(359)	(45)	(133)	(667)
Foreign currency translation adjustment	93	36	197	-	326
Balance at 31 December 2011	27,480	72,874	29,304	458	130,116
Depreciation charges	<b>3,542</b>	<b>9,165</b>	<b>9,748</b>	<b>142</b>	<b>22,597</b>
Disposals	<b>(1,862)</b>	<b>(6,737)</b>	<b>(4,114)</b>	<b>(338)</b>	<b>(13,051)</b>
Foreign currency translation adjustment	<b>(42)</b>	-	<b>(33)</b>	-	<b>(75)</b>
Balance at 31 December 2012	<b>29,118</b>	<b>75,302</b>	<b>34,905</b>	<b>262</b>	<b>139,587</b>
<b>Net book value</b>					
At 31 December 2012	<b>46,331</b>	<b>38,487</b>	<b>20,336</b>	<b>382</b>	<b>105,536</b>
At 31 December 2011	43,595	34,802	16,766	436	95,599

The net book value of land, buildings and leasehold improvements at 31 December 2012 includes €42.5m (2011: €39.7m) in respect of leasehold improvements.

The directors do not consider the remaining useful lives of property, plant and equipment to be materially different from the period over which the assets are being depreciated.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 14. Intangible assets

The movements during the prior year and current year in respect of intangible assets, which comprise computer software, licences and brands (all acquired), were as follows:

	Computer software €'000	Licences €'000	Brands €'000	Total €'000
<b>Cost</b>				
Balance at 1 January 2011	31,657	25,565	17,966	75,188
Additions	9,921	86	-	10,007
Additions – business combinations (Note 17)	782	436	-	1,218
Disposals	(1,092)	-	-	(1,092)
Transfers (Note 13)	(3)	70	-	67
Foreign currency translation adjustment	515	638	583	1,736
Balance at 31 December 2011	41,780	26,795	18,549	87,124
Additions	20,224	287	-	20,511
Disposals	(505)	-	-	(505)
Transfers (Note 13)	92	-	-	92
Foreign currency translation adjustment	(84)	551	16	483
Balance at 31 December 2012	61,507	27,633	18,565	107,705
<b>Amortisation and impairment</b>				
Balance at 1 January 2011	20,847	2,831	-	23,678
Amortisation charges	7,100	592	-	7,692
Impairment charges	-	-	5,423	5,423
Disposals	(847)	-	-	(847)
Foreign currency translation adjustment	175	3	-	178
Balance at 31 December 2011	27,275	3,426	5,423	36,124
Amortisation charges	9,192	370	-	9,562
Disposals	(377)	-	-	(377)
Foreign currency translation adjustment	(85)	(6)	5	(86)
Balance at 31 December 2012	36,005	3,790	5,428	45,223
<b>Net book value</b>				
At 31 December 2012	25,502	23,843	13,137	62,482
At 31 December 2011	14,505	23,369	13,126	51,000

The value of betting shop licences of €22,184,000 (2011: €21,674,000) acquired as a result of the purchase of D McGranaghan Limited in 2008 and an additional betting shop in Northern Ireland in 2011 are not being amortised as the directors consider these licences to have an indefinite life because:

- existing law in Northern Ireland restricts entry of new competitors;
- there exists a proven and future expected demand for bookmaking services and products; and
- Paddy Power has a track record of renewing its betting permits and licences at minimal cost.

The value of brand intangible assets recognised on application of fair value accounting to the purchase of Sportsbet and IAS in 2009 (amounting to €18,565,000 at 31 December 2012 (2011: €18,549,000)) are not being amortised as the directors consider that the relevant brands have indefinite lives because:

- the directors intend to utilise the brands in the businesses for the foreseeable future (with the exception of the IAS brand – see Note 6 and below); and
- substantial sums are invested annually in the form of marketing expenditure expensed through profit or loss to maintain and to enhance the value of these brands.

The Group reviews the carrying value of licences and brands for impairment annually (or more frequently if there are indications that the value of the licences and brands may be impaired) by comparing the carrying values of these assets with their recoverable amounts (being the higher of value in use and fair value less costs to sell). As disclosed in Note 6, in 2011, the directors reviewed the carrying value of the IAS brand of €5,423,000 and determined, on the basis of future plans, that an impairment provision of €5,423,000 was required against the value of that brand at 31 December 2011. A similar review was performed at 31 December 2012 (when the gross value of the brand was €5,428,000) which indicated that there had been no changes in the circumstances that gave rise to the impairment provision and that continued provision was appropriate.

Impairment charges are included in 'depreciation, amortisation and impairment' in the consolidated income statement.



## 15. 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:

	Irish Retail €'000	UK Retail €'000	Online (ex Australia) €'000	Online Australia €'000	Total €'000
Balance at 1 January 2011	8,207	9,996	-	58,764	76,967
Arising on acquisitions during the year (Note 17)	-	1,201	13,303	-	14,504
Foreign currency translation adjustment	-	229	-	1,907	2,136
Balance at 31 December 2011	8,207	11,426	13,303	60,671	93,607
Arising on acquisitions during the year (Note 17)	125	2,604	-	-	2,729
Foreign currency translation adjustment	-	194	-	52	246
Balance at 31 December 2012	8,332	14,224	13,303	60,723	96,582

Goodwill on Irish Retail properties 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 in 2009, 2010 and 2012 (see Note 17).

Goodwill on UK Retail properties 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 in 2010, 2011 and 2012 (see Note 17).

The Online (ex Australia) segment goodwill amount arose from the acquisition by the Group in November 2011 of CT Networks Limited ('Cayetano'), a games developer based in the Isle of Man and Bulgaria. Cayetano develops games for the online and mobile gaming markets (see Note 17).

The Online 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.

### 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 2012.

The Group's operating segments include amounts in respect of goodwill and indefinite life intangible assets (comprising licences acquired as part of the purchase of the D McGranaghan Limited business in 2008 and a shop acquisition in 2011, and brands acquired as part of the purchase of Sportsbet and IAS in 2009 – see Note 14).

The details of the impairment reviews in respect of the operating segments above as of 31 December 2012 are presented below:

	31 December 2012 €'000	31 December 2011 €'000
Irish Retail – goodwill	8,332	8,207

The recoverable amount of the Irish Retail operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Cash flow growth for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2011: 2%) per annum and is based on weighted average income growth rates of 2% (2011: 1% to 2%) and a gross win rate of 13% (2011: 13%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2011: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish Retail operating segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 15. Goodwill (continued)

	31 December 2012 €'000	31 December 2011 €'000
UK Retail – goodwill and licences	<b>36,408</b>	33,100

The recoverable amount of the UK Retail operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Cash flow growth for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2011: 2%) per annum and is based on weighted average income growth rates of 2% (2011: 1% to 2%) and a gross win rate of 12% (2011: 12%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2011: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the UK Retail operating segment goodwill and licences recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

	31 December 2012 €'000	31 December 2011 €'000
Online (ex Australia) – goodwill	<b>13,303</b>	13,303

The recoverable amount of the Online (ex Australia) operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Cash flow growth for the extrapolated period (following the initial three year period) is projected to be approximately 4% (2011: 5%) per annum and is based on a weighted average revenue growth rate of 4% (2011: 5%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. A pre-tax discount rate of 13% (2011: 13%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Online (ex Australia) segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2012 €'000	31 December 2011 €'000
Online Australia – goodwill and brands	<b>79,288</b>	79,220
Less: IAS brand impairment provision	<b>(5,428)</b>	(5,423)
Online Australia – goodwill and brands net of impairment provision	<b>73,860</b>	73,797

The recoverable amount of the Online Australia operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Cash flow growth for the extrapolated period (following the initial three year period) is projected to be approximately 3% (2011: 4%) per annum and is based on a weighted average income growth rate of 3% (2011: 4%) and a gross win of 10% (2011: 9%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. A pre-tax discount rate of 15.5% (2011: 14.0%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Online Australia operating segment goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts (with the exception of the IAS brand amounting to €5,428,000 at 31 December 2012 (2011: €5,423,000) – see Notes 6 and 14).

The discount rate applied to the cash flows is based on the risk free rate for ten years plus government bonds, adjusted for a risk premium that reflects both the increased risk of investing in equities and the systemic risk of the cash generating units. The risk premium is calculated using the equity market risk premium (being the increased return required by investors in the equity market as a whole over and above the risk free rate available) and the risk adjustment applied to reflect the risk of the specific cash generating unit relative to the market as a whole. The discount rates reflect the market conditions applicable to the Group and to the particular cash generating units being reviewed.

Based on the reviews as described above, with the exception of the IAS brand impairment of €5,428,000 (2011: €5,423,000) (see Notes



## 16. Financial assets (non-current)

	31 December 2012 €'000	31 December 2011 €'000
Restricted cash (Note 20)	5,359	6,409
	<b>5,359</b>	<b>6,409</b>

The movements during the prior year and current year in respect of financial assets were as follows:

	Sportsbet buyout call options €'000	Restricted cash €'000	Total €'000
Balance at 1 January 2011	6,978	2,757	9,735
Acquisition of 39.2% of Sportsbet	(6,978)	-	(6,978)
Net deposits	-	3,589	3,589
Foreign currency translation adjustment	-	63	63
Balance at 31 December 2011	-	6,409	6,409
Net withdrawals	-	(1,083)	(1,083)
Foreign currency translation adjustment	-	33	33
Balance at 31 December 2012	-	<b>5,359</b>	<b>5,359</b>

### Sportsbet buyout call options

Under the terms of the agreement to purchase the initial 51% of Sportsbet on 1 July 2009, the Company was granted certain options to purchase the equity interests of the non-controlling interest in Sportsbet. These option contracts were designated on initial recognition as at fair value through profit or loss. On 1 March 2011, the Group acquired the remaining 39.2% Sportsbet buyout call options and the value of the call options at that date was transferred to the cost of the acquisition (see Note 17). There was no material movement in the value of the options between 1 January 2011 and 1 March 2011.

## 17. Business combinations and purchase of non-controlling interest

### Year ended 31 December 2012

#### Business combinations in 2012

In 2012, the Group, in the absence of available comparable sites for organic shop openings, acquired two retail licensed bookmaking businesses in Great Britain and one in Ireland, comprising ten shops in total.

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

	Provisional fair values 31 December 2012 €'000
Identifiable net assets acquired:	
Property, plant and equipment	1,070
Goodwill arising on acquisition – UK Retail and Irish Retail	2,729
Consideration	<b>3,799</b>
The consideration is analysed as:	
Cash consideration	3,705
Contingent deferred consideration	94
	<b>3,799</b>
<b>Net cash outflow from purchase of businesses for the purposes of the statement of cash flows</b>	
Purchase of businesses, net of cash acquired	3,705
Acquisition expenses paid	-
	<b>3,705</b>

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 Paddy Power group.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired businesses in the period from

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 17. Business combinations and purchase of non-controlling interest (continued)

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed targets in the year following the date of acquisition. The contingent deferred consideration amount of €92,000 at 31 December 2012 represents management's best estimate of the fair value of the amount that will be payable.

### Contingent deferred consideration

During 2012, the Group also paid contingent deferred consideration of €450,000 for Irish Retail acquisitions, €60,000 for UK Retail acquisitions and €347,000 for the Online (ex Australia) acquisition.

*Year ended 31 December 2011*

### Acquisition of additional 39.2% of Sportsbet Pty Limited

On 1 March 2011, the Company acquired the remaining 39.2% non-controlling shareholdings in Sportsbet following the granting of approval by shareholders at an EGM held on 22 February 2011. The initial AUD132.6m (€98.2m) consideration payable for the acquisition was satisfied by: AUD110.6m (€81.8m) in cash from the Group's existing cash reserves; the assumption and payment of a pre-existing AUD4.0m (€2.9m) obligation of the non-controlling shareholders to certain Sportsbet employees; and the issue of AUD18.0m (€13.4m) of new Paddy Power plc ordinary shares (totalling 455,535 ordinary shares and calculated by reference to a share price of €29.17 per share and the EUR-AUD exchange rate shortly prior to acquisition completion). The non-controlling shareholder loans with a face value of AUD1.4m (€1.0m) were also repaid as part of the transaction.

Additional consideration is payable to the extent that the EBITDA (post Group central cost allocations) of the Group's Australian operations for the year ended 31 December 2013 exceeds AUD65.0m (€51.1m). The maximum additional consideration of AUD25.0m (€19.7m) is payable in the event that 2013 EBITDA exceeds AUD80.0m (€62.9m). An amount of €3.2m was provided in respect of this contingent deferred consideration as of 31 December 2011.

	€'000
Purchase consideration – cash	84,749
Purchase consideration – Paddy Power plc ordinary shares (Note 21)	13,438
Contingent deferred consideration	2,989
Sportsbet buyout call options (Note 16)	6,978
Acquisition expenses	568
<b>Total purchase consideration</b>	<b>108,722</b>
Net assets acquired from non-controlling interest	(7,271)
<b>Decrease in retained earnings</b>	<b>101,451</b>

### Net cash outflow from purchase of non-controlling interest for the purposes of the statement of cash flows

Purchase of non-controlling interest before acquisition expenses	84,743
Acquisition expenses paid	568
	<b>85,311</b>

Included in the cash purchase consideration of €84.7m is an amount of €2.9m that the non-controlling shareholders requested be paid to certain employees of Sportsbet as part of the purchase transaction. This payment related to a long term incentive plan put in place for the benefit of those employees by the non-controlling shareholders at the time of the original acquisition by the Company of 51% of Sportsbet.





## 17. Business combinations and purchase of non-controlling interest (continued)

### Business combinations in 2011

In 2011, the Group, in the absence of available comparable sites for organic shop openings, acquired three retail licensed bookmaking businesses in Great Britain and one in Northern Ireland, comprising five shops in total. The Group also acquired CT Networks Limited ('Cayetano'), a games developer based in the Isle of Man and Bulgaria. Cayetano has developed a range of games for the online and mobile gaming markets.

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

	Book values on acquisition €'000	Fair value adjustments €'000	Fair values 31 December 2011 €'000
Identifiable net assets acquired:			
Property, plant and equipment	653	-	653
Intangible assets – computer software	38	744	782
Intangible assets – licences	436	-	436
Current assets (excluding cash and cash equivalents)	30	-	30
Current liabilities	(43)	-	(43)
Corporation tax payable	(2)	-	(2)
	1,112	744	1,856
Goodwill arising on acquisition – total			14,504
Consideration			16,360
The consideration is analysed as:			
Cash consideration			7,729
Contingent deferred consideration			8,631
			16,360
<b>Net cash outflow from purchase of businesses for the purposes of the statement of cash flows</b>			
Cash consideration before acquisition expenses			7,729
Acquisition expenses paid			-
			7,729

The principal factors contributing to the UK Retail goodwill balance are the well-established nature of the acquired businesses within the locations in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired businesses within the Paddy Power group. The principal factor contributing to the Cayetano goodwill balance is that the acquisition provided a new internal source of games development expertise which allows the Group to expand its existing online and mobile gaming offerings and so grow revenues in the future.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired businesses in respect of the period from acquisition and for the year ended 31 December 2011 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the various acquired businesses' performance against agreed targets and Group performance over the four years from 31 December 2011. The contingent deferred consideration amount of €8.8m at 31 December 2011 represented management's best estimate of the fair value of the amounts that will be payable (discounted as appropriate).

### Contingent deferred consideration

During 2011, the Group also paid €50,000 in respect of contingent deferred consideration for Irish Retail acquisitions.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 17. Business combinations and purchase of non-controlling interest (continued)

### Net cash outflow from purchase of businesses and purchase of non-controlling interest for the purposes of the statement of cash flows

	2012 €'000	2011 €'000
Cash consideration – acquisitions in the year	3,705	92,472
Cash consideration – acquisitions in previous years	857	50
Acquisition expenses paid	-	568
<b>Purchase of businesses and purchase of non-controlling interest</b>	<b>4,562</b>	<b>93,090</b>
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses, net of cash acquired	3,705	7,729
Payment of contingent deferred consideration	857	50
Purchase of non-controlling interest	-	85,311
	<b>4,562</b>	<b>93,090</b>

## 18. Trade and other receivables

### Non-current assets

	31 December 2012 €'000	31 December 2011 €'000
Prepayments and accrued income	4,837	6,735
	<b>4,837</b>	<b>6,735</b>

The amount in non-current prepayments and accrued income represents accrued GST refunds arising from the Australian GST court case as more fully described in Note 6.

### Current assets

	31 December 2012 €'000	31 December 2011 €'000
Trade receivables – credit betting customers	5,975	5,927
Trade receivables – other sports betting counterparties	1,154	1,367
Trade receivables	7,129	7,294
Other receivables	1,453	3,565
Prepayments and accrued income	17,481	20,306
	<b>26,063</b>	<b>31,165</b>

Trade and other receivables are non-interest bearing.

Included in other receivables and prepayments and accrued income at 31 December 2012 are amounts of €nil and €1,955,000, respectively (2011: €1,629,000 and €2,240,000, respectively), relating to costs receivable and accrued GST refunds arising from the Australian GST court case as more fully described in Note 6.

## 19. Derivative financial assets

	31 December 2012 €'000	31 December 2011 €'000
<b>Current</b>		
Foreign exchange forward contracts – cash flow hedges	375	-
	<b>375</b>	<b>-</b>

The notional principal amount of outstanding foreign exchange forward contracts at 31 December 2012 was GBP55.5m (2011: GBPnil). Gains and losses recognised in the cash flow hedge reserve in equity at 31 December 2012 (see Note 21) on foreign exchange forward contracts designated as cash flow hedges under IAS 39, 'Financial Instruments: Recognition and Measurement', will be released to the income statement at various dates during the year ending 31 December 2013.



## 20. Financial assets and cash and cash equivalents

	31 December 2012 €'000	31 December 2011 €'000
<b>Non-current</b>		
Financial assets – restricted cash	5,359	6,409
	<b>5,359</b>	6,409
<b>Current</b>		
Financial assets – restricted cash	32,961	18,149
Financial assets – deposits	42,014	-
Cash and cash equivalents	129,004	111,139
	<b>203,979</b>	129,288
<b>Total</b>	<b>209,338</b>	135,697

Cash and cash equivalents consist of the following for the purposes of the statement of cash flows:

	31 December 2012 €'000	31 December 2011 €'000
Cash	42,488	21,855
Short term bank deposits – with an original maturity of less than three months	86,516	89,284
Cash and cash equivalents in the statement of cash flows	<b>129,004</b>	111,139

The effective interest rate on bank deposits at 31 December 2012 was 1.74% (2011: 2.35%); these deposits have an average original maturity date of 78 days (2011: 42 days). The bank deposits also have an average maturity date of 41 days from 31 December 2012 (2011: 26 days).

The directors believe that all short term bank deposits can be withdrawn without significant penalty.

Financial assets (restricted cash and deposits) and cash and cash equivalents are analysed by currency as follows:

	31 December 2012 €'000	31 December 2011 €'000
Euro	82,643	46,756
GBP	54,461	36,316
AUD	69,453	49,710
USD	2,253	2,915
Other	528	-
	<b>209,338</b>	135,697

### Financial assets

Included in non-current financial assets – restricted cash at 31 December 2012 are amounts totalling €5,359,000 (2011: €6,409,000) which are restricted at that date and beyond 31 December 2013 (2011: beyond 31 December 2012). The balance comprises a bank deposit of €4,000,000 (2011: €4,000,000) relating to the Online (ex Australia) business segment which was restricted at that date as it formed part of a guarantee issued in favour of a gaming regulatory authority to guarantee the payment of player funds, prizes and taxes due by the Group (see Note 32). The remaining balance of €1,359,000 (2011: €2,409,000) relates to bank deposits held by the Online Australia business segment to guarantee certain obligations relating to gambling licences, accommodation held under operating leases and merchant facilities (see Note 32).

Included in current financial assets – restricted cash at 31 December 2012 are bank deposits totalling €32,961,000 (2011: €18,149,000) which were restricted at that date (2011: up to 3 January 2012), as they represented client funds balances securing player funds held by the Group or, in respect of 31 December 2011 balances, also formed part of a guarantee issued in favour of the Isle of Man Gambling Supervision Commission in respect of player funds held by the Group (see Note 32).

Included in current financial assets – deposits are bank deposits totalling €42,014,000 (2011: €nil) which had an initial cost of €42,159,000. The maturity of these investments falls outside the three months' timeframe for classification as cash and cash equivalents under IAS 7, 'Statement of Cash Flows', and, accordingly, the related balance has been separately reported in the consolidated statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 21. Share capital and reserves

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2011: 70,000,000 ordinary shares of €0.10 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.

During the year, 125,827 ordinary shares of €0.10 each (2011: 315,372 ordinary shares of €0.10 each) were issued as a result of the exercise of share options granted to employees of the Group under the terms of the Share Option and Sharesave Schemes, for a total consideration of €2,225,000 (2011: €3,589,000) and giving rise to a share premium of €2,212,000 (2011: €3,557,000). In 2011, as part of the purchase of the remaining 39.2% of Sportsbet on 1 March 2011, 455,535 ordinary shares of €0.10 each, with a total value of €13,438,000 and giving rise to a share premium of €13,393,000, were issued to the vendors of Sportsbet on that date (see Note 17). The total number of ordinary shares issued at 31 December 2012 was 50,850,848 (2011: 50,725,021), those shares having a total nominal value of €5,085,000 (2011: €5,072,000).

The total number of shares held in treasury at 31 December 2012 was 1,734,000 shares (2011: 1,734,000 shares). 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 €34,177,000 as of 31 December 2012 (2011: €34,177,000). The value of treasury shares held by the Company at 31 December 2012 was €5,975,000 (2011: €5,975,000), with the remaining €28,202,000 of shares being held by Paddy Power Isle of Man Limited (2011: €28,202,000).

At 31 December 2012, the Company held a further 1,270,442 (2011: 1,178,069) of its own shares, which were acquired at a total cost of €56,191,000 (2011: €33,397,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan (see Note 23). The Company's distributable reserves at 31 December 2012 are further restricted by this cost amount. In the year ended 31 December 2012, 535,435 shares originally valued at €13,487,000 were transferred from the long term incentive plan trust ('the Trust') to beneficiaries of the Trust consequent to the vesting thereof (2011: 518,925 shares originally valued at €10,116,000). During the year ended 31 December 2012, the Trust purchased 627,808 Paddy Power plc ordinary shares for a total consideration of €36,281,000 (2011: 240,587 Paddy Power plc ordinary shares for a total consideration of €9,623,000) (see Note 23).

The foreign exchange translation reserve at 31 December 2012 had a balance of €14,110,000 (2011: €13,873,000) which arose from the retranslation of the Group's net investment in AUD and GBP functional currency subsidiary companies.

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 €876,000 (2011: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2011: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. An additional €55,000 was transferred to the net wealth tax reserve from retained earnings in the year ended 31 December 2012 and the reserve had a balance of €104,000 at 31 December 2012 (2011: €49,000).

The cash flow hedge reserve of €451,000 at 31 December 2012 comprises 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. During 2012, the Group entered into foreign exchange forward contracts to hedge a portion of GBP exposures expected to arise from GBP denominated income in the second six months of 2012 and the year ended 31 December 2013. The fair value gain of €451,000 at 31 December 2012 (2011: €nil), which is stated after applicable deferred taxation of €64,000 (2011: €nil), arises as the applicable forward contract EUR-GBP rates were stronger than the relevant forward foreign exchange rate ruling at 31 December 2012.

In 2012, an amount of €659,000 (2011: €1,097,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of €294,000 of deferred tax relating to the Group's share-based payments was credited to retained earnings in 2012 (2011: charge of €409,000) – see also Note 24.

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year (measured in accordance with Irish GAAP) of €76.6m (2011: €107.8m), which includes €76.3m (2011: €78.7m) of dividends receivable from subsidiary companies.



## 22. Dividends paid on ordinary shares

	2012 €'000	2011 €'000
Ordinary shares:		
- final paid of 70.0 cent per share (2011: 50.0 cent)	<b>34,355</b>	24,340
- interim paid of 39.0 cent per share (2011: 30.0 cent)	<b>19,122</b>	14,604
	<b>53,477</b>	38,944
Proposed final dividend of 81.0 cent (2011: 70.0 cent) per share (see Note 35)	<b>39,790</b>	34,355

Immediately prior to the acquisition by the Group of the remaining 39.2% of Sportsbet on 1 March 2011 (see Note 17), Sportsbet paid an interim dividend to its shareholders. The non-controlling shareholders' share of this dividend, which has been treated as a deduction from the non-controlling interest balance, was €9,244,000.

## 23. Share schemes

### Summary of equity-settled share-based payments expense

The equity-settled share-based payments expense in the income statement in respect of the Group's share schemes is comprised as follows:

	2012 €'000	2011 €'000
Share Option Scheme	-	(18)
Sharesave Scheme	<b>693</b>	709
Long Term Incentive Plan ('LTIP')	<b>11,769</b>	9,632
	<b>12,462</b>	10,323

All of the above schemes are treated as equity-settled in the financial statements as all can only be settled by the allocation of shares purchased in the market or by the issue of new shares.

### General

The aggregate number of shares which may be utilised under the employee share option schemes and the LTIP in any ten year period may not exceed ten per cent of the Company's issued ordinary share capital. The percentage of share capital which can be utilised under these schemes and the Sharesave Scheme comply with guidelines issued by the Irish Association of Investment Managers in relation to such schemes.

### Summary of options outstanding

The total number of options outstanding at 31 December 2012 was 412,873 (2011: 459,300). These options had exercise prices ranging from €9.45 to €43.63 (2011: €9.43 to €31.11).

#### For the year ended 31 December 2012:

	Options outstanding at 1 January 2012	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2012
Share Option Scheme	<b>97,500</b>	-	-	<b>(50,500)</b>	<b>47,000</b>
Sharesave Scheme	<b>361,800</b>	<b>98,163</b>	<b>(18,763)</b>	<b>(75,327)</b>	<b>365,873</b>
Total	<b>459,300</b>	<b>98,163</b>	<b>(18,763)</b>	<b>(125,827)</b>	<b>412,873</b>

#### For the year ended 31 December 2011:

	Options outstanding at 1 January 2011	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2011
Share Option Scheme	148,300	-	-	(50,800)	97,500
Sharesave Scheme	554,222	97,780	(25,630)	(264,572)	361,800
Total	702,522	97,780	(25,630)	(315,372)	459,300

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 23. Share schemes (continued)

The Group has the following employee share schemes:

### The Paddy Power plc November 2000 Share Option Scheme (the 'Share Option Scheme')

The Share Option Scheme was adopted by shareholders on 21 November 2000 and modified by the shareholders on 22 June 2004. The Share Option Scheme was open to directors, other than non-executive directors, and employees. Options could be granted within a period of ten years from 7 December 2000 at the higher of nominal and current market value. No further options can or have been granted under this scheme since 7 December 2010. Options granted before 7 November 2002 do not fall within the scope of IFRS 2, 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

A total of 1,600,472 options were granted over the life of the scheme. Since November 2000, options over 1,348,606 shares have been exercised and options over 204,866 shares have lapsed. Options over 47,000 shares were outstanding at 31 December 2012 (2011: 97,500), all of which were exercisable at 31 December 2012 (2011: 97,500).

Movements in the share options under this scheme during the year and prior year were as follows:

#### Year ended 31 December 2012

Options outstanding at 1 January 2012	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2012	Earliest exercise date	Exercise price	Market price at date of exercise
<i>Granted after 7 November 2002 *</i>							
12,000	-	-	(8,000)	4,000	October 2009	€14.40	€58.50
85,500	-	-	(42,500)	43,000	September 2010	€24.17	€45.75 – €59.15
<b>97,500</b>	<b>-</b>	<b>-</b>	<b>(50,500)</b>	<b>47,000</b>			

#### Year ended 31 December 2011

Options outstanding at 1 January 2011	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2011	Earliest exercise date	Exercise price	Market price at date of exercise
<i>Granted after 7 November 2002 *</i>							
4,000	-	-	(4,000)	-	June 2007	€9.43	€36.01
27,000	-	-	(15,000)	12,000	October 2009	€14.40	€42.10
117,300	-	-	(31,800)	85,500	September 2010	€24.17	€28.90 – €42.10
<b>148,300</b>	<b>-</b>	<b>-</b>	<b>(50,800)</b>	<b>97,500</b>			

\* Share options lapse ten years after date of grant.

### The Paddy Power plc Sharesave Scheme (the 'Sharesave Scheme')

The Sharesave Scheme was adopted by shareholders on 21 November 2000 and was subsequently approved by the Revenue Commissioners.

All employees (including executive directors) who have not less than 12 months continuous service with the Company or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. Options will normally be granted to all eligible employees in the 42 day period after the announcement of the interim or final results of the Company. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 75 per cent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme is €500.



### 23. Share schemes (continued)

Movements in the share options under this scheme during the year and prior year were as follows:

#### Year ended 31 December 2012

Options outstanding at 1 January 2012	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2012	Earliest exercise date	Exercise price	Market price at date of exercise
<i>Granted after 7 November 2002 *</i>							
2,008	-	-	(2,008)	-	December 2009 & December 2011	€11.29	€51.00 – €51.20
5,385	-	(25)	(4,837)	523	December 2010 & December 2012	€19.26	€58.65
1,753	-	-	(1,594)	159	December 2010 & December 2012	£14.36	€58.65
111,794	-	1,859	(9,295)	104,358	December 2011 & December 2013	€9.45	€43.40 – €47.60
2,813	-	-	(720)	2,093	December 2011 & December 2013	£8.00	€43.40
79,351	-	(369)	(53,734)	25,248	December 2012 & December 2014	€14.90	€58.65 – €61.33
5,111	-	(184)	(2,947)	1,980	December 2012 & December 2014	£14.13	€58.65 – €60.05
48,354	-	(5,056)	(192)	43,106	December 2013 & December 2015	€19.87	€53.29
7,451	-	(2,100)	-	5,351	December 2013 & December 2015	£17.62	-
89,803	-	(9,643)	-	80,160	December 2014 & December 2016	€27.79	-
7,977	-	(3,245)	-	4,732	December 2014 & December 2016	£25.99	-
-	91,340	-	-	91,340	December 2015 & December 2017	€41.36	-
-	6,823	-	-	6,823	December 2015 & December 2017	£35.61	-
<b>361,800</b>	<b>98,163</b>	<b>(18,763)</b>	<b>(75,327)</b>	<b>365,873</b>			

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 23. Share schemes (continued)

Year ended 31 December 2011

Options outstanding at 1 January 2011	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2011	Earliest exercise date	Exercise price	Market price at date of exercise
<i>Granted after 7 November 2002 *</i>							
14,971	-	393	(13,356)	2,008	December 2009 & December 2011	€11.29	€40.05 – €42.10
7,897	-	(941)	(1,571)	5,385	December 2010 & December 2012	€19.26	€29.24 – €35.36
2,325	-	(305)	(267)	1,753	December 2010 & December 2012	£14.36	€29.82
351,200	-	(3,771)	(235,635)	111,794	December 2011 & December 2013	€9.45	€36.00 – €42.10
13,680	-	645	(11,512)	2,813	December 2011 & December 2013	£8.00	€30.35 – €42.10
91,714	-	(10,748)	(1,615)	79,351	December 2012 & December 2014	€14.90	€29.50 – €34.05
5,907	-	(406)	(390)	5,111	December 2012 & December 2014	£14.13	€37.75
58,456	-	(9,876)	(226)	48,354	December 2013 & December 2015	€19.87	€30.85
8,072	-	(621)	-	7,451	December 2013 & December 2015	£17.62	-
-	89,803	-	-	89,803	December 2014 & December 2016	€27.79	-
-	7,977	-	-	7,977	December 2014 & December 2016	£25.99	-
554,222	97,780	(25,630)	(264,572)	361,800			

\* Share options lapse 3.5 and 5.5 years after date of grant.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €1,407,000 (2011: €685,000). The significant inputs into the model were the share price of €55.15 (2011: €37.05) at the grant date, the exercise prices of €41.36 and £35.61 (2011: €27.79 and £25.99), the volatility of expected share price returns of 19% and 30% (2011: 27% and 35%), the option lives disclosed above and annual risk free rates of 0.17% and 0.54% (2011: 0.84% and 1.34%). The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's share price over the last three and five years, respectively.

### Long Term Incentive Plan

On 22 June 2004, the 2004 Long Term Incentive Plan ('LTIP') for senior executives was adopted by the shareholders, under which the Remuneration Committee can make conditional awards of a number of Company shares to each eligible executive. The awards are subject to the rules of the scheme. In accordance with the rules, the awards vest if the growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) is achieved over a minimum vesting period of three years. To the extent the award has not vested on or before the latest vest date, the award will automatically lapse in its entirety immediately following such date. The relevant growth target in relation to the 2010 awards was met and they are expected to vest in March 2013.

Until the vesting of the award in accordance with the rules of the scheme, the award holder will have no rights over or in respect of the shares subject to the award and, on vesting, the award holder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the scheme. The awards are not transferable. Upon the vesting of a share award, as part of the award holders' rights they also receive a small number of additional shares in respect of dividends on those shares between the award and vesting dates, regarded as a de facto part of the original share award.

During the year, awards of 267,500 shares, 32,500 shares, 12,000 shares and 227,750 shares (2011: 213,500 shares, 26,500 shares, 158,000 shares and 40,000 shares) were granted to senior management (including executive directors). The share prices at the dates of award were €45.00, €48.50, €51.56 and €57.00, respectively (2011: €29.31, €34.30, €36.25 and €39.80, respectively). The cost of these awards is being expensed in the Group income statement over the expected vesting periods of the awards. The operating profit for the year ended 31 December 2012 is stated after an LTIP charge of €11,769,000 (2011: €9,632,000). During 2012, no share awards lapsed (2011: 186,903 share awards).





### 23. Share schemes (continued)

During 2012, a total of 535,435 shares (2011: 437,778 shares) in respect of 2009 LTIP awards (2011: 2008 LTIP awards) and related dividends were vested from the Trust to senior management.

#### Managers' Deferred Share Award Scheme

As a means of rewarding strong performance in 2007 and retaining some key members of staff, the Board approved the establishment of the Managers' Deferred Share Award Scheme (the 'Share Award Scheme'). Under the Share Award Scheme, a total of 89,677 ordinary shares were conditionally granted to a small number of key Group employees (not including directors) in December 2007 and March 2008 when the Company's share price was €23.14 and €24.00, respectively. The awards were conditional on the achievement of profitability targets in respect of 2007 and there was no further performance vesting condition under the scheme rules. Employees only became entitled to receive these shares if they remained employed by the Group until March 2011. Until the vesting of the award in accordance with the rules of the scheme, the award holder had no rights over or in respect of the shares subject to the award grant. The awards were not transferable.

There was no activity in relation to this scheme in 2012. During 2011, 81,147 ordinary shares (including 3,418 ordinary shares in respect of dividends) were vested from the Trust to beneficiaries of the scheme. At 31 December 2012, there were no share awards outstanding under the Share Award Scheme (2011: nil).

#### Paddy Power plc Employee Benefit Trust

The Paddy Power plc Employee Benefit Trust (the 'Trust') was established to manage the Long Term Incentive Plan and also managed the Managers' Deferred Share Award Scheme. Purchases of Paddy Power plc ordinary shares from 1 January 2011 to 31 December 2012, and shares vested from the Trust during that period, are shown below:

	Number of Paddy Power plc ordinary shares	Cost of purchase €'000
Shares held by the Trust at 1 January 2011	1,456,407	33,890
Purchased – September 2011	32,000	1,133
Purchased – November 2011	100,000	4,061
Purchased – December 2011	108,587	4,429
Purchased – 2011	240,587	9,623
Vested from the Trust in 2011	(518,925)	(10,116)
Shares held by the Trust at 31 December 2011	1,178,069	33,397
Purchased – May 2012	55,155	2,790
Purchased – September 2012	104,488	5,897
Purchased – October 2012	53,165	3,143
Purchased – November 2012	146,002	8,300
Purchased – December 2012	268,998	16,151
Purchased – 2012	627,808	36,281
Vested from the Trust in 2012	(535,435)	(13,487)
Shares held by the Trust at 31 December 2012	1,270,442	56,191

The results of the Trust are included in the Paddy Power plc Company financial statements. The shares held by the Trust at the reporting date are shown as a deduction from equity in the consolidated statement of financial position in accordance with the Group's accounting policy (see Note 21).

#### Paddy Power 2004 Second Tier Option Scheme

On 22 June 2004, the shareholders approved the establishment of the Paddy Power 2004 Second Tier Option scheme, which allows the Company to grant options to employees, exercisable after a five year performance period, upon the achievement by the Company of exceptional performance levels. To be exercisable, the Company's earnings per share must grow during the five year performance period by at least the percentage increase in the Consumer Price Index plus ten per cent compounded and the Company's earnings per share growth must be in the top quarter in performance terms of a specified peer group.

No options have been granted to date under this scheme to any Group employees.

#### Other

The Group also operates cash-settled share-based bonus schemes for some senior managers (excluding directors) whereby they may earn a level of cash remuneration based on the Company's share price at a future date, subject to the achievement of stretching long term performance targets and continued employment with the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 24. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2012			31 December 2011		
	Assets €'000	Liabilities €'000	Total €'000	Assets €'000	Liabilities €'000	Total €'000
Property, plant and equipment	896	-	896	1,212	-	1,212
Business combinations – licences intangible assets	-	(5,000)	(5,000)	-	(5,309)	(5,309)
Employee benefits	4,746	-	4,746	2,083	-	2,083
Derivative financial assets	-	(64)	(64)	-	-	-
Other	1,156	-	1,156	-	(572)	(572)
Net assets / (liabilities)	6,798	(5,064)	1,734	3,295	(5,881)	(2,586)
Analysed by corporation tax jurisdiction:						
Irish corporation tax	3,653	(64)	3,589	2,640	(46)	2,594
UK corporation tax	173	(4,800)	(4,627)	107	(5,244)	(5,137)
Australian corporation tax	2,972	-	2,972	548	(591)	(43)
Net assets / (liabilities)	6,798	(5,064)	1,734	3,295	(5,881)	(2,586)

The above deferred tax balances are in respect of Irish, UK and Australian corporation tax. Deferred tax assets and liabilities have been offset at 31 December 2012 and 2011 where there is a legally enforceable right to such set-off. The net balances as of 31 December 2012 comprised an Irish corporation tax net deferred tax asset of €3,589,000 (2011: €2,594,000), a UK corporation tax net deferred tax liability of €4,827,000 (2011: €5,137,000) and an Australian corporation tax net deferred tax asset of €2,972,000 (2011: net liability of €43,000). Included in the statement of financial position is a deferred tax asset of €6,561,000 (2011: €2,594,000) representing the Irish and Australia net deferred tax assets (2011: Irish net deferred tax asset) and a deferred tax liability of €4,827,000 (2011: €5,180,000) representing the UK net deferred tax liability (2011: the UK and Australian net deferred tax liabilities).

### Unrecognised deferred tax assets

There were no unrecognised deferred tax assets at 31 December 2012 or 2011.

### Unrecognised deferred tax liabilities

At 31 December 2012, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is €7.3m (2011: €5.2m). This has been calculated based on the temporary differences arising between the group accounting base and tax base of each investment.

### Movement in temporary differences during the year

	Balance at	Recognised	Recognised in	Foreign	Balance at	Recognised	Recognised in	Foreign	Balance at
	1				31				comprehensive
	January	in income	income	translation	December	in income	income	translation	December
	2011	2011	2011	2011	2011	2012	2012	2012	2012
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	1,094	126	-	(8)	1,212	(313)	-	(3)	896
Business combinations – intangible assets	(9,585)	4,575	-	(299)	(5,309)	434	-	(125)	(5,000)
UK tax losses	994	(994)	-	-	-	-	-	-	-
Employee benefits	2,413	52	(409)	27	2,083	2,406	294	(37)	4,746
Derivative financial assets	-	-	-	-	-	-	(64)	-	(64)
Other	1,901	(2,595)	-	122	(572)	1,767	-	(39)	1,156
	(3,183)	1,164	(409)	(158)	(2,586)	4,294	230	(204)	1,734



## 25. Trade and other payables and derivative financial liabilities

### Current liabilities

	31 December 2012 €'000	31 December 2011 €'000
<b>Trade and other payables</b>		
Trade payables	19,789	13,004
Customer balances	56,765	49,430
PAYE and social security	4,921	4,697
Value added tax and goods & services tax	4,670	3,351
Betting duty, data rights and product & racefield fees	4,865	5,328
Employee benefits	30,146	15,734
Contingent deferred consideration – business combinations	2,581	1,023
Accruals and other liabilities	49,730	44,358
	<b>173,467</b>	<b>136,925</b>
<b>Derivative financial liabilities</b>		
Sports betting open positions	11,767	9,715

### Non-current liabilities

	31 December 2012 €'000	31 December 2011 €'000
<b>Trade and other payables</b>		
PAYE and social security	593	426
Employee benefits	13,083	8,472
Contingent deferred consideration – business combinations	9,216	11,449
Accruals and other liabilities	771	-
	<b>23,663</b>	<b>20,347</b>
<b>Derivative financial liabilities</b>		
Sports betting open positions	228	194

### Contingent deferred consideration

The movements in contingent deferred consideration during 2012 and 2011 were as follows:

	31 December 2012 €'000	31 December 2011 €'000
Balance at 1 January	12,472	350
Arising on acquisition (Note 17)	94	11,620
Paid during the year (Note 17)	(857)	(50)
(Credited) / charged to the income statement	(125)	169
Foreign currency translation adjustment	213	383
Balance at 31 December	<b>11,797</b>	<b>12,472</b>

Of the total contingent deferred consideration amount of €11,797,000 (2011: €12,472,000), €2,581,000 (2011: €1,023,000) is due within one year and €9,216,000 (2011: €11,449,000) is due within the following three years (2011: due within the following four years).

### 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. A currency risk may arise where such bets are denominated in a currency other than the euro. This currency risk is not considered significant as any payout on such bets is made in the same currency as that in which the bet was originally staked.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 26. Provisions

### Current liabilities

	31 December 2012 €'000	31 December 2011 €'000
Employee benefits (long service leave)	261	221
Accruals and other liabilities (lease reinstatement and onerous contracts)	199	372
	<b>460</b>	<b>593</b>

### Non-current liabilities

	31 December 2012 €'000	31 December 2011 €'000
Employee benefits (long service leave)	283	183
Accruals and other liabilities (lease reinstatement and onerous contracts)	1,136	1,466
	<b>1,419</b>	<b>1,649</b>

The movements in provisions during 2011 and 2012 were as follows:

### Current liabilities

	Long service leave €'000	Lease reinstatement €'000	Onerous contracts €'000	Total €'000
Balance at 1 January 2011	150	-	128	278
Transfers from non-current liabilities	-	288	60	348
Charged / (credited) to the income statement:				
- Additional provisions recognised	287	-	1	288
- Unused amounts reversed	(225)	-	(16)	(241)
Amounts used during the year	-	-	(89)	(89)
Foreign currency translation adjustment	9	-	-	9
Balance at 31 December 2011	221	288	84	593
Transfers from non-current liabilities	-	111	59	170
Charged / (credited) to the income statement:				
- Additional provisions recognised	41	-	-	41
- Unused amounts reversed	-	-	-	-
Amounts used during the year	-	(288)	(56)	(344)
Foreign currency translation adjustment	(1)	-	1	-
Balance at 31 December 2012	<b>261</b>	<b>111</b>	<b>88</b>	<b>460</b>

### Non-current liabilities

	Long service leave €'000	Lease reinstatement €'000	Onerous contracts €'000	Total €'000
Balance at 1 January 2011	179	776	921	1,876
Transfers to current liabilities	-	(288)	(60)	(348)
Charged / (credited) to the income statement:				
- Additional provisions recognised	50	155	-	205
- Unused amounts reversed	(52)	-	(53)	(105)
Amounts used during the year	-	-	-	-
Foreign currency translation adjustment	6	15	-	21
Balance at 31 December 2011	183	658	808	1,649
Transfers to current liabilities	-	(111)	(59)	(170)
Charged / (credited) to the income statement:				
- Additional provisions recognised	102	43	-	145
- Unused amounts reversed	-	(212)	-	(212)
Amounts used during the year	-	-	-	-
Foreign currency translation adjustment	(2)	5	4	7
Balance at 31 December 2012	<b>283</b>	<b>383</b>	<b>753</b>	<b>1,419</b>



## 26. Provisions (continued)

### Long service leave

This provision represents the amounts provided in respect of the long service leave entitlements of Australian employees under the provisions of relevant Australian state legislation. The long service leave liability is measured as the present value of expected future payments to be made in respect of services rendered up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The timing and amount of long service leave cash outflows are primarily dependent on when staff employed at the balance sheet date avail of their entitlement to leave and their expected salaries at that time. As of 31 December 2012, it was expected that cash outflows would occur primarily within the following five years (2011: within the following three years).

### Lease reinstatement

Included in this category are amounts provided by the Group for the reinstatement of properties held under operating leases to their original condition when the leases were taken out. These costs are generally provided for over the expected term of the relevant leases. The timing and amount of lease reinstatement cash outflows is dependent on the expected dates on which leased premises will be exited and the existence of provisions in the lease contracts requiring reinstatement. The cash outflows are expected to occur at various stages over the next 28 years as longer term leases are not renewed (2011: the bulk of the cash outflows were expected to occur within one year of the balance sheet date, with some cash flows expected to occur over the next 29 years as longer term leases were not renewed).

### Onerous contracts

The onerous contracts provision primarily relates to operating leases where the Group is not occupying properties for which it still has a present and future obligation to make lease payments. The provision represents the future expected net cash outflows under these leases discounted at an interest rate appropriate to the timing of these net cash outflows. Future cash outflows in respect of onerous contracts are dependent on the relevant lease expiry dates and the timing of break provisions in the lease contracts. It is expected that the provisions will unwind over a 13 year period (2011: 14 year period).

## 27. Credit risk

### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

	Carrying amount	
	31 December 2012	31 December 2011
	€'000	€'000
Cash flow hedges	375	-
Restricted cash	38,320	24,558
Deposits	42,014	-
Trade receivables	7,129	7,294
Other receivables	1,453	3,565
Cash and cash equivalents	129,004	111,139
	<b>218,295</b>	<b>146,556</b>

The maximum exposure to credit risk for trade and other receivables by geographic region at 31 December was:

	31 December 2012	31 December 2011
	€'000	€'000
Australia	6,029	9,118
United Kingdom	1,014	381
Ireland	668	927
Other	871	433
	<b>8,582</b>	<b>10,859</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 27. Credit risk (continued)

The maximum exposure to credit risk for trade and other receivables by type of counterparty at 31 December was:

	31 December 2012 €'000	31 December 2011 €'000
Trade receivables – credit betting customers	<b>5,975</b>	5,927
Trade receivables – other sports betting counterparties	<b>1,154</b>	1,367
Other receivables	<b>1,453</b>	3,565
	<b>8,582</b>	10,859

### Significant customers

There were no individual customers at 31 December 2012 or 2011 that represented over ten per cent of trade receivables.

### Impairment losses

The ageing of trade receivables (stated net of impairment provisions) at 31 December was as follows:

	31 December 2012 €'000	31 December 2011 €'000
Not past due	<b>3,887</b>	4,664
Past due 0 days to 30 days	<b>2,351</b>	1,135
Past due 31 days to 120 days	<b>840</b>	1,082
Past due 121 days to 365 days	<b>51</b>	405
More than one year	<b>-</b>	8
	<b>7,129</b>	7,294

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012 €'000	2011 €'000
Balance at 1 January	<b>4,140</b>	2,294
Impairment losses recognised	<b>612</b>	2,359
Impairment losses written off	<b>(416)</b>	(685)
Foreign currency translation adjustment	<b>(1)</b>	172
Balance at 31 December	<b>4,335</b>	4,140



## 28. Liquidity risk

The following are the contractual maturities of financial liabilities as at 31 December:

	Carrying amount €'000	Contractual cash flows €'000	31 December 2012				4 years and over €'000
			6 months or less €'000	6 to 12 months €'000	1 to 2 years €'000	2 to 3 years €'000	
<b>Non-derivative financial liabilities</b>							
Trade and other payables	185,333	185,333	161,904	8,982	11,171	3,276	-
Contingent deferred consideration	11,797	11,900	92	2,513	5,749	3,546	-
	<b>197,130</b>	<b>197,233</b>	<b>161,996</b>	<b>11,495</b>	<b>16,920</b>	<b>6,822</b>	-
<b>Derivative financial liabilities</b>							
Sports betting open positions	11,995	11,995	11,448	319	228	-	-
	<b>209,125</b>	<b>209,228</b>	<b>173,444</b>	<b>11,814</b>	<b>17,148</b>	<b>6,822</b>	-

	Carrying amount €'000	Contractual cash flows €'000	31 December 2011				4 years and over €'000
			6 months or less €'000	6 to 12 months €'000	1 to 2 years €'000	2 to 3 years €'000	
<b>Non-derivative financial liabilities</b>							
Trade and other payables	144,800	144,800	135,811	91	5,819	3,079	-
Contingent deferred consideration	12,472	12,630	510	513	2,455	5,688	3,464
	157,272	157,430	136,321	604	8,274	8,767	3,464
<b>Derivative financial liabilities</b>							
Sports betting open positions	9,909	9,909	9,674	41	194	-	-
	167,181	167,339	145,995	645	8,468	8,767	3,464

The contingent deferred consideration payable represents management's best estimate of the fair value of the amounts that will be payable, discounted as appropriate, and may vary depending on the future performance of the acquired businesses and the Group as a whole.

The following are the contractual maturities of derivative financial assets as at 31 December:

	Carrying amount €'000	Contractual cash flows €'000	31 December 2012				4 years and over €'000
			6 months or less €'000	6 to 12 months €'000	1 to 2 years €'000	2 to 3 years €'000	
<b>Derivative financial assets</b>							
Cash flow hedges:							
- Inflows	375	68,515	62,941	5,574	-	-	-
- Outflows	-	(68,140)	(62,640)	(5,500)	-	-	-
	<b>375</b>	<b>375</b>	<b>301</b>	<b>74</b>	-	-	-
	Carrying amount €'000	Contractual cash flows €'000	31 December 2011				4 years and over €'000
			6 months or less €'000	6 to 12 months €'000	1 to 2 years €'000	2 to 3 years €'000	
<b>Derivative financial assets</b>							
Cash flow hedges:							
- Inflows	-	-	-	-	-	-	-
- Outflows	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

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## 29. Currency risk

### Currency risk exposure

As of 31 December 2012 and 2011, the Group's foreign currency risk exposure, based on the functional currencies of its operations, was as follows:

	31 December 2012					31 December 2011				
	EUR €'000	GBP €'000	AUD €'000	USD €'000	Other €'000	EUR €'000	GBP €'000	AUD €'000	USD €'000	Other €'000
Trade receivables	-	852	-	35	167	-	181	-	40	-
Other receivables	13	163	-	-	-	-	59	3	-	-
Intercompany receivables	-	-	300,351	-	-	-	-	314,418	-	-
Financial assets – current										
restricted cash	-	12,320	-	-	-	-	18,149	-	-	-
Financial assets – deposits	-	12,253	-	-	-	-	-	-	-	-
Cash and cash equivalents	237	30,027	3,346	2,419	728	-	17,880	3,362	3,050	188
Trade payables	(13)	(6,812)	-	(548)	-	-	(6,848)	-	(87)	-
Customer balances	(89)	(21,112)	-	(1,858)	(183)	-	(15,381)	-	(2,699)	(248)
Other payables (excluding										
accruals)	-	(3,931)	-	-	-	-	(1,311)	-	-	-
Intercompany payables	(3,357)	(6,786)	-	-	-	(2,350)	(5,301)	-	-	-
Contingent deferred										
consideration	-	(8,580)	(3,217)	-	-	-	(8,584)	(3,198)	-	-
Gross statement of financial										
position exposure	(3,209)	8,394	300,480	48	712	(2,350)	(1,156)	314,585	304	(60)

At 31 December 2012, the Group had hedged GBP57.3m of its expected 2013 GBP cash flows at an average EUR-GBP rate of 0.8094. A derivative financial asset of €375,000 (2011: €nil) in respect of foreign exchange forward contracts due to mature in 2013 was recorded in the Group's consolidated statement of financial position at 31 December 2012 (see Note 19).

The following are the significant exchange rates that applied during the year:

To 1 Euro:	Average rate		31 December (mid-spot rate)	
	2012	2011	2012	2011
GBP	0.811	0.868	0.816	0.835
AUD	1.241	1.348	1.271	1.272
USD	1.285	1.392	1.319	1.294

### Sensitivity analysis

A ten per cent increase and decrease in the value of the euro against the following currencies at 31 December 2012 and 2011 would have increased / (decreased) profit and equity by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	Profit		Equity	
	10% increase €'000	10% decrease €'000	10% increase €'000	10% decrease €'000
<b>31 December 2012</b>				
GBP	(638)	780	(2,797)	3,419
AUD	(654)	799	(9,932)	12,139
USD	(4)	5	-	-
<b>31 December 2011</b>				
GBP	(343)	419	(2,539)	3,103
AUD	(1,801)	2,201	(7,747)	9,469
USD	(28)	35	-	-





### 30. Interest rate risk

#### Profile

At 31 December 2012 and 31 December 2011, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2012	31 December 2011
	€'000	€'000
<b>Variable rate instruments</b>		
Financial assets – non-current restricted cash	5,359	6,409
Financial assets – current restricted cash	32,961	18,149
Financial assets – deposits	42,014	-
Financial assets – cash	42,488	21,855
Financial assets – short term bank deposits	86,516	89,284
	<b>209,338</b>	<b>135,697</b>

#### Cash flow sensitivity analysis for variable rate instruments

An increase and decrease of 50 basis points ('bps') in interest rates at 31 December 2012 and at 31 December 2011 would have increased / (decreased) profit for a full year and equity by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	Profit		Equity	
	50 bps increase	50 bps decrease	50 bps increase	50 bps decrease
	€'000	€'000	€'000	€'000
<b>31 December 2012</b>				
Variable rate instruments	671	(671)	-	-
	50 bps increase	50 bps decrease	50 bps increase	50 bps decrease
	€'000	€'000	€'000	€'000
<b>31 December 2011</b>				
Variable rate instruments	464	(464)	-	-

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 31. Fair values

### Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities in the statement of financial position:

	31 December 2012		31 December 2011	
	Carrying amount €'000	Fair value €'000	Carrying amount €'000	Fair value €'000
<b>Carried at fair value</b>				
<b>Assets</b>				
Derivative financial assets – forward contract cash flow hedges	375	375	-	-
	<b>375</b>	<b>375</b>	-	-
<b>Liabilities</b>				
Derivative financial liabilities – sports betting open positions	(11,995)	(11,995)	(9,909)	(9,909)
Non-derivative financial liabilities – contingent deferred consideration	(11,797)	(11,797)	(12,472)	(12,472)
	<b>(23,792)</b>	<b>(23,792)</b>	<b>(22,381)</b>	<b>(22,381)</b>
Net	<b>(23,417)</b>	<b>(23,417)</b>	<b>(22,381)</b>	<b>(22,381)</b>

### Carried at amortised cost

#### Assets

Restricted cash – non-current	5,359	5,359	6,409	6,409
Trade receivables	7,129	7,129	7,294	7,294
Other receivables	1,453	1,453	3,565	3,565
Restricted cash – current	32,961	32,961	18,149	18,149
Deposits	42,014	42,014	-	-
Cash and cash equivalents	129,004	129,004	111,139	111,139
	<b>217,920</b>	<b>217,920</b>	<b>146,556</b>	<b>146,556</b>

#### Liabilities

Trade and other payables	(185,333)	(185,333)	(144,800)	(144,800)
	<b>(185,333)</b>	<b>(185,333)</b>	<b>(144,800)</b>	<b>(144,800)</b>
Net	<b>32,587</b>	<b>32,587</b>	<b>1,756</b>	<b>1,756</b>
Total	<b>9,170</b>	<b>9,170</b>	<b>(20,625)</b>	<b>(20,625)</b>

### Fair value hierarchy

Financial instruments at 31 December which are carried at fair value are analysed by valuation method below. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2012			Total €'000
	Level 1 €'000	Level 2 €'000	Level 3 €'000	
Derivative financial assets	-	375	-	375
	-	375	-	375
Derivative financial liabilities	-	-	(11,995)	(11,995)
Non-derivative financial liabilities	-	-	(11,797)	(11,797)
	-	-	(23,792)	(23,792)
Total	-	375	(23,792)	(23,417)

	31 December 2011			Total €'000
	Level 1 €'000	Level 2 €'000	Level 3 €'000	
Derivative financial assets	-	-	-	-
	-	-	-	-
Derivative financial liabilities	-	-	(9,909)	(9,909)
Non-derivative financial liabilities	-	-	(12,472)	(12,472)
	-	-	(22,381)	(22,381)
Total	-	-	(22,381)	(22,381)



### 31. Fair values (continued)

#### **Basis for determining fair values**

The following are the significant methods and assumptions used to estimate the fair values of the financial instruments above:

#### **Trade and other receivables**

The fair value of trade and other receivables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

#### **Financial assets and cash and cash equivalents**

The fair values of restricted cash, deposits and cash and cash equivalents are based on the nominal value of the relevant cash and bank deposit balances, as all are held at variable interest rates.

#### **Derivative financial instruments**

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

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

The fair value of open sports bets at the year end has been calculated using the latest available prices on relevant sporting events. The fair value calculation also includes the impact of any hedging activities in relation to these open positions, which is not significant.

#### **Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

The contingent deferred consideration payable represents management's best estimate of the fair value of the amounts that will be payable, discounted as appropriate using a market interest rate. The fair value was estimated by assigning probabilities, based on management's current expectations, to the potential payout scenarios.

#### **Sensitivity analysis in respect of Level 3 financial instruments carried at fair value**

The following sensitivity analysis has been performed for the Level 3 financial liabilities carried at fair value at 31 December 2012 and 2011:

#### **Sports betting open positions**

The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. Changes in those expectations and ultimately the actual results when the events occur will result in changes in fair value. While it is unlikely that the results of all sporting events would vary against expectation in a similar linear manner, a 10% positive and negative (from the viewpoint of the results of the Group) movement in the overall probability estimate of relevant sporting event outcomes would result in a €900,000 decrease and €818,000 increase, respectively, in the value of open sports bets at 31 December 2012 (2011: decrease and increase of €743,000, respectively).

#### **Contingent deferred consideration**

The fair value of contingent deferred consideration is primarily dependent on the future performance of both the acquired businesses and the Group against predetermined targets and on management's current expectations thereof. An increase and decrease of 10% in management's expectation as to the amounts that will be paid out would increase and decrease the value of contingent deferred consideration at 31 December 2012 by €2,954,000 and €2,963,000, respectively (2011: increase and decrease of €2,898,000 and €2,967,000, respectively).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 31. Fair values (continued)

### Movements in the year in respect of Level 3 financial instruments carried at fair value

The movements in respect of the financial assets and liabilities carried at fair value (excluding contingent deferred consideration – see Note 25) in the year to 31 December are as follows:

	2012 Sports betting open positions €'000	2012 Total €'000	2011 Sportsbet buyout call options €'000	2011 Sports betting open positions €'000	2011 Total €'000
Balance at 1 January	(9,909)	(9,909)	6,978	(8,602)	(1,624)
Recognised in the income statement	(641,730)	(641,730)	-	(482,756)	(482,756)
Acquisition of 39.2% of Sportsbet	-	-	(6,978)	-	(6,978)
Settlements	639,644	639,644	-	481,449	481,449
Balance at 31 December	(11,995)	(11,995)	-	(9,909)	(9,909)

The amounts recognised in the income statement represent the Group's net revenue in respect of sports betting positions and other derivatives that have been included in income in the year (see Note 4). The settlements in the year are the net amounts received and receivable from customers in respect of those sports betting positions. All gains and losses have been recognised in the income statement in 2012 and 2011.

## 32. Commitments and contingencies

### (a) Guarantees

The Group has uncommitted working capital overdraft facilities of €15.5m (2011: €15.3m) with Allied Irish Banks plc. These facilities are secured by a Letter of Guarantee from Paddy Power 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 and merchant facilities. The maximum amount of the guarantees at 31 December 2012 was €5,629,000 (2011: €6,884,000). No claims had been made against the guarantees as of 31 December 2012 (2011: €nil). The guarantees are secured by counter indemnities from Paddy Power plc and certain of its subsidiary companies, and, at 31 December 2012, were also secured by cash deposits totalling €5,359,000 (2011: €6,409,000) over which the guaranteeing banks hold security. The fair value accounting impact of these guarantees is deemed to be immaterial.

The Group has cash amounts totalling €32,961,000 (2011: €8,861,000) deposited in client funds accounts held for the benefit of certain gaming regulatory authorities, of which the Isle of Man Gambling Supervision Commission is the most significant, as security for player funds owed by certain Group companies and as required under the terms of relevant gambling licences. At 31 December 2011, the Group had a bank guarantee in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by certain of the Group's Isle of Man Companies to their customers. The maximum amount of the guarantee at 31 December 2011 was GBP18,000,000 (euro equivalent of €21,549,000). No claims had been made against the guarantee as of 31 December 2011. The guarantee was secured by counter indemnities from Paddy Power plc and certain of its Isle of Man subsidiary companies, and, at 31 December 2011, was secured by a cash deposit of €9,288,000 over which the guaranteeing bank held a floating charge. The fair value accounting impact of this guarantee was deemed to be immaterial. The bank guarantee was released during 2012 and the Group now provides security for such player funds solely by means of cash deposited in client funds accounts.

The Australian corporate sports bookmaking licences issued to Sportsbet and IAS require those companies to hold sufficient cash funds to cover monies owed to customers. At 31 December 2012, the total value of relevant customer balances attributable to the Online Australia business segment was €25,546,000 (AUD32,474,000) (2011: €24,790,000 (AUD31,541,000)) and the combined cash and cash equivalent balances held by Sportsbet and IAS at that date totalled €64,747,000 (AUD82,307,000) (2011: €43,939,000 (AUD55,904,000)).

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.



### 32. Commitments and contingencies (continued)

#### (b) Capital commitments

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

	31 December 2012 €'000	31 December 2011 €'000
Property, plant and equipment	3,342	1,213
Intangible assets	2,625	866
	<b>5,967</b>	<b>2,079</b>

#### (c) 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 eight years left to run (if the company was to exercise available break options), with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December 2012 and 2011, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2012 €'000	31 December 2011 €'000
Within one year	23,376	20,690
Between two and five years	82,371	71,495
After five years	97,804	93,928
	<b>203,551</b>	<b>186,113</b>

The Group has a small number of shop properties that are sublet. Sublease payments of €364,000 (2011: €254,000) are expected to be received during the year ended 31 December 2013.

During 2012, an amount of €23,438,000 was recognised in profit or loss in respect of operating leases (2011: €19,731,000). Contingent rent expense in profit or loss amounted to a credit of €247,000 (2011: credit of €54,000). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to €438,000 in 2012 (2011: €351,000).

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.

### 33. Related parties

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

There were no other related party transactions save those disclosed in Note 8.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 34. Group entities

The Company had the following subsidiary undertakings carrying on businesses which principally affect the profits and assets of the Group at 31 December 2012:

Name	Equity interest at 31 December 2012	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited	100%	England	Bookmaker	5th Floor, Crowne House, 56-58 Southwark Street, London, SE1 1UN.
Paddy Power Isle of Man Limited	100%	Isle of Man	Bookmaker	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.
Paddy Power Entertainment Limited	100%	Isle of Man	Marketing services	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.
D McGranaghan Limited	100%	Northern Ireland	Bookmaker	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU.
Sportsbet Pty Limited	100%	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820.
International All Sports Limited	100%	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820.
CT Networks Limited	100%	Isle of Man	Games developer	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.
Paddy Power Financials Limited	100%	Ireland	Marketing services	Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4.
Paddy Power Luxembourg s.à.r.l.	100%	Luxembourg	Treasury services	16 Avenue Pasteur, L-2310, Luxembourg.
Paddy Power Australia Pty Limited	100%	Australia	Holding company	Level 3, 367 Collins Street, Melbourne, Victoria 3000.
Paddy Power Holdings Limited	100%	Isle of Man	Holding company	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.

The above subsidiary undertakings had the same year end date as the Company in 2012 and 2011. All subsidiary undertakings have been included in the Group consolidated financial statements.

In addition to the above subsidiary undertakings, the Group utilises an employee trust, Paddy Power plc Employee Benefit Trust, with a registered address at PO Box 76, Wests Centre, St Helier, Jersey, JE4 8PQ, and which holds the shares under the share award schemes.

## 35. Events after the reporting date

### Dividend

In respect of the current year, the directors propose that a final dividend of 81.0 cent per share (2011: 70.0 cent per share) will be paid to shareholders on 24 May 2013. 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 15 March 2013. The total estimated dividend to be paid amounts to €39,790,000 (2011: €34,355,000).



### 36. Accounting estimates and judgements

#### Key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies

Goodwill of €96,582,000 (2011: €93,607,000) continues to be carried in the Group consolidated statement of financial position as the directors believe that there has been no impairment in the fair value of the net identifiable assets of the acquired businesses. In 2012, retail shop acquisitions in Ireland and the UK contributed additional goodwill of €125,000 and €2,604,000 to the Irish Retail and UK Retail operating segments, respectively. The acquisition of CT Networks Limited in November 2011 contributed goodwill of €13,303,000 (2011: €13,303,000) to the Online (ex Australia) operating segment. Retail shop acquisitions in Great Britain and Northern Ireland in 2011 contributed goodwill of €1,213,000 (2011: €1,201,000) and licences of €447,000 (2011: €436,000) to the UK Retail operating segment. During the year ended 31 December 2009, the acquisition by the Group of 51% of Sportsbet and Sportsbet's subsequent acquisition of IAS contributed goodwill of €60,723,000 (2011: €60,671,000) and brand intangible assets of €18,565,000 (2011: €18,549,000). Other acquisitions and amalgamations in 2010 and prior years contributed goodwill of €18,614,000 (2011: €18,432,000), including €5,000,000 (2011: €5,309,000) of deferred tax on the value of licences intangible assets recognised on the application of fair value accounting to the acquisitions, and €21,737,000 (2011: €21,238,000) of licence intangible assets. The directors believe that, with the exception of the IAS brand intangible of €5,428,000 (2011: €5,423,000), this goodwill and the brand and licence intangible assets have not been impaired as of 31 December 2012. The key assumptions made in respect of goodwill and indefinite life intangible assets are set out in Note 15.

The share-based payment reserve, which includes amounts in relation to the LTIP and various share option schemes, amounted to €22,792,000 at 31 December 2012 (2011: €21,918,000). The significant assumptions made in accounting for share-based payments are set out in Note 23.

The fair value of the Group's sports betting open positions amounted to €11,995,000 at 31 December 2012 (2011: €9,909,000) and the Group considers such arrangements to be derivatives. The Group performs a revaluation of sports betting open positions at each reporting date. The revaluation takes into account the expected probability of such open positions resulting in a gain or loss to the Group in the future, and is dependent on factors that cannot always be reliably predicted.

The majority of the Group's retail premises are held under operating leases. Under accounting standards there is a requirement for management to examine the buildings element within such operating leases to determine if the lease meets the definition of a finance lease and, if so, it should be accounted for as such. This review involves determining the fair value of each property at the inception of the lease and analysing the minimum lease payments between their 'land' and 'buildings' elements. Based on management's review of operating leases for the years ended 31 December 2012 and 2011, all retail premises leases qualify as operating leases.

Included in trade receivables of €7,129,000 at 31 December 2012 (2011: €7,294,000) are gross receivable balances of €11,464,000 (2011: €11,434,000), stated net of an impairment provision for bad and doubtful accounts of €4,335,000 (2011: €4,140,000). Management believes that the impairment provision represents their best estimate of the value of receivable balances at 31 December 2012 that may not be recoverable from customers, and that the carrying value of trade receivables is their fair value.

Included in trade and other payables at 31 December 2012 are contingent deferred consideration amounts of €11,797,000 (2011: €12,472,000) relating to certain business combinations and the purchase of non-controlling interest. Contingent deferred consideration is payable to vendors by reference to the acquired businesses' performance against various agreed targets over the next three years. The contingent deferred consideration amount of €11,797,000 at 31 December 2012 represents management's best estimate of the fair value of the amounts that will be payable (discounted as appropriate).

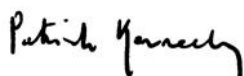
# COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2012

	Note	31 December 2012 €'000	31 December 2011 €'000
<b>Fixed assets</b>			
Intangible assets	3	119	135
Goodwill	4	5,800	6,162
Tangible assets	6	34,312	35,461
Financial assets	7	42,653	36,919
		<b>82,884</b>	<b>78,677</b>
<b>Current assets</b>			
Trade and other receivables	8	602,951	501,425
Derivative financial assets	9	375	-
Cash at bank and on hand	10	50,349	43,998
		<b>653,675</b>	<b>545,423</b>
<b>Creditors</b> (amounts falling due within one year)	11	<b>(328,907)</b>	<b>(219,231)</b>
<b>Net current assets</b>		<b>324,768</b>	<b>326,192</b>
<b>Total assets less current liabilities</b>		<b>407,652</b>	<b>404,869</b>
<b>Creditors</b> (amounts falling due after more than one year)	12	<b>(4,959)</b>	<b>(4,029)</b>
<b>Provision for liabilities</b>	13	-	-
<b>Net assets</b>		<b>402,693</b>	<b>400,840</b>
<b>Capital and reserves</b>			
Issued share capital	14	5,085	5,072
Share premium	14	40,038	37,826
Capital redemption reserve fund	14	876	876
Capital conversion reserve fund	14	260	260
Treasury shares	14	(5,975)	(5,975)
Shares held by long term incentive plan trust	14	(56,191)	(33,397)
Share-based payment reserve	14	22,792	21,918
Profit and loss account	14	395,808	374,260
<b>Shareholders' funds – all equity interests</b>	14	<b>402,693</b>	<b>400,840</b>

Notes 1 to 19 on pages 119 to 129 form an integral part of these financial statements.

On behalf of the Board



Patrick Kennedy



Cormac McCarthy

4 March 2013





# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1. Basis of preparation and accounting policies

The financial statements have been prepared in euro in accordance with generally accepted accounting principles under the historical cost convention and comply with the financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland. The accounting policies have been applied consistently throughout the year and the preceding year.

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €76.6m (2011: €107.8m), which includes dividends receivable from subsidiary companies amounting to €76.3m (2011: €78.7m).

### Financial assets

Interests in subsidiary undertakings are stated in the Company balance sheet as financial fixed assets, at cost less, where necessary, provisions for impairment.

Included within financial fixed assets are capital contributions representing share-based payment awards made to employees of certain of the Company's subsidiaries.

### Tangible assets and depreciation

Tangible assets are stated at historical cost less accumulated depreciation. Depreciation is calculated so as to write off the cost less estimated residual value of tangible assets on a straight line basis over their estimated useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	Unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 7 years
Computer equipment	3 years
Computer software	3 – 5 years
Motor vehicles	5 years

The residual value, if not insignificant, is reassessed annually.

### Goodwill

Goodwill arising on the acquisition of a subsidiary or business, representing the excess of cost over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised by equal annual instalments against profit over its expected useful life, currently 20 years. Provision is made for any impairment in the value of goodwill held.

### Intangible assets

Intangible assets, principally comprising licences, are capitalised at cost and amortised over their estimated useful economic lives on a straight line basis.

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business and licences for electronic point of sale ('EPOS') system software.

The estimated useful economic lives of intangible assets, according to which amortisation is calculated, are as follows:

Licences – shop licences and EPOS software licences	5 years
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### Leases

Assets held under finance leases are included in the balance sheet at their capital value and are depreciated over the term of the lease. The corresponding liabilities are recorded as a creditor and the interest element of the finance lease rentals is charged to the profit and loss account over the term of the lease to produce a constant rate of charge on the balance of capital repayment outstanding. Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 1. Basis of preparation and accounting policies (continued)

### Pensions

The Company operates a number of defined contribution pension schemes for certain employees and executive directors. Contributions are charged to the profit and loss account as incurred.

### Foreign currency

Transactions denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date. The resulting profits and losses are dealt with in the profit and loss account.

### Financial instruments

Under the provisions of FRS 26, 'Financial Instruments: Recognition and Measurement', the Company has measured financial instruments which are used to hedge the foreign currency cash flows of subsidiary companies at fair value with changes in the fair value recognised in the profit and loss account.

### Taxation

Current tax, including Irish corporation tax and foreign tax, is provided on the Company's taxable profits at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

### Cash flow statement

Under the provisions of FRS 1, 'Cash Flow Statements', a cash flow statement has not been prepared as the Company itself publishes consolidated financial statements that include a cash flow statement in the required format.

### Related party transactions

Under the exemption granted by FRS 8, 'Related Party Disclosures', the Company, as a member of a group which publishes consolidated financial statements in which the Company is included, is not required to and does not disclose transactions with fellow members, associated undertakings and joint ventures of that group.

### Financial assets and liabilities

The company is exempt from the disclosure requirements of FRS 29, 'Financial Instruments: Disclosures', in its single entity financial statements.

### Share-based payments

The Company operates or has operated certain equity-settled long term incentive plans (being the Long Term Incentive Plan and the Managers' Deferred Share Award Scheme, collectively referred to as the 'share award schemes') for selected senior Group executives and other key Group management under which they are conditionally awarded shares which vest upon the achievement of predetermined earnings targets. The fair value is measured at the award grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

The Company operates equity-settled share option schemes for employees under which Group employees acquire options over Company shares. The fair value of share options granted is recognised as an employee benefit cost / increase in investment in subsidiary with a corresponding increase in the share-based payment reserve. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense / increase in investment in subsidiary is adjusted to reflect the actual number of share options that vest.



## 1. Basis of preparation and accounting policies (continued)

The Company operates an equity-settled share save scheme for employees under which Group employees acquire options over Company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as an employee benefit cost / increase in investment in subsidiary with a corresponding increase in the share-based payment reserve. The fair value is measured at grant date and spread over the period of the savings contract. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense / increase in investment in subsidiary is adjusted to reflect the actual number of share options that vest.

### Own shares held

Purchases of the Company's shares by the long term incentive plan trust, which have been conditionally awarded to Group executives under the terms of the share award schemes, and purchases of the Company's own shares which are held as treasury shares are shown separately as deductions from equity in the balance sheet. Transaction costs relating to the purchase by the Company of its own shares are written off directly to retained earnings.

Where the Company purchases its own shares and subsequently cancels those shares, the cost of the shares cancelled is written off directly to retained earnings. The nominal value of the shares cancelled is transferred from share capital to the capital redemption reserve fund.

### Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in Note 35 to the consolidated financial statements.

## 2. Employee expenses and numbers

	2012 €'000	2011 €'000
Wages and salaries	<b>28,693</b>	25,668
Social security costs	<b>2,551</b>	1,484
Defined contribution pension and life assurance costs	<b>472</b>	455
Share-based payments (see below)	<b>3,604</b>	3,455
Other staff costs	<b>1,251</b>	1,349
	<b>36,571</b>	32,411
	<b>2012</b>	2011
The average number of persons employed by the Company (including executive directors), all of whom were involved in the provision of betting services, during the year was	<b>964</b>	921

Details of transactions with directors are set out in Note 8 to the consolidated financial statements.

### Summary of share-based payments expense

The share-based payments expense in the profit and loss account in respect of the Company's share schemes is comprised as follows:

	2012 €'000	2011 €'000
Sharesave Scheme	<b>284</b>	250
Long Term Incentive Plan	<b>3,320</b>	3,205
	<b>3,604</b>	3,455

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 2. Employee expenses and numbers (continued)

### Summary of options outstanding to employees of the Company

The total number of options outstanding at 31 December 2012 was 133,792 (2011: 149,635). These options had exercise prices ranging from €9.45 to €41.36 (2011: €9.43 to €24.17).

#### For the year ended 31 December 2012:

	Options outstanding at 1 January 2012	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2012
Share Option Scheme	4,000	-	-	(4,000)	-
Sharesave Scheme	145,635	27,757	(3,577)	(36,023)	133,792
<b>Total</b>	<b>149,635</b>	<b>27,757</b>	<b>(3,577)</b>	<b>(40,023)</b>	<b>133,792</b>

#### For the year ended 31 December 2011:

	Options outstanding at 1 January 2011	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2011
Share Option Scheme	4,000	-	-	-	4,000
Sharesave Scheme	256,179	39,987	(14,202)	(136,329)	145,635
<b>Total</b>	<b>260,179</b>	<b>39,987</b>	<b>(14,202)</b>	<b>(136,329)</b>	<b>149,635</b>

Further details of the Company's employee share schemes are set out in Note 23 to the consolidated financial statements.

## 3. Intangible assets

The movements during the year in respect of intangible assets, which comprise licences, were as follows:

	Licences €'000
<b>Cost</b>	
Balance at 1 January 2012	1,509
Additions	25
Disposals	-
<b>Balance at 31 December 2012</b>	<b>1,534</b>
<b>Amortisation</b>	
Balance at 1 January 2012	1,374
Amortisation for year	41
Disposals	-
<b>Balance at 31 December 2012</b>	<b>1,415</b>
<b>Net book value</b>	
At 31 December 2011	135
<b>At 31 December 2012</b>	<b>119</b>



#### 4. Goodwill

	€'000
<b>Cost</b>	
Balance at 1 January 2012	9,724
Additions (Note 5)	125
Balance at 31 December 2012	<b>9,849</b>
<b>Amortisation</b>	
Balance at 1 January 2012	3,562
Amortisation for year	487
Balance at 31 December 2012	<b>4,049</b>
<b>Net book value</b>	
At 31 December 2011	6,162
At 31 December 2012	<b>5,800</b>

The goodwill balance as of 1 January 2012 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, the acquisition of eight licensed bookmaking shops (through three separate acquisitions) in Ireland in 2007, the acquisition of one licensed bookmaking shop in 2009 and two licensed bookmaking shops in 2010.

Additional goodwill in 2012 arose on the acquisition of one licenced bookmaking business in Ireland.

#### 5. Purchases and transfers of businesses

##### *Year ended 31 December 2012*

##### **Business Combinations**

In 2012, the Company, in the absence of available comparable sites for organic shop openings, acquired one retail licensed bookmaking business in Ireland. Goodwill arising on the acquisition amounted to €125,000. The principal factors contributing to the Irish Retail goodwill balance are the well-established nature of the acquired business within the location in which it operates and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired business within the Paddy Power group.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired business in respect of the period from acquisition and for the year ended 31 December 2012 has not been presented on the basis of immateriality.

##### **Transfer of the Company's interests in certain wholly-owned subsidiaries to Paddy Power Holdings Limited**

In 2012, as a result of an internal restructuring of certain of the Paddy Power plc group's non-Irish operations, the Company transferred its interests in a number of its wholly-owned subsidiaries to another wholly-owned subsidiary, Paddy Power Holdings Limited. The transfers were made at cost (see Note 7). The Company also transferred its interests in the redeemable preference share capital of Paddy Power Australia Pty Limited to Paddy Power Holdings Limited at cost (see Note 8).

##### *Year ended 31 December 2011*

##### **Acquisition of additional 39.2% of Sportsbet Pty Limited**

On 1 March 2011, the Company acquired the remaining 39.2% non-controlling shareholdings in Sportsbet following the granting of approval by shareholders at an EGM held on 22 February 2011. The initial AUD128.6m (€95.0m) consideration payable for the acquisition was satisfied by: AUD110.6m (€81.6m) in cash from the Company's existing cash reserves and the issue of AUD18.0m (€13.4m) of new Paddy Power plc ordinary shares (totalling 455,535 ordinary shares and calculated by reference to a share price of €29.17 per share and the EUR-AUD exchange rate shortly prior to acquisition completion).

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 5. Purchases and transfers of businesses (continued)

Additional consideration is payable to the extent that the EBITDA (post Group central cost allocations) of Paddy Power's Australian operations for the year ended 31 December 2013 exceeds AUD65.0m (€51.1m). The maximum additional consideration of AUD25.0m (€19.7m) is payable in the event that 2013 EBITDA exceeds AUD80.0m (€62.9m). An amount of €3.2m was provided in respect of this contingent deferred consideration as of 31 December 2011 (see Note 12).

	€'000
Purchase consideration – cash	81,579
Purchase consideration – Paddy Power plc ordinary shares	13,438
Contingent deferred consideration	2,989
Sportsbet buyout call options	6,978
Acquisition expenses paid	561
<b>Total purchase consideration</b>	<b>105,545</b>
<b>Net cash outflow from purchase of non-controlling interest</b>	
Purchase of non-controlling interest before acquisition expenses	81,579
Acquisition expenses paid	561
	<b>82,140</b>

### Transfer of shareholding in Sportsbet to Paddy Power Australia

On 3 May 2011, following the acquisition by the Group of the remaining share capital of Sportsbet that it did not already own, the Company transferred its 100% ownership of Sportsbet to Paddy Power Australia Pty Limited ('Paddy Power Australia'), a wholly-owned Australian subsidiary of Paddy Power plc. The reorganisation was effected to make Paddy Power Australia the holding company for the Group's Australian interests. The consideration for the transaction was €268.2m (AUD363.5m) and reflected the market value of the Sportsbet business at the date of the transaction. The consideration was satisfied by the issue by Paddy Power Australia to the Company of €122.5m (AUD166.0m) of redeemable preference shares of AUD1 each and an interest-free intercompany loan between the Company and Paddy Power Australia of €145.7m (AUD197.5m). The impact on the 2011 Company financial statements of the transaction was as follows:

	€'000
Transfer consideration – redeemable preference shares	122,482
Transfer consideration – interest-free intercompany loan	145,712
<b>Total transfer consideration</b>	<b>268,194</b>
Less: carrying value of investment in Sportsbet at date of transaction	146,796
<b>Gain on transfer – transferred directly to retained profits</b>	<b>121,398</b>

## 6. Tangible assets

	Land, buildings & leasehold improvements €'000	Fixtures, fittings & equipment €'000	Computer equipment €'000	Computer software €'000	Motor vehicles €'000	Total €'000
<b>Cost</b>						
Balance at 1 January 2012	37,208	55,545	5,478	3,107	81	101,419
Additions (including business combinations)	<b>18</b>	<b>3,670</b>	<b>537</b>	<b>347</b>	<b>118</b>	<b>4,690</b>
Disposals	-	(192)	-	-	(81)	(273)
<b>Balance at 31 December 2012</b>	<b>37,226</b>	<b>59,023</b>	<b>6,015</b>	<b>3,454</b>	<b>118</b>	<b>105,836</b>
<b>Depreciation</b>						
Balance at 1 January 2012	17,062	42,356	4,009	2,450	81	65,958
Charge for year	<b>1,164</b>	<b>3,839</b>	<b>644</b>	<b>180</b>	<b>10</b>	<b>5,837</b>
Disposals	-	(190)	-	-	(81)	(271)
<b>Balance at 31 December 2012</b>	<b>18,226</b>	<b>46,005</b>	<b>4,653</b>	<b>2,630</b>	<b>10</b>	<b>71,524</b>
<b>Net book value</b>						
At 31 December 2011	20,146	13,189	1,469	657	-	35,461
<b>At 31 December 2012</b>	<b>19,000</b>	<b>13,018</b>	<b>1,362</b>	<b>824</b>	<b>108</b>	<b>34,312</b>

The net book value of land, buildings and leasehold improvements at 31 December 2012 includes €15.2m (2011: €16.2m) in respect of leasehold improvements.

The directors do not consider the remaining useful lives of tangible fixed assets to be materially different from the period over which



## 7. Financial assets

	Unlisted investments in subsidiary companies €'000	Capital contributions €'000	Total €'000
Balance at 1 January 2012	3,302	33,617	36,919
Share-based payments	-	<b>8,723</b>	<b>8,723</b>
Transfer of certain subsidiaries to Paddy Power Holdings Limited (Note 5)	<b>(2,989)</b>	-	<b>(2,989)</b>
Balance at 31 December 2012	<b>313</b>	<b>42,340</b>	<b>42,653</b>

As described in Note 5 above, the Company transferred its interests in a number of its wholly-owned subsidiaries to another wholly-owned subsidiary, Paddy Power Holdings Limited. The transfers were made at cost.

In the opinion of the directors, the value to the Company of the unlisted investments in subsidiary companies at 31 December 2012 is not less than the carrying amount of €313,000 (2011: €3,302,000). The Company's principal subsidiaries are listed in Note 34 to the consolidated financial statements.

Capital contributions represent amounts included in the Company's share-based payment reserve relating to share-based payment awards made to employees of certain of the Company's subsidiary undertakings.

## 8. Trade and other receivables

	31 December 2012 €'000	31 December 2011 €'000
Other debtors and prepayments	<b>3,516</b>	7,676
Amounts owed by fellow Group companies	<b>443,022</b>	199,501
Redeemable preference share capital in Paddy Power Australia (Note 5)	-	130,472
Accrued dividends on redeemable preference share capital in Paddy Power Australia	-	6,248
Loan receivable from Paddy Power Australia	<b>155,352</b>	155,218
Loan receivable from Sportsbet	-	1,717
Corporation tax receivable	<b>687</b>	-
Deferred tax (Note 13)	<b>374</b>	593
	<b>602,951</b>	501,425

All of the above debtors, with the exception of the loan receivable from Paddy Power Australia, fall due within one year. Amounts owed by fellow Group companies are unsecured, interest free and repayable on demand.

## 9. Derivative financial assets

	31 December 2012 €'000	31 December 2011 €'000
<b>Current</b>		
Forward contracts – cash flow hedges	<b>375</b>	-
	<b>375</b>	-

Gains and losses at 31 December 2012 on foreign exchange forward contracts designated as financial instruments under FRS 26, 'Financial Instruments: Recognition and Measurement', have been recognised in the profit and loss account.

## 10. Cash at bank and on hand

No cash balances were restricted at 31 December 2012. Included in cash at bank and on hand at 31 December 2011 was an amount of €9,288,000 which was restricted at that date and up to 3 January 2012 as it formed part of a guarantee issued in favour of the Isle of Man Gambling Supervision Commission in respect of player funds held by certain Isle of Man subsidiaries of the Company (see Note 17).

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 11. Creditors (amounts falling due within one year)

	31 December 2012 €'000	31 December 2011 €'000
Trade creditors	2,986	2,623
Accruals	9,834	11,755
Corporation tax	-	250
PAYE and social welfare	1,040	1,247
Betting duty	2,218	2,232
Sports betting open positions	1,399	1,020
Value added tax	563	1,260
Contingent deferred consideration for business combinations	-	450
Amounts owed to fellow Group companies	310,867	198,394
	<b>328,907</b>	219,231

Amounts owed to fellow Group companies are unsecured, interest free and repayable on demand.

## 12. Creditors (amounts falling due after more than one year)

	31 December 2012 €'000	31 December 2011 €'000
Accruals	1,742	831
Contingent deferred consideration for business combinations	3,217	3,198
	<b>4,959</b>	4,029

## 13. Provision for liabilities

### Deferred tax

	2012 €'000	2011 €'000
<b>Cost</b>		
Balance at 1 January	(593)	(471)
Charged / (credited) to the profit and loss account for year	230	(88)
Credited to retained earnings in respect of share-based payments	(11)	(34)
Balance at 31 December	<b>(374)</b>	(593)

Deferred tax at 31 December 2012 and 2011 is analysed by category as follows:

	31 December 2012 €'000	31 December 2011 €'000
Capital allowances	117	42
Employee benefits	(4)	(4)
Share schemes	(557)	(612)
Capitalised rents	13	13
Other	57	(32)
Deferred tax asset	<b>(374)</b>	(593)

All of the above deferred tax balances are in respect of Irish corporation tax.





## 14. Capital and reserves

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Capital redemption reserve fund €'000	Capital conversion reserve fund €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share- based payment reserve €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2012	50,725,021	5,072	37,826	876	260	(5,975)	(33,397)	21,918	374,260	400,840
Shares issued on exercise of share options	<b>125,827</b>	<b>13</b>	<b>2,212</b>	-	-	-	-	-	-	<b>2,225</b>
<i>Own shares acquired:</i>										
By the long term incentive plan trust – 627,808 ordinary shares	-	-	-	-	-	-	<b>(36,281)</b>	-	-	<b>(36,281)</b>
Profit for the year	-	-	-	-	-	-	-	-	<b>76,553</b>	<b>76,553</b>
Equity-settled transactions – profit and loss account and financial assets	-	-	-	-	-	-	-	<b>12,462</b>	<b>11</b>	<b>12,473</b>
Equity-settled transactions – vestings	-	-	-	-	-	-	<b>13,487</b>	<b>(10,929)</b>	<b>(2,198)</b>	<b>360</b>
Transfer to profit and loss account on exercise of share options	-	-	-	-	-	-	-	<b>(659)</b>	<b>659</b>	-
Dividends to shareholders (Note 15)	-	-	-	-	-	-	-	-	<b>(53,477)</b>	<b>(53,477)</b>
<b>Balance at 31 December 2012</b>	<b>50,850,848</b>	<b>5,085</b>	<b>40,038</b>	<b>876</b>	<b>260</b>	<b>(5,975)</b>	<b>(56,191)</b>	<b>22,792</b>	<b>395,808</b>	<b>402,693</b>

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2011: 70,000,000 ordinary shares of €0.10 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.

During 2012, 125,827 ordinary shares of €0.10 each (2011: 315,372 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for a total consideration of €2,225,000 (2011: €3,589,000), giving rise to a share premium of €2,212,000 (2011: €3,557,000).

The total number of shares held in treasury at 31 December 2012 was 250,000 shares (2011: 250,000 shares). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Company's distributable reserves are restricted by the value of the treasury shares, which amounted to €5,975,000 as of 31 December 2012 (2011: €5,975,000).

At 31 December 2012, the Company held a further 1,270,442 of its own shares (2011: 1,178,069), which were acquired at a total cost of €56,191,000 (2011: €33,397,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan (see Note 23 to the consolidated financial statements). The Company's distributable reserves at 31 December 2012 are further restricted by this cost amount. In the year ended 31 December 2012, 535,435 shares originally valued at €13,487,000 were transferred from the long term incentive plan trust ('the Trust') to beneficiaries of the Trust consequent to the vesting thereof (2011: 518,925 shares originally valued at €10,116,000).

The capital redemption reserve fund of €876,000 (2011: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2011: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In 2012, an amount of €659,000 (2011: €1,097,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to the profit and loss account. An amount of €11,000 of deferred tax relating to the Company's share-based payments was credited to retained earnings in 2012 (2011: €34,000) – see also Note 13.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 15. Dividends paid on equity shares

	2012 €'000	2011 €'000
Ordinary shares:		
- final paid of 70.0 cent per share (2011: 50.0 cent)	<b>34,355</b>	24,340
- interim paid of 39.0 cent per share (2011: 30.0 cent)	<b>19,122</b>	14,604
	<b>53,477</b>	38,944
Proposed final dividend of 81.0 cent (2011: 70.0 cent) per share (see Note 35 to the consolidated financial statements)	<b>39,790</b>	34,355

## 16. Pension arrangements

The Company operates defined contribution pension schemes for certain employees and executive directors. The assets of the schemes are held separately from those of the Company in independently administered funds.

Pension costs for the year were €382,000 (2011: €392,000) and the amount due to the schemes at 31 December 2012 amounted to €37,000 (2011: €24,000).

## 17. Commitments and contingencies

### (a) Guarantees

The Company has uncommitted working capital overdraft facilities of €7.9m (2011: €5.4m) with Allied Irish Banks plc. These facilities are unsecured.

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. The Company has issued a letter of guarantee totalling €7.6m (2011: €9.9m) in favour of Allied Irish Banks plc in respect of working capital overdraft facilities provided to certain of the Company's subsidiaries.

At 31 December 2011, a bank guarantee was in place in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by certain of the Company's Isle of Man subsidiaries to their customers. This guarantee was required as part of the Group's Online Gambling Licence. The maximum amount of the guarantee at 31 December 2011 was GBP18,000,000 (euro equivalent of €21,549,000). No claims had been made against the guarantee as of 31 December 2011. The guarantee was secured by counter indemnities from the Company and certain of its Isle of Man subsidiaries, and was partly secured by a cash deposit of €9,288,000 over which the guaranteeing bank held a floating charge. The bank guarantee was released during 2012 and the Group now provides security for such player funds by means of cash deposited in client funds accounts.

The Paddy Power plc group has bank guarantees primarily 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. The maximum amount of the guarantees at 31 December 2012 was €4,270,000 (2011: €4,475,000). No claims had been made against the guarantees as of 31 December 2012 (2011: €nil). The guarantees are secured by counter indemnities from the Company and certain of its subsidiary companies.

### (b) Section 17 guarantees

Pursuant to the provisions of Section 17 of the Companies (Amendment) Act 1986, the Company has guaranteed the liabilities of its wholly-owned subsidiary undertakings in the Republic of Ireland for the financial year ended 31 December 2012 and, as a result, such subsidiary undertakings have been exempted from the filing provisions of Section 7 of the Companies (Amendment) Act 1986.

### (c) Capital commitments

At 31 December 2012, the Company had not entered into any commitments for capital expenditure (2011: €nil) that were not provided for in the financial statements.



## 17. Commitments and contingencies (continued)

### (d) Operating lease commitments

The Company has annual commitments of €11,055,000 (2011: €11,309,000) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2012 €'000	31 December 2011 €'000
Within one year	743	879
Between two and five years	1,750	1,318
After five years	8,562	9,112
	<b>11,055</b>	<b>11,309</b>

## 18. Statutory information

	2012 €'000	2011 €'000
Directors' remuneration	5,641	7,289
Auditor's remuneration	145	172

The auditor's remuneration of €145,000 (2011: €172,000) comprises €20,000 (2011: €20,000) for the audit of the Company and €125,000 (2011: €130,000) in respect of fees incurred by the Company in relation to the Group financial statements audit. No tax-related audit fees were incurred by the Company in relation to the Group financial statements audit in 2012 (2011: €22,000).

### Auditor remuneration to Company external auditors (KPMG Ireland)

In accordance with the requirements of Regulation 120 of Statutory Instrument 220/2010, 'European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010', the auditor's remuneration figures presented below represent fees paid to KPMG Ireland only and are exclusive of value added tax. Audit relates to the audit of the Company financial statements only. Audit fees borne by the Company in relation to the audit by KPMG Ireland of the Group and subsidiary companies are classified as other assurance services.

	2012 €'000	2011 €'000
Audit	20	20
Other assurance services	161	260
Tax advisory services	36	92
Tax-related audit work	-	42
Total	<b>217</b>	<b>414</b>

Other assurance services includes €125,000 (2011: €130,000) in respect of fees incurred by the Company for the audit of the Group financial statements, €15,000 (2011: €15,000) in respect of fees relating to the audit of subsidiary companies which have been borne by the Company and fees for other miscellaneous assurance work of €21,000 (2011: €5,000). A total amount of €110,000 was incurred in 2011 for assurance work relating to the acquisition of the remaining 39.2% of Sportsbet.

## 19. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2012 were approved for issue by the Board of Directors on 4 March 2013.

## FIVE YEAR FINANCIAL SUMMARY

Financial information for the Group reported under IFRS for the five years ended 31 December 2012 is set out below in euro and pounds sterling.

	2012 €'000	2011 €'000	2010 €'000	2009 €'000	2008 €'000
Amounts staked by customers	<b>5,694,496</b>	4,554,919	3,834,316	2,751,537	2,100,926
Income	<b>653,750</b>	499,330	426,698	295,928	283,657
Operating profit (before exceptional items)	<b>136,000</b>	119,546	103,749	66,694	75,695
Profit before tax	<b>139,155</b>	143,379	111,300	67,192	81,727
Profit for the year – attributable to equity holders of the Company	<b>120,999</b>	121,488	90,005	56,946	68,817
Net cash inflow from operating activities	<b>212,902</b>	161,278	160,245	85,420	95,287
Total equity – attributable to equity holders of the Company	<b>277,656</b>	230,386	228,439	157,563	127,240

Set out below is the above financial information translated into pounds sterling at the exchange rates shown, for illustrative purposes only.

	2012 GBP'000	2011 GBP'000	2010 GBP'000	2009 GBP'000	2008 GBP'000
Amounts staked by customers	<b>4,617,499</b>	3,953,123	3,289,846	2,451,757	1,672,978
Income	<b>530,107</b>	433,359	366,107	263,687	225,878
Operating profit (before exceptional items)	<b>110,278</b>	103,752	89,017	59,428	60,276
Profit before tax	<b>112,837</b>	124,436	95,495	59,871	65,080
Profit for the year – attributable to equity holders of the Company	<b>98,115</b>	105,437	77,224	50,742	54,799
Net cash inflow from operating activities	<b>172,636</b>	139,970	137,490	76,113	75,878
Total equity – attributable to equity holders of the Company	<b>225,143</b>	199,953	196,001	140,393	101,322
Average annual exchange rates used are	<b>1.2332</b>	1.1522	1.1655	1.1223	1.2558



# ADDITIONAL INFORMATION FOR SHAREHOLDERS

## Listings

Paddy Power plc is an Irish registered company. Its ordinary shares are quoted on the Irish Stock Exchange and the London Stock Exchange.

## Registrar

Enquiries concerning shareholdings should be addressed to the Company's Registrar:  
Computershare Investor Services (Ireland) Limited,  
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.  
Telephone: +353-1-447 5105  
Facsimile: +353-1-216 3151  
Website: [www.computershare.com](http://www.computershare.com)

## Payment of dividends direct to a bank account

Dividends are paid by cheque; however shareholders resident in Ireland or in the UK may have their dividends paid by electronic transfer direct to a designated bank account. Shareholders who wish to avail of this facility should contact the Company's Registrar (see above).

## Payment of dividends in euro

Dividend payments are made in euro by default. However, shareholders wishing to opt for payments in pounds sterling either by cheque or direct to their bank account may do so by contacting the Registrar (see details above).

## CREST

Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

## Dividend Withholding Tax ('DWT')

Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from:

DWT Unit, Collector General's Division, Government Offices,  
Nenagh, Co. Tipperary, Ireland.  
Telephone: +353-67-63400  
Facsimile: +353-67-33822  
E-mail: [infodwt@revenue.ie](mailto:infodwt@revenue.ie)  
Website: [www.revenue.ie/en/tax/dwt/](http://www.revenue.ie/en/tax/dwt/)

## General

With certain exceptions, dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, which is currently 20%. DWT, where applicable, is deducted by the Company from all dividends. The following summarises the position in respect of different categories of shareholder:

# ADDITIONAL INFORMATION FOR SHAREHOLDERS

(CONTINUED)

## A. Irish resident shareholders

### Individuals

Individuals resident in the Republic of Ireland for tax purposes are liable to DWT in respect of dividends received. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT may be available for offset against their income tax liability; where the DWT exceeds such liability, the shareholder may apply to the Revenue Commissioners, at the address shown on page 131, for a refund of the excess.

### Shareholders not liable for DWT

Shareholders who receive a dividend in a beneficial capacity can, in certain circumstances, be exempted from DWT. Provided the shareholder furnishes a properly completed declaration on a standard form to the Company's Registrar, and not less than three working days prior to the relevant dividend payment record date, the following classes of shareholders may receive their dividends gross:

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Collective Investment Undertakings;
- Qualifying unit trusts;
- Charities exempt from income tax on their income;
- Athletic/ amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ('SPIA');
- Qualifying fund managers of Approved Retirement Funds or an Approved Minimum Retirement Fund;
- Qualifying savings managers of Special Savings Incentive Accounts;
- A PRSA administrator; and
- Persons exempt from tax on income from personal injury claims.

Copies of the relevant declaration form may be obtained from the Company's Registrar or from the Revenue Commissioners at their addresses shown on page 131. Once lodged with the Company's Registrar, the declaration form remains valid until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to shareholders not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown on page 131, for a refund of the DWT so deducted.

### Qualifying intermediaries

Dividends received by qualifying intermediaries on behalf of a shareholder who is exempt from DWT may be received without deduction of DWT. A 'qualifying intermediary' is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory\*, and:

- holds a licence under the Central Bank Act 1971, or a similar authorisation under the law of a relevant territory, or is owned by a company which holds such a licence; or
  - is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
  - otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary;
- and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

\* A 'relevant territory' means:

- (i) a member state of the European Communities (other than the Republic of Ireland); or
- (ii) a country with which the Republic of Ireland has concluded a double taxation agreement which is currently in force; or
- (iii) a country with which the Republic of Ireland has concluded a double taxation agreement where that agreement has yet to come into force.

Information concerning conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown on page 131. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company's Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT. A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown on page 131.



## B. Non Irish-resident shareholders

Persons not resident in the Republic of Ireland are liable to DWT in respect of dividends received. The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:

- (a) an individual who is neither resident nor ordinarily resident for the purpose of tax in the Republic of Ireland and who is resident for tax purposes in a relevant territory;
- (b) an unincorporated entity which is not resident in the Republic of Ireland and is resident for tax purposes in a relevant territory;
- (c) a company which is not resident in the Republic of Ireland and is resident in a relevant territory (by virtue of the law of that relevant territory) and which is not under the control, whether directly or indirectly, of a person or persons who is/ are resident for the purpose of tax in Ireland;
- (d) a company which is not resident in the Republic of Ireland and is under the control, whether directly or indirectly, of a person or persons who is/ are resident for the purposes of tax in a relevant territory and who are not under the control, whether directly or indirectly, of a person or persons who is/ are not so resident; or
- (e) a company not resident in the Republic of Ireland, the principal class of the shares of which,
  - (i) where the company is a 75 per cent subsidiary of another company, of that other company, or
  - (ii) where the company is wholly-owned by two or more companies, of each of those companies, is substantially and regularly traded on one or more than one recognised stock exchange in a relevant territory or on such other stock exchange as may be approved of by the Minister for Finance.

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form available from the Irish Revenue Commissioners and from the Company's Registrar, to the Company's Registrar not less than three working days in advance of the relevant dividend payment record date, accompanied by, where relevant:

- Categories (a) and (b): The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary and a notice in writing from the Irish Revenue Commissioners stating that the Irish Revenue Commissioners have noted the contents of the certificate. However, it is important to note where trusts are concerned that only non-resident discretionary trusts, which are resident in a relevant territory, can obtain an exemption from DWT. In that circumstance, the trustee of the discretionary trust may make the declaration. The individual beneficiaries of a non-resident bare trust, where the beneficiaries are resident in a relevant territory, may obtain an exemption from DWT where:
  - the trustees of the trust have been authorised by the Revenue Commissioners to act as a Qualifying Intermediary, and
  - where an exemption declaration has been made to the Qualifying Intermediary by the beneficiaries.
- Category (c): The declaration declares that the claimant company is beneficially entitled to the distribution and must state the name and address of the relevant company and the name of the relevant territory in which the company is resident.
- Category (d): The declaration declares that the claimant company is beneficially entitled to the distribution and must state the name and address of the relevant company, the name of the relevant territory in which the company is resident and the name of the relevant territory or names of the relevant territories in which the person or persons who control the company is or are resident.
- Category (e): The declaration declares that the claimant company is beneficially entitled to the distribution and must state the name and address of the relevant company, the name of the relevant territory in which the company is resident and the name and address of the recognised stock exchange on which the principal class of shares in the company (or (i) where the company is a 75 per cent subsidiary of another company, of that other company, or (ii) where the company is wholly-owned by two or more companies, of each of those companies), is substantially and regularly traded.

Each of the declarations mentioned above remain current from their date of issue until 31 December in the fifth year following the year of issue.

Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without declaration of DWT - see 'Qualifying intermediaries' under 'A. Irish resident shareholders' on page 132.

## C. Dividend statements

Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

### Financial calendar

Announcement of final results for 2012	5 March 2013
Ex-dividend date	13 March 2013
Record date for dividend	15 March 2013
Annual General Meeting	14 May 2013
Dividend payment date	24 May 2013

# LETTER TO SHAREHOLDERS

***This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser being, in the case of shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations (Nos. 1 to 3) 2007 or the Investment Intermediaries Act 1995 (as amended), or, in the case of shareholders in the United Kingdom, a firm authorised under the Financial Services and Markets Act 2000.***

***If you have sold or transferred all of your registered holding(s) of ordinary shares in the Company, please forward this document and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through or by whom the sale or transfer was effected, for delivery to the purchaser or transferee.***

## **To all shareholders**

I am writing to you to outline the background to the resolutions to be proposed at the forthcoming Annual General Meeting ('AGM') of Paddy Power plc (the 'Company'), all of which are recommended by the Board for approval. Your attention is drawn to the notice of the AGM of the Company, to be held at The Aviva Stadium, Lansdowne Road, Dublin 4 at 11.00 am on Tuesday, 14 May 2013. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the appointment and reappointment of directors, the Auditors' remuneration and allowing for the convening of an Extraordinary General Meeting on 14 days' notice, there are various items of special business which are described further below.

Resolution 3 is to receive and consider the Remuneration Committee Report on directors' remuneration as set out on pages 54 to 57 of the 2012 Annual Report. There is no legal obligation on the Company to put such a resolution to shareholders, so it is an advisory resolution and is not binding on the Company.

Resolutions 4, 5 and 6 of the ordinary business propose the appointment of Ulric Jerome and Danuta Gray, and the reappointment of the remaining members of the Board who, in accordance with the recommendation of the UK Corporate Governance Code, offer themselves for re-election. David Power has advised of his intention to retire from the Board at the conclusion of the AGM and therefore will not go forward for re-election. Ulric Jerome and Danuta Gray were appointed by the directors since the last Annual General Meeting and, in accordance with the Articles of Association of the Company, retire at the AGM and put themselves forward for election by the shareholders. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the appointment/reappointment of each of the directors seeking election/ re-election. Biographical information on the directors is given on pages 40 and 41 of the Annual Report.

Shareholders are being asked in resolution 8 to maintain the existing authority in the Articles of Association which permits the Company to convene an Extraordinary General Meeting on 14 days' notice in writing where the purpose of the meeting is to consider an ordinary resolution. As a matter of policy, the 14 day notice will only be utilised where the directors believe that it is merited by the business of the meeting and the circumstances surrounding the business.

Shareholders are being asked in resolution 9 to renew the directors' authority to allot shares, up to an aggregate nominal value of €1,695,224, representing approximately one third of the issued capital of the Company as at 4 April 2013. If renewed, this authority will expire on the date of the next AGM of the Company or 13 November 2014, whichever is earlier. The Board has no immediate intention to exercise this authority.

Shareholders are being asked in resolution 10 to renew the directors' authority to allot shares for cash without being required to offer them first to shareholders. In line with best practice, this authority is limited to an allotment of shares up to five per cent of the issued ordinary share capital of the Company at the date of the resolution (currently equal to 2.54m shares). If renewed, this authority will expire on the date of the next AGM of the Company or 13 November 2014, whichever is earlier.

Shareholders are being asked in resolution 11 to renew the authority to empower the Company, or any subsidiary, to make market purchases of the Company's shares. No more than ten per cent of the issued share capital of the Company may be acquired under this authority. The price range at which shares may be acquired cannot be less than the nominal value of the Company's shares and cannot be greater than 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or re-issue.

The total number of options to subscribe for shares in the Company on 4 April 2013 is 407,001 and represents 0.83% of the total voting rights of the Company (excluding treasury shares) on that date. This percentage would increase to 0.92% if the full authority to buy shares is used. The authority sought will expire on the date of the next AGM of the Company or 13 November 2014, whichever is earlier. The Board will only exercise the power to purchase shares in the future at price levels at which it considers purchases to be in the best interests of the shareholders generally after taking account of the Group's overall financial position.





Shareholders are being asked in resolution 12 to pass a resolution authorising the Company to re-issue shares purchased by it and not cancelled as treasury shares off market within a price range, which shall not be less than 95% nor more than 120% of the average price of the Company's shares over the ten dealing days prior to the date of re-issue by the Company. The authority sought will expire on the date of the next AGM of the Company or 13 November 2014, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990. The total number of treasury shares held by the Company on 4 April 2013 is 1,734,000, which represents 3.53% of the total ordinary share capital of the Company (excluding treasury shares) in issue on that date.

Shareholders are being asked in resolution 13 to approve the adoption of a new Long Term Incentive Plan (the '2013 LTIP'). The Company's current Long Term Incentive Plan has played a significant role in the success enjoyed by the Group since its introduction in June 2004. For example, the share price of the Company has increased by a compound annual growth rate of 26% between June 2004 and today. The 2004 Long Term Incentive Plan expires in mid-2014 and the Board proposes the introduction of the 2013 LTIP to replace and update it. It will constitute a significant factor in the Board's plans to launch the Group to new levels of success over the lifetime of the 2013 LTIP which would expire in 2023.

The 2013 LTIP will operate, as before, through an Employee Benefit Trust which will purchase shares on the market but may also source shares through subscription from the Company. It is intended that most incentives will be provided, as in the past, by way of conditional share awards but in special circumstances, determined by the Remuneration Committee, share options and restricted shares may also be provided.

Share incentives provided to participants under the 2013 LTIP which are sourced from allotments by the Company cannot exceed ten per cent of the issued share capital of the Company over any ten year period or three per cent of such capital over any three year period. In addition, no executive may receive any share incentive under the 2013 LTIP if to do so would cause the value of all outstanding share incentives granted to him in the preceding ten year period to exceed eight times his annual remuneration.

For the 2013 award, share incentives will only vest if, over a three year period, the Company's Earnings per Share increases by between a compound 7% and 15% per annum, with 25% of a share incentive allocation vesting at the lower end of this range and 100% vesting at the upper end of this range and straight line vesting in between. The period for vesting is limited to the three year period after the date of grant of an Award. The performance measure can be altered by the Remuneration Committee provided the new measures are neither more nor less difficult to satisfy. The measure can also be adjusted to ensure that earnings are being measured on a consistent basis, for example, to take account of new taxes/ fees specific to the betting industry. The Remuneration Committee will review the targets at the start of each cycle to ensure they remain appropriately stretching.

The Rules provide that upon the takeover of the Company or upon a participant leaving the Company for reasons such as death, injury, disability, redundancy or retirement, outstanding Awards will be pro-rated for both time and performance with the Remuneration Committee retaining overall discretion to determine the terms of vesting to ensure that outcomes are fair to participants and shareholders. The Rules also incorporate provisions for claw back of unvested Awards, in line with market practice, where there has been a serious misstatement of financial records or where an individual (or group of individuals) is responsible for serious reputational damage to the Company.

Benefits under the 2013 LTIP are not pensionable.

The terms of the 2013 LTIP provide that the provisions relating to the:

- (a) persons to whom, or for whom, securities, cash or other benefits are provided under the plan;
- (b) limitations on the number or amount of the securities, cash or other benefits subject to the plan;
- (c) maximum entitlement for any one participant; and
- (d) basis for determining a participant's entitlement to, and the terms of, securities, cash or other benefits to be provided and for the adjustment thereof (if any) if there is a capitalisation issue, rights issue or open offer, subdivision or consolidation of shares or reduction or other variation of capital,

cannot be altered to the advantage of participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the plan or for the company operating the plan or for other group companies).

Copies of the Rules of the 2013 LTIP are available for inspection by shareholders at the registered office of the Company on any weekday between 9.00am and 5.30pm until the date of the AGM and at the Aviva Stadium for 15 minutes before and during the AGM.

# LETTER TO SHAREHOLDERS

(CONTINUED)

## Action to be taken

A Form of Proxy for use at the AGM is enclosed with this Annual Report. The Form of Proxy will be valid if lodged at the registered office of the Company or with the Company's Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, by no later than 11.00am on 12 May 2013. Alternatively you may wish to submit your votes via the internet and instructions on how to do so are shown on the form. All proxy forms must be lodged no later than 48 hours before the time appointed for the meeting. The completion and lodging of the Form of Proxy will not prevent you from attending and voting in person at the meeting should you so wish.

## Recommendation

The directors believe that the resolutions proposed are in the best interests of the Company and its shareholders, and so they recommend that you vote in favour of these resolutions at the AGM, as they intend to themselves in respect of their shares.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nigel Northridge', with a stylized flourish at the end.

**Nigel Northridge**

*Chairman*

4 April 2013



# NOTICE OF ANNUAL GENERAL MEETING

## OF PADDY POWER PLC

NOTICE is hereby given that the Annual General Meeting of Paddy Power plc (the 'Company') will be held at The Aviva Stadium, Lansdowne Road, Dublin 4 at 11.00 am on Tuesday, 14 May 2013 for the following purposes:

1. **To receive and consider the financial statements for the year ended 31 December 2012 and the reports of the Directors and Auditors thereon.**
2. **To declare a final dividend of 81.0 cent per share for the year ended 31 December 2012.**
3. **To receive and consider the Remuneration Committee Report on directors' remuneration for the year ended 31 December 2012.**
4. **To elect Ulric Jerome as a director who is recommended by the Board for election.**
5. **To elect Danuta Gray as a director who is recommended by the Board for election.**
6. **To re-elect by separate resolution:**
  - Resolution 6(a) Nigel Northridge
  - Resolution 6(b) Patrick Kennedy
  - Resolution 6(c) Tom Grace
  - Resolution 6(d) Stewart Kenny
  - Resolution 6(e) Jane Lighting
  - Resolution 6(f) Cormac McCarthy
  - Resolution 6(g) Pádraig Ó Ríordáin
7. **To authorise the directors to fix the remuneration of the Auditors for the year ending 31 December 2013.**
8. **To consider and, if thought fit, pass the following as a special resolution:**

"That it is hereby resolved that the provision in Article 53(a) allowing for the convening of an Extraordinary General Meeting by at least fourteen Clear Days' notice (where such meetings are not convened for the passing of a special resolution) shall continue to be effective."

### As Special Business

9. **To consider and, if thought fit, pass the following as an ordinary resolution:**

"That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 20 of the Companies (Amendment) Act 1983) up to an aggregate nominal amount of €1,695,224, representing approximately one third of the issued share capital of the Company at the date of the notice containing this resolution; provided that this authority shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 13 November 2014 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired."
10. **To consider and, if thought fit, pass the following as a special resolution:**

"That for the purposes of Regulation 8(d) of the Articles of the Association of the Company, the directors are hereby empowered to allot equity securities (as defined in Section 23 of the Companies (Amendment) Act 1983) for cash pursuant to and in accordance with the provisions of their authority pursuant to Section 20 of the Companies (Amendment) Act 1983 as if sub-section (1) of Section 23 of the Companies (Amendment) Act 1983 did not apply to any such allotment provided that, pursuant to Regulation 8(d)(ii), the maximum aggregate nominal value of shares to which this authority relates shall be an aggregate nominal value of €240,383 or five per cent of the Company's issued ordinary share capital at the close of business on the date on which this resolution shall be passed; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 13 November 2014 unless previously renewed, varied or revoked by the Company in general meeting provided that the Company may make before such expiry an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority hereby conferred had not expired."

# NOTICE OF ANNUAL GENERAL MEETING

## OF PADDY POWER PLC (CONTINUED)

### 11. To consider and, if thought fit, pass the following as a special resolution:

"That the Company and/ or any subsidiary (including a body corporate) of the Company be generally authorised to make market purchases or overseas market purchases (as defined by Section 212 of the Companies Act 1990) of shares of any class of the Company on such terms and conditions and in such manner as the directors may from time to time determine in accordance with and subject to the provisions of the Companies Act 1990 and to the restrictions and provisions set out in Regulation 46(a) of the Articles of Association of the Company and that the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 13 November 2014 unless, in any such case, previously renewed, varied or revoked by the Company in general meeting."

### 12. To consider and, if thought fit, pass the following as a special resolution:

"That the re-issue price range at which any treasury share (as defined in Section 209 of the Companies Act 1990) for the time being held by the Company may be re-issued off market, shall be the price range set out in Article 46(b) of the Articles of Association of the Company; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 13 November 2014 unless, in any such case, previously renewed, varied or revoked in accordance with the provisions of Section 209 of the Companies Act 1990."

### 13. To consider and, if thought fit, pass the following as an ordinary resolution:

"That the establishment of the Paddy Power 2013 Long Term Incentive Plan, the principal features of which are summarised in the Chairman's Letter dated 4 April 2013 which accompanies the notice convening the meeting, and the Rules of such plan, a copy of which is provided to the meeting and initialled by the Chairman for the purposes of identification, be and is hereby approved and adopted and the directors be authorised to:

- (a) do all acts and things which they may consider necessary or expedient to effectively implement such plan; and/ or
- (b) establish plans in other jurisdictions similar in substance to such plan or modify such plan for the benefit of employees in Ireland and elsewhere subject to such changes as may be necessary or desirable to take account of Irish and overseas taxation, security laws or other legal requirements."

By Order of the Board



**Jack Massey**  
Company Secretary

4 April 2013

Registered Office:  
Power Tower  
Belfield Office Park  
Beech Hill Road  
Clonskeagh  
Dublin 4



## Notes

1. Any member entitled to attend, speak and vote at the meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak and vote in his/ her place. Completion of a Form of Proxy will not affect the right of a member to attend, speak and vote at the meeting in person. A shareholder may appoint more than one proxy to attend and vote at the meeting provided each proxy is appointed to exercise rights attached to different shares held by that shareholder. Should you wish to appoint more than one proxy, please read carefully the explanatory notes accompanying the Form of Proxy. A member may appoint a proxy or proxies electronically by logging on to the website of the Registrars, Computershare Services (Ireland) Limited: [www.eproxyappointment.com](http://www.eproxyappointment.com). Shareholders will be asked to enter the Shareholder Reference Number, PIN Number and Control Number as printed on your Form of Proxy and agree to certain conditions.
2. As a shareholder, you have several ways to exercise your right to vote:
  - (a) By attending the Annual General Meeting in person; or
  - (b) By appointing (either electronically or by returning a completed Form of Proxy) the Chairman or another person as a proxy to vote on your behalf; or
  - (c) By appointing a proxy via the CREST System if you hold your shares in CREST.
3. If you are appointing someone other than the Chairman as your proxy, then you must fill in the details of your representative at the meeting in the box located underneath the wording "I/We hereby appoint the Chairman of the AGM OR the following person" on the Form of Proxy. If you appoint the Chairman or another person as a proxy to vote on your behalf, please make sure to indicate how you wish your votes to be cast by ticking the relevant boxes on the Form of Proxy.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other registered holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members. Completing and returning a Form of Proxy will not preclude you from attending and voting at the meeting should you so wish.

Alternatively, you may appoint a proxy electronically, by visiting the website of the Company's Registrars at [www.eproxyappointment.com](http://www.eproxyappointment.com). You will need your Shareholder Reference Number, PIN Number and Control Number, which can be found on the lower section of your Form of Proxy.

4. To be valid, Forms of Proxy duly signed together with the power of attorney or such other authority (if any) under which they are signed (or a certified copy of such power or authority) must be lodged with the Company's Registrar, Computershare Services (Ireland) Limited, P.O. Box 954, Sandyford, Dublin 18 not less than 48 hours before the time appointed for the holding of the meeting.
5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with Euroclear (UK and Ireland) Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Computershare Services (Ireland) Limited (ID 3RA50) by 11.00 a.m. on 12 May 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Computershare Investor Services PLC is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear (UK and Ireland) Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s)), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35 (5)(a) of the CREST Regulations.

# NOTICE OF ANNUAL GENERAL MEETING

## OF PADDY POWER PLC (CONTINUED)

6. Each of the directors has been subject to the evaluation process recommended by the UK Corporate Governance Code. On this basis, the Chairman and Board are pleased to recommend the re-election of those directors.
7. If you or a group of shareholders hold at least three per cent of the issued share capital of the Company, you or the group of shareholders acting together have the right to put an item on the agenda of the AGM. In order to exercise this right, written details of the item you wish to have included in the AGM agenda together with a written explanation why you wish to have the item included in the agenda and evidence of your shareholding must be received by the Company Secretary at Paddy Power plc, Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, Ireland or by email to [info@paddypowerplc.com](mailto:info@paddypowerplc.com) no later than 2 April 2013 (i.e. 42 days before the AGM meeting). An item cannot be included in the AGM agenda unless it is accompanied by the written explanation and received at either of these addresses by this deadline.
8. If you or a group of shareholders hold at least three per cent of the issued share capital of the Company, you or the group of shareholders acting together have the right to table a draft resolution for inclusion in the agenda of the AGM subject to any contrary provision in company law. In order to exercise this right, the text of the draft resolution and evidence of your shareholding must be received by post by the Company Secretary at Paddy Power plc, Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, Ireland or by email to [info@paddypowerplc.com](mailto:info@paddypowerplc.com) by no later than 2 April 2013 (i.e. 42 days before the AGM meeting). A resolution cannot be included in the AGM agenda unless it is received at either of these addresses by this deadline. Furthermore, shareholders are reminded that there are provisions in company law which impose other conditions on the right of shareholders to propose resolutions at the general meeting of a company.
9. Pursuant to section 134C of the Companies Act 1963, shareholders have a right to ask questions related to items on the AGM agenda and to have such questions answered by the Company subject to any reasonable measures the Company may take to ensure the identification of shareholders. An answer is not required if (a) an answer has already been given on the Company's website in the form of a 'Q&A' or (b) it would interfere unduly with preparation for the meeting or the confidentiality or business interests of the Company or (c) it appears to the Chairman that it is undesirable in the interests of good order of the meeting that the question be answered.
10. This AGM notice, details of the total number of shares and voting rights at the date of giving this notice, the documents to be submitted to the meeting, copies of any draft resolutions and copies of the forms to be used to vote by proxy are available on the Company's website at [www.paddypowerplc.com](http://www.paddypowerplc.com). Should you not receive a Form of Proxy, or should you wish to be sent copies of documents relating to the meeting, you may request this by telephoning the Company's Registrars on 00 353 1 447 5105 or by writing to the Company Secretary at the address set out above.



**PADDYPOWER.**