30 August 2011

Paddy Power plc

2011 Interim Results Announcement

Paddy Power plc ('the Group') today announces interim results for the six months ended 30 June 2011 ('the period').

Group Highlights:

- Underlying profit before tax up 15% to €56.8m and diluted EPS up 18% to 97.1 cent, notwithstanding the 2010 World Cup comparative and adverse sporting results during the period;
- A 20% increase in the interim dividend to 30.0 cent per share, supported by a strong balance sheet with net cash of €91m at period end;
- 81% of Group operating profit from online activities. 73% from international activities.

Online Highlights:

- Substantially increased online scale: Gross win up 28% to €143m. Operating profit up 25% to €45.3m;
- Very strong *paddypower.com* growth: Active customers up 48%. Gross win up 35% to €101.1m. Operating profit up 26% to €36.5m;
- Strong Australian profit growth and initiatives to drive further growth: Operating profit up 25% (15% in constant currency) to €9.8m;
- Large share of rapidly growing mobile market: *paddypower.com* mobile sportsbook turnover up 279% with 35% of active customers transacting via mobile, generating 22% of stakes.

Retail Highlights:

- UK Retail operating profit up 59% to €4.7m. Like-for-like sportsbook stakes up 6%. Like-for-like machine gaming revenue up 16%;
- UK Retail estate now 151 shops with 27 shops opened in the year to date and an expectation going forward of opening 35 to 40 shops annually*;*
- Irish Retail operating profit down 44% to €5.1m, driven by adverse sports results. Like-for-like stakes down 1%. Direct operating costs per shop down 4%.

Commenting on the results, Patrick Kennedy, Chief Executive, Paddy Power plc, said:

"This has been a great first half for Paddy Power. The excellent performance of the Online Division and the success of our mobile offering stand out. We have continued to experience strong growth in the UK Retail market and our Australian business has progressed well. Conditions in Ireland remain tough but our business is well positioned; we therefore remain confident in the prospects for the Group in 2011 and beyond."

ENDS
30 August 2011

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Analyst Briefing:

The Company will host an analyst presentation at 9:00am this morning at the Merrion Hotel, Upper Merrion St, Dublin 2. A conference call facility will also be available. To participate in the conference call please dial 0208 974 7900 from the UK, (01) 242 1074 from Ireland and +44 208 974 7900 from elsewhere. The passcode is 486 817.

A presentation replay facility will be available for 21 days. To listen to the replay, callers from the UK should dial 0207 136 9233, and all other callers should dial +44 207 136 9233. The passcode is 6434 3299.

Interim Financial Highlights for the Six Months Ended 30 June 2011

	Six months ended 30 June 2011 *(unaudited)*	Six months ended 30 June 2010 *(unaudited)*	% Change
	€m	€m	
Amounts staked by customers *			
Online (ex Australia)	**771**	540	+43%
Online Australia **	**642**	593	+8%
Irish Retail	**483**	476	+2%
UK Retail	**177**	132	+34%
Telephone (ex Australia)	**152**	151	+1%
Total amounts staked	**2,225**	1,892	+18%
Income *			
Online (ex Australia)	**101.1**	74.9	+35%
Online Australia **	**47.7**	41.8	+14%
Irish Retail	**51.0**	55.5	(8%)
UK Retail	**32.7**	24.0	+36%
Telephone (ex Australia)	**9.5**	9.4	+1%
Total income	**242.0**	205.6	+18%
Operating profit			
Online (ex Australia)	**36.5**	29.0	+26%
Online Australia **	**9.8**	7.9	+25%
Irish Retail	**5.1**	9.0	(44%)
UK Retail	**4.7**	3.0	+59%
Telephone (ex Australia)	**0.2**	0.6	(66%)
Total operating profit	**56.2**	49.5	+14%
Adjusted diluted earnings per share ***	**97.1c**	82.2c	+18%

* Amounts staked by customers (or 'turnover') represents bets placed on sporting events that occurred during the period and net winnings, commission income and fee income earned on gaming and other activities. Income (or 'gross win') represents the net gain on sports betting transactions (stake less payout) plus the gain or loss on the revaluation of open positions at period end plus net winnings, commission income and fee income earned on gaming and other activities.

** Australia also includes legacy telephone operations accounting for less than 10% of its gross and operating profit.

*** H1'10 excluding gains re Sportsbet buyout call option valuation (€3.1m) and UK deferred tax asset recognition (€0.9m).

INTERIM STATEMENT

Introduction

We have made significant progress in the execution of our strategy in the first half of 2011. Increased scale and continued investment in operations, brand, product and value has driven strong performance in both online and retail.

Group Highlights:

- Underlying profit before tax up 15% to €56.8m and diluted EPS up 18% to 97.1 cent, notwithstanding the 2010 World Cup comparative and adverse sporting results during the period;
- A 20% increase in the interim dividend to 30.0 cent per share, supported by a strong balance sheet with net cash of €91m at period end;
- 81% of Group operating profit from online activities. 73% from international activities.

Online Highlights:

- Substantially increased online scale: Gross win up 28% to €143m. Operating profit up 25% to €45.3m;
- Very strong *paddypower.com* growth: Active customers up 48%. Gross win up 35% to €101.1m. Operating profit up 26% to €36.5m;
- Strong Australian profit growth and initiatives to drive further growth: Operating profit up 25% (15% in constant currency) to €9.8m;
- Large share of rapidly growing mobile market: *paddypower.com* mobile sportsbook turnover up 279% with 35% of active customers transacting via mobile, generating 22% of stakes.

Retail Highlights:

- UK Retail operating profit up 59% to €4.7m. Like-for-like sportsbook stakes up 6%. Like-for-like machine gaming revenue up 16%;
- UK Retail estate now 151 shops with 27 shops opened in the year to date and an expectation going forward of opening 35 to 40 shops annually;
- Irish Retail operating profit down 44% to €5.1m, driven by adverse sports results. Like-for-like stakes down 1%. Direct operating costs per shop down 4%.

Sporting Results and Trading

At the time of our last trading update in mid-May, it looked like sporting results in the first half of 2011 were going to balance out to deliver an overall Group sportsbook gross win percentage in line with our normal expectations. We had received a right bashing at Cheltenham which depressed retail but, on the flip side, favourable results in football boosted online.

Then, we decided to liven things up by offering to refund losing bets on the biggest football match of the year – the UEFA Champions League Final – if the red-hot favourite, Barca, beat ManU. To make sure we got as many punters as possible to pile in, we ran a promotional photo-shoot with Imogen Thomas of Ryan Giggs super-injunction fame. This ultimately featured on the front page of The Sun and generated the most watched UK video on YouTube that Friday. The fact that she looked particularly fetching in tight '80s style football shorts helped no end! Such a massively generous Money-Back Special was certainly going to have a big influence on 'the half' but we consoled ourselves with the thought that we 'went for it' as we refunded over €3m to the jammy…ehem…lucky punters. This generosity, combined with another bruising Royal Ascot and some adverse sports results Down Under late in the period, contributed to a sportsbook gross win percentage 0.4% to 0.5% below our normal expectations.

Such short term ups and downs are an intrinsic part of bookmaking. Our primary focus however, is on the long term and the brand differentiation and customer loyalty such unrivalled generosity can generate, particularly when combined with other strengths such as our leading mobile offer and online marketing expertise. The effectiveness of this approach is demonstrated by the 51% growth in *paddypower.com* sportsbook customer acquisition in the period (or 91% excluding the 2010 World Cup comparative).

ONLINE

€m	**H1 2011**	**H1 2010**	**% Change**
Sportsbook gross win	99.7	77.3	+29%
Gaming & other gross win	43.3	34.4	+26%
Total gross win	**143.0**	**111.7**	**+28%**
Operating profit	**45.3**	**36.1**	**+25%**
% of Group operating profit	81%	73%	
Active customers	**833,347**	**588,050**	**+42%**

(Active customers are defined as those who have bet in the reporting period, excluding indirect B2B customers)

Paddy Power's online profits are generated from the legal, regulated markets of the UK, Australia, Ireland and France.

During the period, revenues increased by 28% to €143m and profits by 25% to €45m, accounting for 81% of Group operating profit. This performance generates greater scale to fund investment which, in turn, drives future growth. Investing wisely pays for itself in existing markets and also positions us to take advantage of future international opportunities.

Significant investment is focussed on the diverse and complex range of operational capabilities required for online success. The aggregation of even small advantages in our operational capabilities can materially differentiate products, service and efficiency from our competitors.

ONLINE DIVISION (Excluding Australia)

€m	**H1 2011**	**H1 2010**	**% Change**
Amounts staked	771.0	540.5	+43%
Sportsbook gross win	57.7	40.5	+42%
Sportsbook gross win %	*7.9%*	*8.0%*	
Gaming & other gross win	43.3	34.4	+26%
Total gross win	**101.1**	**74.9**	**+35%**
Gross profit	88.7	65.1	+36%
Operating costs	(52.2)	(36.1)	+44%
Operating profit	**36.5**	**29.0**	**+26%**

Despite the 2010 World Cup comparative, *paddypower.com* grew its profits by 26% to €36m in the period. This performance was driven by well-established Paddy Power strengths in product innovation, outstanding customer value and our unique brand, combined with continuously evolving e-commerce capabilities in key areas such as online acquisition and retention.

Active customers were up 48%, amounts staked up 43% and revenues up 35%. Operating cost growth of 44% was, as expected, broadly in line with the 'top line' growth. Growth in UK active customers was particularly strong, accelerating to 58% in the period (versus 56% in 2010), from a substantially higher base and without a World Cup boost.

Online Channel Active Customers	**H1 2011**	**H1 2010**	**% Change**
UK	542,416	343,811	+58%
Ireland and Rest Of World	161,625	132,330	+22%
Total	**704,041**	**476,141**	**+48%**

Online Customers Product Usage	**H1 2011**	**H1 2010**	**% Change**
Sportsbook only	421,169	286,686	+47%
Gaming only	85,702	52,609	+63%
Multi product customers	197,170	136,846	+44%
Total	**704,041**	**476,141**	**+48%**

(Active customers are defined as those who have bet in the reporting period, excluding indirect B2B customers)

(A) Online Sportsbook

The amounts staked on the sportsbook increased by 44% to €728m. Within this, bet volumes grew 54% to 47.5m while the average stake per bet decreased by 7% to €15.33. Sportsbook gross win increased by 42%.

A key driver of this growth continues to be our disproportionately large share of the rapidly growing mobile betting market. During the period, our mobile turnover was up 279% to €157m or 22% of total sportsbook stakes, with 35% of our online sportsbook customers transacting with us via mobile. This year we continued to roll out new mobile product with improved functionality and usability such as an enhanced live betting interface, football coupons and streamed racing pictures. We also released a mobile website tailored for Blackberry. Complementing the strength of the product has been sportsbook TV advertising dedicated to mobile (our choice of lead actress receiving, eh, 'royal approval'). Market research confirms that we have established Paddy Power as the brand regular online bettors in the UK most associate with mobile betting.

We introduced a myriad of other product enhancements with sports betting continuing to offer us rich product differentiation opportunities. We revamped our racing pages, introducing new features such as *Racing Post* branded form and tips. In football 'betting-in-running', we doubled the number of matches offered compared to last year. This coverage rose to 3,000 matches per month at peak times. The choice of bets per event also increased. In golf, for example, we offered the widest range of bets available on the US Masters together with stand-out value by paying six places on each-way bets. The extension in 'betting-in-running' has not come at the cost of a lower expected gross win percentage due to our robust proprietary mathematical models, technology and risk management processes.

This intense focus on technology, innovation and e-commerce never distracts from what betting with Paddy Power is ultimately about – market leading entertainment. During the period, we aimed to brighten the public's day and the media's content, by changing our shop fronts to O'Bama Power along the route of the US President's visit to Ireland, offering 'scientific' analysis and new odds on alien life being proven (from 40/1 to 20/1) and releasing an Irish style 'Changing the Guard' video for the Queen's visit – think Riverdancing Redcoats – (see this and other Paddy Power videos at http://video.paddypower.com/blog/index.php). This activity works particularly effectively online.

(B) Gaming & B2B

Gaming and other revenue increased by 26% to €43m driven primarily by Games, Casino and Bingo. While the Poker market continues to be challenging, our performance improved over the course of the period, boosted by new marketing initiatives, strong online qualification for the *Paddy Power Poker Irish Open* and enforcement of the US online gambling prohibition against certain competitors. Our B2B operations, supplying sports risk management expertise to PMU for the French online market, were delivered successfully, underpinning our credentials for further B2B deals as other markets regulate.

One of the key drivers of Gaming revenue growth is the outstanding sportsbook performance, combined with intelligent cross-selling. Our Gaming teams adopt a rigorous test-and-learn approach to cross-selling and other promotions, continuously refining campaigns based on detailed trials and measurement of results.

With ongoing enhancements to our gaming products and improved customer retention rates, we have also increased direct marketing of Gaming. Product enhancements include the introduction of an additional 44 games. This included 11 games for the iPhone, supported by the addition of dedicated mobile gaming personnel, with more mobile product to come later this year. In Bingo, *Paddy's Star Reward* loyalty programme was launched, reflecting extensive research and testing of customers' preferences. Our dedicated Customer Analytics Team was heavily engaged across the Gaming businesses. They increased customer retention by developing predictive statistical models for player behaviour and a range of related optimised promotional offers. Efficient direct customer acquisition in Gaming also demands the successful marriage of online and offline marketing expertise, as we are achieving with our TV advertising for Bingo which is complementing pay-per-click and affiliate online marketing.

The effective combination of these capabilities has continued to increase market share in Gaming with a 49% jump in our active Gaming customers in the period. A range of further Gaming product, retention and acquisition initiatives are in the pipeline.

ONLINE AUSTRALIA DIVISION

€m	**H1 2011**	**H1 2010**	**% Change**	**% Change in Constant Currency**
Amounts staked	642	593	+8%	(1%)
Gross win	**47.7**	**41.8**	**+14%**	**+5%**
Sportsbook gross win %	*7.4%*	*7.1%*		
Gross profit	36.6	31.0	+18%	+8%
Operating costs	(26.8)	(23.1)	+16%	+6%
Operating profit	**9.8**	**7.9**	**+25%**	**+15%**
Active Customers	130,896	113,641	+15%	

(Active customers are defined as customers who have bet in the reporting period)
(The division also includes legacy telephone operations accounting for less than 10% of its gross and operating profit)

During the period, the Australian Division generated strong profit growth of 25% (or 15% in constant currency) to €9.8m and completed a range of major initiatives to drive further growth. The Group bought out the 39.2% minority shareholders in Sportsbet on 1 March for an initial consideration of €98.2m (AUD132.6m), delivering full control combined with our Australian partners' continued involvement.

Notwithstanding severe adverse weather at the start of the period and the 2010 World Cup comparative, online turnover grew by 7% and online gross win by 4% in constant currency. Including legacy telephone operations, total gross win was up 5% in constant currency to €48m. The overall sportsbook gross win percentage increased in the period to 7.4% but was below our expectations of circa 7.9% due to adverse sporting results in the AFL, Australian racing and NRL. Online active customers were up 16% in the period, with growth of 20% in active customers of our mass market online brand, *sportsbet.com.au.*

The level of deductions between gross win and gross profit fell compared to the first half of 2010 helped by the agreements reached in the second half of 2010 with certain Australian racing bodies to calculate their product fees as a percentage of gross win (rather than turnover) until, at least, June 2012. This issue continues to be the subject of litigation with other Australian racing bodies, including Racing New South Wales (‘RNSW’). In March, Sportsbet successfully secured leave to appeal to the High Court a full Federal Court decision allowing RNSW’s appeal of an original Federal Court decision in Sportsbet’s favour. This final legal appeal is to be heard imminently with a decision expected in late 2011.

In August, the Group obtained a pre-tax once-off gain of €26m (AUD36m) from the Australia Tax Office which will be recognised as an exceptional item in the second half of the year. Approximately half of the gain is expected to be received as a cash refund in 2011 and half as a credit against Goods and Services Tax payable in future years.

During the period, substantial resources were dedicated to the migration of the Sportsbet and IAS operating platform to an upgraded system, as used by *paddypower.com*. The new platform went live smoothly in July. There was also increased recruitment and other changes after the early buyout of the minority shareholders completed in March. Benefits are now beginning to flow directly from these projects, and from the release of related resources to other initiatives. For example, the percentage of online customers transacting via mobile is up from 5% in May to 20% in July. Further progress is expected with important mobile product upgrades next month.

The Group is also engaging with the Australian Government in its review of the 2001 Interactive Gambling Act, articulating the view that it would be far preferable to regulate, tax and generate employment from online betting-in-running and gaming than allowing it to thrive illegally supplied by ‘rogue’ operators.

RETAIL

Despite the difficult economic environment, particularly in Ireland, and the competitive challenges from online, our retail businesses are uniquely well positioned in their respective markets.

In Ireland, we benefit from all the traditional strengths of Paddy Power, plus a 23 year presence in the market and an indigenous brand that is synonymous with Irish betting. Our turnover per shop is more than twice the average of the rest of the industry. This enables us to give better value and service to our customers, while still achieving market-leading profit levels. We are continuing to manage our costs tightly in the face of the downturn. We achieved a further 4% reduction in direct operating costs per shop in the period, taking the cumulative reduction to 20% since the first half of 2007. As a result, over the past three years we have been able to open 22 shops, while our competitors have closed some 245 shops.

In UK Retail, we again benefit from the long standing strengths of Paddy Power, plus a significantly better value proposition than our competitors and from continuing to open new shops in the most attractive locations. Our expected sportsbook gross win percentage in UK Retail is 12% as compared to approximately 17% for our quoted competitors, resulting in materially better value for Paddy Power customers. The 27 shops opened in the year to date take our estate to 151 today, which is less than 2% of a market of almost 9,000 shops. This allows us to focus our expansion on competitive prime high street locations that we are confident will remain attractive bookmaking sites for the best operators. With the economic downturn, we are also benefitting from an excellent choice of locations and some additional flexibility on lease terms. Based on the current environment, we expect to open 35 to 40 shops annually in the UK.

Retail betting has well established attractions for many customers and we are also embracing new opportunities to enhance the retail product. We now offer a Self Service Betting Terminal in most of our shops in Great Britain and in over 30 of our shops in Ireland. Gaming machine content in UK Retail continues to expand and activity is also helped by a doubling of the maximum stake allowed to £2 in Great Britain on B3 content (for example slot-type games). We are also expanding betting content with more virtual racing, roulette betting and live *Deal or No Deal* before and after racing – with the added bonus of Noel Edmonds not making a live appearance!

IRISH RETAIL DIVISION

€m	H1 2011	H1 2010	% Change
Amounts staked	483.4	475.9	+2%
Gross win	**51.0**	**55.5**	**(8%)**
Gross win %	*10.5%*	*11.7%*	
Gross profit	46.0	50.6	(9%)
Operating costs	(40.9)	(41.6)	(1%)
Operating profit	**5.1**	**9.0**	**(44%)**
Shops at period end	209	203	+3%

As expected, Irish Retail operating profits fell in the period due to the continued difficult economic conditions and adverse sports results in racing, most particularly Cheltenham where out of the 27 winners, a record 13 were Irish trained and 21 ridden by Irish jockeys. This caused gross win to fall by 8% to €51m notwithstanding a 2% increase in amounts staked to €483m. We opened two new shops in the period. Excluding the impact of new shops, like-for-like amounts staked were down 1%, gross win was down 11% and operating costs fell by 3%. The reduction in stake was driven entirely by a fall in average stake per slip of 8% to €17.04 with an 8% increase in like-for-like bet volumes.

UK RETAIL DIVISION

€m	**H1 2011**	**H1 2010**	**% Change**
Amounts staked	176.9	132.0	+34%
Sportsbook gross win	17.0	14.0	+21%
Sportsbook gross win %	*10.5%*	*11.5%*	
Machine gaming gross win	15.8	10.0	+58%
Total gross win	**32.7**	**24.0**	**+36%**
Gross profit	28.0	20.4	+38%
Operating costs	(23.3)	(17.4)	+34%
Operating profit	**4.7**	**3.0**	**+59%**
Shops at period end	142	107	+33%

(Machine gaming gross win above and throughout this statement excludes VAT at 20% in 2011 and 17.5% in 2010)
(Sportsbook activity includes sportsbetting over-the-counter and via Self Service Betting Terminals)

UK Retail profits continue to grow very strongly with an increase of 59% to €4.7m in the period. Shop openings were the key driver of this growth but the profitability from our existing estate also increased with strong machine performance more than offsetting the impact of an adverse run of sporting results.

Turnover grew 34% to €177m, while gross win increased by 36%. Like-for-like gross win grew 6%. This comprised machine gaming growth of 16%, partially offset by a decrease in sportsbook gross win of 1% on like-for-like sportsbook turnover up 6%. Like-for-like over-the-counter bet volumes were up 6%, while the stake per bet decreased by 1% to €15.59. The average gross win per machine per week including VAT was £1,199, an increase of 21% compared to the first six months of 2010.

Operating costs grew 34% driven by a 33% increase in average shop numbers. Like-for-like costs (including central costs) were up 4% reflecting in part the 2.5% increase in UK VAT and extended opening hours.

HM Treasury recently completed its consultation on the proposed replacement of the existing VAT and AMLD regime for machine taxation with a Machine Gaming Duty tax on gross win. This change is now expected in early 2013. While the Treasury has stated that it intends for the change to be tax neutral, it could adversely impact efficient and expanding operators such as Paddy Power.

We opened 18 new shops in the period, including one acquired, at an average capital cost per unit of €288,000 (£254,000) including lease premia and acquisition costs. EBITDA per shop pre central costs averaged €80,000 (£69,000) in the period and our gross win per shop was 30% higher than the average of our quoted competitors.

TELEPHONE DIVISION (Excluding Australia)

€m	**H1 2011**	**H1 2010**	**% Change**
Amounts staked	151.8	150.6	+1%
Gross win	**9.5**	**9.4**	**+1%**
Gross win %	*6.2%*	*6.2%*	
Gross profit	9.4	9.3	+1%
Operating costs	(9.2)	(8.7)	+5%
Operating profit	**0.2**	**0.6**	**(66%)**

A strong performance in the UK market enabled the telephone business to slightly increase turnover to €152m, despite the 2010 World Cup comparative and an extremely difficult Irish market. Turnover from Irish customers was down 5% versus the first half of 2010, and 35% versus the first half of 2007, driven by reductions in average stake per bet.

The gross win percentage remained slightly below our normal expectations due to adverse results in racing.

Operating costs grew by 5% driven by the 16% growth in bet volumes and new customer acquisition costs, particularly in the UK market where active customers increased by 8%. The increased bet volumes were driven by growth in active customers of 6% and increased bets per customer of 9%. The average stake per bet decreased by 13% to €48.97.

Telephone Channel Active Customers	H1 2011	H1 2010	% Change
UK	39,251	36,260	+8%
Ireland and Rest Of World	19,530	19,025	+3%
Total	**58,781**	**55,285**	**+6%**

(Active customers are defined as those who have bet in the reporting period)

Taxation

The effective corporation tax rate for the period was 14.3% as compared to an underlying rate of 15.7% in 2010, excluding the impact of once-off items. The Group is therefore making good progress towards the target announced after the early buyout of the minority in Sportsbet of a reduced effective corporation tax rate of approximately 14% by 2012, assuming no other changes.

Further to proposals first announced by the Department for Culture, Media and Sport in the UK (‘DCMS’) in January 2010 and a subsequent public consultation, the DCMS announced in July that it plans to require all gambling operators selling into the UK to obtain a licence from the Gambling Commission. Subsequently, HM Treasury stated that it will review the case for amending the taxation regime for remote gambling in line with the DCMS proposal and taxing operators on the basis of customer location. HM Treasury has stated that it is committed to consulting on these proposals and we are working to highlight the consumer, tax and employment protection risks these proposals present. In particular, the fundamental difficulties that other countries have encountered in attempting to enforce online betting taxes demonstrate that high tax regimes simply drive consumers to ‘rogue operators’ who are more price competitive, as they neither pay the betting tax nor observe player protection and other regulations. As a result, the original policy objectives become completely frustrated and employment levels are adversely impacted. We understand that the normal timeframe for consultation and legislation means that any possible change in taxation arrangements is likely to be late 2013 at the earliest.

In January, the Irish Government passed legislation extending the 1% tax on Irish retail stakes to online and telephone bookmakers in respect of bets taken in Ireland, effective from a date to be set by the Minister for Finance. The tax will increase our costs by approximately €5m in a full year. We are urging the Government to take all measures possible to enforce the tax on all operators supplying the Irish market, irrespective of where they are located, before the legislation is implemented. A failure to do so will lead to companies which employ staff and pay taxes in Ireland being put at a major disadvantage in what is a highly competitive market. It is more essential than ever before that Ireland remains an attractive and competitive location to support the expansion of business and the creation of new jobs.

Cashflows, Financial Position and Dividend

Profit growth continues to convert strongly into increased cash flow. During the period, operating cash inflows (after estimated maintenance capex) were 92% of headline EBITDA or €63m. This is a decrease on last year, which benefited from World Cup related working capital inflows. Cash outflows increased significantly, driven by expenditure of €95m related to the buyout of the minority shareholders in Sportsbet. Estimated enhancement capex also increased to €10m and we expect a once-off increase in capex in the second half of 2011 given substantial technology investments in Australia and Online, product enhancements in Retail, as well as a move to a new fit-for-purpose Head Office. Dividends paid in the period increased by 30% to €24m.

At the end of the period, the Group had net cash of €91m, including customer balances of €44m. This was €68m lower than at the start of the year (due to the Sportsbet transaction) but continues to reflect a strong balance sheet, giving flexibility for further expansion.

The Board has decided to pay an interim dividend of 30.0 cent per share, a 20% increase compared to last year. The total expected interim dividend is €14.6m payable on 30 September to shareholders on the register at the close of business on 9 September.

Principal Risks and Uncertainties for the Remainder of the Year

The principal risks and uncertainties facing the Group remain those disclosed within the Directors' Report on pages 38 and 39 of the Group's 2010 Annual Report. The most relevant risks and uncertainties for the remainder of the year are those that could arise from adverse developments in the areas below:

- Sporting results over the short term and/or the performance of the Group in managing bookmaking risk affecting the achievement of expected gross win margins;
- Changes in tax law, interpretation or practice, or payment obligations to racing and sporting bodies;
- The intensity of competition in the Group's markets and the Group's ability to successfully compete;
- Disruption to the sporting calendar or broadcasting of major sporting events;
- The regulatory or legislative environment, interpretation and practices applicable to the Group's activities and related litigation and reputational risks;
- Social, media or political sentiment towards the Group, its brands and its businesses;
- Changes in the exchange rates between the euro and the pound sterling and Australian dollar;
- The ability of the Group to avoid disruption to its key information systems and protect customer and other key data;
- Relationships with, and performance by, key suppliers, particularly those supporting the Group's core activities;
- The ability of the Group to attract and retain key employees;
- Economic, technological, consumer behaviour and other macro factors affecting demand for the Group's products.

Outlook

The second half of the year has started well.

The Group remains well positioned across its businesses and looks forward to the balance of 2011 and beyond with confidence.

Nigel Northridge
Chairman

29 August 2011

Directors’ Responsibility Statement in respect of the Half Yearly Financial Report For the six months ended 30 June 2011

Each of the directors, whose names and functions are listed in the 2010 Annual Report, confirm our responsibility for preparing the half yearly financial report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland’s Financial Regulator and with IAS 34 ‘Interim Financial Reporting’ as adopted by the EU, and that to the best of our knowledge:

a) the condensed consolidated interim financial statements comprising the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in equity and related Notes 1 to 18 have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland’s Financial Regulator and with IAS 34 ‘Interim Financial Reporting’ as adopted by the EU.

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

   i) Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

   ii) Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

29 August 2011

Condensed Consolidated Interim Income Statement
For the six months ended 30 June 2011

	Note	**Six months ended 30 June 2011 *(unaudited)* €'000**	Six months ended 30 June 2010 *(unaudited)* €'000	Year ended 31 December 2010 *(audited)* €'000
Amounts staked by customers		**2,225,477**	1,892,154	3,834,316
Income		**241,984**	205,607	443,527
Direct betting costs	5	**(33,240)**	(29,122)	(60,256)
Gross profit		**208,744**	176,485	383,271
Employee costs		**(67,103)**	(55,451)	(129,883)
Property expenses		**(16,684)**	(14,697)	(30,432)
Marketing expenses		**(28,962)**	(24,754)	(50,358)
Technology and communications		**(15,047)**	(10,351)	(22,259)
Depreciation and amortisation		**(11,823)**	(11,293)	(24,278)
Other expenses		**(12,894)**	(10,485)	(22,312)
Total operating expenses		**(152,513)**	(127,031)	(279,522)
Operating profit		**56,231**	49,454	103,749
Financial income – on financial assets at amortised cost	6	**1,004**	693	1,779
Financial income – on derivative financial instruments at fair value through profit or loss (Sportsbet buyout call options)	6	**-**	3,106	7,116
Financial expense	6	**(472)**	(761)	(1,344)
Profit before tax		**56,763**	52,492	111,300
Income tax expense	7	**(8,139)**	(6,913)	(14,566)
Profit for the period		**48,624**	45,579	96,734
Attributable to:				
Equity holders of the Company		**47,375**	43,213	90,005
Non-controlling interest		**1,249**	2,366	6,729
		48,624	45,579	96,734
Basic earnings per share	8	**€0.999**	€0.926	€1.927
Diluted earnings per share	8	**€0.971**	€0.906	€1.874

Condensed Consolidated Interim Statement of Comprehensive Income
For the six months ended 30 June 2011

	Note	**Six months ended 30 June 2011 *(unaudited)* €'000**	Six months ended 30 June 2010 *(unaudited)* €'000	Year ended 31 December 2010 *(audited)* €'000
Items that may be reclassified subsequently to profit or loss				
Foreign exchange (loss) / gain on translation of the net assets of foreign currency denominated subsidiaries	6	**(3,152)**	7,233	12,667
Deferred tax on share-based payments		**(276)**	-	264
Other comprehensive income recognised directly in equity		**(3,428)**	7,233	12,931
Profit for the period		**48,624**	45,579	96,734
Total comprehensive income for the period		**45,196**	52,812	109,665
Attributable to:				
Equity holders of the Company		**44,445**	49,387	100,718
Non-controlling interest		**751**	3,425	8,947
Total comprehensive income for the period		**45,196**	52,812	109,665

Condensed Consolidated Interim Statement of Financial Position
As at 30 June 2011

	Note	**30 June 2011** *(unaudited)* **€'000**	30 June 2010 *(unaudited)* Restated (Note 3) €'000	31 December 2010 *(audited)* €'000
Assets				
Property, plant and equipment		**80,301**	74,483	77,798
Intangible assets		**54,204**	51,210	51,510
Goodwill	9	**75,251**	69,924	76,967
Financial assets	11	**2,262**	4,413	9,735
Deferred tax assets		**2,505**	5,264	2,591
Total non current assets		**214,523**	205,294	218,601
Trade and other receivables		**19,658**	21,342	15,574
Restricted cash	12	**16,422**	18,034	21,081
Cash and cash equivalents	12	**72,311**	105,863	139,581
Total current assets		**108,391**	145,239	176,236
Total assets		**322,914**	350,533	394,837
Equity				
Issued share capital	14	**5,042**	4,981	4,995
Share premium		**34,449**	18,682	20,876
Treasury shares		**(34,177)**	(34,177)	(34,177)
Shares held by long term incentive plan trust		**(23,774)**	(31,474)	(33,890)
Other reserves		**28,548**	21,014	33,699
Retained earnings		**158,257**	201,478	236,936
Total equity – attributable to equity holders of the Company		**168,345**	180,504	228,439
Non-controlling interest		**-**	10,371	15,798
Total equity		**168,345**	190,875	244,237
Liabilities				
Trade and other payables		**9,668**	3,830	7,354
Derivative financial instruments		**1**	22	16
Provisions		**1,632**	1,611	1,876
Borrowings	15	**-**	7,047	2,633
Deferred tax liabilities		**7,178**	9,567	5,774
Total non current liabilities		**18,479**	22,077	17,653
Trade and other payables		**121,254**	109,343	115,336
Derivative financial instruments		**8,821**	14,432	8,586
Provisions		**502**	1,096	278
Borrowings	15	**7**	7,900	1,885
Current tax payable		**5,506**	4,810	6,862
Total current liabilities		**136,090**	137,581	132,947
Total liabilities		**154,569**	159,658	150,600
Total equity and liabilities		**322,914**	350,533	394,837

Condensed Consolidated Interim Statement of Cash Flows
For the six months ended 30 June 2011

	Note	**Six months ended 30 June 2011 *(unaudited)* €'000**	Six months ended 30 June 2010 *(unaudited)* €'000	Year ended 31 December 2010 *(audited)* €'000
Cash flows from operating activities				
Profit before tax		**56,763**	52,492	111,300
Financial income		**(1,004)**	(3,799)	(8,895)
Financial expense		**472**	761	1,344
Depreciation and amortisation (including impairments)		**11,823**	11,293	24,278
Cost of employee share-based payments		**6,805**	4,448	13,427
Other adjustments		**568**	80	177
Foreign currency exchange (gain) / loss		**(89)**	395	(12)
Loss on disposal of property, plant and equipment and intangible assets		**99**	122	123
Cash from operations before changes in working capital		**75,437**	65,792	141,742
(Increase) / decrease in trade and other receivables		**(4,490)**	(4,187)	1,886
Increase in trade and other payables and provisions		**3,885**	23,806	29,776
Cash generated from operations		**74,832**	85,411	173,404
Income taxes paid		**(6,940)**	(6,393)	(13,159)
Net cash from operating activities		**67,892**	79,018	160,245
Cash flows from investing activities				
Purchase of property, plant and equipment		**(13,024)**	(9,427)	(16,431)
Purchase of intangible assets		**(2,502)**	(2,644)	(7,278)
Purchase of businesses, net of cash acquired	10	**(261)**	(680)	(10,460)
Acquisition expenses paid	10	**-**	(172)	(212)
Proceeds from disposal of property, plant and equipment and intangible assets		**45**	91	208
Interest received		**1,026**	680	1,902
Net cash used in investing activities		**(14,716)**	(12,152)	(32,271)
Cash flows from financing activities				
Proceeds from the issue of new shares		**325**	1,026	3,186
Purchase of shares by long term incentive plan trust		**-**	(6,586)	(9,048)
Purchase of non-controlling interest	10	**(85,311)**	(8,561)	(8,561)
Dividends paid – equity holders of the Company	13	**(24,340)**	(18,750)	(30,769)
Dividends paid – non-controlling interest	13	**(9,244)**	-	-
Movements in current and non current restricted cash balances		**4,695**	(8,713)	(12,808)
Repayment of non-controlling shareholder loans		**(1,038)**	(750)	(3,067)
Repayment of secured non-recourse bank loan		**(2,197)**	(2,288)	(10,906)
Finance lease repayments		**(1,264)**	(444)	(961)
Interest paid		**(319)**	(576)	(1,229)
Net cash used in financing activities		**(118,693)**	(45,642)	(74,163)
Net (decrease) / increase in cash and cash equivalents		**(65,517)**	21,224	53,811
Cash and cash equivalents at start of period		**139,581**	80,576	80,576
Foreign exchange (loss) / gain on cash and cash equivalents		**(1,753)**	4,063	5,194
Cash and cash equivalents at end of period	12	**72,311**	105,863	139,581

Condensed Consolidated Interim Statement of Changes in Equity
For the six months ended 30 June 2011

(unaudited)	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
	Attributable to equity holders of the Company											
Balance at 1 January 2011	**49,954,114**	**4,995**	**20,876**	**10,572**	**1,217**	**(34,177)**	**(33,890)**	**21,910**	**236,936**	**228,439**	**15,798**	**244,237**
Total comprehensive income for the period												
Profit	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**47,375**	**47,375**	**1,249**	**48,624**
Foreign exchange translation	**-**	**-**	**-**	**(2,654)**	**-**	**-**	**-**	**-**	**-**	**(2,654)**	**(498)**	**(3,152)**
Deferred tax on share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(276)**	**(276)**	**-**	**(276)**
Total comprehensive income for the period	**-**	**-**	**-**	**(2,654)**	**-**	**-**	**-**	**-**	**47,099**	**44,445**	**751**	**45,196**
Transactions with owners of the Company, recognised directly in equity												
Shares issued – exercise of share options (Note 14)	**12,580**	**1**	**181**	**-**	**-**	**-**	**-**	**-**	**-**	**182**	**-**	**182**
Shares issued – purchase of non-controlling interest (Note 14)	**455,535**	**46**	**13,392**	**-**	**-**	**-**	**-**	**-**	**-**	**13,438**	**-**	**13,438**
Purchase of non-controlling interest – Sportsbet (Note 10)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(100,883)**	**(100,883)**	**(7,271)**	**(108,154)**
Discount on loans from non-controlling interest	**-**	**-**	**-**	**(26)**	**21**	**-**	**-**	**-**	**5**	**-**	**-**	**-**
Repayment of non-controlling interest loans	**-**	**-**	**-**	**-**	**(53)**	**-**	**-**	**-**	**-**	**(53)**	**(34)**	**(87)**
Equity-settled transactions – expense recorded in income statement	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,805**	**-**	**6,805**	**-**	**6,805**
Equity-settled transactions – vestings	**-**	**-**	**-**	**-**	**-**	**-**	**10,116**	**(9,218)**	**(586)**	**312**	**-**	**312**
Transfer to retained earnings on exercise of share options (Note 14)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(26)**	**26**	**-**	**-**	**-**
Dividends to shareholders (Note 13)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(24,340)**	**(24,340)**	**(9,244)**	**(33,584)**
Total contributions by and distributions to owners of the Company	**468,115**	**47**	**13,573**	**(26)**	**(32)**	**-**	**10,116**	**(2,439)**	**(125,778)**	**(104,539)**	**(16,549)**	**(121,088)**
Balance at 30 June 2011	**50,422,229**	**5,042**	**34,449**	**7,892**	**1,185**	**(34,177)**	**(23,774)**	**19,471**	**158,257**	**168,345**	**-**	**168,345**

Condensed Consolidated Interim Statement of Changes in Equity (continued)

For the six months ended 30 June 2010

Restated (Note 3) *(unaudited)*	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
	Attributable to equity holders of the Company											
Balance at 1 January 2010	49,767,339	4,977	18,009	75	1,392	(34,177)	(31,858)	14,968	184,177	157,563	8,947	166,510
Total comprehensive income for the period												
Profit	-	-	-	-	-	-	-	-	43,213	43,213	2,366	45,579
Foreign exchange translation	-	-	-	6,174	-	-	-	-	-	6,174	1,059	7,233
Total comprehensive income for the period	-	-	-	6,174	-	-	-	-	43,213	49,387	3,425	52,812
Transactions with owners of the Company, recognised directly in equity												
Shares issued	47,416	4	673	-	-	-	-	-	-	677	-	677
Own shares acquired by the long term incentive plan trust – 272,000 ordinary shares (Note 14)	-	-	-	-	-	-	(6,586)	-	-	(6,586)	-	(6,586)
Purchase of non-controlling interest – Sportsbet (Note 10)	-	-	-	-	39	-	-	-	(6,568)	(6,529)	(1,952)	(8,481)
Discount on loan from non-controlling interest	-	-	-	22	(38)	-	-	-	16	-	-	-
Repayment of non-controlling interest loan	-	-	-	-	(47)	-	-	-	-	(47)	(49)	(96)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	4,448	-	4,448	-	4,448
Equity-settled transactions – vestings	-	-	-	-	-	-	6,970	(5,885)	(744)	341	-	341
Transfer to retained earnings on exercise of share options (Note 14)	-	-	-	-	-	-	-	(134)	134	-	-	-
Dividends to shareholders (Note 13)	-	-	-	-	-	-	-	-	(18,750)	(18,750)	-	(18,750)
Total contributions by and distributions to owners of the Company	47,416	4	673	22	(46)	-	384	(1,571)	(25,912)	(26,446)	(2,001)	(28,447)
Balance at 30 June 2010	49,814,755	4,981	18,682	6,271	1,346	(34,177)	(31,474)	13,397	201,478	180,504	10,371	190,875

Condensed Consolidated Interim Statement of Changes in Equity (continued)
For the year ended 31 December 2010

	Attributable to equity holders of the Company											
(audited)	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
Balance at 1 January 2010	49,767,339	4,977	18,009	75	1,392	(34,177)	(31,858)	14,968	184,177	157,563	8,947	166,510
Total comprehensive income for the year												
Profit	-	-	-	-	-	-	-	-	90,005	90,005	6,729	96,734
Foreign exchange translation	-	-	-	10,449	-	-	-	-	-	10,449	2,218	12,667
Deferred tax on share-based payments	-	-	-	-	-	-	-	-	264	264	-	264
Total comprehensive income for the year	-	-	-	10,449	-	-	-	-	90,269	100,718	8,947	109,665
Transactions with owners of the Company, recognised directly in equity												
Shares issued	186,775	18	2,867	-	-	-	-	-	-	2,885	-	2,885
Own shares acquired by the long term incentive plan trust – 354,500 ordinary shares (Note 14)	-	-	-	-	-	-	(9,048)	-	-	(9,048)	-	(9,048)
Purchase of non-controlling interest – Sportsbet (Note 10)	-	-	-	-	39	-	-	-	(6,568)	(6,529)	(1,952)	(8,481)
Discount on loans from non-controlling interest	-	-	-	48	(65)	-	-	-	17	-	-	-
Repayment of non-controlling interest loans	-	-	-	-	(198)	-	-	-	-	(198)	(144)	(342)
Net wealth tax	-	-	-	-	49	-	-	-	-	49	-	49
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	13,427	-	13,427	-	13,427
Equity-settled transactions – vestings	-	-	-	-	-	-	7,016	(5,934)	(741)	341	-	341
Transfer to retained earnings on exercise of share options (Note 14)	-	-	-	-	-	-	-	(551)	551	-	-	-
Dividends to shareholders (Note 13)	-	-	-	-	-	-	-	-	(30,769)	(30,769)	-	(30,769)
Total contributions by and distributions to owners of the Company	186,775	18	2,867	48	(175)	-	(2,032)	6,942	(37,510)	(29,842)	(2,096)	(31,938)
Balance at 31 December 2010	49,954,114	4,995	20,876	10,572	1,217	(34,177)	(33,890)	21,910	236,936	228,439	15,798	244,237

Notes to the Condensed Consolidated Interim Financial Statements

1. General information

Paddy Power plc ('the Company') is a company incorporated in the Republic of Ireland. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as 'the Group'). The condensed consolidated interim financial statements are unaudited but have been reviewed by the auditor, whose report is set out on page 33.

The financial information presented herein does not comprise full statutory financial statements and therefore does not include all of the information required for full annual financial statements. Full statutory financial statements for the year ended 31 December 2010, prepared in accordance with International Financial Reporting Standards as adopted by the EU together with an unqualified audit report thereon under Section 193 of the Companies Act 1990, will be annexed to the annual return and filed with the Registrar of Companies. They are available from the Company, from the website www.paddypowerplc.com and, when filed, from the Registrar of Companies.

The condensed consolidated interim financial statements were approved by the Board of Directors of Paddy Power plc on 29 August 2011.

2. Basis of preparation and accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland's Financial Regulator and with IAS 34 'Interim Financial Reporting' as adopted by the EU. The condensed consolidated interim financial statements are prepared on the historical cost basis except for betting transactions (which are recorded as derivative financial instruments), derivative financial instruments (call options), available-for-sale financial assets and certain share-based payments, all of which are stated at fair value (grant date fair value in the case of share-based payments). The condensed consolidated interim financial statements are presented in euro, the Company's functional currency, rounded to the nearest thousand.

The financial information contained in the condensed consolidated interim financial statements has been prepared in accordance with the accounting policies set out in the Group's last annual financial statements in respect of the year ended 31 December 2010, except as set out below.

The Group has adopted the following standards, interpretations and amendments to existing standards during the period ended 30 June 2011:

<u>Revised IAS 24 'Related Party Disclosures'</u>
From 1 January 2011, the Group has applied Revised IAS 24 'Related Party Disclosures'. The change in accounting policy has been applied retrospectively. This revised standard simplifies the definition of related parties and provides a partial exemption from the disclosure requirements for government-related entities. This standard has not had a significant impact on the Group's consolidated financial statements.

3. Judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements as at and for the year ended 31 December 2010.

3. Judgements and estimates (continued)

Restatement of 30 June 2010 comparative financial information

As permitted by IFRS 3 'Business Combinations', as a result of the finalisation of the accounting for the Group's 2009 acquisition of its 100% interest in International All Sports Limited ('IAS') a number of adjustments were made to the Group's 31 December 2009 comparative financial information following publication of the Group's condensed consolidated interim financial statements for the six months ended 30 June 2010. This impacted on some of the balances previously reported in those interim financial statements as at and for the period ended 30 June 2010. Where adjustments have been made to comparative information in respect of the six months ended 30 June 2010 the relevant financial statement or note is headed up as 'Restated'. These adjustments were fully reflected in the Group's 31 December 2010 Annual Report. The adjustments made were as follows:

Note (see below)	IAS acquisition balance sheet (1)	Acquisition of 9.8% non-controlling interest in Sportsbet (2)	Total
	€'000	€'000	€'000
Goodwill	1,410	-	1,410
Current assets – other receivables	(200)	-	(200)
Total assets	1,210	-	1,210
Foreign exchange translation reserve	4	-	4
Retained earnings	-	69	69
Non-controlling interest	341	(69)	272
Current liabilities – trade and other payables	(36)	-	(36)
Current liabilities – current tax payable	(1,519)	-	(1,519)
Total equity and liabilities	(1,210)	-	(1,210)

(1) Changes to the 1 October 2009 IAS acquisition to reflect subsequent information about conditions existing at the acquisition date.
(2) Reflects the impact of (1) above on the amounts recorded in retained earnings and non-controlling interest for the Group's acquisition of 9.8% of Sportsbet in March 2010.

The impact on previously reported balances in respect of the six months ended 30 June 2010 is as follows:

	As previously reported	Adjustment	As restated
	€'000	€'000	€'000
Goodwill	68,514	1,410	69,924
Trade and other receivables	21,542	(200)	21,342
Foreign exchange translation reserve	(6,275)	4	(6,271)
Retained earnings	(201,547)	69	(201,478)
Non-controlling interest	(10,643)	272	(10,371)
Current liabilities – trade and other payables	(109,307)	(36)	(109,343)
Current liabilities – current tax payable	(3,291)	(1,519)	(4,810)

4. Operating segments

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

(a) Reportable business segment information
The Group considers that its reportable segments are as follows:
- Online (ex Australia)
- Australia
- Irish retail
- UK retail
- Telephone (ex Australia)

The online (ex Australia), Irish retail, UK retail and telephone (ex Australia) segments all derive their revenues primarily from sports betting and gaming (gaming machines, casino, poker, games, bingo and financial spread betting). Online (ex Australia) services are delivered primarily through the internet, telephone (ex Australia) through the public telephony system and Irish and UK retail through licensed bookmaking shop estates. The online (ex Australia) and telephone (ex Australia) segments derive their revenues primarily from the UK and Ireland, the Irish retail segment from retail outlets in the Republic of Ireland and UK retail from retail outlets in Great Britain and Northern Ireland. The Australia segment earns its revenues primarily from sports betting services provided to Australian customers using primarily the internet and, to a minor extent, 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 the Company's last annual financial statements in respect of the year ended 31 December 2010. Central operating expenses are allocated to reportable segments based on internal management allocation methodologies. The Group does not allocate income tax expense or financial income or expense to reportable segments. Treasury management is centralised for the online (ex Australia), Irish retail, UK retail and telephone (ex Australia) segments. The Australia segment manages its own treasury function. Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

Reportable business segment information for the six months ended 30 June 2011:

	Online (ex Australia) €'000	**Australia €'000**	**Irish retail €'000**	**UK retail €'000**	**Telephone (ex Australia) €'000**	**Total reportable segments €'000**
Income from external customers, being total income	**101,063**	**47,738**	**50,976**	**32,747**	**9,460**	**241,984**
Direct betting costs	**(12,379)**	**(11,166)**	**(4,935)**	**(4,701)**	**(59)**	**(33,240)**
Gross profit	**88,684**	**36,572**	**46,041**	**28,046**	**9,401**	**208,744**
Depreciation and amortisation	**(2,140)**	**(2,358)**	**(4,185)**	**(2,690)**	**(450)**	**(11,823)**
Other operating costs	**(50,067)**	**(24,429)**	**(36,802)**	**(20,647)**	**(8,745)**	**(140,690)**
Reportable segment profit	**36,477**	**9,785**	**5,054**	**4,709**	**206**	**56,231**

4. Operating segments (continued)

Reportable business segment information for the six months ended 30 June 2010:

	Online (ex Australia) €'000	Australia €'000	Irish retail €'000	UK retail €'000	Telephone (ex Australia) €'000	Total reportable segments €'000
Income from external customers, being total income	74,911	41,824	55,475	23,999	9,398	205,607
Direct betting costs	(9,758)	(10,805)	(4,901)	(3,603)	(55)	(29,122)
Gross profit	65,153	31,019	50,574	20,396	9,343	176,485
Depreciation and amortisation	(1,509)	(1,619)	(4,701)	(2,968)	(496)	(11,293)
Other operating expenses	(34,610)	(21,544)	(36,833)	(14,472)	(8,279)	(115,738)
Reportable segment profit	29,034	7,856	9,040	2,956	568	49,454

Reportable business segment information for the year ended 31 December 2010:

	Online (ex Australia) €'000	Australia €'000	Irish retail €'000	UK retail €'000	Telephone (ex Australia) €'000	Total reportable segments €'000
Income from external customers, being total income	163,662	97,037	109,637	54,220	18,971	443,527
Direct betting costs	(20,666)	(21,762)	(9,315)	(8,443)	(70)	(60,256)
Gross profit	142,996	75,275	100,322	45,777	18,901	383,271
Depreciation and amortisation	(4,451)	(4,040)	(9,215)	(5,470)	(1,102)	(24,278)
Other operating expenses	(81,081)	(51,745)	(73,481)	(32,942)	(15,995)	(255,244)
Reportable segment profit	57,464	19,490	17,626	7,365	1,804	103,749

Reconciliation of reportable segments to Group totals

	Six months ended 30 June 2011 €'000	Six months ended 30 June 2010 €'000	Year ended 31 December 2010 €'000
Income			
Total income from reportable segments, being total Group income (1)	**241,984**	205,607	443,527
Profit or loss			
Total profit or loss from reportable segments	**56,231**	49,454	103,749
Unallocated amounts:			
Financial income – non-Australia (2)	**282**	151	411
Financial income – Australia	**722**	542	1,368
Financial income – Australia – Sportsbet buyout call options (3)	**-**	3,106	7,116
Financial expense – non-Australia (2)	**(128)**	(135)	(235)
Financial expense – Australia	**(344)**	(626)	(1,109)
Total profit before tax	**56,763**	52,492	111,300

(1) There are no inter-segment revenues or profits requiring elimination in any of the reporting periods.

(2) The non-Australia segments comprise online (ex Australia), Irish retail, UK retail and telephone (ex Australia) reportable segments. Financial expense relating to those segments is primarily in respect of guarantee fees payable.

(3) Included in Australia segment financial income in the six months ended 30 June 2010 and the year ended 31 December 2010, respectively, is €3,106,000 and €7,116,000 of income relating to the increase in the fair value of the Sportsbet buyout call options – see Note 6.

4. Operating segments (continued)

(b) Geographical location information

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

Group revenues by geographical location are as follows:

Income

	Six months ended 30 June 2011	Six months ended 30 June 2010	Year ended 31 December 2010
	€'000	€'000	€'000
UK	**107,985**	74,510	167,416
Australia	**47,738**	41,986	97,037
Ireland and rest of world	**86,261**	89,111	179,074
Total	**241,984**	205,607	443,527

(a) Revenues are attributed to geographical location on the basis of the customer's location.
(b) Revenues from any single customer do not amount to ten per cent or more of the Group's revenues.

Non current assets (excluding financial instruments and deferred tax balances) by geographical location are as follows:

Non current assets

	30 June 2011	30 June 2010 Restated	31 December 2010
	€'000	€'000	€'000
UK	**67,829**	63,009	64,491
Australia	**88,697**	78,379	86,829
Ireland and rest of world	**53,230**	54,229	54,955
Total	**209,756**	195,617	206,275

Seasonality

The Group's sportsbook income is driven by a combination of the timing of sporting events and the Group's results derived from those sporting events. Gaming income is less seasonal in that it is not as dependent on the sporting calendar.

5. Direct betting costs

	Six months ended 30 June 2011	Six months ended 30 June 2010	Year ended 31 December 2010
	€'000	€'000	€'000
Betting taxes	**12,158**	10,863	22,420
Software supplier costs	**7,663**	5,522	12,580
Other direct betting costs	**13,419**	12,737	25,256
Direct betting costs	**33,240**	29,122	60,256

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

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

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

6. Financial income and expense

	Six months ended 30 June 2011 €'000	Six months ended 30 June 2010 €'000	Year ended 31 December 2010 €'000
Recognised in profit or loss:			
Financial income			
On financial assets at amortised cost:			
Interest income on short term bank deposits	**1,004**	693	1,779
	1,004	693	1,779
On derivative financial instruments at fair value through profit or loss:			
Increase in fair value of Sportsbet buyout call options	**-**	3,106	7,116
	-	3,106	7,116
Financial income	**1,004**	3,799	8,895
Financial expense			
On financial liabilities at amortised cost:			
Bank loans	**270**	425	783
Bank guarantees	**64**	73	132
Finance leases	**66**	110	198
Unwinding of the discount on provisions and other non current liabilities	**72**	153	231
Financial expense	**472**	761	1,344
Recognised in other comprehensive income:			
Foreign exchange (loss) / gain on translation of the net assets of foreign currency denominated subsidiaries	**(3,152)**	7,233	12,667
	(3,152)	7,233	12,667

7. Taxation

Income tax is accrued for the interim reporting period using management's best estimate of the weighted average tax rate that is expected to be applicable to estimated total annual earnings. This expected annual effective income tax rate is applied to the taxable income of the interim period.

The Group's effective tax rate for the period was 14.3% (six months ended 30 June 2010: 13.2% and year ended 31 December 2010: 13.1%), which compares to the standard Irish corporation tax rate of 12.5%. The primary reasons for the difference in the effective tax rate versus the standard tax rate are: the Australian statutory tax rate of 30.0%, the UK statutory tax rate of 26.5% (2010: 28.0%), depreciation on certain items of property, plant and equipment that do not qualify for capital allowances and the taxation of certain interest income at tax rates higher than the standard corporation tax rate. The recognition of a deferred tax asset in respect of GB retail trading losses (see below) and the non-taxable gains that arose on revaluation of the Sportsbet buyout call options (see Note 6) reduced the effective tax rate recorded for the six months ended 30 June 2010 and year ended 31 December 2010.

Unrecognised deferred tax assets and liabilities
In 2010, given the improved profitability performance of the GB retail business in that year, the directors considered it appropriate to recognise the previously unrecognised deferred tax asset in respect of trading losses accumulated in prior years. Accordingly, deferred tax amounts of €885,000 and €1,770,000 were credited to the income statement in the six months ended 30 June 2010 and year ended 31 December 2010, respectively.

At 30 June 2011, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is €4.2m (31 December 2010: €3.8m). This has been calculated based on the temporary differences arising between the group accounting base and tax base of each investment.

8. Earnings per share

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

The calculation of basic and diluted EPS is as follows:

	Six months ended 30 June 2011	Six months ended 30 June 2010	Year ended 31 December 2010
Numerator in respect of basic and diluted earnings per share (€'000):			
Profit attributable to equity holders of the Company	**47,375**	43,213	90,005
Less: Sportsbet buyout call options value change (Note 6)	**-**	(3,106)	(7,116)
Less: UK tax losses deferred tax asset recognition (Note 7)	**-**	(885)	(1,770)
Profit for adjusted earnings per share calculations	**47,375**	39,222	81,119
Denominator in respect of basic earnings per share (in '000s):			
Weighted average number of shares in issue during the period	**47,411**	46,670	46,711
Adjustments to derive denominator in respect of diluted earnings per share:			
Dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and share award schemes	**1,354**	1,038	1,330
Adjusted weighted average number of shares in issue during the period	**48,765**	47,708	48,041
Basic earnings per share	**€0.999**	€0.926	€1.927
Adjusted basic earnings per share	**€0.999**	€0.840	€1.737
Diluted earnings per share	**€0.971**	€0.906	€1.874
Adjusted diluted earnings per share	**€0.971**	€0.822	€1.689

The basic weighted average number of shares excludes shares held by the Paddy Power Employee Benefit Trust. The effect of this is to reduce the average number of shares in the six months ended 30 June 2011 by 1,121,114 shares (six months ended 30 June 2010: 1,387,793 shares and year ended 31 December 2010: 1,387,159 shares).

9. Goodwill

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

	Irish retail €'000	**UK retail €'000**	**Australia €'000**	**Total €'000**
Balance at 1 January 2010	7,067	8,248	48,196	63,511
Arising on acquisition (Note 10)	1,140	1,517	-	2,657
Foreign currency translation adjustment	-	231	10,568	10,799
Balance at 31 December 2010	**8,207**	**9,996**	**58,764**	**76,967**
Arising on acquisition	**-**	**152**	**-**	**152**
Foreign currency translation adjustment	**-**	**(347)**	**(1,521)**	**(1,868)**
Balance at 30 June 2011	**8,207**	**9,801**	**57,243**	**75,251**

Goodwill on Irish retail properties arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, the acquisition of three retail bookmaking businesses in 2007 and the acquisition of a number retail bookmaking shop properties in both 2009 and 2010.

Goodwill on UK retail properties arose from the acquisition of two bookmaking businesses in 2004, the acquisition of a retail bookmaking company in Northern Ireland in 2008 and the acquisition of a number of retail bookmaking shop properties in 2010 and 2011.

The Australia segment goodwill amount arose from the acquisition by the Group in 2009 of a 51% interest in Sportsbet Pty Limited ('Sportsbet') and the acquisition, also in that year, of International All Sports Limited ('IAS') by Sportsbet.

The Group reviews the carrying value of goodwill for impairment semi-annually (or more frequently if there are indications that the value of goodwill may be impaired) by comparing the carrying values of these cash generating units with their recoverable amounts (being the higher of value in use and fair value less costs to sell). Management performed such an impairment review at 30 June 2011 and, on the basis of this review, are satisfied that the carrying amount of the Group's goodwill at 30 June 2011 is not less than its recoverable amount.

10. Business combinations and purchases of non-controlling interest

Six months ended 30 June 2011

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

Additional consideration is payable to the extent that the EBITDA (post Group central cost allocations) of Paddy Power's Australian operations for the year ended 31 December 2013 exceeds AUD65.0m (€47.4m). The maximum additional consideration of AUD25.0m (€18.2m) is payable in the event that 2013 EBITDA exceeds AUD80.0m (€58.3m). An amount of €3.0m has been provided in respect of this contingent deferred consideration as of 30 June 2011.

10. Business combinations and purchases of non-controlling interest (continued)

	€'000
Purchase consideration – cash	84,749
Purchase consideration – Paddy Power plc ordinary shares (Note 14)	13,438
Contingent deferred consideration	2,989
Sportsbet buyout call options (Note 11)	6,978
Total purchase consideration	108,154
Net assets acquired from non-controlling interest	(7,271)
Decrease in retained earnings	100,883

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

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

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

Six months ended 30 June 2010 and year ended 31 December 2010

Acquisition of additional 9.8% of Sportsbet Pty Limited
On 12 February 2010, the Company increased its shareholding in Sportsbet to 60.8% through the buyout of a non-controlling shareholder who had no executive involvement with the business. The consideration for the 9.8% shareholding acquired amounted to AUD13.0m (€8.5m) in cash. The Company also acquired that shareholder's loan to Sportsbet as part of the transaction.

	€'000
Purchase consideration – cash	8,481
Net assets acquired from non-controlling interest	(1,952)
Change in Group share of discount on loans from non-controlling shareholders	39
Decrease in retained earnings	6,568

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

Purchase of non-controlling interest before acquisition expenses	8,481
Acquisition expenses paid	80
Purchase of non-controlling interest	8,561

Payments of deferred consideration for 51% of Sportsbet Pty Limited and for Irish retail 2009 bookmaking business acquisition
On 18 August 2010, the Company paid the non-controlling shareholders of Sportsbet an amount of €7.0m (AUD10.0m) in respect of deferred consideration for the Company's initial 51% acquisition of Sportsbet. The payment followed confirmation that the relevant profitability target set for the financial year ended 30 June 2010 had been achieved by Sportsbet. An amount of €0.1m was paid during 2010 in respect of deferred consideration for the Irish retail 2009 bookmaking business acquisition.

Net cash outflow from deferred consideration payments for the purposes of the statement of cash flows

	€'000
Payment of deferred consideration	7,107

10. Business combinations and purchases of non-controlling interest (continued)

Shop property business acquisitions

In 2010, the Group, in the absence of available comparable sites for organic shop openings, acquired two retail licensed bookmaking businesses in Ireland and three in Great Britain, comprising nine shops in total.

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

	Total fair values 31 December 2010 €'000
Identifiable net assets acquired:	
Property, plant and equipment	1,046
	1,046
Goodwill arising on acquisition – Irish retail	1,140
Goodwill arising on acquisition – UK retail	1,517
Goodwill arising on acquisition – total	2,657
Consideration	3,703
Satisfied by:	
Cash consideration	3,353
Contingent deferred consideration	350
	3,703

Net cash outflow from purchase of businesses for the purposes of the statement of cash flows

Purchase of businesses, net of cash acquired	3,353
Acquisition expenses paid	43
	3,396

The principal factors contributing to the goodwill balances above are the well established nature of the acquired businesses within the locations in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired businesses within the Paddy Power group.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired shops in respect of the period from acquisition and for the year ended 31 December 2010 has not been presented on the basis of immateriality.

Net cash outflow from purchase of businesses, acquisition expenses paid and purchase of non-controlling interest for the purposes of the statement of cash flows

	Six months ended 30 June 2011 €'000	Six months ended 30 June 2010 €'000	Year ended 31 December 2010 €'000
Cash consideration – acquisitions in period	**84,954**	9,061	11,834
Cash consideration – acquisitions in previous periods (deferred consideration)	**50**	100	7,107
Acquisition expenses paid	**568**	252	292
	85,572	9,413	19,233
Analysed for the purposes of the statement of cash flows as:			
Purchase of businesses, net of cash acquired	**261**	680	10,460
Acquisition expenses paid	**-**	172	212
Purchase of non-controlling interest (including acquisition expenses paid)	**85,311**	8,561	8,561
	85,572	9,413	19,233

11. Financial assets (non current)

	30 June 2011 €'000	31 December 2010 €'000
Derivative financial assets:		
Embedded derivatives – Sportsbet buyout call options	**-**	6,978
	-	6,978
Other financial assets:		
Restricted cash (Note 12)	**2,262**	2,757
	2,262	2,757
Total	**2,262**	9,735

Movements in financial assets in respect of the six months ended 30 June 2011 were as follows:

	Sportsbet buyout call options €'000	**Restricted cash €'000**	**Total €'000**
Balance at 1 January 2011	6,978	2,757	9,735
Acquisition of 39.2% of Sportsbet	(6,978)	-	(6,978)
Other movements	-	(422)	(422)
Foreign currency translation adjustment	-	(73)	(73)
Balance at 30 June 2011	-	2,262	2,262

On 1 March 2011, the Group acquired the remaining 39.2% non-controlling shareholdings in Sportsbet and the value of the Sportsbet buyout options at that date was transferred to the cost of the acquisition (see Note 10).

12. Cash and cash equivalents and restricted cash

	30 June 2011 €'000	31 December 2010 €'000
Cash	**15,914**	18,054
Short term bank deposits	**75,081**	145,365
	90,995	163,419
Less: Financial assets – current restricted cash deposits (see below)	**(16,422)**	(21,081)
Less: Financial assets – non current restricted cash deposits (see below)	**(2,262)**	(2,757)
Cash and cash equivalents in the statement of cash flows	**72,311**	139,581

The directors believe that, other than the restricted cash, all short term bank deposits can be withdrawn without significant penalty.

Short term bank deposits are analysed by currency as follows:

	30 June 2011 €'000	31 December 2010 €'000
Euro	**36,602**	101,452
GBP	**17,666**	14,916
AUD	**18,647**	26,737
USD	**2,166**	2,260
	75,081	145,365

12. Cash and cash equivalents and restricted cash (continued)

Restricted cash
Included in short term bank deposits at 30 June 2011 are bank balances amounting to €16,422,000 (31 December 2010: €21,081,000) which were restricted at that date and up to 4 July 2011 as they formed part of a guarantee issued in favour of the Isle of Man Gambling Supervision Commission in respect of player funds held by the Group (see Note 16). This balance has been shown as a current financial asset in the consolidated statement of financial position.

Included in short term bank deposits at 30 June 2011 is an amount of €2,262,000 (AUD3,050,000) (31 December 2010: €2,757,000 (AUD3,622,000)) which was restricted at that date and for the foreseeable future. The bank deposits (1) form part of a number of guarantees issued in favour of Australian state racing authorities as required by gambling licences totaling €148,000 (31 December 2010: €305,000), (2) are in respect of certain obligations entered into by the Group for office accommodation held under operating leases totalling €1,001,000 (31 December 2010: €1,310,000) and (3) are in respect of merchant facility and certain other services provided to the Group totalling €1,113,000 (31 December 2010: €1,142,000). This balance has been shown as a non current financial asset in the consolidated statement of financial position (see Note 11).

13. Dividends paid

	Six months ended 30 June 2011 €'000	Six months ended 30 June 2010 €'000	Year ended 31 December 2010 €'000
Final dividend of 38.9 cent per share for year ended 31 December 2009	**-**	18,750	18,750
Interim dividend of 25.0 cent per share for period ended 30 June 2010	**-**	-	12,019
Final dividend of 50.0 cent per share for year ended 31 December 2010	**24,340**	-	-
	24,340	18,750	30,769

The directors have proposed an interim dividend of 30.0 cent per share which will be paid on 30 September 2011 to shareholders on the Company's register of members at the close of business on the record date of 9 September 2011. This dividend, which amounts to approximately €14,607,000, has not been included as a liability at 30 June 2011.

Immediately prior to the acquisition by the Group of the remaining 39.2% of Sportsbet on 1 March 2011 (see Note 10), Sportsbet paid an interim dividend to its shareholders. The non-controlling shareholders' share of this dividend, which has been treated as a deduction from the non-controlling interest balance, was €9,244,000.

14. Changes in equity

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (30 June 2010 and 31 December 2010: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

As part of the purchase of the remaining 39.2% of Sportsbet on 1 March 2011, 455,535 ordinary shares of €0.10 each, with a total value of €13,438,000, were issued to the vendors of Sportsbet on that date (see Note 10). All other ordinary shares issued during the six months ended 30 June 2011 and 30 June 2010 and the year ended 31 December 2010 were in respect of the exercise of share options granted to employees of the Group under the terms of the Share Option and Sharesave Schemes. The total consideration paid by employees in respect of share options exercised in the six months ended 30 June 2011 amounted to €182,000 (six months ended 30 June 2010: €677,000 and year ended 31 December 2010: €2,885,000). In the six months ended 30 June 2011, an amount of €26,000 (six months ended 30 June 2010: €134,000 and year ended 31 December 2010: €551,000) in respect of share options exercised during the period was transferred from the share-based payment reserve to retained earnings.

A total of 1,734,000 shares were held in treasury as of 30 June 2011 (30 June 2010 and 31 December 2010: 1,734,000). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to €34,177,000 as of 30 June 2011 (30 June 2010 and 31 December 2010: €34,177,000).

14. Changes in equity (continued)

At 30 June 2011, the Company held a further 937,482 of its own shares (30 June 2010: 1,376,032 shares and 31 December 2010: 1,456,407 shares), which were acquired at a total cost of €23,774,000 (30 June 2010: €31,474,000 and 31 December 2010: €33,890,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan and, in prior periods, also relating to the Managers' Deferred Share Award Scheme (collectively referred to as the 'Share Award Schemes'). The Company's distributable reserves at 30 June 2011, 30 June 2010 and 31 December 2010 are further restricted by these respective amounts. The Long Term Incentive Plan Trust ('the Trust') made no purchases of the Company's ordinary shares in the six months ended 30 June 2011 (six months ended 30 June 2010: 272,000 ordinary shares at a cost of €6,586,000 and year ended 31 December 2010: 354,500 ordinary shares at a cost of €9,048,000). A total of 437,778 shares in respect of the 2008 LTIP awards and related dividends and a total of 81,147 shares in respect of the 2007 Managers' Deferred Share Award Scheme awards and related dividends were vested from the Long Term Incentive Plan Trust to senior and certain other management staff during the six months ended 30 June 2011 (six months ended 30 June 2010: 334,679 shares relating to the 2007 LTIP awards; year ended 31 December 2010: 334,679 shares relating to the 2007 LTIP awards and 2,125 shares relating to the 2007 Managers' Deferred Share Award Scheme awards).

The foreign exchange translation reserve at 30 June 2011 was a balance of €7,892,000 (30 June 2010: balance of €6,271,000 and 31 December 2010: balance of €10,572,000) which arose primarily from the translation of the Group's net investment in AUD and GBP functional currency subsidiary companies. The movement in the six months to 30 June 2011 reflects the weakening of the AUD and GBP against the euro in the period.

Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund, a capital contribution reserve and a net wealth tax reserve. The capital redemption reserve fund of €876,000 (30 June 2010 and 31 December 2010: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (30 June 2010 and 31 December 2010: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. The capital contribution reserve balance of €nil (30 June 2010: €210,000 and 31 December 2010: €32,000) arose on initial recognition of the Group's share of the discount on the non-interest bearing non-controlling shareholder loans. The non-controlling shareholder loans were repaid in full on 1 March 2011 (see Note 15). In the year ended 31 December 2010, an amount of €49,000 was transferred to a net wealth tax reserve in accordance with Luxembourg law.

15. Borrowings

The Group had the following borrowings at 30 June 2011:

Current liabilities

	30 June 2011	31 December 2010
	€'000	€'000
Loans from Sportsbet non-controlling shareholders	**-**	974
Finance leases	**7**	911
	7	1,885

Non current liabilities

	30 June 2011	31 December 2010
	€'000	€'000
Secured non-recourse bank loan	**-**	2,284
Finance leases	**-**	349
	-	2,633

Both the secured non-recourse bank loan and the non-controlling shareholder loans were taken out by the Group to part fund the acquisition of IAS. The loans from the non-controlling shareholders in Sportsbet were non-interest bearing.

On 1 March 2011, an amount of €1,038,000 (AUD1,408,000), representing the face value of the non-controlling shareholder loans, was repaid by the Group to the 39.2% non-controlling shareholders of Sportsbet prior to the Group's acquisition of their equity interests in Sportsbet (see Note 10).

During 2011 and following the assumption of 100% ownership of Sportsbet, the Group prepaid amounts due under the secured non-recourse bank loan from National Australia Bank and due under certain finance leases, given the availability of surplus cash to do so.

16. Commitments and contingencies

(a) Guarantees
The Group has uncommitted working capital overdraft facilities of €14.7m (31 December 2010: €15.1m) with Allied Irish Banks plc. These facilities are secured by a Letter of Guarantee from Paddy Power plc.

The Group has a secure non-recourse bank loan facility from National Australia Bank with an undrawn balance of €6.2m (AUD8.3m) at 30 June 2011 (31 December 2010: €6.6m (AUD8.7m)). The facility reduces in equal quarterly amounts of €1.2m (AUD1.7m) until September 2012, at which time the facility expires. The Group may from time to time draw down amounts under the loan facility up to the amount of the then current facility limit.

The Group has a bank guarantee in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by certain of the Group's Isle of Man subsidiaries to their customers and required as part of the Group's Isle of Man Online Gambling Licence. The maximum amount of the guarantee at 30 June 2011 was £18,000,000 (euro equivalent of €19,943,000) (31 December 2010: £17,000,000 and euro equivalent of €19,750,000). No claims had been made against the guarantee as of 30 June 2011 (31 December 2010: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Isle of Man Limited, and is partly secured by cash deposits of €16,422,000 (31 December 2010: €21,081,000) over which the guaranteeing bank holds a floating charge (see also Note 12). The fair value accounting impact of this guarantee is deemed to be immaterial.

The Group has a bank guarantee in favour of the Lotteries & Gaming Authority – Malta as security for player funds owed by Paddy Power Bookmakers (Malta) Limited to its customers. This guarantee is required as part of Paddy Power Bookmakers (Malta) Limited's Remote Gaming Licence. The maximum amount of the guarantee at 30 June 2011 was €300,000 (31 December 2010: €300,000). No claims had been made against the guarantee as of 30 June 2011 (31 December 2010: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Bookmakers (Malta) Limited. The fair value accounting impact of this guarantee is deemed to be immaterial.

The Australian corporate sports bookmaking licence issued to Sportsbet requires that the Australian business segment holds sufficient funding to cover monies owed to its customers. Such funding includes both cash and cash equivalent balances and any undrawn committed financing facilities. At 30 June 2011, the total value of relevant customer balances attributable to the Australia business segment was €23,637,000 (AUD31,875,000) (31 December 2010: €23,562,000 (AUD30,951,000)) and the relevant combined cash and cash equivalent balances held and undrawn committed bank loan facilities available at that date totalled €27,190,000 (AUD36,665,000) (31 December 2010: €37,599,000 (AUD49,389,000)).

The Australia operating segment had €2,262,000 (AUD3,050,000) of cash-backed bank issued guarantees outstanding at 30 June 2011 (31 December 2010: €2,757,000 (AUD3,622,000)), comprised as follows:
- amounts of €148,000 (AUD200,000) (31 December 2010: €305,000 (AUD400,000)) guaranteed to the Northern Territory Racing and Gaming Authority; and
- guarantees of €1,001,000 (AUD1,350,000) (31 December 2010: €1,310,000 (AUD1,722,000)) outstanding in respect of rental and other property commitments and a merchant facility guarantee of €1,113,000 (AUD1,500,000) (31 December 2010: €1,142,000 (AUD1,500,000)).

Paddy Power plc ('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 reporting date but not yet incurred (excluding expenditure on business combinations) was as follows:

	30 June 2011	31 December 2010
	€'000	€'000
Property, plant and equipment	**1,835**	1,380
Intangible assets	**938**	5,149
	2,773	6,529

17. Related parties

There were no transactions with related parties during the six months ended 30 June 2011 or 30 June 2010 or the year ended 31 December 2010 that materially impacted the financial position or performance of the Group.

18. Events after the reporting date

Dividends

In respect of the current period, the directors have proposed an interim dividend of 30.0 cent per share (2010: 25.0 cent per share) which will be paid to shareholders on 30 September 2011. This dividend has not been included as a liability in these condensed consolidated interim financial statements. The proposed dividend will be payable to all shareholders on the Company's register of members on 9 September 2011. The total estimated dividend to be paid amounts to €14,607,000 (2010: €12,019,000).

Federal Court of Australia Goods and Services Tax judgement

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

It is currently expected that Sportsbet and IAS will receive a GST refund of at least €26m (AUD36m), partly in the form of cash payments later this year and partly as credits against future GST payments over the next four to five years. It is also anticipated that they will receive an award of legal costs and interest on the overpaid GST amounts as cash in 2011. No income or receivable balance has been recognised in these condensed consolidated financial statements for the GST refunds or for the associated recovery of legal costs and interest receivable. According to current estimates, it is anticipated that income of approximately €26.5m (after discounting to fair value) in respect of the GST refunds receivable, interest and the legal costs recovery will instead be recognised in the second half of 2011 as an exceptional item. This income is expected to be taxable at the standard Australian corporation tax rate of 30%, with the related tax also expected to be treated as part of the exceptional item.

Independent Review Report to Paddy Power plc

Introduction
We have been engaged by the Company to review the condensed consolidated interim financial statements for the six months ended 30 June 2011 which comprise the condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of financial position, condensed consolidated interim statement of cash flows, condensed consolidated interim statement of changes in equity and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 ('the TD Regulations') and the Transparency Rules of the Republic of Ireland's Financial Regulator. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities
The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly report in accordance with the TD Regulations and the Transparency Rules of the Republic of Ireland's Financial Regulator.

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

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

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements for the six months ended 30 June 2011 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Republic of Ireland's Financial Regulator.

David Meagher
for and on behalf of KPMG
Chartered Accountants, Statutory Audit Firm
Dublin

29 August 2011