

THIS CIRCULAR AND THE RELATED FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. Shareholders who have opted for the electronic communications service will receive an email notification rather than a Proxy Form. If you are in any doubt as to the course of action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other professional adviser (being, in the case of shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the Investment Intermediaries Act 1995 (as amended) or the European Communities (Markets in Financial Instruments) Regulations (Nos 1 to 3) 2007 and, in the case of shareholders in the United Kingdom, an adviser authorised pursuant to the Financial Services and Markets Act 2000, or, in the case of shareholders in a territory outside Ireland and the United Kingdom, from another appropriately authorised independent financial adviser).

If you sell or have sold or otherwise transferred all of your Paddy Power Shares, please send this document at once, but not the Form of Proxy, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. The distribution of such documents into certain jurisdictions may be restricted by law and therefore persons into whose possession such documents come should inform themselves about and observe such restrictions. In particular, such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations. If you sell or have sold or otherwise transferred only part of your holding of Paddy Power Shares, you should retain this document and the Form of Proxy and consult the stockbroker, bank or other agent through whom you made the sale, transfer or disposal.

You should read the whole of this document when considering what action you should take in connection with the Resolution to be proposed at the Extraordinary General Meeting referred to below. Your attention is specifically drawn to the letter from the Chairman of Paddy Power which is set out in Part I of this document and which recommends that you vote in favour of the Resolution to be proposed at the Extraordinary General Meeting.

The logo for Paddy Power plc, consisting of the text "Paddy Power plc" in white, bold, sans-serif font, centered within a solid green rectangular background.

Paddy Power plc

(incorporated and registered in Ireland under the Companies Acts 1963 to 1990 with registered number 16956)

Recommended Acquisition of minority shareholdings in Sportsbet

Circular to Shareholders and Notice of Extraordinary General Meeting

Application will be made to the Irish Stock Exchange and the UK Listing Authority for the Consideration Shares to be admitted to the Official Lists, and to the Irish Stock Exchange and the London Stock Exchange for the Consideration Shares to be admitted to trading on the main markets for listed securities of each of the Irish Stock Exchange and the London Stock Exchange.

Notice of an Extraordinary General Meeting of Paddy Power, to be held at 11.00 a.m. at the Burlington Hotel, Upper Leeson Street, Dublin 4, Ireland on 22 February 2011 is set out at the end of this document. A Form of Proxy for use at the Extraordinary General Meeting is enclosed, other than for Shareholders who have opted for the electronic communications service, who will receive an email notification rather than a Proxy Form. Whether or not you intend to attend the Extraordinary General Meeting in person, please complete, sign and return the Form of Proxy so as to be received by Paddy Power's Registrar, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18 as soon as possible but, in any event, so as to arrive **no later than 11.00 a.m. on 20 February 2011** (or, in the case of an adjournment, no later than 48 hours before the time fixed for holding the adjourned meeting). The completion and return of a Form of Proxy will not prevent shareholders from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof, should they wish to do so.

Electronic proxy appointment is available for the Extraordinary General Meeting. This facility enables a shareholder to lodge his/her proxy by logging on to the website of Paddy Power's Registrar at www.computershare.com/ie/voting/paddypower. Shareholders will need their unique PIN number and shareholder reference number. Alternatively, for those who hold Paddy Power Shares in CREST, a shareholder may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Computershare Investor Services (CREST participant ID 3RA50). In each case, shareholders must complete the process by **no later than 11.00 a.m. on 20 February 2011** (or, in the case of an adjournment, no later than 48 hours before the time fixed for holding the adjourned meeting). The completion and return of a Form of Proxy (including an electronic proxy appointment notification or a CREST Proxy Instruction) will not prevent shareholders from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof, should they wish to do so.

IBI Corporate Finance Limited, which is regulated in Ireland by the Central Bank of Ireland, is acting exclusively for Paddy Power and for no one else in connection with the Acquisition and will not be responsible to anyone other than Paddy Power for providing the protections afforded to its clients or for providing advice in relation to the Acquisition or any other matters referred to in this document.

This document does not constitute or form part of any offer or invitation to purchase, otherwise acquire, subscribe for, sell, otherwise dispose of or issue, or any solicitation of any offer to sell, otherwise dispose of, issue, purchase, otherwise acquire or subscribe for, the Consideration Shares or any other security. The contents of this document should not be construed as legal, business, financial, tax investment or other professional advice.

This document, and the information incorporated by reference into it, includes statements that are, or may be deemed to be, “forward-looking statements”, including statements about Paddy Power’s intentions, beliefs and expectations. These statements are based on Paddy Power’s current plans, estimates and projections, as well as Paddy Power’s expectations of external conditions and events. In some cases, these forward-looking statements can be identified by the words 'expect', 'anticipate', 'predict', 'estimate', 'project', 'may', 'could', 'should', 'would', 'will', 'intend', 'believe' and variations of these words and other similar future or conditional expressions and comparable terminology. By their nature, forward-looking statements involve inherent risks and uncertainties because they relate to events and depend on future circumstances that may or may not occur, many of which are beyond Paddy Power’s control and all of which are based on the Directors’ current beliefs and expectations about future events. Forward-looking statements are not guarantees of future performance. Shareholders are therefore cautioned that a number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements.

Examples of these forward-looking statements include, but are not limited to, statements about the expected benefits and risks associated with the Acquisition, profit forecasts or estimates or expectations of financial effects of the Acquisition (including the impact on earnings per share and the Group balance sheet), capital structure or any other financial items or ratios; statements of plans, objectives or goals of Paddy Power following completion of the Acquisition, including in relation to growth opportunities and/or upside potential; and statements about economic conditions and future trends and the impact that those matters may have on Paddy Power following completion of the Acquisition. The forward-looking statements contained in this document or the information incorporated by reference into it speak only as of the date of this document. Paddy Power expressly disclaims any obligation or undertaking to update any of them in light of new information or changes in events, conditions or circumstances or otherwise, except to the extent required by any applicable law, the Listing Rules and the Disclosure and Transparency Rules.

4 February 2011

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DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Nigel Northridge (Chairman) Patrick Kennedy (Chief Executive Officer) Breon Corcoran (Chief Operating Officer) Jack Massey (Finance Director) Fintan Drury (Non-Executive Director) Tom Grace (Non-Executive Director) Stewart Kenny (Non-Executive Director) Jane Lighting (Non-Executive Director) Pádraig Ó Ríordáin (Non-Executive Director) David Power (Non-Executive Director) William Reeve (Non-Executive Director) Brody Sweeney (Non-Executive Director)
Company Secretary	David Johnston
Registered Office	Airton House Airton Road Tallaght Dublin 24 Ireland
Independent adviser and sponsor to Paddy Power	IBI Corporate Finance Limited 40 Mespil Road Dublin 4 Ireland
Joint broker to Paddy Power	Goodbody Stockbrokers Ballsbridge Park Dublin 4 Ireland
Joint broker to Paddy Power	Investec 2 Gresham Street London EC2V 7QP England
Solicitors to Paddy Power	Arthur Cox Earlsfort Centre Earlsfort Terrace Dublin 2 Ireland
Auditors to Paddy Power and Reporting Accountants	KPMG 1 Stokes Place St. Stephen's Green Dublin 2 Ireland
Registrar to Paddy Power	Computershare Investor Services (Ireland) Limited Heron House Corrig Road Sandyford Industrial Estate Dublin 18 Ireland

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates below is indicative only

Expected Time / Date

Event

Latest time and date for receipt of Forms of Proxy and CREST proxy instructions	11.00 a.m. on 20 February 2011
Extraordinary General Meeting	11.00 a.m. on 22 February 2011
Expected Completion Date	1 March 2011
Admission and commencement of dealings in Consideration Shares	2 March 2011

Notes:

- (1) The times set out in the expected timetable of principal events above and mentioned throughout this document are times in Dublin unless otherwise stated, and may be adjusted by the Company in consultation with or, if required, with the agreement of IBI Corporate Finance, in which event details of the new times and dates will be notified to the Irish Stock Exchange, the UKLA, the London Stock Exchange and, in the case of an open ended adjournment or of an adjournment for over 14 days, to Shareholders.
- (2) The exact timeline for events after the Extraordinary General Meeting is not ascertainable at this time and will depend upon the satisfaction of closing conditions to the Acquisition and upon Completion occurring as described in paragraph 7.3 of Part IV of this Circular.

PART I
LETTER FROM THE CHAIRMAN OF PADDY POWER PLC

Paddy Power plc

**(Incorporated and registered in Ireland under the Companies Acts 1963 to 1990
with registered number 16956)**

Directors:

Nigel Northridge (Chairman)
Patrick Kennedy (Chief Executive Officer)
Breon Corcoran (Chief Operating Officer)
Jack Massey (Finance Director)
Fintan Drury (Non-Executive Director)
Tom Grace (Non-Executive Director)
Stewart Kenny (Non-Executive Director)
Jane Lighting (Non-Executive Director)
Pádraig Ó Ríordáin (Non-Executive Director)
David Power (Non-Executive Director)
William Reeve (Non-Executive Director)
Brody Sweeney (Non-Executive Director)

Registered Office:

Airton House
Airton Road
Tallaght
Dublin 24
Ireland

4 February 2011

To Paddy Power Shareholders

Dear Shareholder,

**Recommended acquisition of minority shareholdings in Sportsbet
Notice of Extraordinary General Meeting**

1. Introduction

I am writing to you to recommend the acquisition of the remaining minority shareholdings in Sportsbet and to convene an Extraordinary General Meeting in this regard.

Paddy Power currently owns 60.8% of the ordinary share capital of Sportsbet as a result of the acquisition of 51% of the ordinary shares in Sportsbet in July 2009 ('the 2009 Acquisition') and the acquisition of a further 9.8% interest in February 2010. On 23 December 2010, the Board of Paddy Power announced that it had agreed to purchase the remaining 39.2% of Sportsbet for an initial consideration of AUD132.6 million (€100.9 million). Additional cash consideration is payable to all of the Vendors, subject to a maximum value of AUD25 million (€19.0 million), if certain target profitability levels of Paddy Power's Australian operations (which currently constitute the Sportsbet Group) are achieved in 2013. As part of the discussions surrounding the Acquisition it was agreed that a special dividend will be paid to all Sportsbet shareholders prior to Completion, of which AUD8.5 million (€6.5 million) is to be paid to the Vendors.

The Acquisition remains subject to Paddy Power Shareholder approval and to the approval of the Treasurer of the Commonwealth of Australia under the Foreign Acquisitions and Takeovers Act 1975.

Under the Listing Rules, the Acquisition is classified as a Class 1 transaction (due to the size of the transaction relative to Paddy Power) and a Related Party Transaction (as three of the Vendors are directors of Sportsbet). As such, the transaction requires the prior approval of Paddy Power Shareholders at an Extraordinary General Meeting and will not proceed unless the Resolution is passed.

The purpose of this document is to provide you with information on the Acquisition, to explain why your Board unanimously believes the Acquisition to be in the best interests of Paddy Power Shareholders as a whole and to seek your approval for the Acquisition at a specially convened Extraordinary General Meeting. The recommendation from the Board that you vote in favour of the Resolution at the Extraordinary General Meeting is set out in paragraph 9 of this letter.

Please note that Paddy Power Shareholders should read the whole of this document and not only rely on the summarised information set out in this letter.

2. Summary of key terms of the Acquisition

The initial AUD132.6 million (€100.9 million) consideration payable on Completion is to be satisfied by: AUD110.6 million (€84.2 million) in cash from Paddy Power's existing cash reserves; the issue of AUD18.0 million (€13.7 million) of new Paddy Power shares (calculated by reference to a share price of €29.17 per share and the AUD exchange rate shortly prior to Completion); and the assumption of an AUD4.0 million (€3.0 million) obligation to certain Sportsbet employees. This obligation relates to a long term incentive plan put in place by the Vendors at the time of the 2009 Acquisition for the benefit of those employees.

Additional consideration is payable to the extent the EBITDA (post Group central cost allocations) of Paddy Power's Australian operations for the year ended 31 December 2013 exceeds AUD65 million (€49.5 million). The maximum additional consideration of AUD25 million (€19.0 million), which was agreed in negotiations between the parties, is payable in the event that 2013 EBITDA exceeds AUD80 million (€60.9 million). As part of the discussions surrounding the Acquisition it was agreed that a special dividend, in excess of that payable pursuant to Sportsbet's ongoing dividend policy, will be paid to all Sportsbet shareholders out of available fully franked dividend capacity, prior to Completion of the Acquisition. The element of the special dividend payable to the Vendors will be AUD8.5 million (€6.5 million). The total maximum potential consideration for the Acquisition is therefore AUD166.1 million (€126.4 million) which comprises the initial consideration (including the cash and shares elements and the assumption of the liability to Sportsbet employees), the special dividend and the maximum additional consideration.

The six Vendors comprise three directors of Sportsbet (including CEO Matt Tripp) and three other members of the Sportsbet management team. They will continue to be incentivised by the AUD25 million contingent consideration under the terms of the Acquisition and will also receive AUD18.0 million (€13.7 million) of the initial consideration in Paddy Power Shares.

The three Vendors who are directors of Sportsbet are deemed to be Related Party Vendors under the Listing Rules. Their percentage shareholdings in the ordinary share capital of Sportsbet are as follows: Matthew Tripp 19.6%; Grant Griffiths 9.8%; and Nicholas Tyshing 2.45%.

The Acquisition remains conditional on the Resolution being passed and also on the approval of the Treasurer of the Commonwealth of Australia under the Foreign Acquisitions and Takeovers Act 1975 which applies to acquisitions of shares in Australian companies by non-Australian investors.

3. Information on Sportsbet

Sportsbet, which has been operating for over 15 years, is Australia's largest Corporate Bookmaker (i.e. a bookmaker that offers fixed odds, and not pooled, betting services) and is licensed to undertake business throughout Australia by the Northern Territory Racing Commission. Sportsbet's activities constitute Paddy Power's Australian operations and comprise bookmaking on racing and sports for Australian customers predominantly through its online channel. Sportsbet's activities also include International All Sports Limited ('IAS'), a previously publicly quoted competitor, the acquisition of which it completed on 1 October 2009.

Sportsbet achieved profit before tax of AUD20.6 million (€13.0 million) in its audited consolidated financial statements for the financial year ended 30 June 2010 and gross assets at the same date amounted to AUD116.3 million (€80.8 million) (reflecting the accounting policies adopted by Paddy Power plc in its 31 December 2009 annual audited accounts).

Please refer to Part III of this Circular for further historical financial information on Sportsbet.

Paddy Power expects Sportsbet to achieve EBITDA pre Group central cost allocations of approximately AUD25 million (€17.7 million) in the six months ended 31 December 2010, after achieving EBITDA pre Group central cost allocations of AUD14.8 million (€10.0 million) in the six months ended 30 June 2010. Further details of this Profit Estimate are disclosed in paragraph 13 in Part IV of this Circular.

The following table details the key individuals who are important to the business of Sportsbet and their current roles:

Director	Position
Matthew Tripp	Chief Executive Officer
Cormac Barry	Commercial Director
John Hartnett	Head of Risk & Trading
Ben Sleep	Chief Financial Officer
Nicholas Tyshing	Development Director

4. Background to and reasons for the Acquisition

Prior to the 2009 Acquisition, Paddy Power researched many international betting markets to assess their suitability for expansion, either organically or via acquisition. Paddy Power believed that the Australian sports betting market represented a highly attractive regulated new market offering strong growth potential. The online market in Australia was undergoing positive regulatory change, particularly in relation to the advertising of sports betting. Paddy Power believed that the acquisition would add a new geographic dimension to its business and that Paddy Power's marketing, e-commerce and risk management expertise would complement Sportsbet's existing skills and experience.

Within the Australian market, Paddy Power believed that Sportsbet represented an attractive acquisition candidate due to its existing market presence, leading brand awareness, and its strong position within the fast-growing online segment. In addition, Paddy Power believed that Sportsbet had a strong management team to deliver on its expansion strategy.

Following the 2009 Acquisition, Sportsbet subsequently acquired IAS in October 2009 and Paddy Power increased its stake in Sportsbet to 60.8% in February 2010. Under the terms of the 2009 Acquisition, Paddy Power holds a call option to increase its shareholding in Sportsbet to 100%, exercisable in either 2012 or 2013, based on a multiple of up to 7 times EBITDA in the financial year ending 30 June 2012 or 2013, respectively.

The acquisition of Sportsbet, together with the subsequent acquisition by Sportsbet of IAS in October 2009, has given Paddy Power a leading position in the Australian market as the largest online Corporate Bookmaker.

Sportsbet has continued to perform well since the 2009 Acquisition and Paddy Power has successfully grown its market share in Australia. Sportsbet and IAS have been successfully integrated into the Group and Paddy Power has sought to combine the best practices of both Sportsbet and Paddy Power across a number of key functions such as risk management, e-commerce and marketing. Due to the success of the business since the 2009 Acquisition, the maximum additional cash consideration of AUD10 million (€7.0 million) was paid to the Vendors in August 2010 as a result of the EBITDA of Sportsbet (including IAS) (before transaction and restructuring costs) comfortably exceeding the AUD26.0 million (€17.1 million) performance threshold in the year ended 30 June 2010.

The acquisition of the remaining 39.2% of Sportsbet now provides the Group with increased exposure to the growing regulated Australian online market. Furthermore, the opportunity to take complete control of the business now will allow the Group to further invest in Sportsbet and drive its development, while securing full participation in the anticipated upside.

The Acquisition represents a key element of Paddy Power's international development and growth strategy and involves a significant deployment of capital from the Group's cash resources to the growing Australian market. Australia now represents a third significant market for the Group, alongside Ireland and the UK.

5. Financial effects of the Acquisition

The transaction is expected to increase earnings per share for Paddy Power Shareholders in 2011.

Paddy Power had net cash balances of €110 million, or €71 million excluding customer balances, based on its unaudited interim results for the six months ended 30 June 2010. (Net cash balances as at 31 December 2010 were €159 million, or €116 million excluding customer balances, based on the unaudited management accounts of Paddy Power plc as of that date). Arising from the Acquisition, the following cash payments are to be made at, or around, Completion: upfront cash consideration of AUD110.6 million (€84.2 million); payment of the AUD4.0 million (€3.0 million) obligation to certain Sportsbet employees; and a special dividend payable to the Vendors of AUD8.5 million (€6.5 million).

Assuming completion of the Acquisition, the cash available to the Group will be reduced by the above three cash payments, totalling AUD123.1 million (€93.7 million), and the Group shareholders' equity will increase by AUD18.0 million (€13.7 million) due to the partial consideration in shares. In addition, the non-controlling interests of the Group associated with Sportsbet will be eliminated. Additional goodwill associated with the Acquisition will not be recognised and therefore the excess of the consideration over the associated non-controlling interests eliminated will reduce Group shareholders' equity.

6. Extraordinary General Meeting

You will find set out in Part VI of this Circular the Notice of Extraordinary General Meeting of Paddy Power plc to be held at 11.00 a.m. on 22 February 2011 at the Burlington Hotel, Upper Leeson Street, Dublin 4, Ireland.

Under the Listing Rules, the Acquisition is classified as a Class 1 transaction (due to the size of the transaction relative to Paddy Power) and a Related Party Transaction (as three of the Vendors are directors of Sportsbet). As such, the transaction requires the prior approval of Paddy Power Shareholders at an Extraordinary General Meeting.

At the Extraordinary General Meeting, the Resolution will be proposed to approve the Acquisition.

7. Action to be taken

A Form of Proxy for use at the Extraordinary General Meeting (or any adjournment thereof) is enclosed with this document, other than for Shareholders who have opted for the electronic communications service, who will receive an email notification rather than a Proxy Form. Whether or not you intend to be present at the Extraordinary General Meeting, you are requested to complete the Form of Proxy in accordance with the instructions printed on it and return it as soon as possible and in any case so as to be received by Paddy Power's Registrar, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland, no later than 11.00 a.m. on 20 February 2011 (or, in the case of an adjournment, no later than 48 hours before the time fixed for holding the adjourned meeting). **The completion and return of a Form of Proxy (including an electronic proxy appointment notification or a CREST Proxy Instruction) will not prevent you from attending and voting in person at the Extraordinary General Meeting or any adjournment thereof, should you wish to do so.**

Electronic proxy appointment is available for the Paddy Power Shareholder Meeting. This facility enables you to lodge your proxy by logging on to the website of Paddy Power's Registrar at www.computershare.com/ie/voting/paddypower. You will need your unique PIN number and shareholder reference number. Alternatively, if you hold your Paddy Power Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction to Computershare Investor Services (Ireland) Limited (CREST participant ID 3RA50), in each case so that it is received by no later than 11.00 a.m. on 20 February 2011 (or, in the case of an adjournment, no later than 48 hours before the time fixed for holding the adjourned meeting).

8. Further information

Before taking any action, you should read the whole of this document (and any information incorporated by reference into it). In particular, your attention is drawn to the Risk Factors set out in Part II, the additional information set out in Part IV and the Notice of Extraordinary General Meeting of Paddy Power plc set out in Part VI of this Circular. You should not rely solely on the information set out in this letter.

9. Recommendation

The Board, which has been so advised by IBI Corporate Finance, considers the terms of the Acquisition to be fair and reasonable as far as Paddy Power Shareholders as a whole are concerned. In providing advice to the Board, IBI Corporate Finance has taken into account the commercial assessment of the Board. None of the Related Party Vendors are members of the Board and therefore have not taken part in the Board's deliberations.

The Board considers the Acquisition to be in the best interests of Shareholders as a whole and, accordingly, unanimously recommends that Paddy Power Shareholders vote in favour of the Resolution to be proposed at the Extraordinary General Meeting, as the Directors have irrevocably undertaken to do in respect of their own respective beneficial holdings of 5,012,476 Paddy Power Shares (representing, in aggregate, approximately 10.4% per cent of the Ordinary Shares in issue on 2 February 2011, the latest practicable date before publication of this Circular).

The Related Party Vendors will not vote on the Resolution approving the Acquisition and have undertaken to take all reasonable steps to ensure that their associates will not vote on the Resolution. The Related Party Vendors and their associates currently hold in aggregate 4,200 Paddy Power Shares as of 2 February 2011, the latest practicable date before publication of this Circular.

Yours faithfully



Nigel Northridge
Chairman

PART II

RISK FACTORS

A number of factors will affect the operating results, financial condition and prospects of the Paddy Power Group. This section describes the risk factors that are considered by the Board to be material in relation to Paddy Power. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not currently known to the Board, or which the Board currently deems immaterial, may also have an adverse effect on Paddy Power's operating results, financial condition and/or prospects. In such a case, the market price of Paddy Power Shares may decline and Paddy Power Shareholders could lose part or all of their investment. The information given is as of the date of this document and, except as required by the Irish Stock Exchange, the London Stock Exchange, the UK Listing Authority, the Listing Rules, or any other applicable law, regulations or regulatory authority, will not be updated.

Any forward-looking statements are made subject to the reservations specified under the cautionary note on "forward-looking statements" on page 2 of this document.

1. General risks relating to Paddy Power and, post-Acquisition, the Enlarged Group:

1.1. Deterioration of general economic conditions, particularly in the Group's primary markets of Ireland, the UK and Australia could adversely affect the Group's revenue and its financial performance

The Group relies on its customers having sufficient funds to spend on betting and gaming. During the recent economic downturn, Paddy Power has experienced a lower average stake per bet. For example, in constant currency, the average stake per sportsbook bet (i.e. typically wagers on the outcome of sporting events) decreased by 16% within the online division (ex Australia), by 10% within the Irish retail division and by 19% within the telephone division (ex Australia) in the six months ended 30 June 2010 versus the six months ended 30 June 2009 per the unaudited interim results for the six months ended 30 June 2010. Any deterioration of general economic conditions could significantly affect the Group's activity levels, in any of its divisions, and could therefore materially adversely affect its operations, financial performance and prospects. The Group's performance depends to a certain extent on a number of macro-economic factors outside the control of the Group which may impact the spending power of its customers. Factors which may impact on consumer spending in Paddy Power's markets (including the UK, Ireland and Australia) include, among other things, economic growth, unemployment rates, consumer confidence, taxation, inflation and the availability and cost of credit. In addition, consumer spending may be affected by natural disasters such as floods or drought.

After the proposed Acquisition, Paddy Power will have increased exposure to the Australian market. As a result, any deterioration in the business of the Sportsbet Group or economic conditions in Australia will have a greater effect on Paddy Power's financial performance.

1.2. Disruption to scheduled major sporting events or their broadcasting due to weather or other factors

The Group's business, financial condition and results of operations are impacted by the scheduling and live broadcasting of major sporting events. Disruptions to the scheduling and broadcasting of those sports may have a material impact on the Group's results. For example, the scheduling of major sporting events is of key importance to the Paddy Power Group including the English Grand National, the Cheltenham Festival, the Melbourne Spring Racing Carnival, the Premier League, the European Champions League, the Australian NFL and ARL and, at more infrequent intervals, the FIFA World Cup and UEFA European Football Championship. The cancellation, postponement or curtailment of any of these significant sporting events, for example due to adverse weather conditions, natural disasters, terrorist acts, other acts of war or hostility or the outbreak of infectious diseases (such as foot and mouth disease), or cancellation, disruption to, or postponement of, the live broadcasting and other coverage of such sporting events on television, online and elsewhere, for example due to contractual disputes, technological or communication problems, the insolvency of a major broadcaster or changes in the broadcaster's content selection, could materially adversely affect the operations, financial performance and prospects of the Group.

1.3. The Group's success may depend on the maintenance, development and enhancement of its brands

The success of the Group may depend on the maintenance, development and enhancement of its brands including the Paddy Power, Sportsbet and IAS brands. If the Group is unable to maintain, develop and enhance its brands, its ability to achieve its strategic goals (including the strategic objectives for its Australian operations) and expected financial performance may be adversely affected. In addition, increased competition (for example for potential customers' attention or for advertising opportunities), restriction of its media activities or other adverse developments in relation to its brands such as damaging coverage of the activities, products or

behaviour of the Group or the industry generally may require more management time and resource and greater levels of expenditure to maintain, develop and enhance the Group's brands, which may have a material adverse effect on its operations, financial performance and prospects. In its business-to-business activities, the Group may also be dependent on the success of its business-to-business customers' brand development and enhancement efforts.

1.4. The Group's success may depend on the effectiveness of its marketing

Customer acquisition and retention, and therefore the Group's business, financial condition and results of operations, may depend significantly upon the effectiveness of marketing activities. Ineffective and/or inefficient marketing activity undertaken by the Group, including, in particular, any wasted costs and/or missed opportunities associated therewith, may also have a material adverse effect on the Group's operations, financial performance and prospects. In its business-to-business activities, the Group may also be dependent on the success of its business-to-business customers' marketing activities.

1.5. The Group may experience gross win percentages below its expectations, particularly over shorter periods of time

The Group's revenue is predominantly derived from fixed-odds betting which means winnings are paid on the basis of the stake placed and the odds quoted before the conclusion of the event, rather than for example being determined after the event from a pool of stake money from which the operator's revenue is deducted. As a result, in the absence of a balanced book, fixed-odds betting returns are volatile – while the odds offered to customers are intended to provide a target average return (or gross win percentage) to the bookmaker over a large number of events, this outcome is not guaranteed, particularly over a smaller number of events. Paddy Power has from time to time experienced significant losses caused by unfavourable outcomes in individual events.

The Group may experience returns below its expected gross win percentage owing to, *inter alia*:

- a series of outcomes skewed towards its customers' betting selections in those events, particularly over shorter time periods (such as when a disproportionate number of 'favourites' win or a 'national' team/sportsperson from a major Paddy Power market wins). The Group's customers include some higher staking customers such as some of its sports risk management ('SRM') business customers which, although small in number, may place larger bets on individual selections, thereby having the potential to create more volatile results;
- structural changes lowering the Group's expected gross win percentages (such as offering more generous odds as a result of competition); or
- failures of the people, processes and/or systems which the Group has in place to manage its bookmaking risk, for example, by failing to apply appropriate limits or adjust odds.

Gross win percentages below the Group's expectations, or the failure to achieve minimum contracted gross win percentages under a business-to-business agreement, could have a material adverse effect on the Group's business, financial condition and results. Currently the only Paddy Power business-to-business contract is with PMU (see paragraph 1.18 of this Part II of the Circular for further details).

1.6. The Group operates in highly competitive markets and there can be no assurance that the Group will be able to compete effectively

If the Group is unable to compete effectively in its markets (including, *inter alia* online, licensed betting offices ('LBOs'), telephone and business-to-business activities), it may lose customers (or some of its current share of a customer's betting expenditure) and may not be able to attract new customers. The betting and gaming industry is highly competitive and may become more competitive over time, as the Australian market has done since the Group's original acquisition in 2009. The Group may be unable to predict, or plan adequately for, or combat the strategies of competitors. The Group may be unable to respond quickly or adequately to the changes in the industry brought on *inter alia* by new products, new technologies, new platforms, new distribution channels, new features, new services and/or new marketing, promotional and pricing strategies introduced by the Group's existing competitors or new competitors.

New and/or existing competitors may have significantly greater financial, technical, marketing and other resources or scale versus the Group. A loss of market share due to any or all of the above competitive threats could have a considerable adverse effect on the Group's business.

1.7. Demand for the Group's products may be adversely affected by changes in consumer behaviour or preferences

The Group is dependent on its ability to produce products that meet consumer demand across all the territories it operates in, including Ireland, the UK, Europe and Australia. In the future, the Group will be dependent on its ability to adapt its products to changes in consumer demands, behaviours and preferences and to manage its costs in doing so. There can be no guarantee that the Group will accurately predict changes in consumer

demands, behaviours and preferences or will be able to respond successfully or at reasonable cost to any such changes in trends or demands. A failure to do so may adversely affect the Group's business, results of operation, financial condition and/or prospects.

1.8. Risk of increased payment obligations to racing and sporting bodies

The Group has commercial, statutory and regulatory payment obligations to industry and governmental authorities in the jurisdictions in which it operates, connected with the funding, support and development of racing and other sports on which the Group may take bets. These levies may be specific to a particular area (e.g. horseracing) or generally applicable to the Group's business, and may be imposed as taxes (for example, on bets placed or other sources of revenue for the Group), or as other fees or duties relating to the Group's activities. If the number or amount of these payment obligations were to significantly increase, then this may have an adverse effect on the Group's business, results of operation, financial condition and/or prospects. For example, in the UK, bookmaker and racing interests have not been able to reach agreement on the 50th UK Horseracing Levy Scheme (which will run from 1 April 2011 to 31 March 2012), while the independent assessment by the government-appointed members of the Levy Board recommended increasing the payments required from bookmakers. This matter has now been referred to the Secretary of State at the Department of Culture, Media and Sport for determination. In Australia, Sportsbet has lodged an application for leave to appeal to the High Court the decision in its case against Racing New South Wales regarding product fees (see paragraph 11.2 of Part IV of this document). The level of exposure to payment obligations to racing and sporting bodies in Australia would be increased by the Acquisition.

1.9. The development and launch of new products, new technologies or new IT operating systems may not be achieved in a timely manner or at all and such products or technologies or systems may not be successful or may be uncompetitive

The success of Paddy Power to date can partly be attributed to its ability to develop and launch new products and services, utilising new and innovative technologies, either developed in-house or purchased externally. Launching a strong mobile phone betting offering, continuous enhancement of paddy.com and its other websites and successfully embracing new social media such as youtube, Twitter and Facebook are examples of typical and ongoing technology challenges. In Australia, the Group is currently upgrading part of both Sportsbet and IAS's core betting systems to better align them with the Group's core betting systems used in Europe. There can be no certainty that the Group will continue to be able to develop or purchase technology, or successfully implement systems, to keep up-to-date with industry developments and to launch new products, services or technologies in a timely and competitive manner or at all. In addition, there can be no certainty that such products or service features will be popular with customers or that such products or new technologies will be reliable, robust and not susceptible to viruses or failure, and available at a reasonable cost. Any of these factors could have a material adverse effect on the Group's operations, financial performance and prospects.

The Group's competitors may have greater internal development resources or other capabilities to implement new technologies before the Group is able to do so (either directly or through external suppliers) or the Group's competitors may implement them in a more appealing way. There can be no certainty that existing, proposed or as yet undeveloped technologies will not become dominant in the future or otherwise displace the Group's services or render them obsolete. If the Group is not able to compete effectively with current or future competitors with earlier or more appealing technology, this could have a material adverse effect on the Group's operations, financial performance and prospects.

1.10. The Group's efforts to expand its customer base in new geographic markets may not be successful

As a result of social, political and legal differences between jurisdictions, successful entry in a new jurisdiction will often involve local adaptations to the Group's overall marketing, product and/or operational strategy, whether in Australia, Europe or elsewhere. Future entry into new geographic markets by Paddy Power may not be successful. For example, the Group's marketing strategy or product offering in new geographic markets may not be well received by target customers or may not otherwise be socially acceptable or appealing in that jurisdiction. The Group may be unable to deal successfully with a new and different local operating environment and may be subject to unfamiliar restrictive local laws and regulations which may include specific technological requirements that are incompatible with the Group's technology or business model. The Group may also face local state monopolies or other local vested interests that oppose the entry of new operators and/or already have substantial local market share. In addition, the Group may be required to commit to paying large up-front fees for future betting and gaming licences. The Group may be unable to secure new licences on acceptable terms where required in order to access customers in any given jurisdiction. Each of these factors, or other factors adversely affecting the Group's ability to successfully enter new markets, could have a material adverse effect on the Group's operations, financial performance and prospects.

1.11. The Group's ability to develop markets may be adversely impacted by reduced levels of broadband access and internet penetration

Broadband access and internet penetration may be negatively affected by various factors, including the introduction of new media or communications channels or the growth of existing alternative channels (such as mobile and television). In addition, broadband access and internet penetration may be adversely affected by difficult global economic conditions or the cancellation of government programmes to expand broadband access. There is a significant risk that a reduction in the growth of, or a decline in, broadband access and internet penetration could materially adversely affect the Group's ability to develop new or existing markets.

1.12. The failure of one or more third party suppliers (including for example suppliers of certain broadcast pictures, betting and other software/technology) to deliver a key service or product to the Group may have a material adverse impact on the Group

Paddy Power has key contractual relationships with a number of third parties, including for example suppliers of certain broadcast pictures, betting and other software/technology, marketing affiliates, banks, insurers and payment processors (the potential risk identified here in respect of banks relates to receipt and payment processing related services only). The risk of failure of one or more of such key third party suppliers to continue to supply its products or services, or to supply them on acceptable terms to the Group may have a material adverse impact on the financial and operational performance of the Group. Similarly, the failure of one or more of such third parties to fulfil its obligations to the Group for any other reason may also cause significant disruption and have a material adverse effect on its operations, financial performance and prospects.

The Group is dependent, *inter alia*, on high standards of payment processing, in both the receipt of customer deposits and the payment of customer withdrawals. The provision of convenient, trusted, fast, competitive and effective payment processing services to the Group's customers and potential customers is an important success factor. If there is any deterioration in the quality of the payment processing services provided to the Group's customers or any interruption to those services, or if such services are only available at an increased cost to the Group or its customers, this may have a material adverse effect on the Group's operations, financial performance and prospects.

1.13. The Group depends on technology and advanced information systems, which may fail or be subject to disruption or require greater than expected resources to be maintained

The integrity, reliability and operational performance of the Group's IT systems is critical to all its business. The Group's IT systems may be damaged or interrupted by increases in usage, human error, natural hazards or disasters or similarly disruptive events. Any failure of the Group's IT infrastructure or the telecommunications and/or other third party infrastructure on which such infrastructure relies could lead to significant costs and disruptions that could reduce revenue, harm the Company's business reputation and have a material adverse effect on the operations, financial performance and prospects of the Group.

Business continuity procedures, disaster recovery systems and security measures in the event of network or IT failure or disruption may not be effective to ensure that the Group is able to carry on its business in the ordinary course if they fail or are disrupted, and they may not ensure that the Group can anticipate, prevent or mitigate a material adverse effect on its operations, financial performance and prospects resulting from such failure or disruption.

In addition, measures to prevent and/or detect any intrusions or other security breaches due to sabotage, hackers, viruses, and cyber crime may not be effective, which could have a material adverse effect on the operations, financial performance and prospects of the Group.

1.14. Significant resources may be required to protect the Group against network failure and disruption

The Group may at any time be required to expend significant capital or other resources (including staff and management time and resources) to protect the Group against network or IT failure or disruption, including the replacement or upgrading of its existing business continuity systems, procedures and security measures. If replacements, expansions, upgrades and/or other maintenance are not implemented successfully or efficiently or there are operational failures, the quality of the Group's products and the service experienced by its customers will be adversely impacted. If, as a result, customers were to reduce or stop their use of the Group's products and services, this could have a material adverse effect on its operations, financial performance and prospects.

1.15. Failure to adequately protect customer account information could have a material adverse effect on the Group

The Group processes personal customer data (including name, address, age, bank details and betting and gaming history) as part of its business and therefore must comply with strict data protection and privacy laws. Such laws restrict the Group's ability to collect and use personal information relating to customers and potential customers. Notwithstanding the Group's IT and data security and other systems, it is exposed to the risk that this

data could be wrongfully accessed and/or used, whether by employees, customers or other third parties, or otherwise lost or disclosed or processed in breach of data protection regulation. If the Group or any of the third party service providers on which it relies fails to transmit customer information and payment details online in a secure manner or if any such loss of personal customer data were otherwise to occur, the Group could face liability under data protection laws. This could also result in the loss of the goodwill of its customers and deter new and existing customers. Each of these factors could have a material adverse effect on the Group's operations, financial performance and prospects.

1.16. The Group may face difficulties in protecting its intellectual property or may face claims alleging infringement of intellectual property rights held by others

The Directors consider the brands, know-how, copyright in software, copyright in data, trade marks, domain names and other intellectual property of Paddy Power to be a competitive advantage and key to the Group's prospects. The Group's failure or inability to protect its intellectual property rights, including its rights in know-how or trade secrets, could have a material adverse effect on the Group's operations, financial performance and prospects.

The Group's business activities, products, systems and brands may be subject to claims alleging that they infringe the proprietary rights of others. In common with other bookmakers, the Group has disputed the claims of certain sports and racing bodies and database owners that the use of sports and racing data by the Group requires a copyright or other licence. Within the European Union, the legal position is unclear and there are ongoing developments before the European Court of Justice (e.g. *Football Dataco Limited and others v Britten Pools Limited and others*) which may clarify the position. If the courts finally determine that the use of sports data by EU bookmakers requires a licence, this could result in increased costs for the Group, which will be required to review its current position accordingly. Within Australia and other parts of the world, disputes and litigation with racing and sporting bodies over bookmakers' payment obligations to racing and sporting bodies may include claims over rights to data that, for example, the Group publishes (see Risk 1.8). More generally, from time to time, the Group also receives notices from third parties alleging that they have patent or other rights which may be infringed by the Group. However, the Group does not believe it is infringing such rights and there is currently no litigation against the Group in respect of such claims. Claims and litigation of this nature, if their resolution is adverse to the Group, could subject the Group to significant liability for damages (or an account of profits) and legal costs and could result in invalidation of its proprietary rights, loss of rights to offer a particular product or use software or other intellectual property rights or technology that are material to its business, distract management, and/or require it to enter into costly and burdensome royalty and licensing agreements. Such royalty and licensing agreements, if required, may not be available on terms acceptable to the Group, or may not be available at all. The occurrence of any of these events could have a material adverse effect on the Group's operations, financial performance and prospects.

1.17. The loss of certain key members of the Group's senior management team and staff could have adverse consequences on the Group

The successful operation of the Group relies on the expertise, capabilities and focus of its senior management and personnel. The departure of a key member of management could, therefore, have a detrimental effect on the operating performance of the Group and there can be no certainty that any such employee could be replaced in a timely manner by a suitably experienced candidate.

1.18. A failure to deliver on business-to-business obligations or deterioration in a business-to-business ('B2B') relationship could adversely affect the development of the Group's activities

The Group is engaged in business-to-business activities (i.e. where the customer is another business rather than a retail customer). In particular, Paddy Power supplies PMU (the French pari-mutuel horse racing operator) with risk management and pricing expertise for its online sports betting business in France. The successful delivery of the service relies *inter alia* on Paddy Power's ability to adapt and maintain its processes and technology to reliably provide the required localised betting events and prices, manage the associated bookmaking risks (including achieving at least the minimum gross win percentage specified in the relevant French legislation to avoid statutory fines) and settle the events correctly. The Group's credentials and the success of its B2B strategy are dependent on successful operations in all of these areas. A failure to deliver on business-to-business obligations or deterioration in a business-to-business relationship could have a material adverse impact on the Group's business, results of operation, financial condition, business strategy and/or prospects.

1.19. The Group may face, or be required to make, litigation claims in the future

Paragraphs 1.16, 2.1 and 2.2 of this Part II, and paragraph 11.2 of Part IV of this Circular describe particular areas in relation to which the Group is or may become involved in litigation. In addition to litigation arising from the legal and regulatory obligations imposed on the Group's business, or in relation to the Group's or third parties' intellectual property, like any business the Group may be subject to claims from customers, contractual counterparties or others, and may be obliged to make claims against customers, contractual counterparties or

others to enforce obligations owed to the Group. The only material litigation to which the Group is subject is disclosed in paragraph 11.2 of Part IV of this Circular. However, if the Group were to become involved, whether as plaintiff or defendant, in significant litigation then liability for damages and/or legal costs could result that might have an adverse effect on the Group's business, results of operation, financial condition and/or prospects.

2. Regulatory Risks:

2.1. The Group's operations are subject to extensive regulation. Failure to comply with regulatory obligations and/or changes to the regulatory framework or to the approach of regulatory authorities could have a material adverse effect on the Group's results, financial condition and prospects

During the first six months of 2010, 98% of the Group's operating profit came from customers located in the United Kingdom, Ireland or Australia (as per the Group's unaudited interim financial statements for the six months ended 30 June 2010). In these key jurisdictions, the Group's businesses are heavily regulated, although the manner of this regulation varies. For example, betting and gaming activity in Ireland (where legislative change in this area is expected soon) remains regulated under older statutes such as the Betting Act 1931 and the Gaming and Lotteries Act 1956, statutes that do not address issues around the internet or remote betting. In contrast, in the United Kingdom the Gambling Act 2005 is a comprehensive modern legislative framework governing all types of betting and gaming. Under applicable legislation, various permits, licenses, findings of suitability and approvals are required to be held by the Group and may be required to be renewed periodically. Regulatory authorities often have a significant degree of discretion in the granting, renewing, amending and revocation of these permits, licences and approvals. Changes to the regulatory landscape, or the terms of any licences or permits held by the Group, or the approach of regulatory authorities, or the revocation or amendment of licences or permits held by the Group may result in additional compliance and litigation costs for the Group, or could restrict the range of products and services it offers and the value of its assets, and/or require the Group to change certain of its business practices in some or all of the jurisdictions in which it operates.

2.2 The Group operates across multiple jurisdictions in an industry which is subject to a diverse and evolving range of legal regulation

Many countries regulate or, in some cases, prohibit gambling activities. Historically, the regulation of the gambling industry has been organised at a national level, and no international gambling regulatory regime exists. As a result, outside the key jurisdictions of Ireland, the United Kingdom and Australia, the Group's businesses are subject to diverse licensing and other regulatory and statutory requirements, that are complex, regularly changing and can be uncertain. For example, European Union laws on gambling are not harmonised and so each Member State adopts its own regulatory regime. In recent years, many countries such as Germany, France, Norway and Italy have introduced new laws governing gambling activity in those jurisdictions. In the United States, the Unlawful Internet Gaming Enforcement Act of 2006 prohibits online gambling. The Group's internal and external legal counsel are constantly reviewing the ever-changing regulatory framework across all jurisdictions where the Group operates or may wish to operate in the future and determinations as to the application of relevant prohibitions are made on a case by case basis. Where a prohibition is deemed to apply, technical steps are introduced to effect compliance if required. However, the infringement by the Group of the domestic regulatory regimes of other countries (even if inadvertent) or changes to those regulatory frameworks may result in additional compliance and litigation costs for the Group, or could restrict the range of products and services it offers and the value of its assets, and/or require the Group to change certain of its business practices in some or all of the jurisdictions in which it operates.

3. Financial Risks:

3.1. The Group could be adversely affected by changes in current tax law or practice, in the areas of betting tax, value added tax, payroll, corporation or other taxes, particularly in Ireland, the UK, Australia and the Isle of Man

The Group is subject to changes in tax legislation (or challenges or changes to its interpretation or implementation of existing tax legislation and/or compliance arrangements) in a number of jurisdictions, including Ireland, the UK, Australia and the Isle of Man (where the Group operates part of its online, telephone and other business activities). Any such change or challenge to the Group's current tax arrangements could have a material adverse impact on the Group's business, results of operation, financial condition, business strategy and/or prospects. For example, the Irish government is in the process of implementing a betting tax on online sport bets by Irish residents, even if the bets are accepted outside of Ireland - a similar change in betting tax policy by the UK government would likely create a very significant additional tax burden on the Group. Any such change or challenge to the Group's current tax arrangements may also negatively impact the Group's ability to deliver shareholder value, deliver anticipated synergies, pay dividends, make future acquisitions and achieve business targets.

3.2. The Group will be exposed to market risks - such as exchange rate and interest rate risks – and credit risks

The Group is exposed to currency risk in respect of the conversion of its future expected profits which are denominated in currencies other than its euro functional currency into euro (predominantly profits in pounds sterling, Australian dollars and US dollars). In addition, currency risk may arise on the translation of financial assets and financial liabilities 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, the pound sterling, the Australian dollar and the US dollar (the latter driven by poker play denominated in dollars, not transactions with US residents). The Group aims to maintain a naturally hedged balance sheet by broadly matching foreign currency denominated liabilities, primarily customer balances, with 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. This 'balance sheet' hedging does not mitigate the ongoing foreign currency profit conversion exposure which could result in a material adverse effect on the Group.

The Group had net cash balances (net of modest debt balances) of €159 million including customer balances, or €116 million excluding customer balances, as at 31 December 2010 (based on its unaudited management accounts at that date). The Group is exposed to interest rate risk affecting the income earned on such deposits. In addition, in the future, it is possible that the level of debt could increase, exposing the Group to interest rate risk on borrowings. These factors may have an adverse effect on the Group's business, results of operation, financial condition and/or prospects.

The Group is also exposed to credit risk arising from its deposits with banks and other funds placed with or due from external counterparties, credit betting customers and from customer chargebacks in respect of valid transactions (chargebacks occur when customers seek to void credit card or other payment transactions). Paddy Power's credit exposure to customers is limited and arises primarily from its activities in Australia where the provision of credit for betting is common. As at 30 June 2010, the net amount due from private individuals connected with the provision of credit betting by the Group was €4.3 million (within its total trade receivables of €8.0 million) based on the unaudited interim results for the six months ended 30 June 2010. These factors may have an adverse effect on the Group's business, results of operation, financial condition and/or prospects.

3.3. Reduced cash balances post Acquisition may limit expansion opportunities

The consideration for the Acquisition of the remaining minority interest in Sportsbet will reduce the cash balances of the Group. As at 31 December 2010, the Group had net cash balances held in various bank accounts in Europe and Australia (net of debt balances of €4.5 million) of €159 million including customer balances, or €116 million excluding customer balances, based on its unaudited management accounts at that date. Arising from the acquisition, the following cash payments are to be made at, or around, Completion: upfront cash consideration of AUD110.6 million (€84.2 million); an AUD4.0 million (€3.0 million) obligation to certain Sportsbet employees and the special dividend payable to the Vendors of AUD8.5 million (€6.5 million). This will reduce the cash balances by AUD123.1 million (€93.7 million) and, therefore, may limit the scope for further expansion or force the Group to pass over other development or acquisition opportunities.

3.4. Paddy Power has significant operating lease commitments in relation to its licensed betting offices ('LBO')

Paddy Power has significant long term lease obligations in relation to its LBO estate. In accordance with current IFRS, these commitments are not reflected on its balance sheet but disclosed within the notes to its financial statements. As at 30 June 2010, the Group had annual commitments of €16.4 million and total commitments of €178.0 million in respect of non-cancellable operating leases on properties based on its unaudited interim results for the six months ended 30 June 2010. If these obligations cannot be terminated or transferred to another entity when Paddy Power wishes to cease operating the relevant LBOs, then the Group will have ongoing financial and other obligations in relation to premises that no longer generate income.

4. Additional Risks relating to the Acquisition:

4.1. The Group may not realise the anticipated benefits of the Acquisition and this may have an adverse effect on the Group's business or financial results

The estimates underpinning the statement in this document of expected increased earnings per share resulting from the Acquisition are based on the Directors' assessment of information currently available and may prove to be incorrect or reverse in later time periods. For example, after taking legal and tax advice, the Group has made certain assumptions on its future rate of corporation tax in Australia, which may prove inaccurate. The Group may not realise any anticipated benefits of the Acquisition in the anticipated time scale, at all, or relative to the alternative possibility of acquiring 100% of Sportsbet under its call option under the terms of the 2009 Acquisition.

4.2. The completion of the Acquisition is subject to conditions and may not occur

Completion of the Acquisition remains conditional upon the approval of Paddy Power Shareholders and on the approval of the Treasurer of the Commonwealth of Australia under the Foreign Acquisitions and Takeovers Act 1975, which applies to acquisitions of shares in Australian companies by non-Australian investors. As at the date of this Circular, it is anticipated that the approval of the Treasurer of the Commonwealth of Australia will be given for the Acquisition, but this approval is not in place at the date of this document. In the event that the Resolution is not passed and the Acquisition does not complete, the Company will still hold a call option to increase its shareholding in Sportsbet to 100%, exercisable in either 2012 or 2013 (further detail in relation to this call option is set out in paragraph 7.1 of Part IV of this Circular).

4.3. The risks summarised elsewhere in this Part II are also relevant to the Acquisition, and to the increased exposure to Australia that will result from the Acquisition

The Acquisition will increase the exposure of the Paddy Power Group to Australia. All of the risks summarised in this Part II in relation to the Group's business generally are also applicable to its Australian operations, including in particular:

- Paragraphs 1.1 and 1.2: Recent floods and storms in Queensland are an example of how adverse weather conditions and natural disasters may adversely affect consumer spending, and the scheduling of sporting events, in the jurisdictions in which the Group operates.
- Paragraph 1.3 and 1.6: The Australian market is highly competitive, and may become more competitive over time, as the Australian market has done since the Group's original acquisition in 2009. Increased competition, adversely impacts, *inter alia*, on the maintenance, development and enhancement of the Group's brands, for example, by increasing competition for potential customers' attention and/or for advertising opportunities.
- Paragraph 1.8: In Australia, Sportsbet has lodged an application for leave to appeal to the High Court the decision in its case against Racing New South Wales regarding product fees (see paragraph 11.2 of Part IV of this document). If Sportsbet is not given leave to appeal, or loses the appeal, then the current fee structure will continue, and some other Australian states' racing authorities and/or sports bodies (which currently charge product fees on a gross profits basis) may decide to move to a system similar to that of New South Wales, either in 2012 when the main such existing product fee agreements expire or possibly sooner where no fixed term agreement exists. Whether this is likely to happen, to what extent and with what impact is unknown at this stage; however if it did happen it would likely increase Sportsbet's costs.
- Paragraph 1.13: Currently, the Group is migrating the IT operating platform for Sportsbet and IAS to an upgraded system. The failure of this migration, or problems with the upgraded system could lead to significant costs and disruptions that could reduce revenue, harm the Company's business reputation and have a material adverse effect on the operations, financial performance and prospects of the Group.
- Paragraph 1.16: In Australia, disputes and litigation with racing and sporting bodies over bookmakers' payment obligations to racing and sporting bodies include claims over rights to data that, for example, the Group publishes (see also paragraph 1.8).
- Paragraph 1.17: The expertise, capabilities and focus of the senior management at Sportsbet are important to the success of the Sportsbet Group. The contingent consideration for the Acquisition and the Group's employee compensation and incentive arrangements are intended to incentivise Sportsbet's senior management and align their interests with those of Paddy Power but these objectives might fail to be achieved thereby adversely impacting the performance of Sportsbet.
- Paragraphs 2.1 and 2.2: The New South Wales litigation referred to in paragraph 1.8 of this Part II and paragraph 11.2 of Part IV of this document demonstrates the potential impact of regulatory enforcement on the Group's business. Australian states have different fee structures, and different approaches to other regulatory matters (e.g. New South Wales has recently introduced specific legislation which has stopped Sportsbet and its retail business partners from operating "Betbox" (a touch screen computer that provides access to Sportsbet's wagering services via the internet) at retail premises in New South Wales although these terminals are permitted by the Northern Territory regulator). This divergence in the attitude of regulators can result in additional costs for the Group, whether through litigation and compliance costs, or because regulatory action results in the withdrawal of a particular product or service.

- Paragraphs 3.1 and 3.2: The financial risks described in paragraphs 3.1 and 3.2 of this Part II of the Circular, including those related to changes in taxation and currency risk on the conversion of future expected profits, are, as described, applicable to the Group's Australian activities.

5. Risks relating to the Ordinary Shares:

5.1. The Paddy Power Ordinary Share price could be subject to significant fluctuations

The value of an investment in the shares of Paddy Power may go down as well as up. The market value of the shares can fluctuate and may not always reflect the underlying asset value. A number of factors may impact on the share price, including, but not limited to, (i) variations in the Group's operating results, (ii) possible differences between the actual results and the results that were expected by investors and analysts, (iii) the Group's implementation of strategic and operational plans, (iv) fluctuations in the trading volume of the Group's shares resulting in changes in the market price for such shares without any apparent correlation to the earnings of the Group, and (v) general market conditions.

5.2. Any future non-pre-emptive Ordinary Share issues would dilute Ordinary Shareholders

It is possible that, in the future, Paddy Power may decide to issue/offer Ordinary Shares on a non-pre-emptive basis. Consequently, the proportionate ownership and voting interests of existing Paddy Power Shareholders would be diluted and could have an adverse effect on the market price of Ordinary Shares as a whole. In addition, significant sales of Ordinary Shares by major shareholders, in the absence of market demand for such shares, could have an adverse effect on the market price of the Ordinary Shares as a whole.

5.3. The ability of shareholders outside Ireland to enforce their pre-emption or other rights may be restricted by the securities laws of other jurisdictions

Paddy Power is incorporated in Ireland. Irish company law grants Paddy Power Shareholders pre-emption rights on offers of Paddy Power Shares, which may be dis-applied by a shareholder resolution. However, securities laws of certain jurisdictions may restrict the Company's ability to allow participation by Paddy Power Shareholders in those jurisdictions in future offerings, or the exercise of other rights by those shareholders. In particular, Paddy Power Shareholders in the United States may not be entitled to exercise pre-emption rights unless those rights and Paddy Power Shares are registered under the US Securities Acts, or the rights and Paddy Power Shares are offered pursuant to an exemption from, or transaction not subject to, the registration requirements of the US Securities Act of 1933 as amended.

5.4. The dividend policy of Paddy Power will be dependent on the financial condition of the Group

Paddy Power will only be able to pay dividends to holders of its ordinary shares to the extent that it has sufficient distributable reserves and cash available for this purpose and Paddy Power may decide to use all or part of such cash for another purpose, for example, to invest in and further develop the Group's business. Upon Completion of the Acquisition, the net cash balances will reduce by AUD123.1 million (€93.7 million). There is no guarantee that Paddy Power will be able to make dividend payments in the future or to sustain dividend payments at any particular level.

PART III

HISTORICAL FINANCIAL INFORMATION ON SPORTSBET

1. Basis of Preparation

The following financial information presents the consolidated financial statements of Sportsbet Pty Limited and its subsidiaries (together “the Group”) for the two years ended 30 June 2009 and 30 June 2010 as prepared in accordance with:

- International Financial Reporting Standards as adopted by the EU and effective for accounting periods ending on or before 30 June 2010 except that the revised IFRS 3, ‘Business Combinations (2008)’ has not been adopted as described below; and
- the accounting policies adopted by Paddy Power plc in preparing its 31 December 2009 annual financial statements.

In preparing these financial statements the Group has, throughout the entire accounting period from 1 July 2008 to 30 June 2010, applied IFRS 3, ‘Business Combinations (2004)’ (which applied to transactions completing during financial years ending 31 December 2009, in line with the last audited financial statements of Paddy Power plc). Revised IFRS 3, ‘Business Combinations (2008)’ applies to transactions completing in financial periods commencing on or after 1 July 2009, however this has not been applied to the Group. The impact of applying IFRS 3 (2004), as applied to transactions completing during financial years ending 31 December 2009, has been the capitalisation of A\$392,000 in the year ended 30 June 2010 related to expenses incurred in the acquisition of International All Sports Limited (see Note 15).

The financial information has been extracted from the audited financial statements of the Group for the years ended 30 June 2009 and 30 June 2010, adjusted to reflect the application of International Financial Reporting Standards as set out above (which did not constitute a material adjustment).

2. Financial Information for Sportsbet for the financial years ended 30 June 2009 and 30 June 2010

SPORTSBET PTY LIMITED AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED 30 JUNE 2010 AND 30 JUNE 2009

CONSOLIDATED INCOME STATEMENT Year ended 30 June 2010

	<i>Note</i>	2010 A\$'000	2009 A\$'000
Amounts staked by customers		1,631,039	961,082
Continuing operations			
Income	<i>4</i>	116,864	59,651
Direct betting costs	<i>5</i>	(32,851)	(20,325)
Gross profit		84,013	39,326
Employee expenses	<i>6</i>	(19,742)	(8,678)
Marketing expenses		(19,522)	(11,665)
Technology and communications expenses		(4,703)	(1,793)
Depreciation and amortisation		(3,840)	(1,701)
Other expenses, net	<i>7</i>	(15,116)	(8,271)
Total operating expenses		(62,923)	(32,108)
Operating profit		21,090	7,218
Financial income	<i>8</i>	1,135	1,906
Financial expense	<i>8</i>	(1,580)	(140)
Profit before tax		20,645	8,984
Income tax expense	<i>10</i>	(6,192)	(2,801)
Profit for the year		14,453	6,183
Attributable to:			
Equity holders of the Company		14,453	6,183
		14,453	6,183

Notes 1 to 33 in this paragraph 2 of this Part III of the Circular form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 30 June 2010

	<i>Note</i>	2010	2009
		A\$'000	A\$'000
Changes in fair value of available-for-sale financial assets	<i>14</i>	-	1,784
Comprehensive income recognised directly in equity		-	1,784
Profit for the year		14,453	6,183
Total comprehensive income for the year		14,453	7,967
Attributable to:			
Equity holders of the Company		14,453	7,967
Total comprehensive income for the year		14,453	7,967

Notes 1 to 33 in this paragraph 2 of this Part III of the Circular form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2010

	<i>Note</i>	30 June 2010	30 June 2009
		A\$'000	A\$'000
Assets			
Property, plant and equipment	<i>11</i>	7,031	3,060
Intangible assets	<i>12</i>	12,177	474
Goodwill	<i>13</i>	29,023	-
Financial assets	<i>14</i>	2,081	9,075
Deferred tax assets, net	<i>20</i>	3,889	637
Total non current assets		54,201	13,246
Trade and other receivables	<i>16</i>	13,966	24,101
Cash and cash equivalents	<i>17</i>	48,146	10,659
Total current assets		62,112	34,760
Total assets		116,313	48,006
Equity			
Issued share capital		1,000	1,000
Other reserves		1,379	1,784
Retained earnings		26,786	21,318
Total equity – attributable to equity holders of the Company		29,165	24,102
Liabilities			
Trade and other payables	<i>21</i>	49,866	18,640
Derivative financial liabilities – sports betting open positions	<i>21</i>	5,279	2,211
Provisions	<i>22</i>	1,305	-
Borrowings	<i>23</i>	16,570	562
Current tax payable		2,415	1,210
Total current liabilities		75,435	22,623
Provisions	<i>22</i>	277	245
Borrowings	<i>23</i>	11,436	1,036
Total non current liabilities		11,713	1,281
Total liabilities		87,148	23,904
Total equity and liabilities		116,313	48,006

Notes 1 to 33 in this paragraph 2 of this Part III of the Circular form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 30 June 2010

	<i>Note</i>	2010	2009
		A\$'000	A\$'000
Cash flows from operating activities			
Profit before tax		20,645	8,984
Financial income		(1,135)	(1,906)
Financial expense		1,580	140
Depreciation and amortisation		3,840	1,701
(Gain) / loss on disposal of property, plant and equipment		(22)	624
Cash from operations before changes in working capital		24,908	9,543
Decrease / (increase) in trade and other receivables		2,743	(678)
Increase in trade and other payables		13,050	7,464
Cash generated from operations		40,701	16,329
Income taxes paid		(6,352)	(4,623)
Net cash from operating activities		34,349	11,706
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,425)	(701)
Purchase of intangible assets		(2,586)	-
Purchase of businesses, net of cash acquired	15	(16,010)	-
Proceeds from disposal of property, plant and equipment and intangible assets		417	-
Purchase of available-for-sale financial assets	14	-	(5,788)
Interest received		1,082	1,906
Net cash used in investing activities		(21,522)	(4,583)
Cash flows from financing activities			
Dividends paid		-	-
Movements in non current restricted cash balances	14	443	143
Proceeds from secured bank loan		20,000	-
Proceeds from shareholder loans – Paddy Power plc		7,315	-
Proceeds from shareholder loans – non-controlling shareholders		4,716	-
Shareholder loans provided – non-controlling shareholders		-	(4,587)
Secured bank loan repayments		(5,000)	-
Finance lease repayments		(1,521)	(445)
Interest paid		(1,580)	(140)
Net cash provided by / (used in) financing activities		24,373	(5,029)
Net increase in cash and cash equivalents		37,200	2,094
Cash and cash equivalents at start of year		10,659	8,565
Foreign currency exchange gain in cash and cash equivalents		287	-
Cash and cash equivalents at end of year	17	48,146	10,659

Notes 1 to 33 in this paragraph 2 of this Part III of the Circular form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 30 June 2010

	Number of ordinary shares in issue	Issued share capital A\$'000	Fair value reserve A\$'000	Capital contribution reserve A\$'000	Retained earnings A\$'000	Total A\$'000
Balance at 1 July 2009	12,500	1,000	1,784	-	21,318	24,102
Total comprehensive income – income statement	-	-	-	-	14,453	14,453
Total comprehensive income – fair value changes	-	-	-	-	-	-
Business combinations – IAS	-	-	(1,784)	-	2,946	1,162
Discount on loan from shareholders (Note 23)	-	-	-	1,379	260	1,639
Dividends to shareholders (Note 19)	-	-	-	-	(12,191)	(12,191)
Balance at 30 June 2010	12,500	1,000	-	1,379	26,786	29,165

	Number of ordinary shares in issue	Issued share capital A\$'000	Fair value reserve A\$'000	Capital contribution reserve A\$'000	Retained earnings A\$'000	Total A\$'000
Balance at 1 July 2008	12,500	1,000	-	-	19,135	20,135
Total comprehensive income – income statement	-	-	-	-	6,183	6,183
Total comprehensive income – fair value changes (Note 18)	-	-	1,784	-	-	1,784
Dividends to shareholders (Note 19)	-	-	-	-	(4,000)	(4,000)
Balance at 30 June 2009	12,500	1,000	1,784	-	21,318	24,102

Notes 1 to 33 in this paragraph 2 of this Part III of the Circular form part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sportsbet Pty Limited (the 'Company') is a company domiciled in Australia. The address of the Company's registered office is:

No 7, Level 1
Brett Dixon House
Fannie Bay Racecourse
Dick Ward Drive
Fannie Bay, Northern Territory, 0820

The consolidated financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the 'Group' and individually as 'Group entities'). The Group's principal activity during the year was to operate as a licensed sports and racing bookmaker. The Company is 60.8% owned by Paddy Power plc, a public limited company incorporated and domiciled in the Republic of Ireland and which has its primary listing on the Irish Stock Exchange.

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 (which are recorded as derivative financial instruments) and available-for-sale financial assets, all of which are stated at fair value. The consolidated financial statements are presented in Australian Dollars ('A\$'), the Company's functional currency, rounded to the nearest thousand.

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 30 June 2010 except that the revised IFRS 3, 'Business Combinations (2008)' has not been adopted as described below. The accounting policies set out below are consistent with the accounting policies adopted by Paddy Power plc in preparing its 31 December 2009 annual financial statements.

In preparing these financial statements the Group has, throughout the entire accounting period from 1 July 2008 to 30 June 2010, applied IFRS 3, 'Business Combinations (2004)' (which applied to transactions completing during financial years ending 31 December 2009, in line with the last audited financial statements of Paddy Power plc). Revised IFRS 3, 'Business Combinations (2008)' applies to transactions completing in financial periods commencing on or after 1 July 2009, however this has not been applied by the Group. The impact of applying IFRS 3 (2004) throughout the accounting period, has been the capitalisation of A\$392,000 related to expenses incurred in the acquisition of International All Sports Limited (see Note 15).

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently during the year and prior year.

Recent accounting pronouncements

The IFRSs adopted by the EU applied by the Company and Group in the preparation of these consolidated financial statements are those that were effective for accounting periods ending on or before 30 June 2010 except as noted above. The IASB and the International Financial Reporting Interpretations Committee ('IFRIC') have issued the following standards and interpretations which were effective and significant for the Group in the year ended 30 June 2010:

IFRS 8, 'Operating Segments'

This standard is effective from 1 July 2009 and replaces IAS 14 'Segment Reporting'. IFRS 8 introduces the 'management approach' to segment reporting and requires disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

Revised IAS 1 – IAS 1(2007) 'Presentation of Financial Statements'

This revised standard is effective from 1 July 2009 and is aimed at improving the ability of users of financial reports to analyse and compare information presented in financial statements. Among the changes introduced by the revised standard are new titles for a number of the primary financial statements in order to reflect their function more clearly; the balance sheet now becomes the 'statement of financial position', while the statement of recognised income and expense is now known as the 'statement of comprehensive income'. The Group has adopted the 'two separate statements approach' of presenting items of income and expense and the components of other comprehensive income. All changes in equity arising from transactions with owners in their capacity as owners are required to be presented separately from non-owner changes in equity in the 'consolidated statement of changes in equity'.

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

Revised IAS 27, 'Consolidated and Separate Financial Statements (2008)'

From 1 July 2009, the Group has applied IAS 27, 'Consolidated and Separate Financial Statements (2008)' in accounting for acquisitions of non-controlling interests. From 1 July 2009, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised. Previously, goodwill arising on the acquisition of non-controlling interests in a subsidiary would have been recognised, and represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction. This did not have any significant impact on Group reporting.

IFRIC 17, 'Distribution of Non-cash Assets to Owners'

This did not have any significant impact on Group reporting.

Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement': Eligible Hedged Items.

This did not have any significant impact on Group reporting.

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

- Revised IFRS 3, 'Business Combinations (2008)'
The revised standard (effective for accounting periods beginning on or after 1 July 2009 but not adopted in these financial statements) will impact on the amounts recorded in goodwill and in the income statement for business combinations, and incorporates the following changes that are likely to be relevant to the Group's operations:
 - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
 - Contingent consideration is measured at fair value, with subsequent changes therein recognised in profit or loss.
 - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
 - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
 - Any non-controlling interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Amendments to IFRS 5, 'Measurement of Non-current Assets Held for Resale and Discontinued Operations' (effective for the Group's 2011 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Amendment to IAS 7, 'Classification of Expenditures on Unrecognised Assets' (effective for the Group's 2011 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Amendments to IAS 17, 'Classification of Leases of Land and Buildings' (effective for the Group's 2011 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.

Basis of consolidation

The Group's financial statements consolidate the financial statements of Sportsbet Pty Limited 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.

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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

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 33:

- Note 13 – measurement of the recoverable amounts of cash generating units containing goodwill and indefinite life brands intangible assets.
- Note 15 – business combinations.
- Note 21 – sports betting open positions.
- Note 24 – credit risk arising from trade and other receivables.

Income

The services provided by the Group comprise sports betting services. Income is stated exclusive of general sales taxes and certain free bets, promotions and bonuses.

The Group's betting activities are classified as derivative financial instruments.

Income from online sportsbook 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.

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.

The Group does not enter into any other derivative activities other than those described above.

Finance income

Interest income is recognised on an accruals basis by reference to the principal outstanding and the effective rate of interest.

Finance expense

Finance expense comprises interest expense on borrowings, the unwinding of the discount on provisions and other non current liabilities and impairment losses recognised in respect of financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

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 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 and telephone are its reportable operating segments. The Group has also determined that its only reportable geographic segment is Australia. See Note 4 for further information on operating and geographic segments.

Foreign currency

Functional and presentation currency

The Group and Company financial statements are presented in Australian Dollars which is also the Company's functional currency. Items included in the financial statements of each of the Group's activities are measured using the currency of the primary economic environment in which the entity operates, which is the Australian Dollar.

Foreign currency transactions

Transactions in foreign currencies are translated at the 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 statement of financial position date are translated to functional currencies at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

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

Business combinations

Acquisitions of subsidiaries are accounted for using the purchase 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, plus any costs incurred that are directly attributable to the business combination. The identifiable assets and liabilities of the acquiree are recognised at their fair values at the date of acquisition.

Goodwill, representing the excess of purchase consideration over the fair value of net identifiable assets acquired defined in accordance with IFRS 3 'Business Combinations', 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 reviewed for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises.

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 asset to a working condition for its intended use, and the costs of dismantling and removing items and restoring the site 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. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in the profit or loss as incurred. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

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. Land is not depreciated. The estimated useful lives are as follows:

Fixtures and fittings	3 - 5 years
Computer equipment	3 - 5 years
Motor vehicles	3 - 5 years
Office fitout	Term of lease

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.

Intangible assets

Intangible assets, comprising computer software and brands, are capitalised at cost 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. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

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
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The brands intangible asset recognised on the acquisition of International All Sports Limited is not amortised for the reasons set out in Note 12.

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

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 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.

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 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.

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

Non-derivative financial instruments

Other non-derivative financial instruments comprise cash and cash equivalents, 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.

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 and trade and other payables are measured at amortised cost.

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

Financial assets

Restricted cash

Restricted cash represents cash held by the Group but which is ring fenced or used as security for specific financing arrangements (such 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.

Available-for-sale investments

Available-for-sale investments (representing the Group's 19.98% investment in IAS up to 1 October 2009) are recognised initially at their cost value and subsequently at fair value based on their quoted bid price at the reporting date. Changes in the fair value of available-for-sale investments are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period. Where an investment previously classified as available-for-sale has been transferred to the cost of investment in a subsidiary the cumulative gain or loss previously recognised in equity is transferred to retained earnings.

Derivative financial instruments

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

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.

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 on 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.

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 equity, in which case it is recognised 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 statement of financial position 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 statement of financial position 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.

Tax consolidation legislation

Subsequent to the year end, the Group (excluding IAS) and IAS formed an income tax consolidated group under the tax consolidation regime. During the financial year the Group (excluding IAS) and IAS were responsible for lodging individual taxation returns. Once the tax consolidated group was formed, the Group is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has entered into a tax sharing arrangement whereby each company in the Group contributes to the income tax payable in proportion to their contribution to the profit before tax of the tax consolidated group.

Goods and services tax

Goods and services tax ('GST') is payable on sports betting revenue and as such is an expense to the Group. GST associated with sports betting revenue is brought to account in the income statement as an expense item. Other revenues, expenses and assets are recognised net of the amount of GST except where:

- the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the 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 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.

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

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 lower 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.

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.

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's directors, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the statement of financial position date are disclosed in Note 19.

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 income and expense' in the consolidated income statement.

3. Financial risk management

Overview

The Group had exposures to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market (including sports betting prices / odds, interest rate and currency) risk.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and their management of capital. Quantitative disclosures in respect of these risks are included throughout these consolidated financial statements and, in particular, in Notes 24 to 28.

Risk management framework

The Board of Directors have overall responsibility for the establishment and oversight of the risk management framework. The Board has established the Audit Committee, which is responsible for developing and monitoring risk management policies. The committee reports regularly to the Board of Directors on its activities.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

3. Financial risk management (continued)

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk arises principally from exposure to the Group's customer receivables, holdings of cash with banks and deposits with certain Totalizator Agency Boards ('TABs') and Corporate Bookmakers.

Credit risk associated with customer receivables is managed via the Group's credit policy which requires credit evaluations to be performed on all customers applying for credit. Balances held with TABs and Corporate Bookmakers are monitored on a daily basis and any excess amounts are transferred to interest bearing bank accounts.

The Group's exposure to credit risk is mainly influenced by the individual characteristics of each customer. At the balance date, the Group did not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group.

Trade and other receivables

The Group has established an allowance for impairment that represents their estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The settlement terms of receivables are disclosed in the financial instrument composition and maturity analysis in Note 24.

Liquidity risk

Liquidity risk is the potential inability to meet payment obligations as they fall due, arising from a mismatch in cash flows generated by the Group's operations. The primary objective of the Group's liquidity management framework and processes is to ensure that the Group has sufficient liquidity to meet its obligations as they fall due across a variety of operating circumstances.

The contractual maturity dates of financial liabilities are disclosed in the financial instrument composition and maturity analysis in Note 25.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within applicable parameters while optimising return.

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. The Risk Department is responsible for the creation and pricing of all betting markets and the trading of those markets through their life. 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 Board of Directors. 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.

Interest rate risk

The Group's interest rate risk is restricted to interest bearing deposits and interest bearing loans. The Group's finance leases are at a fixed interest rate for the full term of the leases.

The Group manages interest rate risk by ensuring that any surplus funds are placed in interest bearing accounts at the highest interest rate prevailing at the time (subject to acceptable counterparty credit ratings and Group liquidity requirements).

Further information on the interest rate exposure of the Group is presented in Note 27.

3. Financial risk management (continued)

Currency risk

The Group is exposed to fluctuations in foreign currencies arising from transactions in currencies other than the respective functional currency of the Group's entities, the Australian dollar ('AUD'). The currencies in which these transactions are primarily denominated (but not limited to) are the Australian Dollar ('AUD'), the Euro ('EUR'), Pound Sterling ('GBP') and the US Dollar ('USD').

While the Group offers the ability for certain customers to transact in currencies other than Australian Dollars, it does not accept bets from customers who reside in jurisdictions in which it is against the laws of that jurisdiction for residents to gamble on the internet.

Currency risk is managed by maintaining cash balances denominated in the same currency as customer balances.

During 2009, all financial assets and financial liabilities were held in AUD, consequently there were no foreign exchange fluctuations in that year.

Further information on the currency exposure of the Group is presented in Note 26.

4. Operating segments

The income, operating profit and net assets of the Group relate to the provision of betting services.

Income

Income for the years ended 30 June 2010 and 2009 is analysed as follows:

	2010	2009
	A\$'000	A\$'000
Income in respect of sportsbook activities	114,742	59,651
Other commission and fee revenue	2,122	-
Total income	116,864	59,651

As more fully described in our accounting policies, betting activities are considered to be derivative financial instruments as set out in IAS 39. Other commission and fee revenue is earned from activities that do not involve customers taking a direct position against the Group and such revenue is not classified as income from derivative financial instruments.

The Group's reportable segments are divisions that are managed separately, and which are based on the method of service delivery (online and telephone).

(a) Reportable business segment information

The Group considers that its reportable segments are as follows:

- Online
- Telephone

The online and telephone segments all derive their revenues primarily from sports betting. Online services are delivered primarily through the internet and telephone through 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. Direct betting costs and operating expenses are not allocated to reportable segments in internal management reports and 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 and telephone segments. Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

4. Operating segments (continued)

Reportable business segment information for the year ended 30 June 2010:

	Online A\$'000	Telephone A\$'000	Total reportable segments A\$'000
Income from external customers, being total income	97,253	19,611	116,864
Direct betting costs	-	-	-
Gross profit	97,253	19,611	116,864
Depreciation and amortisation	-	-	-
Other operating expenses	-	-	-
Reportable segment profit	97,253	19,611	116,864

Reportable business segment information for the year ended 30 June 2009:

	Online A\$'000	Telephone A\$'000	Total reportable segments A\$'000
Income from external customers, being total income	42,029	17,622	59,651
Direct betting costs	-	-	-
Gross profit	42,029	17,622	59,651
Depreciation and amortisation	-	-	-
Other operating expenses	-	-	-
Reportable segment profit	42,029	17,622	59,651

Reconciliation of reportable segments to Group totals:

	2010 A\$'000	2009 A\$'000
Income		
Total income from reportable segments, being total Group income	116,864	59,651
Profit and loss		
Total profit and loss from reportable segments	84,013	39,326
<u>Unallocated amounts</u>		
<i>Central shared costs not allocated to segments in management reports:</i>		
Direct betting costs	(32,851)	(20,325)
Depreciation and amortisation	(3,840)	(1,701)
Other operating expenses	(59,083)	(30,407)
Total operating expenses	(62,923)	(32,108)
Operating profit	21,090	7,218
Financial income	1,135	1,906
Financial expense	(1,580)	(140)
Profit before tax	20,645	8,984

There are no inter-segment revenues or profits requiring elimination in any of the reporting years.

(b) Geographical segment information

The Group considers that its primary geographic segment is 'Australia'. The Australia geographic segment consists of online and telephone sports betting from Australian customers. Revenues from customers outside Australia are not considered significant for separate reporting.

4. Operating segments (continued)

Group revenues by geographical segment are as follows:

Income	2010	2009
	A\$'000	A\$'000
Australia	116,864	59,651
Total	116,864	59,651

(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 deferred tax balances) by geographical segment are as follows:

Non current assets	30 June 2010	30 June 2009
	A\$'000	A\$'000
Australia	50,312	12,609
Total	50,312	12,609

5. Direct betting costs

Direct betting costs comprise:

	2010	2009
	A\$'000	A\$'000
Betting taxes	10,899	6,710
Product and racefield fees	13,130	6,447
Other direct betting costs	8,822	7,168
Direct betting costs	32,851	20,325

Betting taxes comprise betting taxes levied on amounts staked and general sales tax ('GST') on gross win.

Other direct betting costs comprise payments to third parties for new customers acquired, customer bad debt charges and other miscellaneous direct betting costs.

6. Employee expenses and numbers

	2010	2009
	A\$'000	A\$'000
Wages and salaries	16,736	7,140
Superannuation costs	1,093	504
Payroll taxes	1,155	795
Other staff costs	758	239
	19,742	8,678

	2010	2009
The average number of persons employed by the Group (including executive directors), all of whom were involved in the provision of sports betting services, during the year was	191	99

7. Other expenses, net

Included in the other expenses charge in respect of 2010 are amounts totalling A\$4,274,000 relating to the integration of Sportsbet and IAS.

8. Financial income and expense

	2010 A\$'000	2009 A\$'000
Recognised in profit or loss:		
Financial income:		
<i>On financial assets at amortised cost:</i>		
Interest income on short term bank deposits	1,135	1,906
Financial income	1,135	1,906
Financial expense:		
<i>On financial liabilities at amortised cost:</i>		
Bank loans	969	-
Finance leases	351	140
Unwinding of the discount on shareholder loans	260	-
Financial expense	1,580	140

9. Statutory and other information

	2010 A\$'000	2009 A\$'000
Depreciation – owned assets	838	1,355
Depreciation – leased assets	1,668	346
Amortisation of intangible assets	1,334	-
(Gain) / loss on disposal of property, plant and equipment and intangible assets	(22)	624
Operating lease rentals, principally premises	955	584
Operating lease income (representing sub-lease income)	(99)	-

10. Income tax expense

	2010 A\$'000	2009 A\$'000
Recognised in profit or loss:		
Current tax charge	6,782	3,275
Prior years over provision	(446)	(422)
	6,336	2,853
Deferred tax credit	(144)	(52)
Decrease in deferred tax (<i>Note 20</i>)	(144)	(52)
Total income tax expense in income statement	6,192	2,801

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

	2010 A\$'000		2009 A\$'000	
Profit before tax	20,645		8,984	
Tax on Group profit before tax at the standard Australian corporation tax rate of 30.0% (2009: 30.0%)	30.0%	6,194	30.0%	2,695
Non-deductible expenses	0.4%	91	0.7%	60
Other differences	1.7%	353	5.2%	468
Over provision in prior years	(2.1%)	(446)	(4.7%)	(422)
Total income tax expense	30.0%	6,192	31.2%	2,801

Statutory tax rates in Australia are expected to be reduced from the current 30% to 29% for the year ended 30 June 2014 and to 28% for the year ending 30 June 2015 and thereafter.

11. Property, plant and equipment

	Leasehold improvements A\$'000	Fixtures & fittings A\$'000	Computer equipment A\$'000	Motor vehicles A\$'000	Total A\$'000
Cost					
Balance at 1 July 2008	1,119	274	1,447	40	2,880
Additions	1,294	281	1,044	-	2,619
Disposals	-	-	-	-	-
Balance at 30 June 2009	2,413	555	2,491	40	5,499
Additions	2,179	30	2,216	-	4,425
Additions – business combinations (<i>Note 15</i>)	-	71	4,390	63	4,524
Disposals	-	-	(321)	(68)	(389)
Reclassification to intangible assets (<i>Note 12</i>)	-	(6)	(2,117)	-	(2,123)
Balance at 30 June 2010	4,592	650	6,659	35	11,936
Accumulated depreciation					
Balance at 1 July 2008	508	46	280	29	863
Depreciation charges	356	386	948	11	1,701
Disposals	-	-	(125)	-	(125)
Reclassifications	-	(200)	200	-	-
Balance at 30 June 2009	864	232	1,303	40	2,439
Depreciation charges	715	145	1,639	7	2,506
Disposals	-	-	-	(40)	(40)
Reclassification to intangible assets	-	-	-	-	-
Balance at 30 June 2010	1,579	377	2,942	7	4,905
Net book value					
At 30 June 2010	3,013	273	3,717	28	7,031
At 30 June 2009	1,549	323	1,188	-	3,060

At 30 June 2010, included in leasehold improvements and fixtures and fittings are assets held under finance leases with a cost value of A\$3,467,000 (2009: A\$nil), accumulated depreciation of A\$931,000 (2009: A\$nil) and net book value of A\$2,536,000 (2009: A\$nil). At 30 June 2010, included in computer equipment are assets held under finance leases with a cost value of A\$2,332,000 (2009: A\$nil), accumulated depreciation of A\$1,082,000 (2009: A\$nil) and net book value of A\$1,250,000 (2009: A\$nil).

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.

12. Intangible assets

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

	Computer software A\$'000	Brands A\$'000	Total A\$'000
Cost			
Balance at 1 July 2008	729	-	729
Additions	-	-	-
Disposals	-	-	-
Balance at 30 June 2009	729	-	729
Additions	2,586	-	2,586
Additions – business combinations (<i>Note 15</i>)	1,474	6,900	8,374
Disposals	(46)	-	(46)
Reclassification from property, plant and equipment (<i>Note 11</i>)	2,123	-	2,123
Balance at 30 June 2010	6,866	6,900	13,766
Amortisation			
Balance at 1 July 2008	255	-	255
Amortisation charges	-	-	-
Disposals	-	-	-
Balance at 30 June 2009	255	-	255
Amortisation charges	1,334	-	1,334
Disposals	-	-	-
Balance at 30 June 2010	1,589	-	1,589
Net book value			
At 30 June 2010	5,277	6,900	12,177
At 30 June 2009	474	-	474

The value of brands intangible assets recognised on application of fair value accounting to the purchase of IAS (amounting to A\$6,900,000 at 30 June 2010 – see Note 15) 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; 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 brands for impairment annually (or more frequently if there are indications that the value of the 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).

Any impairment charges and credits are included in 'depreciation and amortisation' in the consolidated income statement.

13. 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:

	IAS A\$'000	Total A\$'000
Balance at 1 July 2008	-	-
Arising on acquisitions during the year	-	-
Balance at 30 June 2009	-	-
Arising on acquisitions during the year (<i>Note 15</i>)	29,023	29,023
Balance at 30 June 2010	29,023	29,023

The goodwill amount arose from the acquisition by the Company of International All Sports Limited ('IAS') on 1 October 2009 (see Note 15).

13. Goodwill (continued)

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 30 June 2010.

The Group's operating segments include the following amounts in respect of goodwill and other indefinite life intangible assets (the latter comprising brands acquired as part of the purchase of IAS in 2010 – see Note 15):

		30 June 2010 A\$'000	30 June 2009 A\$'000
IAS acquisition 2010	Goodwill	29,023	-
Total	Goodwill	29,023	-
IAS acquisition 2010	Intangible assets - brands	6,900	-
Total	Goodwill and brands	35,923	-

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions, which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

The recoverable amount of the IAS business cash generating unit ('CGU') was based on its value in use and was determined by discounting the future cash flows generated from the continuing use of the unit. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and budgets prepared by management for the year ended 30 June 2011. Cash flows for a further ten years were extrapolated using a constant growth rate of 2%, which does not exceed the long-term average growth rate for the industry.
- A pre-tax discount rate of 15% was applied in determining the recoverable amount of the unit. This discount rate, considered highly conservative by management, assumes the inherent risks of the IAS business operating within the bookmaking industry.

Based on the review as described above, no impairment has arisen.

14. Financial assets (non current)

	30 June 2010 A\$'000	30 June 2009 A\$'000
Other financial assets:		
Restricted cash (Note 17)	2,081	1,503
Available-for-sale investments	-	7,572
	2,081	9,075
Total	2,081	9,075

Movements in financial assets in respect of the year ended 30 June 2010 were as follows:

	Restricted cash A\$'000	Available-for-sale investments A\$'000	Total A\$'000
Balance at 1 July 2009	1,503	7,572	9,075
Movements in fair value of available-for-sale investments	-	-	-
Other movements	(443)	-	(443)
Business combinations – acquisition of IAS	1,021	(7,572)	(6,551)
Balance at 30 June 2010	2,081	-	2,081

Movements in financial assets in respect of the year ended 30 June 2009 were as follows:

	Restricted cash A\$'000	Available-for-sale investments A\$'000	Total A\$'000
Balance at 1 July 2008	1,646	-	1,646
Purchase of available-for-sale investments	-	5,788	5,788
Movements in fair value of available-for-sale investments	-	1,784	1,784
Other movements	(143)	-	(143)
Balance at 30 June 2009	1,503	7,572	9,075

Available-for-sale investments

The Group held a 19.98% interest in IAS on the date of its acquisition by the Company, valued at A\$7,572,000. This investment was classified as an available-for-sale investment. The fair value of this investment was transferred to the cost of investment in IAS on the date of acquisition by the Company of the remaining 80.02% of IAS that it did not already own (see Note 15).

15. Business combinations

Year ended 30 June 2010

Acquisition of International All Sports Limited ('IAS')

On 1 October 2009, the Company completed the acquisition of a 100% shareholding in another Australian internet and telephone sports betting company, IAS. At 30 June 2009, and upon acquisition by the Company, the Company owned a 19.98% interest in IAS (see Note 14). IAS was a publicly quoted company whose shares were listed on the Australian Stock Exchange and the acquisition was implemented via a Scheme of Arrangement. The acquisition valued the entire issued share capital of IAS at A\$40.0m. Paddy Power plc and the Company's non-controlling shareholders provided shareholder loans to the Company to part fund the acquisition, with Paddy Power plc providing a loan of A\$6,136,000 and the then 49% non-controlling shareholders in the Company providing a loan of A\$5,895,000 (see Note 23). A secured bank loan of A\$20,000,000 was also taken out by the Company to part fund the acquisition (see Note 23).

15. Business combinations (continued)

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

	Provisional book values on acquisition A\$'000	Provisional fair value adjustments A\$'000	Provisional fair values 30 June 2010 A\$'000
Identifiable net assets acquired:			
Property, plant and equipment	4,524	-	4,524
Intangible assets	2,250	6,124	8,374
Financial assets	1,021	-	1,021
Deferred tax asset, net	2,344	-	2,344
Current assets (excluding cash and cash equivalents)	3,862	-	3,862
Cash and cash equivalents	16,810	-	16,810
Customer balances	(12,293)	-	(12,293)
Current liabilities	(8,102)	-	(8,102)
Sports betting open positions – current	(446)	-	(446)
Provisions – current	(1,806)	-	(1,806)
Corporation tax payable	(1,221)	-	(1,221)
Non current liabilities	(1,298)	-	(1,298)
Provisions – non current	(400)	-	(400)
	5,245	6,124	11,369
Goodwill arising on acquisition			29,023
Consideration (including associated purchase costs)			40,392
The consideration is analysed as:			
Cash consideration (including associated purchase costs)			32,820
Fair value of existing 19.98% holding in IAS at date of acquisition (<i>Note 14</i>)			7,572
			40,392
The net cash consideration is analysed as:			
Cash consideration before acquisition expenses			32,428
Acquisition expenses			392
Cash consideration			32,820
Cash and cash equivalents acquired			(16,810)
Net cash consideration for acquisition of IAS			16,010

The intangible assets recognised on application of provisional fair value accounting to the acquisition were brands totalling A\$6,900,000 net of a fair valuation reduction in the value of computer software acquired of A\$776,000. The valuations were performed by an independent advisor and used the relief of royalty method for the valuation of brands and the replacement cost method for the valuation of computer software.

The value attributed to goodwill reflects the future potential growth in the business acquired.

Since the date of acquisition to 30 June 2010, IAS contributed A\$409.1m to Group amounts staked and A\$31.4m to Group income.

If the acquisition had occurred on 1 July 2009, then its contribution to income for the year ended 30 June 2010 would have been A\$41.4m (including the A\$31.4m actually contributed).

16. Trade and other receivables

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Trade receivables	9,417	7,686
Loans to non-controlling shareholders / directors	-	13,477
Other receivables	2,671	2,550
Prepayments and accrued income	1,878	388
	13,966	24,101

Trade and other receivables are non-interest bearing.

17. Cash and cash equivalents and financial assets

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Cash	21,874	7,656
Short term bank deposits	28,353	4,506
	50,227	12,162
Less: Financial asset – non current restricted cash deposits (see below)	(2,081)	(1,503)
Cash and cash equivalents in the statement of cash flows	48,146	10,659

The effective interest rate on cash and equivalents at 30 June 2010 was 4.01% (2009: 2.69%).

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

Short term bank deposits are analysed by currency as follows:

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Australian Dollars	28,353	4,506
	28,353	4,506

Financial assets

Included in short term bank deposits at 30 June 2010 are deposits totalling A\$2,081,000 (2009: A\$1,503,000) which were placed with banks to secure bank guarantees provided in respect to bookmaking licenses of A\$400,000 (2009: A\$200,000), payroll facilities of A\$200,000 (2009: A\$200,000) and office premises of A\$1,481,000 (2009: A\$1,103,000). The balance has been shown as a non current financial asset in the consolidated statement of financial position (see Note 14). See also Note 29.

18. Share capital and reserves

The total authorised share capital of the Company comprises 12,500 ordinary shares of A\$80.00 each (2009: 12,500 ordinary shares of A\$80.00 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

The capital contribution reserve balance of A\$1,379,000 (2009: A\$nil) arose on initial recognition of the discount on the Paddy Power plc and non-controlling shareholder loans (which are non-interest bearing – see Note 23). The balance at 30 June 2010 is net of A\$260,000 charged in 2010 in respect of the unwinding of the discount.

During 2009, an unrealised gain of A\$1,784,000 arose on revaluation of the Group's 19.98% available-for-sale investment in IAS between the date the Group acquired the relevant IAS shares and 30 June 2009. In 2010, this gain was transferred from the fair value reserve to retained earnings upon the Group acquiring a 100% interest in IAS.

19. Dividends paid on equity shares

	2010	2009
	A\$'000	A\$'000
Ordinary shares:		
- final paid in respect of 2008	-	4,000
- final paid in respect of 2009	12,191	-
	12,191	4,000

There were no dividends declared after the statement of financial position date in respect of the year ended 30 June 2010.

All dividends above were paid prior to Paddy Power plc acquiring 51% of the Company on 1 July 2009 and were paid as reductions in the loan amounts owed by directors to the Company.

All dividends have been paid out of franked income (at the tax rate of 30%). The balance on the consolidated franking account at 30 June was as follows:

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Franking account	10,022	4,202
	10,022	4,202

100 per cent franking credits are available to shareholders of Sportsbet Pty Limited in subsequent financial years.

The above available amounts are based on the balance of the dividend franking account at year end adjusted for:

- franking credits that will arise from the payment of the current tax liabilities;
- franking debits that will arise from the payment of dividends recognised as a liability at the year end; and
- franking credits that the entity may be prevented from distributing in subsequent years.

20. Deferred tax assets and liabilities

Deferred tax assets and liabilities (which arise in respect of Australian corporation tax) are attributable to the following:

	30 June 2010			30 June 2009		
	Assets A\$'000	Liabilities A\$'000	Total A\$'000	Assets A\$'000	Liabilities A\$'000	Total A\$'000
Property, plant and equipment	175	-	175	39	-	39
Bad debt provisions	737	-	737	681	-	681
Employee benefits	1,216	-	1,216	149	-	149
Available-for-sale financial assets	-	-	-	-	(764)	(764)
Provisions	448	-	448	91	-	91
Sports betting open positions	90	-	90	88	-	88
Other	1,850	(627)	1,223	929	(576)	353
Net assets / (liabilities)	4,516	(627)	3,889	1,977	(1,340)	637

Movement in temporary differences during the year

	Balance at 1 July 2008 A\$'000	Recognised in income 2009 A\$'000	Recognised directly in equity 2009 A\$'000	Balance at 30 June 2009 A\$'000	Recognised in income 2010 A\$'000	Recognised directly in equity 2010 A\$'000	Purchase of businesses 2010 A\$'000	Balance at 30 June 2010 A\$'000
Property, plant and equipment	47	(8)	-	39	136	-	-	175
Bad debt provisions	199	482	-	681	(45)	-	101	737
Employee benefits	84	65	-	149	362	-	705	1,216
Available-for-sale financial assets	-	(764)	-	(764)	-	764	-	-
Provisions	12	79	-	91	357	-	-	448
Sports betting open positions	-	88	-	88	2	-	-	90
Other	243	110	-	353	(668)	-	1,538	1,223
	585	52	-	637	144	764	2,344	3,889

21. Trade and other payables and derivative financial liabilities

Current liabilities

	30 June 2010 A\$'000	30 June 2009 A\$'000
Trade and other payables		
Trade payables	7,094	2,962
Customer balances	25,937	9,366
Betting taxes, racefield and product fees	10,073	3,378
Employee benefits	1,134	347
Accruals and other liabilities	5,628	2,587
	49,866	18,640
Derivative financial liabilities		
Sports betting open positions	5,279	2,211

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.

21. Trade and other payables and derivative financial liabilities (continued)

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 Australian Dollars. 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.

22. Provisions

Current liabilities

	30 June 2010 A\$'000	30 June 2009 A\$'000
Employee benefits	164	-
Other provisions	1,141	-
	1,305	-

Non current liabilities

	30 June 2010 A\$'000	30 June 2009 A\$'000
Employee benefits	182	150
Other provisions	95	95
	277	245

The movements in provisions during the year ended 30 June 2010 were as follows:

Current liabilities

	Long service leave A\$'000	Lease reinstatement A\$'000	Onerous contracts A\$'000	Total A\$'000
Balance at 1 July 2009	-	-	-	-
Business combinations (<i>Note 15</i>)	164	853	789	1,806
Charged / (credited) to the income statement:				
- Additional provisions recognised	-	-	-	-
- Unused amounts reversed	-	-	-	-
Amounts used during the year	-	-	(501)	(501)
Balance at 30 June 2010	164	853	288	1,305

Non current liabilities

	Long service leave A\$'000	Lease reinstatement A\$'000	Onerous contracts A\$'000	Total A\$'000
Balance at 1 July 2009	150	95	-	245
Business combinations (<i>Note 15</i>)	400	-	-	400
Charged / (credited) to the income statement:				
- Additional provisions recognised	99	-	-	99
- Unused amounts reversed	(142)	-	-	(142)
Amounts used during the year	(325)	-	-	(325)
Balance at 30 June 2010	182	95	-	277

Long service leave

This provision represents the amounts provided to 30 June 2010 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 to 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.

22. Provisions (continued)

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 period of the relevant leases.

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 the expected net cash outflows.

23. Borrowings

The Group had the following borrowings at 30 June:

Current liabilities

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Secured non-recourse bank loans	6,667	-
Loan from Paddy Power plc	5,130	-
Loans from non-controlling shareholders	3,370	-
Finance leases	1,403	562
	16,570	562

Non current liabilities

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Secured non-recourse bank loans	8,333	-
Loan from Paddy Power plc	1,482	-
Loans from non-controlling shareholders	670	-
Finance leases	951	1,036
	11,436	1,036

The borrowings at 30 June 2010 are further analysed as follows:

	Currency	Nominal interest rate	Counterparty	Year taken out	Year of maturity	Face value A\$'000	Carrying amount A\$'000
Secured bank loans	AUD	9.05%	National Australia Bank	2009	2012	15,000	15,000
Loan from Paddy Power plc	AUD	Nil	Paddy Power plc	2009	2016	7,315	6,612
Loans from non-controlling shareholders	AUD	Nil	Non-controlling shareholders holding 39.2% of the share capital of the Company	2009	2016	4,716	4,040
						27,031	25,652

Both the secured bank loan and the Paddy Power plc and non-controlling shareholder loans were taken out by the Group to part fund the acquisition of IAS. The loans from Paddy Power plc and the 39.2% non-controlling shareholders in the Group are non-interest bearing. A discount of A\$1,379,000 (2009: A\$nil), representing the difference between the nominal value of the loans (A\$12,031,000) and their fair value, has been included in the capital contribution reserve. A discount rate of 5.0% was used in the calculation of the fair value. During 2010, Paddy Power plc acquired an additional 9.8% interest in the Company from a non-controlling shareholder and, as part of the transaction, assumed that shareholder's loan to the Company in the amount of A\$1,179,000.

23. Borrowings (continued)

Security and restrictions

The National Australia Bank secured bank loans are non-recourse to the Company's shareholders and are secured by a first ranking fixed and floating charge over all the assets of the Company.

Under the terms of the National Australia Bank loan agreement, the Company is restricted from distributing in excess of 60% of its available annual net profit in respect of the financial years ending 30 June 2010 and 30 June 2011, and 100% of the annual net profit of the financial year ending 30 June 2012. The terms of the secured bank loan also preclude a distribution if the net tangible assets of the Company (excluding amounts owing in respect of shareholder loans) are less than the facility limit at that date.

Under the terms of the Shareholder Loan Deed relating to the shareholder loans, the Company, in lieu of making dividend payments, must first make loan repayments in an amount equal to the dividend payment that each individual shareholder would have been entitled to. An amount of A\$8,437,000 was repaid to shareholders post 30 June 2010 (see Note 32).

Finance lease liabilities

The finance lease liability obligations at 30 June 2010 are analysed as follows:

Payable	Future minimum	Interest payable	Present value of
	lease payments		minimum lease
	A\$'000	A\$'000	payments
			A\$'000
Within one year	1,609	206	1,403
Between one and five years	1,023	72	951
In more than five years	-	-	-
	2,632	278	2,354

The finance lease liability obligations at 30 June 2009 are analysed as follows:

Payable	Future minimum lease	Interest payable	Present value of
	payments		minimum lease
	A\$'000	A\$'000	payments
			A\$'000
Within one year	780	218	562
Between one and five years	1,207	171	1,036
In more than five years	-	-	-
	1,987	389	1,598

24. Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 30 June was:

	Carrying amount	
	30 June 2010	30 June 2009
	A\$'000	A\$'000
Restricted cash	2,081	1,503
Trade receivables	9,417	7,686
Other receivables	2,671	16,027
Cash and cash equivalents	48,146	10,659
	62,315	35,875

The maximum exposure to credit risk for trade and other receivables by geographic region at 30 June was:

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Australia	11,959	23,713
Other	129	-
	12,088	23,713

The maximum exposure to credit risk for trade and other receivables by type of counterparty at 30 June was:

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Sports betting customers	9,417	7,686
Other	2,671	16,027
	12,088	23,713

Significant customers

There were no individual customers at 30 June 2010 or 2009 that represented over ten per cent of trade receivables.

Impairment losses

The ageing of trade and other receivables (stated net of impairment provisions) at 30 June was as follows:

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Not past due	9,050	22,554
Past due 0-30 days	1,149	492
Past due 31-120 days	1,889	438
Past due 121 days to 365 days	-	222
More than one year	-	7
	12,088	23,713

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2010	2009
	A\$'000	A\$'000
Balance at 1 July	2,271	664
Business combinations	410	-
Impairment losses recognised	1,935	4,238
Impaired losses written off	(2,160)	(2,631)
Balance at 30 June	2,456	2,271

The impairment provision in respect of trade receivables has been established as follows:

Larger individual sports betting and other receivables balances are reviewed individually for collectability at the year end and provisions for impairment are calculated based on management's assessment of what amounts are unlikely to be received. Provisions for the impairment of smaller balances are established based on the ageing of those receivables balances and the application of provision percentages to ageing buckets based on management's past experience of the likelihood of such receivables balances being collected.

25. Liquidity risk

The following are the contractual maturities of financial liabilities as at 30 June:

30 June 2010						
	Carrying amount A\$'000	Contractual cash flows A\$'000	Within one year A\$'000	1 - 5 years A\$'000	Over 5 years A\$'000	Total A\$'000
Non-derivative financial liabilities						
Trade and other payables	49,866	49,866	49,866	-	-	49,866
Secured bank loans	15,000	15,000	6,667	8,333	-	15,000
Shareholder loans	10,652	12,031	8,437	-	3,594	12,031
Finance leases	2,354	2,632	1,609	1,023	-	2,632
	77,872	79,529	66,579	9,356	3,594	79,529
Derivative financial liabilities						
Sports betting open positions	5,279	5,279	5,279	-	-	5,279
	83,151	84,808	71,858	9,356	3,594	84,808
30 June 2009						
	Carrying amount A\$'000	Contractual cash flows A\$'000	Within one year A\$'000	1 - 5 years A\$'000	Over 5 years A\$'000	Total A\$'000
Non-derivative financial liabilities						
Trade and other payables	18,640	18,640	18,640	-	-	18,640
Secured bank loans	-	-	-	-	-	-
Shareholder loans	-	-	-	-	-	-
Finance leases	1,598	1,987	780	1,207	-	1,987
	20,238	20,627	19,420	1,207	-	20,627
Derivative financial liabilities						
Sports betting open positions	2,211	2,211	2,211	-	-	2,211
	22,449	22,838	21,631	1,207	-	22,838

26. Currency risk

Currency risk exposure

As of 30 June 2010, the Group's foreign currency risk exposure in respect of the principal foreign currencies in which the Group operates was as follows:

30 June 2010						
	GBP A\$'000	EUR A\$'000	USD A\$'000	HKD A\$'000	NZD A\$'000	Other A\$'000
Trade receivables	-	-	127	-	-	-
Cash and cash equivalents	138	96	395	130	5	66
Trade and other payables	(231)	(200)	(375)	(21)	(364)	(125)
Gross statement of financial position exposure	(93)	(104)	147	109	(359)	(59)

The Group had no non-AUD denominated financial assets or liabilities at 30 June 2009. The Group had no forward foreign currency contracts or derivatives that are cash flow hedges in place at either 30 June 2010 or 2009.

The following are the significant exchange rates that applied during the year and at the year end:

Currency	Average for year 2010	30 June 2010
Australian Dollar (AUD)	1.0000	1.0000
Euro (EUR)	0.6352	0.7019
Pound Sterling (GBP)	0.5584	0.5686
Hong Kong Dollar (HKD)	6.8424	6.6689
New Zealand Dollar (NZD)	1.2544	1.2309
United States Dollar (USD)	0.8817	0.8567

Sensitivity analysis

A five percent strengthening and weakening of the Australian Dollar against the following currencies at 30 June 2010 would have increased / (decreased) profit and other 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		Other equity	
	5% increase A\$'000	5% decrease A\$'000	5% increase A\$'000	5% decrease A\$'000
30 June 2010				
GBP	5	(5)	-	-
EUR	5	(5)	-	-
USD	(7)	8	-	-
HKD	(5)	6	-	-
NZD	17	(19)	-	-
Other	3	(3)	-	-

27. Interest rate risk

Profile

At 30 June 2010 and 30 June 2009, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	30 June 2010 A\$'000	30 June 2009 A\$'000
Variable rate instruments		
Financial assets – non current restricted cash	2,081	1,503
Financial assets – cash	21,874	7,656
Financial assets – short term bank deposits	26,272	3,003
Financial liabilities – secured bank loan	(15,000)	-
	35,227	12,162
	Carrying amount	
	30 June 2010 A\$'000	30 June 2009 A\$'000
Fixed rate instruments		
Financial liabilities – finance leases	(2,354)	(1,598)
	(2,354)	(1,598)

Cash flow sensitivity analysis for variable rate instruments

Sensitivity analysis

A two percent ('200 bps') increase in interest rates on the Group's restricted cash financial asset and cash and cash equivalents at the reporting date would result in a A\$1,005,000 (2009: A\$243,000) increase in profit. A two percent decrease in interest rates would have an equal but opposite effect on the Group's profit. This analysis assumes that all other variables remain constant.

A two percent ('200 bps') increase in interest rates on the Group's interest bearing loans and borrowings at the reporting date would result in a A\$513,000 (2009: A\$nil) decrease in profit. A two percent decrease in interest rates would have an equal but opposite effect on the Group's profit. This analysis assumes that all other variables remain constant.

	Profit		Other equity	
	200 bps increase A\$'000	200 bps decrease A\$'000	200 bps increase A\$'000	200 bps decrease A\$'000
30 June 2010				
Variable rate instruments	492	(492)	-	-
	200 bps increase A\$'000	200 bps decrease A\$'000	200 bps increase A\$'000	200 bps decrease A\$'000
30 June 2009				
Variable rate instruments	243	(243)	-	-

28. 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:

	30 June 2010		30 June 2009	
	Carrying amount A\$'000	Fair value A\$'000	Carrying amount A\$'000	Fair value A\$'000
Available-for-sale				
Assets				
19.98% investment in IAS	-	-	7,572	7,572
	-	-	7,572	7,572
Carried at fair value				
Liabilities				
Derivative financial liabilities – sports betting open positions	(5,279)	(5,279)	(2,211)	(2,211)
	(5,279)	(5,279)	(2,211)	(2,211)
Carried at amortised cost				
Assets				
Restricted cash – non current	2,081	2,081	1,503	1,503
Trade receivables	9,417	9,417	7,686	7,686
Other receivables	2,671	2,671	16,027	16,027
Cash and cash equivalents	48,146	48,146	10,659	10,659
	62,315	62,315	35,875	35,875
Liabilities				
Trade and other payables	(49,866)	(49,866)	(18,640)	(18,640)
Secured bank loans	(15,000)	(15,000)	-	-
Shareholder loans	(10,652)	(10,652)	-	-
Finance leases	(2,354)	(2,354)	(1,598)	(1,598)
	(77,872)	(77,872)	(20,238)	(20,238)
Net	(15,557)	(15,557)	15,637	15,637
Total	(20,836)	(20,836)	20,998	20,998

Fair value hierarchy

Financial instruments at 30 June 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).

	30 June 2010			
	Level 1 A\$'000	Level 2 A\$'000	Level 3 A\$'000	Total A\$'000
Available-for-sale financial assets	-	-	-	-
Derivative financial liabilities	-	-	(5,279)	(5,279)
	-	-	(5,279)	(5,279)
	30 June 2009			
	Level 1 A\$'000	Level 2 A\$'000	Level 3 A\$'000	Total A\$'000
Available-for-sale financial assets	7,572	-	-	7,572
Derivative financial liabilities	7,572	-	-	7,572
	-	-	(2,211)	(2,211)
	7,572	-	(2,211)	5,361

28. 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:

Available-for-sale financial assets

Available-for-sale financial assets are principally equity securities. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Trade and other receivables

The fair value of trade and other receivables are 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.

Cash and cash equivalents

The fair value of cash and cash equivalents is based on the nominal value of the cash balances held, as all cash on hand is held at variable interest rates.

Derivative financial instruments

Derivative financial instruments comprise sports betting open positions. 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.

Movements in the year in respect of financial instruments carried at fair value

The movements in respect of the financial assets and liabilities carried at fair value in the year to 30 June are as follows:

	2010	2010	2009	2009
	Sports betting	Total	Sports betting	Total
	open positions	open positions	open positions	open positions
	A\$'000	A\$'000	A\$'000	A\$'000
Balance at 1 July	(2,211)	(2,211)	(4,213)	(4,213)
Business combinations	(446)	(446)	-	-
Recognised in the income statement	(114,742)	(114,742)	(59,651)	(59,651)
Settlements	112,120	112,120	61,653	61,653
Balance at 30 June	(5,279)	(5,279)	(2,211)	(2,211)

The amounts recognised for business combinations in 2010 represent the value of the sports betting open positions acquired as a result of the purchase of IAS (liability of A\$446,000). The amounts recognised in the income statement represent the Group's gross win in respect of sports betting positions and other derivatives 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 2010 and 2009.

29. Commitments and contingencies

(a) Guarantees

The Australian corporate sports bookmaking licences issued to the Group and IAS requires those companies to hold sufficient cash funds to cover monies owed to customers by those companies. At 30 June 2010, the total relevant value of customer balances was A\$30,915,000 (2009: A\$11,144,000).

The Group had A\$2,081,000 of cash-backed bank issued guarantees outstanding at 30 June 2010 (2009: A\$1,503,000), comprised as follows:

- an amount of A\$400,000 (2009: A\$200,000) guaranteed to the Northern Territory Racing Commission; and
- guarantees of A\$1,481,000 (2009: A\$1,103,000) outstanding in respect of rental and other property commitments and an A\$200,000 (2009: A\$200,000) guarantee issued to the Group's outsourced payroll services provider.

29. Commitments and contingencies (continued)

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its 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.

(b) Capital commitments

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

	30 June 2010	30 June 2009
	A\$'000	A\$'000
Property, plant and equipment	1,500	-
Intangible assets	-	-
	1,500	-

(c) Operating leases

The Group leases various offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases typically run for a period of five years, with a right of renewal after that date. Lease rentals are typically adjusted for changes in general inflation rates.

At 30 June, the Group had the following rent commitments in respect of non-cancellable operating leases on properties where the lease terms expire as follows:

	30 June 2010		30 June 2009	
	Annual commitment	Total commitment	Annual commitment	Total commitment
	A\$'000	A\$'000	A\$'000	A\$'000
Within 1 year	1,243	1,243	446	446
Between 2 and 5 years	651	3,256	213	1,065
After 5 years	43	43	-	-

The Group has one property that is sublet. Sublease payments of €170,000 are expected to be received during the year ended 30 June 2011.

During 2010, an amount of A\$955,000 was recognised in profit or loss in respect of operating leases (2009: A\$584,000). Contingent rent expense in profit or loss amounted to A\$334,000 (2009: A\$172,000). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to A\$99,000 in 2010 (2009: A\$nil).

Operating leases for 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 determined that the leases are operating leases.

30. 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.

Transactions with Key Management Personnel

In addition to their salaries, the Group also provides non cash benefits to Key Management Personnel and contributes to a superannuation fund on their behalf.

Key management personnel compensation comprised:	2010	2009
	A\$'000	A\$'000
Short term employee benefits	1,594	821
Other long term employee benefits	60	57
Share based payments	749	-
	2,403	878

30. Related parties (continued)

Related Party Loans

Unsecured loans from shareholders issued during the year ended 30 June 2010 amounted to A\$12,031,000 at face value (2009: loan to shareholders of A\$13,477,000). No interest is payable by the Group, and the loans are repayable in cash pursuant to the Paddy Power Share Purchase Agreement. At 30 June 2010, the balance outstanding was a payable of A\$12,031,000 at face value (2009: receivable of A\$13,477,000) and is included in loans and borrowings (see Note 23) (2009: in other receivables – see Note 16).

31. Group entities

The Company had the following subsidiary undertakings carrying on businesses which principally affect the profits and assets of the Group at 30 June 2010:

Name	Country of incorporation	Equity interest at 30 June 2010	Equity interest at 30 June 2009
IASBet.com Pty Limited	Australia	100%	Nil
IAS Limited	Australia	100%	Nil
IAS Qld Pty Limited	Australia	100%	Nil
Read Technologies	Australia	100%	Nil
Ferncourt Pty Limited	Australia	100%	Nil
Austote Limited	Norfolk Island	100%	Nil
The Australian Bookmaker Pty Limited	Australia	100%	Nil
IAS Read Interactive Pty Limited	Australia	100%	Nil
IAS Bloodstock Pty Limited	Australia	100%	Nil
IASBet Limited	Australia	100%	Nil
IASBet Sports Bookmakers Pty Limited	Australia	100%	Nil
International Sports Book System Pty Limited	Australia	100%	Nil
Ecom Solutions Pty Limited	Australia	100%	Nil
International All Sports (UK) Limited	United Kingdom	100%	Nil

The above subsidiary undertakings have the same year end date as the Company. All subsidiary undertakings have been included in the Group consolidated financial statements.

32. Events after the statement of financial position date

Shareholder Loan Repayments

In line with the Shareholders' Deed, no dividends were declared for the 2010 financial year. In lieu of declaring a dividend a distribution of 60% of Net Profit after Tax (calculated by reference to the Group's 2010 statutory financial statements) (A\$8,437,000) was approved by the Group Audit Committee on 11 August 2010 for the repayment of shareholder loans and subsequently paid to shareholders.

Racing NSW

On 20 July 2010, Racing NSW ('RNSW') refunded the Group an amount of A\$2,061,000 for overpaid racefield fees. On 22 July 2010, RNSW paid the Group a further A\$213,000 in interest. These payments were the result of court orders in the Sportsbet Pty Limited v RNSW case, handed down in the Federal Court on 16 June 2010.

On 17 November 2010, RNSW successfully appealed the decision handed down by the Federal Court in the Sportsbet Pty Limited v RNSW case. The Full Court of the Federal Court of Australia made orders to set aside the judgment in the Sportsbet Pty Limited v RNSW case. The Company was subsequently required to repay RNSW the A\$2,274,000 originally refunded plus a further interest amount of A\$114,000. These payments were made in January 2011.

The Group is currently seeking leave to appeal this decision in the High Court of Australia. The Group has provided in these consolidated financial statements, and continues to provide, for the current product fee of 1.5% of turnover on applicable New South Wales racing claimed by RNSW.

32. Events after the statement of financial position date (continued)

Racing Victoria Limited

On 24 August 2010, the Group settled its ongoing racefield fee litigation with Racing Victoria Limited ('RVL'). The settlement, covering both Sportsbet Pty Limited and International All Sports Limited, involved the release of funds previously paid by the Group into a trust account in return for a credit towards future Victorian racefield fees to the amount of A\$3,500,000. No adjustment has been recorded in the consolidated financial statements as the credit received is to be applied to an RVL debtor balance (A\$1,952,000), legal fees recovery (A\$185,000), while the remaining amount (A\$1,363,000) was payable and paid to the former shareholders of Sportsbet Pty Limited under the Paddy Power Share Purchase Agreement as it relates to expensed racefield fees pre 1 July 2009.

Racing Queensland Limited

On 4 October 2010, the Group settled its ongoing racefield fee litigation with Racing Queensland Limited ('RQL'). The settlement involved a back payment of A\$3,228,000 to RQL for racefield fees from 1 September 2008 to 30 September 2010 under a gross profit fee structure. An amount of A\$829,000 was paid to the former shareholders of Sportsbet Pty Limited under the Paddy Power plc Share Purchase Agreement as it relates to an over accrual of RQL racefield fees expensed pre 1 July 2009 (the accrual for such fees was previously calculated under a turnover model). No adjustment has been recorded in the consolidated financial statements as these amounts were fully accrued as at the balance sheet date.

Agreement for Paddy Power plc to acquire the remaining 39.2% interest in the Company that it does not already own

On 23 December 2010, Paddy Power plc signed an agreement with the 39.2% non-controlling shareholders to acquire their equity interests in the Company. The transaction is conditional on the prior approval of Paddy Power plc shareholders and on the approval of the Australian Foreign Investment Review Board.

Other than the matters outlined above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

33. Accounting estimates and judgements

Key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies

Goodwill of A\$29,023,000 (2009: A\$nil) continues to be carried in the Group 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 business. During the year ended 30 June 2010, the acquisition by the Group of IAS contributed goodwill of A\$29,023,000 and brands intangible assets of A\$6,900,000. The directors believe that this goodwill and the brands intangible assets have not been impaired as of 30 June 2010. The key assumptions made in respect of goodwill and indefinite life intangible assets are set out in Note 13.

The fair value of the Group's sports betting open positions amounted to A\$5,279,000 at 30 June 2010 (2009: A\$2,211,000) and the Group considers such arrangements to be derivatives. The Group performs a revaluation of sports betting open positions at each statement of financial position 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.

Included in trade receivables at 30 June 2010 of A\$9,417,000 (2009: A\$7,686,000) are gross receivable balances of A\$11,873,000 (2009: A\$9,957,000), stated net of an impairment provision for bad and doubtful accounts of A\$2,456,000 (2009: A\$2,271,000). Management believes that the impairment provision represents their best estimate of the value of receivable balances at 30 June 2010 that may not be recoverable from customers, and that the carrying value of trade receivables is their fair value.

3. Accountants' Report on Sportsbet Historical Financial Information



KPMG
Chartered Accountants

1 Stokes Place
St. Stephen's Green
Dublin 2
Ireland

Paddy Power plc
Airton House,
Airton Road,
Tallaght,
Dublin 24

4 February 2011

Dear Sirs

Accountants' report on Sportsbet Pty Limited (the 'Target Company') together with its subsidiary undertakings (the 'Sportsbet Group') for the years ended 30 June 2009 and 2010

We report on the financial information set out in section 2 of this Part III of the Circular. This financial information has been prepared for inclusion in the Class 1 and related party circular relating to the acquisition of Sportsbet Pty Limited dated 4 February 2011 of Paddy Power plc on the basis of the accounting policies set out in Note 2 of section 2 of this Part III of the circular. This report is required by paragraph 10.5.21 of the Listing Rules of the Irish Stock Exchange and paragraph 13.5.21R of the Listing Rules of the Financial Services Authority ('FSA') and is given for the purpose of complying with those paragraphs and for no other purpose.

Responsibilities

The Directors of Paddy Power plc are responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information and in accordance with International Financial Reporting Standards as adopted by the EU.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to Ordinary shareholders as a result of the inclusion of this report in the circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Irish Listing Rule 10.4.1(6) and FSA Listing Rule 13.4.1R(6), consenting to its inclusion in the circular.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board of the United Kingdom and Ireland. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Class 1 and related party circular dated 4 February 2011, a true and fair view of the state of affairs of Sportsbet Pty Limited as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with the basis of preparation set out in Note 2 and in accordance with International Financial Reporting Standards as adopted by the EU as described in Note 2 and has been prepared in a form that is consistent with the accounting policies adopted in Paddy Power plc's latest annual accounts.

Yours faithfully

KPMG

*Chartered Accountants
Dublin, Ireland*

**PART IV
ADDITIONAL INFORMATION**

1. Responsibility statement

The Directors of Paddy Power, whose names appear on the first page of the Chairman's letter in Part I of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Paddy Power

Paddy Power was incorporated on 8 April 1958 and registered in Ireland as a public limited company under the Companies Acts 1963 to 1990 on 15 November 2000 (with registered number 16956). The legal and commercial name of Paddy Power is Paddy Power plc.

Paddy Power is domiciled in Ireland and its registered office and principal place of business is at Airton House, Airton Road, Tallaght, Dublin 24, Ireland. The telephone number of Paddy Power's registered office is 00 353 1 4045900.

Existing Paddy Power Shares are admitted to the Official Lists of the Irish Stock Exchange and the UK Listing Authority and to trading on the regulated market of the Irish Stock Exchange and the London Stock Exchange's main market for listed securities. The ISIN of the Existing Paddy Power Shares is IE0002588105 and the SEDOL number is 0258810.

The principal legislation under which Paddy Power operates is the Irish Companies Acts.

KPMG, whose address is 1 Stokes Place, St. Stephen's Green, Dublin 2, Ireland, acts as auditor to Paddy Power. KPMG is a partnership whose partners are members of the Institute of Chartered Accountants in Ireland. KPMG is a registered auditor and has no material interest in Paddy Power.

3. Directors' Interests in Paddy Power Shares

As of 2 February 2011 (being the latest practicable date prior to publication of this document) the interests, all of which are legal and beneficial interests unless stated otherwise, of the Directors and their related parties who have interests in the share capital of Paddy Power, together with such interests as are expected to exist immediately following completion of the Acquisition, are set out below.

3.1 Directors' holdings

<i>Director</i>	<i>Number of Paddy Power Shares – Currently/Following Acquisition</i>
Nigel Northridge	6,000
Patrick Kennedy	264,921
Breon Corcoran	270,905
Jack Massey	59,058
Tom Grace	-
Fintan Drury	34,200
Stewart Kenny	445,020
Jane Lighting	-
Pádraig Ó Ríordáin	2,000
David Power	3,928,692
William Reeve	1,680
Brody Sweeney	-
David Johnston (Company Secretary)	-

3.2 Paddy Power Share option schemes

<i>Director</i>	<i>Scheme</i>	<i>Number of options</i>	<i>Exercise price</i>	<i>Exercise period</i>
Patrick Kennedy	Sharesave Scheme	1,785	€11.29	4 December 2011 – 3 June 2012
	Sharesave Scheme	1,236	€9.45	4 December 2013 – 3 June 2014
Breon Corcoran	Sharesave Scheme	1,989	€9.45	4 December 2011 – 3 June 2012
Jack Massey	Sharesave Scheme	1,989	€9.45	4 December 2011 – 3 June 2012
David Johnston (Company Secretary)	Share Option Scheme	4,000	€24.17	5 September 2010 – 5 September 2017
	Sharesave Scheme	1,989	€9.45	4 December 2011 – 3 June 2012

3.3 Paddy Power Long Term Incentive Plan

<i>Director</i>	<i>Grants outstanding</i>	<i>Weighted average share price at date of grant</i>	<i>Date shares granted</i>	<i>Possible vesting period</i>
Patrick Kennedy	80,000	€22.21	3 March and 15 May 2008	2011-2013
	110,000	€19.31	12 June 2009 and 20 October 2009	2012-2013
	100,000	€23.76	2 March 2010	2013-2015
Breon Corcoran	60,000	€13.79	19 September 2008	2011-2013
	75,000	€18.56	12 June 2009 and 20 October 2009	2012-2013
	80,000	€23.76	2 March 2010	2013-2015
Jack Massey	25,000	€22.21	3 March and 15 May 2008	2011-2013
	30,000	€18.74	12 June 2009 and 20 October 2009	2012-2013
	25,000	€23.76	2 March 2010	2013-2015
David Johnston (Company Secretary)	2,500	€13.79	19 September 2008	2011-2013
	3,000	€23.23	20 October 2009	2012-2013

3.4 Paddy Power Manager's Deferred Share Award Scheme

The Company Secretary, David Johnston, has also been conditionally granted 2,721 shares under the Managers' Deferred Share Award Scheme. These shares were granted on 20 December 2007 and will vest in March 2011, subject to David Johnston remaining in employment with the Group.

4. Paddy Power Directors Service Contracts and letters of appointment

4.1 Service contracts of Executive Directors

All executive directors are employed on contracts with a normal retirement age of 65. The notice period for Patrick Kennedy is 12 months, and it is six months for both Breon Corcoran and Jack Massey. No executive director is entitled to any contractual termination payment other than for payment in lieu of notice.

4.2 Letters of appointment of Non-Executive Directors

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. They are appointed for a fixed initial period of three years and may be reappointed for further fixed periods, up to a total of six years unless there are exceptional circumstances. 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.

5. Major Interests in Paddy Power Shares

Insofar as is known to Paddy Power by reference to relevant notifications made pursuant to Part IV of the Companies Act 1990, Irish Transparency law or Chapter 5 of the Disclosure and Transparency Rules (such interests being “notifiable interests”), as at 2 February 2011 (being the latest practicable date prior to the publication of this document), all persons who had interests in three per cent or more of the voting rights of Paddy Power, together with such interests as are expected to exist immediately following completion of the Acquisition, are set out below:

<i>Shareholder</i>	<i>Number of Paddy Power Shares – Currently/Following Acquisition</i>
David Power	3,928,692
UBS Investment Bank	3,037,701
Standard Life Investments	3,001,006
Ameriprise Financial Inc	2,461,306
Capital Research and Management Co	2,339,726
John Corcoran	1,500,000
Marathon Asset Management LLP	1,466,748
William Blair & Company L.L.C.	1,452,747

6. Significant Changes

6.1 Paddy Power

There has been no significant change in the financial or trading position of Paddy Power plc since 30 June 2010, being the date to which the latest published unaudited financial information on Paddy Power plc has been prepared.

6.2 Sportsbet

There has been no significant change in the financial or trading position of Sportsbet since 30 June 2010, being the date to which the latest published audited financial information on Sportsbet has been prepared.

7. Material Contracts

Paddy Power Material Contracts

Save as disclosed below, there are no material contracts (being contracts not entered into in the ordinary course of business) to which Paddy Power or any member of the Paddy Power Group is a party which: (i) are, or may be, material to the Paddy Power Group and which have been entered into in the two years prior to the date of this document; or (ii) contain obligations or entitlements which are, or may be, material to the Paddy Power Group at the date of this document; or (iii) which Shareholders would reasonably require to make a properly informed assessment of how to vote on the resolution:

7.1 2009 Acquisition of 51% of Sportsbet and International All Sports Limited (“IAS”)

On 14 May 2009, Paddy Power entered into an agreement with the 2009 Vendors (the “**2009 Share Purchase Agreement**”) to purchase 51% of the shares in Sportsbet and the initial consideration paid was AUD45.7 million (€26.3 million), which was satisfied at completion by a cash payment of AUD43.0 million (€24.6 million) (from Paddy Power’s cash reserves) and the issue of 100,000 Paddy Power shares to Sportsbet shareholders (the “**2009 Acquisition**”). In the 2009 Acquisition Agreement, the 2009 Vendors gave warranties as to the title to the Sportsbet shares acquired by Paddy Power and the assets and liabilities of Sportsbet, and agreed to indemnify Paddy Power for breach of these warranties, and for certain tax liabilities arising prior to completion. The 2009 Acquisition completed on 1 July 2009.

Sportsbet subsequently acquired 100% of IAS, a publicly listed competitor, at an equity valuation of AUD40 million (€24.1 million), funding the acquisition of the shares in IAS it did not already own via bank debt of AUD20 million (€12.0 million) and shareholder loans of AUD12 million (€7.2 million), 51% of which (AUD6.1 million (€3.7 million)) was provided by Paddy Power. The IAS Acquisition completed on 1 October 2009.

On the date of Completion of the 2009 Acquisition, a Shareholders’ Deed between Paddy Power and the Vendors became effective (the “**Shareholders’ Deed**”). The Shareholders’ Deed regulates the matters customarily provided for in this type

of agreement, including the conduct of Sportsbet's business, the composition of its board of directors, restrictions on the transfer of shares by Sportsbet's shareholders, and similar matters. The Shareholders' Deed also includes a call option exercisable by Paddy Power in either 2012 or 2013, to acquire all of the outstanding shares in Sportsbet that it does not own, with the exercise price to be determined based on an EBITDA multiple of 4 to 7 times, depending on the level of the EBITDA of Sportsbet (including IAS) in the financial year ended 30 June 2012 or 30 June 2013 respectively. Whether the call option is exercised in 2012 or 2013, a multiple of 4 times is applicable if EBITDA is less than or equal to AUD20 million (€15.2 million) and a multiple of 7 times EBITDA is applicable if EBITDA is in excess of or equal to AUD56 million (€42.6 million). The applicable multiple for EBITDA between these lower and upper thresholds is determined on a broadly straight line basis. If the call option is not exercised in 2013, the Vendors will have the option to acquire Paddy Power's shareholding. If the Acquisition is completed, the Shareholders' Deed will terminate and be of no further effect.

Under the terms of the 2009 Acquisition, in the event that the combined EBITDA of Sportsbet and IAS for any of the years ending 30 June 2011 or 2012 is less than AUD22 million (€13.3 million), Paddy Power has the right to claw back equity from Sportsbet's existing shareholders on a proportionate basis to the shortfall in profitability. For example, if EBITDA in the year ending 30 June 2011 is AUD19.8 million (i.e. 10% below the target of AUD22 million), then Paddy Power has the right to purchase 10% of the shares in Sportsbet that it does not own for a nominal sum. If the Acquisition is completed, this provision will terminate and be of no further effect.

Under the terms of the 2009 Share Purchase Agreement, additional cash consideration of AUD10 million (€7.0 million) was paid to the Vendors in August 2010 as a result of the combined EBITDA of Sportsbet and IAS in the year ended 30 June 2010 (before transaction and restructuring costs) comfortably exceeding AUD26.0 million (€17.1 million).

7.2 2010 Acquisition

On 12 February 2010, Paddy Power increased its shareholding in Sportsbet to 60.8% through the buyout of a minority shareholder who had no executive involvement in the business. The consideration for the 9.8% shareholding acquired was AUD13.0 million (€8.5 million). In the 2010 Purchase Agreement, the selling shareholder gave warranties as to its title to the shares acquired by Paddy Power, and its capacity to enter into the transaction. In a Release and Non-Compete Deed of the same date, the selling shareholder was released from its obligations under the Shareholders' Deed and released the Sportsbet Group companies from any claim that the selling shareholder or his related entities may have had against any Sportsbet Group company, whether in connection with the original transaction, or otherwise. The selling shareholder also agreed to restrictions on its ability to compete with Sportsbet.

7.3 The Acquisition

Paddy Power has entered into a Share Sale Deed (the "**Acquisition Agreement**") to purchase the shares held by the Vendors for an initial purchase price of AUD132.6 million (€100.9 million) consideration to be satisfied by: AUD110.6 million (€84.2 million) in cash from Paddy Power's existing cash reserves; the issue of AUD18.0 million (€13.7 million) of new Paddy Power Shares calculated by reference to a share price of €29.17 per Paddy Power Share and the AUD exchange rate shortly prior to completion of the Acquisition and the assumption of an AUD4.0 million (€3.0 million) obligation to certain Sportsbet employees. This obligation represented a long term incentive plan put in place by the Vendors at the time of the 2009 Acquisition for the benefit of those employees. A special dividend, in excess of that payable pursuant to Sportsbet's ongoing dividend policy, will be paid to all Sportsbet shareholders prior to completion of the Acquisition. The element of the special dividend payable to the Vendors will be AUD8.5 million (€6.5 million).

Additional cash consideration will be payable to the Vendors under the terms of the Acquisition Agreement if the EBITDA of Paddy Power's Australian operations in the 2013 calendar year is equal to or greater than AUD65 million (€49.5 million). This calculation of EBITDA is subject to a funding charge adjustment if Paddy Power's Australian operations acquire all or part of another business. The maximum aggregate amount of additional consideration payable is AUD25 million (€19.0 million) if EBITDA exceeds AUD80 million (€60.9 million) with pro rata additional consideration payable for EBITDA between AUD65 million (€49.5 million) and AUD80 million (€60.9 million).

The Acquisition is conditional on the passing of the Resolution and also on the approval of the Treasurer of the Commonwealth of Australia under the Foreign Acquisitions and Takeovers Act 1975 and the consent of National Australia Bank Limited for the purposes of the NAB Facility Agreement and the Subordination Agreement. The consent of the Northern Territory Racing Commission for the Acquisition was received on 23 December 2010 and the consent of National Australia Bank was received on 31 December 2010. Completion of the Acquisition is due to occur on the fifth business day following satisfaction of the conditions in the Acquisition Agreement.

In the Acquisition Agreement, the Vendors gave warranties as to the title to the Sportsbet shares acquired by Paddy Power, compliance with the Shareholders' Deed and certain assets and liabilities of Sportsbet. The Vendors agreed to indemnify Paddy Power for breach of these warranties. The Vendors agreed to restrictions on their ability to participate in any business or activity in competition with any material part of the business conducted by the Sportsbet Group for a period of

up to three years following completion of the Acquisition, or, if later (in respect of each Vendor) one year from the date that such relevant person ceases to be an officer and employee of the Sportsbet Group.

In the Acquisition Agreement, to the maximum extent permitted by law, with effect from Completion the Vendors (other than Grant Griffiths, who is not an employee of Sportsbet) have specifically agreed that Sportsbet may terminate their employment without notice or payment in lieu of notice, and that they will not be entitled to receive any compensation from the Sportsbet Group for termination of their employment. All of the Vendors have agreed in the Acquisition Agreement, to the maximum extent permitted by law and with effect from Completion, that they are not entitled to any compensation for loss of office as a director, secretary or officer of any member of the Sportsbet Group.

Separately, the Related Party Vendors have undertaken not to vote on the Resolution approving the Acquisition and to take all reasonable steps to ensure that their associates will not vote on such Resolution.

Sportsbet Material Contracts

Save as disclosed in relation to the Shareholders' Deed (described in paragraph 7.1 above) the February 2010 Purchase Agreement and the Release and Non-Compete Deed (both described in paragraph 7.2 above), the Acquisition Agreement (described in paragraph 7.3 above) and the IAS Implementation Deed (described in paragraph 7.4 below), there are no material contracts (being contracts not entered into in the ordinary course of business) to which Sportsbet or any member of the Sportsbet Group is a party which: (i) are, or may be, material to the Sportsbet Group and which have been entered into in the two years prior to the date of this document; or (ii) contain obligations or entitlements which are, or may be, material to the Paddy Power Group at the date of this document; or (iii) which Shareholders would reasonably require to make a properly informed assessment of how to vote on the Resolution.

7.4 IAS Implementation Deed

On 3 June 2009, Sportsbet and IAS entered into a scheme implementation deed in relation to the IAS Acquisition (described in paragraph 7.1 above) (the "**IAS Implementation Deed**"). The IAS Acquisition was effected by way of scheme of arrangement (the "**IAS Scheme**"). As the IAS Scheme was successfully completed on 1 October 2009, the rights and obligations contained in the IAS Implementation Deed are no longer of any significance to Sportsbet. The IAS Implementation Deed sets out the respective rights and obligations of Sportsbet and IAS in the context of the IAS Scheme and sets out the terms and timetable upon which Sportsbet and IAS agreed to implement the IAS Scheme. The main issues dealt with by the IAS Implementation Deed (apart from the parties' respective rights and obligations in relation to the IAS Scheme) include: (i) conditions and pre-implementation steps to the IAS Scheme being effected; (ii) the consequences of such conditions not being satisfied; (iii) access levels of Sportsbet to IAS information and employees in the period before the completion of the IAS Scheme; (iv) recommendation of the IAS Scheme by the directors of IAS; (v) undertakings by the directors of IAS to vote in favour of the IAS Scheme; (vi) reconstitution of the IAS board of directors in the event of the IAS Scheme being completed; (vii) representations and warranties (which have since expired); (viii) costs, and reimbursement of same in certain situations, and (ix) exclusivity.

8. Related Party Vendors

8.1 Service Contracts of Related Party Vendors

As explained in paragraph 7.3 of this Part IV of the Circular, in the Acquisition Agreement, to the maximum extent permitted by law, with effect from Completion, the Related Party Vendors who are employees of Sportsbet, have specifically agreed that Sportsbet may terminate their employment without notice or payment in lieu of notice, and that they will not be entitled to receive any compensation from the Sportsbet Group for termination of their employment. All of the Related Party Vendors have agreed in the Acquisition Agreement, to the maximum extent permitted by law and with effect from Completion, that they are not entitled to any compensation for loss of office as a director, secretary or officer of any member of the Sportsbet Group.

8.2 Interests of Related Party Vendors in Paddy Power Shares

As of 2 February 2011 (being the latest practicable date prior to publication of this Circular), the Related Party Vendors and their associates held 4,200 Paddy Power Shares, as follows:

Shareholder	Number of Paddy Power Shares
Grant Griffiths	4,200

8.3 Transactions with Related Party Vendors

Other than as disclosed in paragraph 7, Material Contracts, and paragraph 8.1 in this Part IV of the circular, no related party transactions were entered into by Paddy Power plc or any other member of the Group with the Related Party Vendors up to and including 2 February 2011 (being the latest practicable date prior to publication of this Circular).

9. Related Party Transactions

Other than as disclosed in Note 29 of Paddy Power's audited annual report for the year ended 31 December 2008, Note 32 of Paddy Power's audited annual reports for the year ended 31 December 2009 and in paragraph 8.3, Transactions with Related Party Vendors, in this Part IV, no related party transactions were entered into by Paddy Power plc during the financial years ended 31 December 2008, 2009 and 2010 and during the period from 1 January 2011 up to and including 2 February 2011 (being the latest practicable date prior to publication of this Circular), save for continuing arrangements with key management personnel of the nature disclosed in Note 32 of Paddy Power's audited annual report for the year ended 31 December 2009.

10. Consideration Shares

Application will be made to the Irish Stock Exchange and the UK Listing Authority for the Consideration Shares to be admitted to the Official Lists, and to the Irish Stock Exchange and the London Stock Exchange for the Consideration Shares to be admitted to trading on the main markets for listed securities of each of the Irish Stock Exchange and the London Stock Exchange. It is currently intended that the Consideration Shares will be issued upon Completion (currently expected to be 1 March 2011) and that Admission of the Consideration Shares will become effective and dealings on the Irish Stock Exchange and the London Stock Exchange will commence shortly thereafter (currently expected to be 2 March 2011).

Each Vendor will be paid a number of Consideration Shares (rounded down to the nearest whole number) calculated by reference to a share price of €29.17 per Paddy Power Share and the AUD exchange rate shortly prior to completion of the Acquisition. The Consideration Shares will be Ordinary Shares in Paddy Power and will rank *pari passu* in all respects with the existing Ordinary Shares, including in respect of dividends and voting rights. The Consideration Shares may be held in certificated form or under the CREST system. Computershare are registrars to the Company and are responsible for keeping its register of members.

11. Litigation and other proceedings

11.1 Paddy Power

There have been no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which Paddy Power is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Paddy Power Group.

11.2 Sportsbet

Save as disclosed below, there have been no governmental, legal or arbitration proceedings (including any such proceedings pending or threatened of which either Paddy Power or Sportsbet is aware) during the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the financial position or profitability of the Sportsbet Group.

Racing New South Wales ('Racing NSW') currently charges Sportsbet, which is licensed in the Northern Territory, a product fee of 1.5% of turnover on New South Wales racing which Sportsbet provides for in its financial statements. Sportsbet initiated Court proceedings against Racing NSW on 21 November 2008 alleging that this charge is discriminatory as TAB Limited (the 'TAB') and bookmakers licensed in New South Wales are effectively not subject to these product fees and on the basis that charging product fees as a percentage of turnover (rather than as a percentage of gross profit) discriminates against lower margin fixed odds betting providers, such as Sportsbet, which are based outside New South Wales. The basis of the legal claim lies in the Constitution of Australia which requires trade and commerce between the States to be absolutely free. A Federal Court judgment was delivered by a single judge on 16 June 2010 substantially in Sportsbet's favour, but the full Federal Court upheld an appeal by Racing NSW against this judgment. Sportsbet has now lodged an application for leave to appeal this decision to the High Court, the highest court in the Australian judicial system. If leave is granted, this matter is expected to be heard in the second half of 2011.

If Sportsbet is not given leave to appeal, or loses the appeal, then the current fee structure will continue. In addition, some other Australian states' racing authorities and/or sports bodies, which currently charge product fees on a gross profits basis, may, as a consequence, decide to move to a system of charging product fees on a turnover basis, either in 2012 when the

main such existing product fee agreements expire or possibly sooner where no fixed term agreement exists. Whether this is likely to happen, to what extent and with what impact is unknown at this stage; however if it did happen, it would likely increase Sportsbet's costs. If, however, Sportsbet is successful in its appeal and, as a consequence, Racing NSW moves to a system of charging product fees on a gross profits rather than a turnover basis then this would likely have a beneficial impact on Sportsbet and would reduce its costs.

Sportsbet is also involved in similar but less material litigation with Harness Racing New South Wales and Harness Racing Victoria Limited, which could also influence the ultimate product fee regime in Australia.

12. Working capital

Paddy Power is of the opinion that, taking into account the facilities available to the Enlarged Group, the working capital available to the Enlarged Group is sufficient for its present requirements, that is, for at least the 12 months following the date of publication of this circular.

13. Profit Forecasts/Estimates

A Profit Forecast is a statement providing a minimum or maximum figure for the likely level of profits or losses for a financial period not yet ended at the time the statement is made. Prior to 31 December 2010, Paddy Power had issued a Profit Forecast in respect of both the Paddy Power Group and separately for Sportsbet for periods ending on 31 December 2010. This Circular now provides statements of expected profits for both Paddy Power and Sportsbet for periods ended 31 December 2010 and (having been made post year end) these statements constitute Profit Estimates.

13.1 Paddy Power

Paddy Power published an interim management statement on 17 November 2010, which included the following statement:

“Accordingly, we now expect to achieve underlying diluted EPS growth in 2010 of 35% to 40% versus 2009, subject, as ever, to the volatility that could arise from sporting results over the remainder of the year.”

The above statement, being issued prior to the end of the financial year ended 31 December 2010, represented a Profit Forecast for Paddy Power.

The Group is now (post financial year-end) providing a Profit Estimate, confirming it expects to achieve underlying diluted EPS growth in 2010 of 35% to 40% versus 2009.

For clarification, “underlying diluted EPS” is calculated on a fully diluted basis and excludes any gains arising in respect of the Sportsbet buyout call option valuation and UK deferred tax asset recognition, consistent with Paddy Power’s Interim Financial Statements for the six months ended 30 June 2010.

The Profit Estimate is not of profit before tax because the Directors consider underlying diluted earnings per share to be a more appropriate measure of the performance of the Paddy Power Group as it reflects the underlying profitability of the Group available to Paddy Power Shareholders after taking into account charges for taxation and deductions in relation to the minority shareholdings in Sportsbet. This EPS growth estimate fully reflects an estimated underlying effective tax rate for the period of approximately 16%.

The Profit Estimate has been prepared on a basis consistent with the accounting policies adopted by Paddy Power in the preparation of its audited consolidated financial statements for the year ended 31 December 2009 incorporated by reference into this document (paragraph 16 of this Part IV) and takes into account the results shown in the unaudited interim results for the six months ended 30 June 2010 and the results shown in the unaudited management accounts of the Group for the six months to 31 December 2010.

13.2 Sportsbet

Paddy Power published an announcement in relation to the Acquisition on 23 December 2010 which included the following statement:

“Paddy Power expects Sportsbet to achieve EBITDA pre Group central cost allocations of no less than AUD23 million (€15.9 million) in the six months ending 31 December 2010, after achieving an equivalent EBITDA of AUD14.8 million (€10.0 million) in the six months ended 30 June 2010.”

The above statement, being issued prior to end of the period ended 31 December 2010, represented a Profit Forecast for Sportsbet. Furthermore, paragraph 3 of Part I of this Circular contains the following updated Profit Estimate:

“Paddy Power expects Sportsbet to achieve EBITDA pre Group central cost allocations of approximately AUD25 million (€17.7 million) in the six months ended 31 December 2010, after achieving EBITDA pre Group central cost allocations of AUD14.8 million (€10.0 million) in the six months ended 30 June 2010.”

The Profit Estimate for Sportsbet of EBITDA pre Group central cost allocations of approximately AUD25 million is higher than the previous Profit Forecast of EBITDA pre Group central cost allocations of no less than AUD23 million, made on 23 December 2010. This is due primarily to the necessity to make allowance within the original Profit Forecast for possible adverse sporting results impacting Sportsbet in late December 2010 which didn't ultimately materialise, leading to out-performance of that Profit Forecast.

The Profit Estimate is not of profit before tax because the Directors consider EBITDA pre Group central cost allocations to be a more appropriate measure of the operating performance of Sportsbet and Paddy Power's call option to increase its shareholding in Sportsbet under the 2009 Acquisition is based on a multiple of EBITDA pre Group central cost allocations. The Australian corporate tax rate during the period was 30% and this rate would be applied to profit before tax rather than EBITDA.

The Profit Estimate has been prepared on a basis consistent with the accounting policies adopted by Paddy Power in the preparation of its audited consolidated financial statements for the year ended 31 December 2009 incorporated by reference into this document (paragraph 16 of this Part IV), and takes into account the results shown in the unaudited management accounts of Sportsbet for the six months to 31 December 2010.

14. Consents

IBI Corporate Finance has given and not withdrawn its written consent to the inclusion of its name in this document in the form and context in which it appears.

KPMG has given and has not withdrawn its written consent to the inclusion in Part III of this document of its report in the form and context in which it appears.

15. Sources of Information and Bases of Calculation

- 15.1 Unless otherwise stated, financial information relating to Paddy Power has been extracted or provided (without material adjustment) from the annual report and audited consolidated financial statements of Paddy Power plc for the financial years ended 31 December 2008 and 2009.
- 15.2 Unless otherwise stated in this document, financial information relating to Sportsbet has been extracted or provided (without material adjustment) from the audited consolidated financial statements of Sportsbet for the financial years ended 30 June 2009 and 2010.
- 15.3 Unless otherwise stated, references to the ordinary share capital of Paddy Power are to the Ordinary Shares, excluding any shares held in treasury, and percentage shareholdings shall be interpreted accordingly.
- 15.4 The consideration for the Acquisition will be paid, or is valued, in Australian dollars. Where equivalent euro figures to the Australian dollar amounts for the Acquisition consideration are given in this Circular, these figures are approximate and are calculated based on the AUD/EUR exchange rate prevailing immediately prior to 23 December 2010, the date the Acquisition was announced, and the actual euro amount may be more or less, depending on the AUD/EUR exchange rate at the time when the relevant payment or valuation is made.

16. Documents incorporated by reference

The following documents are incorporated by reference into this circular:

- The annual reports for Paddy Power plc for the years ended 31 December 2008 and 2009.
- The unaudited financial statements for Paddy Power plc for the six months ended 30 June 2010.

17. Documents available for inspection

Copies of the following documents will be available on Paddy Power's website and will be available for inspection in physical form at the offices of Paddy Power at Airton House, Airton Road, Tallaght, Dublin 24, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to and including the date of the Paddy Power Extraordinary General Meeting:

- (a) the Memorandum and Articles of Association of Paddy Power plc;
- (b) the Annual Report of Paddy Power plc for the financial years ended 31 December 2009 and 31 December 2008;
- (c) the unaudited interim financial statements of Paddy Power plc for the six months ended 30 June 2010;
- (d) the consolidated financial statements of Sportsbet for the financial years ended 30 June 2009 and 30 June 2010;
- (e) the accountants report on Sportsbet historical financial information contained in paragraph 3 of Part III of this document;
- (f) the Acquisition Agreement;
- (g) the written consent letters referred to in paragraph 14 of this Part IV of the Circular; and
- (h) this Circular and the Form of Proxy.

**PART V
DEFINITIONS**

The following terms have the following meanings throughout this document unless the context otherwise requires:

“2009 Acquisition”	the agreement entered into on 14 May 2009 between Paddy Power and the 2009 Vendors relating to the acquisition of 51% of the shares in Sportsbet, further details of which are set out in paragraph 7.1 of Part IV of this document;
“2009 Share Purchase Agreement”	the agreement entered into on 14 May 2009 between Paddy Power and the 2009 Vendors further details of which are set out in paragraph 7.1 of Part IV of this document;
“2009 Vendors”	the Vendors and the minority shareholder whose shares in Sportsbet were the subject of the 2009 Acquisition;
“2010 Acquisition”	the agreement entered into on 12 February 2010 whereby Paddy Power increased its shareholding in Sportsbet to 60.8%, further details of which are set out in paragraph 7.2 of Part IV of this document;
“Acquisition”	the transaction entered into on 23 December 2010 whereby Paddy Power will acquire the remaining 39.2% interest in Sportsbet;
“Acquisition Agreement”	the agreement entered into on 23 December 2010 between Paddy Power and the Vendors to effect the Acquisition, further details of which are set out in paragraph 7.3 of Part IV of this document;
“Admission”	the admission of the Consideration Shares to the Official Lists becoming effective in accordance with the Listing Rules and the admission of such stock to trading on the Irish Stock Exchange’s and London Stock Exchange’s markets for listed securities becoming effective in accordance with the Admission to Trading Rules and the Admission and Disclosure Standards respectively;
“Announcement”	means the announcement of the Acquisition published by Paddy Power on 23 December 2010;
“Articles of Association” or “Articles”	the articles of association of Paddy Power;
“AUD” or “Australian dollars” or “A\$”	the lawful currency of Australia;
“Board” or “Board of Paddy Power”	means the board of directors of Paddy Power;
“Business Day”	a day (excluding Saturdays, Sundays and public holidays) on which banks are generally open for business in London and Dublin;
“Circular”	this document, which explains the background to the Acquisition and includes the Notice of Extraordinary General Meeting;
“Class 1 Transaction”	the Acquisition which constitutes a “class 1 transaction” for the purposes of the Listing Rules;
“Companies Acts”	the Companies Acts, 1963 to 2009 (as amended and to the extent currently in force) and every other enactment which is to be read together with any of those Acts;

“Company”	refers to Paddy Power plc, whose registered office is at Airton House, Airton Road, Tallaght, Dublin 24, and whose registered number is 16956; other than in Part III, where it refers to Sportsbet Pty Limited (ACN 088 326 612);
“Completion”	completion of the Acquisition in accordance with the terms of the Acquisition Agreement, including the issue of the Consideration Shares, occurs;
“Completion Date”	the date on which Completion takes place;
“Conditions”	the conditions to the implementation of the Acquisition which are summarised in paragraph 7.3 of Part IV of this document;
“Consideration Shares”	the Paddy Power Shares to be issued as partial consideration for the Acquisition;
“Corporate Bookmaker”	a bookmaker that offers fixed odds, and not pooled, betting services. See paragraph 1.5 in Part II for more details;
“CREST”	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the CREST Regulations;
“CREST Manual”	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Services Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure and CREST Glossary of Terms (all as defined in the CREST Glossary of Terms promulgated by Euroclear UK & Ireland Limited on 15 July 1996 and as amended since);
“CREST member”	a person who has been admitted to Euroclear as a system-member (as defined in the CREST Regulations);
“CREST participant”	a person who is, in relation to CREST, a system-participant (as defined in the CREST Regulations);
“CREST Proxy Instruction”	the instruction whereby CREST members send a CREST message appointing a proxy for the meeting and instructing the proxy on how to vote;
“CREST Regulations”	the Companies Act 1990 (Uncertified Securities) Regulations 1996 (SI No. 68/1996) of Ireland (as amended in 2003) and the UK Uncertified Securities Regulations 2001 (SI 2001/3755);
“CREST sponsor”	a CREST participant admitted to CREST as a CREST sponsor;
“CREST sponsored member”	a CREST member admitted to CREST as a sponsored member;
“Disclosure and Transparency Rules”	the disclosure and transparency rules made under Part 6 of FSMA (as set out in the FSA handbook) as amended from time to time;
“Directors”	means the directors of Paddy Power plc, whose names appear on page 4, and “Director” means any one of them;
“EBITDA”	earnings before interest, tax, depreciation and amortisation;

“Enlarged Group”	the Paddy Power Group following the Acquisition;
“EUR” or “Euro” or “€”	the single currency of the EU member states that adopt or have adopted the euro as their lawful currency under the legislation of the European Union or European Monetary Union;
“Euroclear”	Euroclear UK & Ireland Limited;
“Extraordinary General Meeting”	the extraordinary general meeting of Paddy Power convened by the Notice of Extraordinary General Meeting in connection with the Acquisition, or any reconvened meeting following any adjournment thereof;
“Form of Proxy” or “Proxy Form”	the form of proxy for use by Paddy Power Shareholders in connection with the Extraordinary General Meeting;
“FSA”	the Financial Services Authority of the United Kingdom;
“Group”	refers to Paddy Power and its Subsidiaries and Subsidiary Undertakings; other than in Part III, where it refers to Sportsbet and its subsidiaries, including IAS;
“IBI Corporate Finance”	IBI Corporate Finance Limited;
“IAS”	International All Sports Limited (ACN 066 967 502);
“IAS Acquisition”	the transaction whereby Sportsbet acquired 100% of IAS, which completed on 1 October 2009 and further details of which are set out in paragraph 7.1 in Part IV of this document;
“IAS Scheme”	the scheme of arrangement by which the IAS Acquisition was effected, further details of which are set out in paragraph 7.4 in Part IV of this document;
“IAS Scheme Implementation Deed”	the scheme implementation deed entered into by Sportsbet and IAS in relation to the IAS Acquisition, further details of which are set out in paragraph 7.4 of Part IV of this document;
“IFRS”	International Financial Reporting Standards;
“Irish Listing Rules”	the Listing Rules of the Irish Stock Exchange;
“Irish Stock Exchange”	The Irish Stock Exchange Limited or its successor(s);
“Irish Transparency law”	Part 3 of the Investment Funds, Companies and Miscellaneous Provisions Act 2006, the European Communities Transparency (Directive 2004/109/EC) Regulations 2007, and the transparency rules published by the Central Bank of Ireland under section 22 of the Investment Funds, Companies and Miscellaneous Provisions Act 2006, each as amended from time to time;
“ISIN”	International Securities Identifying Number;
“Listing Rules”	the UK Listing Rules and the Irish Listing Rules;
“London Stock Exchange”	London Stock Exchange plc or any recognised investment exchange for the purposes of the FSMA which may take over the functions of London Stock Exchange plc;

“NAB Facility Agreement”	the Bill Acceptance and Discount & Bank Guarantee Facility Agreement between Sportsbet and National Australia Bank Limited dated 17 September 2009, as amended from time to time;
“Notice of Extraordinary General Meeting”	the notice convening the Extraordinary General Meeting set out in Part VI this document;
“Official Lists”	the official list of the Irish Stock Exchange and/or, as appropriate, the official list maintained by the UK Listing Authority;
“Ordinary Shares” or “Paddy Power Shares”	ordinary shares of €0.10 each in the share capital of the Company;
“Ordinary Shareholders”	holders of Ordinary Shares from time to time;
“Paddy Power plc” or “Paddy Power”	Paddy Power plc, whose registered office is at Airtion House, Airtion Road, Tallaght, Dublin 24, and whose registered number is 16956;
“Paddy Power Group”	Paddy Power and its Subsidiaries and Subsidiary Undertakings;
“Paddy Power Shareholders”	holders of Paddy Power Shares from time to time;
“Profit Estimate”	a profit estimate for a financial period which has expired and for which results have not yet been published;
“Profit Forecast”	a form of words which expressly states or by implication indicates a figure or a minimum or maximum figure for the likely level of profits or losses for a financial period not yet ended at the time;
“Registrar”	Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandymount Industrial Estate, Dublin 18, Ireland;
“Regulatory Information Service”	one of the regulatory information services authorised by the Irish Stock Exchange and/or the UK Listing Authority to receive, process and disseminate regulated information from listed companies;
“Related Party Transaction”	the Acquisition which constitutes a “related party transaction” for the purpose of the Listing Rules;
“Related Party Vendors”	Nambawan Capital Pty Ltd (a trust company controlled by Matthew Tripp); Dongrisha Pty Ltd (a trust company controlled by Grant Griffiths); and Xsfer Pty Ltd (a trust company controlled by Nicholas Tyshing);
“Resolution”	the resolution to be proposed at the Extraordinary General Meeting, as set out in the Notice of Extraordinary General Meeting;
“Shareholders Deed”	the Shareholders’ Deed as described in paragraph 7.1 of Part IV of this Circular;
“Sportsbet”	Sportsbet Pty Limited (ACN 088 326 612);
“Sportsbet Group”	Sportsbet and its subsidiaries, including IAS;

“Subordination Agreement”	the Subordination Agreement dated 2 October 2009 between National Australia Bank Limited, Sportsbet, Paddy Power plc and the Vendors;
“Subsidiary”	in relation to the Paddy Power Group, has the same meaning as in section 155 of the Companies Act 1963;
“Subsidiary Undertaking”	in relation to the Paddy Power Group, has the same meaning as in Regulation 4 of the European Communities (Companies: Group Accounts) Regulations 1992 of Ireland;
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland;
"UK Listing Authority" or “UKLA”	the FSA in its capacity as the competent authority for the purposes of Part VI of the FSMA and in the exercise of its functions in respect of the admission to the Official List otherwise than in accordance with Part VI of the FSMA;
“UK Listing Rules”	the Listing Rules of the UK Listing Authority;
"US" or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia; and
“Vendors”	Nambawan Capital Pty Ltd (a trust company controlled by Matthew Tripp); Dongrisha Pty Ltd (a trust company controlled by Grant Griffiths); Xsfer Pty Ltd (a trust company controlled by Nicholas Tyshing); Lukejames Pty Ltd (a trust company controlled by Phillip Hannah); Somerset Trading Pty Ltd (a trust company controlled by Thomas Carroll); and Spartacus Capital Pty Ltd (a trust company controlled by Brett Schraa).

PART VI
NOTICE OF EXTRAORDINARY GENERAL MEETING OF PADDY POWER PLC

NOTICE is hereby given that an Extraordinary General Meeting of Paddy Power plc (the ‘**Company**’) will be held at **11.00 a.m.** at the **Burlington Hotel, Upper Leeson Street, Dublin 4, Ireland** on **22 February 2011** to consider and if thought fit, pass the following resolution, which will be proposed as an ordinary resolution:

As an ordinary resolution

“That the Acquisition, being a Class 1 Transaction and a Related Party Transaction for the purposes of the Listing Rules of the Irish Stock Exchange and the UK Listing Authority, be and is hereby approved.”

By Order of the Board

David Johnston
Company Secretary

4 February 2011

Registered Office:
Airton House
Airton Road
Tallaght
Dublin 24

Notes

1. Terms used in this Notice of Extraordinary General Meeting and not otherwise defined have the same meaning as in the accompanying Circular to Shareholders.
2. In accordance with the Listing Rules, the Related Party Vendors will not vote on the Resolution.
3. 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 in respect of 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.computershare.com/ie/voting/paddypower. Shareholders will be asked to enter the Shareholder Reference Number and PIN Number as printed on your Form of Proxy and agree to certain conditions.
4. As a Shareholder, you have several ways to exercise your right to vote:
 - (a) By attending the Extraordinary 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.
5. 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 Extraordinary General Meeting 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.computershare.com/ie/voting/paddypower. You will need your shareholder reference number and your PIN number, which can be found on the lower section of your Form of Proxy.
6. 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 Investor 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.
7. 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 Investor Services (Ireland) Limited (ID 3RA50) by 11.00 a.m. on 20 February 2011. 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.

8. Pursuant to section 133B of the Companies Act 1963, a shareholder or group of shareholders holding at least three per cent of the issued share capital of the Company has the right to table a draft resolution for inclusion in the agenda of the Extraordinary General Meeting, subject to the minimum notice requirements for the issuing of notice for the Extraordinary General Meeting being capable of being met in respect of any such draft resolution.
9. Pursuant to section 134C of the Companies Act 1963, shareholders have a right to ask questions related to items on the Extraordinary General Meeting 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 it would interfere unduly with preparation for the meeting or the confidentiality or business interests of the Company or it appears to the Chairman that it is undesirable in the interests of good order of the meeting that the question be answered.
10. Pursuant to Section 134A of the Companies Act 1963 and regulation 14 of the Companies Act, 1990 (Uncertificated Securities) Regulations 1996, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at close of business on the day which is two days before the date of the meeting (or in the case of an adjournment as at 48 hours before the time of the adjourned meeting). Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
11. This Extraordinary General Meeting 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 the resolution and copies of the forms to be used to vote by proxy are available on the Company's website at 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.

