28 August 2013

Paddy Power plc

2013 Interim Results Announcement

Paddy Power plc ('the Group') today announces interim results for the six months ended 30 June 2013 ('the period').

Financial Highlights:

- Net revenue[1] up 22% in constant currency with revenue growth in every division;
- Profit before tax up 12% to €77.0m and diluted EPS up 13% to 137.1 cent;
- Interim dividend increased by 15% to 45.0 cent per share;
- Net cash of €214m at 30 June.

Online Highlights:

- Strong online growth, notwithstanding Euro 2012 in the comparative period, with net revenue up 29% in constant currency to €243m and operating profit up 19% to €57.5m (or 28% excluding Italy):
    - Online (ex Australia): net revenue up 26% in constant currency. Operating profit up 17% to €42.0m (up 29% excluding Italy);
    - Online Australia: net revenue up 33% in constant currency. Operating profit up 25% to €16.5m;
- Mobile net revenue up over 100% to €104m and an industry leading 43% of online revenue, with 64% of active sportsbook customers and 36% of active eGaming customers transacting via mobile in June. Mobile eGaming net revenue up 253% in constant currency;
- Our Italian online business has continued to progress well with an estimated share in excess of 9% of the online sportsbook market (and a close to 20% share of the mobile market) for each of the last three months and major expansion of our eGaming and sportsbook product offers;
- Over 1.7m Facebook fans and Twitter followers, more than double that of the nearest industry competitor, contributing to industry leading marketing efficiency. Further enhancing this position with *Paddy Power In-Play!*, the first real money sports betting product on Facebook, test launch in August.

Retail Highlights:

- Increased market share in both Retail divisions with 26 new shops opened in the period (19 UK, 7 Ireland);
- UK Retail like-for-like net revenue[1] up 3% in constant currency. Operating profit up €0.3m to €7.8m despite a €0.9m headwind from a new gaming machine tax regime;
- Irish Retail like-for-like stakes up 2%. Operating profit decreased by €1.5m to €7.6m, driven by unfavourable sports results, particularly at Cheltenham.

[1] With 2012 UK Retail machine net revenue expressed on a consistent basis of taxation with 2013

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

"*Paddy Power had a very good first half. Revenues increased in every division with very strong growth of 29% in online, which delivered over three quarters of group profit. The excellent performance of our Australian business was a particular highlight. Almost two thirds of the Group's online sportsbook customers now transact with us via mobile and this continues to grow.*

The second half of the year has started very well from a turnover point of view with sportsbook stakes up 25% in online and 4% in retail on a like-for like basis. Despite very poor recent sports results, we are on track to achieve low to mid double digit operating profit growth in constant currency in 2013. Currency translation headwinds if maintained at current levels for the full year would lower this constant currency year-on-year profit growth by 4%. The Board is confident of the Group's prospects for the balance of the year and beyond."

ENDS
28 August 2013

Issued on behalf of Paddy Power plc by Drury.

For reference:

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Analyst Briefing:

The Company will host an analyst presentation at 9:00am this morning at Paddy Power plc, Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4. A conference call facility will also be available. To participate in the conference call please dial 01296 311 600 or 0800 678 1161 from the UK, (01) 242 1074 from Ireland, +1 718 3541 175 from the USA and +44 1296 311 600 from elsewhere. The passcode is 157 685.

A presentation replay facility will be available for 21 days. To listen to the replay, callers from the UK should dial 0207 136 9233 or 0800 032 9687, and all other callers should dial +44 207 136 9233. The passcode is 6761 5807.

Interim Financial Highlights for the Six Months Ended 30 June 2013 ('the period')

	Six months ended 30 June 2013 (unaudited) €m	Six months ended 30 June 2012 (unaudited)[1] €m	**% Change**	**% Change in Constant Currency ('CC')**
Amounts staked by customers[2]				
Online (ex Australia)	**1,168**	1,050	**+11%**	**+14%**
Online Australia[3]	**935**	763	**+23%**	**+26%**
UK Retail[1]	**302**	261	**+16%**	**+20%**
Irish Retail	**493**	474	**+4%**	**+4%**
Telephone	**179**	196	**(9%)**	**(7%)**
Total amounts staked[1]	**3,077**	2,745	**+12%**	**+15%**
Net revenue[2]				
Online (ex Australia)	**161.4**	127.9	**+26%**	**+26%**
Online Australia[3]	**86.5**	67.2	**+29%**	**+33%**
UK Retail[1]	**61.6**	51.6	**+19%**	**+23%**
Irish Retail	**58.0**	57.0	**+2%**	**+2%**
Telephone	**12.3**	11.4	**+8%**	**+9%**
Total net revenue[1]	**379.8**	315.1	**+21%**	**+22%**
Operating profit				
Online (ex Australia)	**42.0**	35.9	**+17%**	**+13%**
Online Australia[3]	**16.5**	13.2	**+25%**	**+30%**
UK Retail	**7.8**	7.6	**+3%**	**+4%**
Irish Retail	**7.6**	9.0	**(16%)**	**(17%)**
Telephone	**1.5**	1.3	**+12%**	**+9%**
Total operating profit	**75.4**	67.1	**+12%**	**+11%**
Diluted earnings per share	**137.1c**	121.5c	**+13%**	**+11%**

Note 1 To achieve comparisons between periods on a consistent basis following the replacement of the VAT and Amusement Machine License Duty regime with Machine Gaming Duty ('MGD') from February 2013, prior period amounts within UK Retail have been restated. VAT costs which were previously recorded as a deduction when arriving at amounts staked and net revenue are now included within cost of sales, consistent with where MGD is expensed. This restatement has no impact on gross and operating profits.

Note 2 Amounts staked by customers represents amounts received in respect of bets placed on sporting and other events that occurred during the period and net winnings, commission income and fee income earned on gaming and other activities. Net revenue (or 'Income') represents the net gain on betting transactions (stake less payout) plus the gain or loss on the revaluation of open positions at period end, net winnings on fixed odds and online casino gaming activities, and commission income and tournament fees earned from peer to peer games and business-to-business services. The costs of customer promotions and bonuses are deducted when arriving at net revenue.

Note 3 Online Australia also includes telephone operations accounting for less than 10% of its gross and operating profit.

INTERIM STATEMENT

Introduction

Financial Highlights:

- Net revenue[1] up 22% in constant currency with revenue growth in every division;
- Profit before tax up 12% to €77.0m and diluted EPS up 13% to 137.1 cent;
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- Net cash of €214m at 30 June.

Online Highlights:

- Strong online growth, notwithstanding Euro 2012 in the comparative period, with net revenue up 29% in constant currency to €243m and operating profit up 19% to €57.5m (or 28% excluding Italy):
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- Our Italian online business has continued to progress well with an estimated share in excess of 9% of the online sportsbook market (and a close to 20% share of the mobile market) for each of the last three months and major expansion of our eGaming and sportsbook product offers;
- Over 1.7m Facebook fans and Twitter followers, more than double that of the nearest industry competitor, contributing to industry leading marketing efficiency. Further enhancing this position with *Paddy Power In-Play!*, the first real money sports betting product on Facebook, test launch in August.

Retail Highlights:

- Increased market share in both Retail divisions with 26 new shops opened in the period (19 UK, 7 Ireland);
- UK Retail like-for-like net revenue[1] up 3% in constant currency. Operating profit up €0.3m to €7.8m despite a €0.9m headwind from a new gaming machine tax regime;
- Irish Retail like-for-like stakes up 2%. Operating profit decreased by €1.5m to €7.6m, driven by unfavourable sports results, particularly at Cheltenham.

[1] With 2012 UK Retail machine net revenue expressed on a consistent basis of taxation with 2013

€m	**H1 2013**	**H1 2012**	**% Change**	**% Change in CC**
Amounts staked[1]	3,077	2,745	+12%	+15%
Sportsbook gross win %	*10.1%*	*9.3%*		
Net revenue[1]	**379.8**	**315.1**	**+21%**	**+22%**
Gross profit	317.2	264.9	+20%	+21%
Operating costs	(241.8)	(197.8)	+22%	+24%
Operating profit	**75.4**	**67.1**	**+12%**	**+11%**
Profit before tax	**77.0**	**68.7**	**+12%**	**+11%**
EPS, diluted	137.1 cent	121.5 cent	+13%	+11%
Interim Dividend	45.0 cent	39.0 cent	+15%	
Net cash at period end	**€214m**	**€186m**		

[1] With 2012 UK Retail machine net revenue expressed on a consistent basis of taxation with 2013

Sports Results, Trading and Brand

Overall, sports results had a minimal impact in the first half of the year with the Group's gross win percentage around its currently expected level, albeit 0.8% higher than in the comparative period last year. Along the way we had more highs and lows than Lindsay Lohan on a week-long bender, but the outcome highlights the benefits of the Group's geographic and channel diversity, as well as the tendency for sports results to normalise over time.

It was certainly a Cheltenham to forget for bookmakers, particularly Irish bookies, with a third of the races won by the favourite and, for the first time ever, the majority won by Irish-trained horses. As always at such marquee events, we showcased the Paddy Power brand and our unrivalled approach to value. The 'highlight' was our blockbuster Money-Back Special that refunded €2.5m of losing bets when Ruby Walsh won the Champion Hurdle on Hurricane Fly. Afterwards we took the 'laugh when you want to cry' approach, flying a 63 foot tall Paddy Power Lucky Pants hot-air balloon at the course and sneaking a Paddy Power branded painted horse into the Byrne Group Plate - all of which went down worse with the stewards than a lunch date with Charles Saatchi.

Though what-goes-around-comes-around and a 66/1 winner, Auroras Encore, in the Grand National delivered us a record result. Then it was time for Royal Ascot punters to get the Paddy Power treatment with Money-Back on all losers if the favourite won the first race. We dodged the bullet the opening day when Animal Kingdom only managed to beat one horse home, but on day two Gale Force Ten delivered for punters. We refunded over €1m on that offer and a Justice Payout when well backed favourite, Ektihaam, did a 'Kurtley Beale', slipping at the crucial moment on day five.

While racing customers eventually finished up ahead of where we would normally expect, football punters couldn't get a break and Paddy Power ended the period with a record football gross win percentage. Combined with an end to the Premier League season that made the Antiques Roadshow look dramatic and an all-German Champions League final, this likely dented the enthusiasm of many football bettors. At least rugby fans had the Lions series to cheer about and Sportsbet got 'rooting for the Wallabies' by welcoming the tourists to Melbourne with the world's largest ever painted sign – its depiction of a cartoon wallaby 'cuddling' a lion being enough to mobilise the fun police.

This commitment to great value and entertainment gives the Paddy Power brand a unique personality that resonates strongly with our target audience. Market research shows Paddy Power rated the number one brand for being 'Fun', 'Cool', 'Entertaining' and 'Value for Money' every month for over a year in the UK (and consistently in the top three in Italy in the period). In addition, major investment in our online marketing expertise over the last number of years allows us to use that brand personality to great effect online. Our Facebook fans and Twitter followers increased by a further 32% over the last six months to over 1.7m today, more than double the level of the nearest industry competitor. This approach pays back strongly and consistently over time as evidenced by our industry leading marketing efficiency, with online marketing spending representing 20% of online revenues in the period and 19% since 2010, as compared to averages of 25% and 29% respectively for our major quoted UK competitors.

ONLINE

€m	**H1 2013**	**H1 2012**	**% Change**	**% Change in CC**
Sportsbook net revenue	181.9	139.4	+31%	+32%
Gaming & other net revenue	61.4	51.7	+19%	+19%
Total net revenue	**243.3**	**191.0**	**+27%**	**+29%**
Gross profit	202.5	159.1	+27%	+28%
Operating costs	(145.0)	(110.7)	+31%	+33%
Operating profit	**57.5**	**48.5**	**+19%**	**+17%**
% of Group operating profit	76%	72%		
Active customers	**1,437,397**	**1,173,185**	**+23%**	

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

Online profits increased by 19% (or 28% excluding Italy) in the period to €57.5m, representing over three quarters of Group profits. Our online profits are driven solely from legal regulated markets, with a B2C presence in the major markets of the UK, Australia, Italy and Ireland, plus B2B activities in France and Canada.

The scale of our online activities continues to grow apace. Online net revenue of €243m increased 29% in constant currency and active customers of 1.4 million were up 23% in the period. Online net revenue included an industry-leading 43%, or €104m, from mobile, an increase of 101% in constant currency compared to the equivalent period last year. This continued strong growth in mobile, combined with a more mass market business mix and risk management enhancements, gives us a positive outlook on our online sportsbook gross win percentages. Our strength in mobile also leaves us well positioned to benefit from its exceptional growth to drive further increases in scale, which will also benefit from expansion in retail and, potentially, new markets. We have continued to invest, as planned, in order to support and drive this growth, and position Paddy Power for the future.

Excluding €6.9m of additional operating costs related to Italy, online operating costs increased by 28% in constant currency, a considerable moderation compared with the equivalent growth of 50% in the first six months of last year. Operational efficiency is important to the Group. Equally, we will continue to invest to the extent necessary to maintain and enhance our competitive position, in areas such as marketing, where we face substantial cost inflation. We will also continue to pursue attractive growth opportunities, such as mobile and tablet betting which are fundamental to our on-going success. Our industry is going through a period of rapid change and development and we intend to stay ahead of this curve.

ONLINE DIVISION (Excluding Australia)

€m	H1 2013	H1 2012	% Change	% Change in CC
Amounts staked	1,168	1,050	+11%	+14%
Sportsbook net revenue	100.0	76.3	+31%	+31%
Sportsbook gross win %	*9.7%*	*8.4%*		
Gaming & other net revenue	61.4	51.7	+19%	+19%
Total net revenue	**161.4**	**127.9**	**+26%**	**+26%**
Gross profit	140.6	109.9	+28%	+28%
Operating costs	(98.6)	(74.0)	+33%	+35%
Operating profit	**42.0**	**35.9**	**+17%**	**+13%**

Operating profit for the Online Division (ex Australia) increased by 17%. Net revenue grew 26% in constant currency to €161m. Customer acquisition increased 10% and active customers were up 20% to 1.2 million. Excluding Italy, net revenue per active customer grew 7%, operating profit was up 29% and the operating profit margin as a percentage of net revenue expanded by 2% to 33%.

Our Italian online business has continued to progress well, contributing 3% to the net revenue growth of the Division in the period. During the period, we introduced a significant amount of product for the large eGaming part of the Italian market, adding mobile games and an instant and download 'live' casino to the download casino we launched in December. We are currently running an eGaming focussed TV marketing campaign in Italy. After ending 2012 with a market share of the online sports betting market over 5%, we have achieved an estimated share in excess of 9% for each of the last three months. In addition, mobile accounted for 40% of our sportsbook stakes in June, compared to an estimated industry average in Italy of 20%. A substantial extension in the range of betting markets is being introduced imminently (the 'Palinsesto Supplementare') and we will be amongst the first group of operators to expand our product offer to take advantage of the new regulations. This is an attractive opportunity to utilise our full range and depth of markets, particularly betting-in-running, and to secure a leadership position in this area.

In other new business developments, we will beta-launch *Paddy Power In-Play!* later in August. This is the first real money sports betting product on Facebook. The product was developed internally in Bulgaria and Dublin and is being trialled as a Facebook 'app' for desktop customers in the UK, which Facebook has chosen as the initial launch market for real money gambling on its platform.

Online (Ex Aus) Active Customers	H1 2013	H1 2012	% Change
UK	918,390	798,139	+15%
Ireland and Rest Of World	279,751	198,469	+41%
Total	**1,198,141**	**996,608**	**+20%**

Online (Ex Aus) Customers Product Usage	H1 2013	H1 2012	% Change
Sportsbook only	723,319	631,958	+14%
Gaming only	128,552	90,233	+42%
Multi product customers	346,270	274,417	+26%
Total	**1,198,141**	**996,608**	**+20%**

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

(A) Online Sportsbook

The amounts staked on the sportsbook increased by 14% in constant currency to €1,100m. Active sportsbook customers were up 18% to 1.1m and bet volumes grew 20% to 83.8m. While the average stake per bet decreased by 5% in constant currency to €13.13, the average net revenue per bet was up 9% in constant currency.

The gross win percentage was very strong, outperforming even the higher expectations that we have for it this year. This was due to a prolonged period of extremely favourable football results (that left punters feeling sorer than a ball-boy at a Chelsea match). This drove very strong sportsbook net revenue growth of 31% in constant currency, which coupled with the less interesting end to the season, somewhat constrained growth in football stakes during the second quarter. There has been a step-up in competitor activity on offers and prices, but we are regularly increasing the value we offer to mainstream customers without compromising our outlook for the gross win percentage, assuming normal sports results.

We significantly enhanced our mobile product with the introduction of 'two-tap' betting, extra streamed international racing, push notifications and 'my-team' pages. In May, we exceeded 1 million downloads for the Paddy Power iPhone/iPad 'app' since its launch in 2010. Mobile turnover increased by 50% in constant currency to €535m, with 63% of sportsbook customers transacting with us via mobile in June, generating 51% of sportsbook turnover.

As always, Paddy Power combined progress on technical fronts without compromising on the fun stuff. Less traditional betting markets on the election of a new Pope and the birth of the Royal Baby were prime examples. We were the first bookmaker to release odds on who would be the next Pope (within 25 minutes of Benedict's resignation) and backed it up with Paddy and Denis Rodman in St Peter's Square and a Money-Back Special ('Yes we Vati-can! – Money Back if he's black!'). Our activity generated over 8,000 articles worldwide reaching over 170 countries. To promote our Royal Baby betting we despatched four oversized babies complete with beer guts, nappies and crowns to the maternity hospital together with our trusty bookie board of odds, in front of hoards of waiting media, generating live TV coverage and front page stories in the mainstream UK media.

(B) Online Gaming & B2B

Gaming and other revenue increased by 19% in constant currency to €61m driven by growth in Casino, Games, Bingo and B2B, which offset a reduction in Poker driven by the declining market.

Mobile has once again been pivotal to this strong performance with net revenue growth of 253% in constant currency in the period and 36% of eGaming customers transacting with us via mobile in June generating 29% of total gaming revenue. As well as *PP Vegas*, other new mobile product in the period included a 'live' casino app, a revamped Games app and 14 exclusive mobile slot games. The latter games were developed by our team in Bulgaria, which has developed one of the largest selections of mobile games in the industry, and by June we had 45 proprietary titles live across mobile and desktop (bringing all the excitement of Las Vegas, without the risk of being photographed naked after 'strip snooker').

Our B2B relationships with PMU in France and BCLC in Canada continue to perform strongly, highlighting our betting risk management, operations and partnership capabilities. Our business development team, including staff based in the USA and Asia, continues to search globally for attractive opportunities to enter new markets, both on a B2C or a B2B basis, either organically or via acquisitions and partnerships.

ONLINE AUSTRALIA DIVISION

€m	**H1 2013**	**H1 2012**	**% Change**	**% Change in CC**
Amounts staked	935	763	+23%	+26%
Net revenue	**86.5**	**67.2**	**+29%**	**+33%**
Sportsbook gross win %	*9.5%*	*9.1%*		
Gross profit	65.2	51.8	+26%	+30%
Operating costs	(48.7)	(38.6)	+26%	+30%
Operating profit	**16.5**	**13.2**	**+25%**	**+30%**
Active customers	241,288	178,463	+35%	

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

Our Australian business is looking even shinier than Shane Warne's face, growing net revenue and operating profit by 33% and 30% respectively in constant currency in the period (following growth of 32% and 24% respectively in the first half of last year). This performance is notwithstanding increased competition and a €2m headwind from higher product fees.

In constant currency, online turnover grew by 25% and online net revenue by 34%. Online active customers increased by 35% and new active customers by 14%. Mobile turnover more than doubled to €274m or 35% of online stakes, with 65% of our online customers transacting with us via mobile in June. Telephone activities also returned to strong growth due to the popularity of our betting-in-play product (which we, like other legal operators, cannot offer online) with stakes up 33% and net revenue up 15% in constant currency.

Our approach to driving this growth in Australia is the same as it is across all our markets: differentiation based on more product, better value and more entertainment than the competition. Within product, mobile is paramount and in the period we invested significantly. We also developed new mathematical models, including for AFL where we now offer a market-leading 400 plus betting markets per game. Value and mischief came together in April, with a Justice Payout on the Gai Waterhouse trained favourite, More Joyous, after it came second last carrying a controversial injury that wasn't disclosed (at least to the stewards!) – our Justice Payout was covered 29 times on Australian TV.

The Australian Department of Broadband, Communications and the Digital Economy published the Final Report of its review of the 2001 Interactive Gambling Act in March. Its recommendations included the regulation of online betting-in-running, new responsible gambling measures, a five year trial of online tournament poker and increased enforcement against unlicensed offshore operators. On the Report's publication, the Government announced that it would not pursue the recommendations relating to the trial of tournament poker and the lifting of the ban on in-play betting online. Separately, after government intervention, the broadcast industry adopted a code in June restricting the advertising of betting around live TV sports coverage.

RETAIL

Our retail businesses in Ireland and the UK continue to grow their market share, as well as giving the Group the benefits of having a multi-channel offer and increased scale.

New shop openings are also generating very attractive returns on capital. In the UK, we opened 19 new shops during the period at an average capital cost of £270,000, compared to annualised EBITDA of £132,000 per shop in the period. This took our estate to 228 units, less than 3% of the market, and we expect to be able to open at least 40 shops annually in the UK in the current environment. In Ireland, we have increased our market share consistently over the last five years through outperformance at a per shop level and by adding units as others have closed shops. This trend continued in the period with our turnover per shop rising 1% whilst competitors' fell by approximately 10% (based on Irish Revenue betting tax returns). During the first half of the year, we also opened seven shops in Ireland. This gave us a market share in Ireland of 38% in the period.

Our product offering continues to lead the retail market as we use our higher turnover per unit to deliver the best invested shops with the best product. We have led the market for Self Service Betting Terminals ('SSBTs'), with at least one terminal per shop since July 2011 in the UK, and have more than three times as many terminals installed across the UK and Ireland now than at the start of 2012. Following a new contract with our gaming machine supplier, Inspired Gaming Group, we will be the first operator to trial the new Inspired 'Eclipse' cabinet and have an option to roll-out that cabinet to our full estate by the end of year. Other shop enhancements are on-going in relation to improved screens, new shop fit-outs and virtual betting product, as well as opportunities we are progressing to exploit our multichannel position.

The growing popularity of virtual product, more small stakes betting and more football multiples, gives us a positive outlook for our normal expected gross win percentage in Retail within its 11% to 13% range. This is not withstanding the better value we offer to retail customers including the same major Money Back-Specials in our shops as online and the same odds over-the-counter as online.

This unstinting focus on having the best product, value and service is well evidenced in market research: in both Ireland and the UK, Paddy Power was rated number one this year versus all the major competing chains on its cumulative score across a full range of shop attributes.

UK RETAIL DIVISION

€m	**H1 2013**	**H1 2012**	**% Change**	**% Change in CC**
Amounts staked	302	261	+16%	+20%
Sportsbook net revenue	32.5	25.2	+29%	+33%
Sportsbook gross win %	*12.1%*	*10.8%*		
Machine gaming net revenue	29.1	26.4	+10%	+14%
Total net revenue	**61.6**	**51.6**	**+19%**	**+23%**
Gross profit	46.8	40.1	+17%	+20%
Operating costs	(39.0)	(32.5)	+20%	+24%
Operating profit	**7.8**	**7.6**	**+3%**	**+4%**
Shops at period end	228	185	+23%	

(UK Retail machine net revenue is expressed on a consistent basis of taxation above and in commentary below. Sportsbook includes over-the-counter and SSBTs)

UK Retail operating profit increased by €0.3m to €7.8m despite a €0.9m headwind from a new gaming machine tax regime.

In constant currency, turnover grew 20% to €302m, while net revenue increased by 23%. Like-for-like net revenue grew 3% in constant currency, which comprised a decline in machine gaming net revenue of 8% offset by sportsbook net revenue growth of 14% on like-for-like sportsbook turnover up 2%. Like-for-like bet volumes were up 8%, while the average sportsbook stake per bet decreased by 5% in constant currency to €15.24. Before the cost of free bets, like-for-like average gross win per machine per week was £1,207, a decrease of 2%.

The period was challenging for machine gaming performance as a result of our terminal trials, competition and weaker consumer demand (particularly within London, where most of our shops are located). In addition, the launch stage of our new loyalty programme resulted in increased free bet costs between gross win and net revenue. While the market is likely to stay competitive and consumer spending to remain weak, we expect our initiatives, particularly new cabinets and the optimisation of our loyalty scheme, to deliver improved FOBT performance in the second half of the year.

Operating costs grew 24% in constant currency driven by a 26% increase in average shop numbers. Like-for-like shop operating costs were up 2% in constant currency.

We opened 19 new shops in the period, including two which we acquired, at an average capital cost per unit of €317,000 (£270,000) including lease premia and the costs of acquisition and refit for the acquired units. The average cost per unit for organic openings was €305,000 (£261,000). EBITDA per shop pre central costs averaged €78,000 (£66,000) over the six months.

IRISH RETAIL DIVISION

€m	**H1 2013**	**H1 2012**	**% Change**
Amounts staked	493	474	+4%
Net revenue	**58.0**	**57.0**	**+2%**
Gross win %	*11.8%*	*12.2%*	
Gross profit	52.5	51.9	+1%
Operating costs	(44.9)	(42.8)	+5%
Operating profit	**7.6**	**9.0**	**(16%)**
Shops at period end	220	211	+4%

Irish Retail operating profits decreased by 16% to €7.6m in the period, driven by unfavourable sports results, most particularly at Cheltenham. We opened seven new shops in the period including five acquired. Excluding the impact of new shops, like-for-like amounts staked were up 2% and net revenue was flat. This is the first six month period with like-for-like stakes growth, and stable net revenue, since 2007. Like-for-like operating costs (including central costs) increased by 3% reflecting the impact of content cost inflation, increased shop volumes and investment in product.

Activity levels in our shops continue to increase, with a 13% increase in like-for-like bet volumes to 34m driven by more betting on virtual product, increased betting on sport (including football coupons) and other growth in mass-market business. Since the first half of 2007, our betting slips per shop have increased by 23%, whilst the average stake per slip has fallen by 34% over the same period.

The updated draft of the Betting Amendment Bill published last month will give us the welcome option of opening our shops until 10pm during September to April, irrespective of whether there is an Irish evening race meeting.

TELEPHONE DIVISION

€m	**H1 2013**	**H1 2012**	**% Change**	**% Change in CC**
Amounts staked	179	196	(9%)	(7%)
Net revenue	**12.3**	**11.4**	**+8%**	**+9%**
Gross win %	*7.5%*	*6.2%*		
Gross profit	12.1	11.2	+8%	+9%
Operating costs	(10.6)	(9.9)	+7%	+9%
Operating profit	**1.5**	**1.3**	**+12%**	**+9%**

Our telephone channel continues to perform strongly relative to its competitors, consolidating its leading position in the combined UK and Irish markets. Operating profit increased by 12%.

Net revenue was up 9% in constant currency. Amounts staked were 7% lower in constant currency, in part due to the absence of the European Championships, less interest in the Champions League final and the higher gross win percentage relative to the comparative period. Operating costs increased by 9% in constant currency, reflecting the 8% growth in bet volumes and selected investment in our product and technology infrastructure.

Telephone Channel Active Customers	**H1 2013**	**H1 2012**	**% Change**
UK	36,684	38,626	(5%)
Ireland and Rest Of World	19,626	18,659	+5%
Total	**56,310**	**57,285**	**(2%)**

(Active customers are defined as those who have deposited real money and have bet in the reporting period)

Taxation

The effective corporation tax rate for the period was 13.0%, in line with the rate in 2012.

In the Queen's Speech in May, the UK Government once again confirmed its intention to change the tax regime on remote gambling to a 'point of consumption' tax on all remote gambling operators supplying UK customers from December 2014, and issued draft legislation on the licensing regime. This month the Government has published the results of its consultation on that legislation and drafts of certain clauses for the Finance Bill. Further consultation is therefore ongoing on the introduction of the tax, with more details expected to be published in the Draft Finance Bill in March 2014.

We continue to engage with the UK Government to highlight the consumer, tax and employment protection risks presented by these proposals. In particular, the fundamental difficulties that other countries have encountered in attempting to enforce online betting taxes demonstrate that high tax regimes with poor enforcement mechanisms 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 frustrated and employment levels are adversely impacted. If the tax was in place at a rate of 15% of eGaming net revenue and 15% of sportsbook gross win, it would have increased our tax payable by €20m in the period, although opportunities exist to mitigate the gross impact through lower revenue share and marketing costs, and potential market share gains from weaker operators being forced to exit the market or compromise their offer.

In July, the Irish Government published an updated Betting (Amendment) Bill which is expected to facilitate the extension of the 1% tax on Irish retail stakes to online and telephone sportsbooks in respect of bets taken from customers in Ireland. Such a tax would have cost the Group €3.5m in the period. In addition, the Government published the General Scheme of the Gambling Control Bill 2013 in July which sets out to update the law in Ireland in relation to gambling much more broadly. A consultation is currently underway and further developments are expected with the publication of draft legislation based on the General Scheme in due course.

Cashflows & Financial Position

Operating cashflow (after LTIP trust share purchases and estimated maintenance capex of €10m) in the period was €76m or 113% of profit after tax. Estimated enhancement capex of €19m mainly related to new shop openings and technology spending for product improvements and new businesses.

At the end of the period, the Group had net cash of €214m, including customer balances of €58m. The Board remains committed to capital discipline, as demonstrated by the upward trend in its dividend payout ratio and previous share buybacks. The Board also wants to maintain flexibility for future growth, given the value of scale and the potential for opportunities during this period of major industry transition driven by new taxes, additional markets regulating, new technologies emerging and other significant changes.

Dividend

The Board has decided to pay an interim dividend of 45.0 cent per share, a 15% increase on last year. The total expected interim dividend is €22.1m payable on 27 September to shareholders on the register at the close of business on 6 September.

Foreign Exchange Risk and Impact of Australian Dollar Weakness

Sterling and Australian Dollar denominated operating profits were approximately £79m and AUD28m respectively in the first half of 2013. Accordingly, Group operating profit can be positively impacted by a weaker Euro versus these currencies and adversely impacted by a stronger Euro versus these currencies.

In order to reduce this volatility, the Group periodically sells Sterling forward for Euro and has sold approximately half of its expected second half Sterling denominated operating profit for settlement at an average rate of 0.823. Similarly, the Group has sold £21m for settlement in 2014 at an average rate of 0.857. Notwithstanding these transactions, weaknesses in Australian Dollar and Sterling exchange rates against the Euro since the Group's May trading update, if they continue to the end of the year, would reduce operating profit by approximately €4m in 2013, as compared to expectations in May, and further impact the Group in subsequent years.

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 page 42 of the Group's 2012 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;
- Disruption to the sporting calendar or broadcasting of major sporting events due to weather or other factors;
- The ability of the Group to enter new markets, launch new products or introduce new systems in a successful, cost effective and/or timely manner;
- The intensity of competition in the Group's markets and the Group's ability to successfully compete;
- Changes in the exchange rates between the Euro and Sterling and Australian Dollar;
- Economic, technological, consumer behaviour and other macro factors affecting demand for the Group's products;
- The regulatory or legislative environment, interpretation and practices applicable to the Group's activities and related litigation and reputational risks;
- The ability of the Group to avoid disruption to its systems and protect customer and other key data;
- Changes in current or proposed tax laws, rates, interpretations or practices, or payment obligations to racing and sporting bodies;
- Relationships with, and performance by key suppliers and performance for key B2B customers;
- The ability of the Group to attract and retain key employees;
- Societal, media or political sentiment towards the Group, its brands and its businesses.

Outlook

The second half of the year has started very well from a turnover point of view with sportsbook stakes up 25% online and 4% in retail on a like-for like basis (in constant currency). Recent sports results have been very poor and have reduced gross win by some €15m. Nonetheless, we are on track to achieve low to mid double digit operating profit growth in constant currency in 2013. Currency translation headwinds if maintained at current levels for the full year would lower this constant currency year-on-year profit growth by 4%.

The outlook for Paddy Power is strong. Three quarters of our profits come from online betting and gaming, the overall market for which is projected to continue to grow apace. We are well positioned in our existing online markets, with leading penetration in mobile and social media. We are using our capabilities to launch new products and to explore expansion into new markets. In retail, we continue to grow our market share and achieve strong returns from new shop openings. The Board is confident of the Group's prospects for the balance of the year and beyond.

Nigel Northridge
Chairman

27 August 2013

Directors’ Responsibility Statement in respect of the Half Yearly Financial Report For the six months ended 30 June 2013

Each of the directors, whose names and functions are listed in the 2012 Annual Report with the exception of David Power who did not offer himself for re-election at the Annual General Meeting on 14 May 2013, Michael Cawley who was appointed as a non-executive director on 17 July 2013 and Jane Lighting who retired as a non-executive director on 20 August 2013, 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

Cormac McCarthy
Chief Financial Officer

27 August 2013

Condensed Consolidated Interim Income Statement
For the six months ended 30 June 2013

	Note	Six months ended 30 June 2013 (unaudited) €'000	Six months ended 30 June 2012 (unaudited) €'000
Amounts staked by customers		**3,076,924**	2,740,705
Continuing operations			
Income		**379,827**	311,239
Direct betting costs	5	**(62,632)**	(46,348)
Gross profit		**317,195**	264,891
Employee expenses		**(112,998)**	(94,415)
Property expenses		**(23,499)**	(21,146)
Marketing expenses		**(40,144)**	(35,198)
Technology and communications expenses		**(22,583)**	(18,169)
Depreciation and amortisation		**(19,842)**	(14,794)
Other expenses, net		**(22,744)**	(14,078)
Total operating expenses		**(241,810)**	(197,800)
Operating profit		**75,385**	67,091
Financial income	6	**1,799**	1,683
Financial expense	6	**(179)**	(106)
Profit before tax		**77,005**	68,668
Income tax expense	7	**(10,010)**	(8,937)
Profit for the period – all attributable to equity holders of the Company		**66,995**	59,731
Earnings per share			
Basic	8	**€1.394**	€1.240
Diluted	8	**€1.371**	€1.215

Condensed Consolidated Interim Statement of Comprehensive Income
For the six months ended 30 June 2013

	Note	**Six months ended 30 June 2013 (unaudited) €'000**	Six months ended 30 June 2012 (unaudited) €'000
Profit for the period		**66,995**	59,731
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value of cash flow hedge reserve	6	**1,606**	(1,675)
Foreign exchange (loss) / gain on translation of the net assets of foreign currency denominated subsidiaries	6	**(13,451)**	3,921
Deferred tax on fair value of cash flow hedges		**(201)**	209
Deferred tax on share-based payments		**(81)**	415
Other comprehensive (expense) / income		**(12,127)**	2,870
Total comprehensive income for the period – all attributable to equity holders of the Company		**54,868**	62,601

Condensed Consolidated Interim Statement of Financial Position
As at 30 June 2013

	Note	**30 June 2013 (unaudited) €'000**	30 June 2012 (unaudited) €'000	31 December 2012 (audited) €'000
Assets				
Property, plant and equipment		**108,189**	101,011	105,536
Intangible assets		**63,982**	57,876	62,482
Goodwill	9	**92,528**	98,390	96,582
Financial assets – restricted cash	11	**993**	6,170	5,359
Deferred tax assets		**6,846**	4,617	6,561
Trade and other receivables		**3,403**	5,513	4,837
Total non-current assets		**275,941**	273,577	281,357
Trade and other receivables		**36,540**	33,418	26,063
Derivative financial assets		**2,121**	-	375
Financial assets – restricted cash	11	**33,084**	29,024	32,961
Financial assets – deposits	11	**37,919**	6,942	42,014
Cash and cash equivalents	11	**142,466**	143,413	129,004
Total current assets		**252,130**	212,797	230,417
Total assets		**528,071**	486,374	511,774
Equity				
Issued share capital	15	**5,086**	5,076	5,085
Share premium		**40,150**	38,604	40,038
Treasury shares		**(34,177)**	(34,177)	(34,177)
Shares held by long term incentive plan trust		**(59,780)**	(22,884)	(56,191)
Other reserves including foreign currency translation, cash flow hedge and share-based payment reserves		**25,998**	33,914	38,593
Retained earnings		**311,707**	241,818	284,308
Total equity – attributable to equity holders of the Company		**288,984**	262,351	277,656
Liabilities				
Trade and other payables	12	**181,733**	161,345	173,467
Derivative financial liabilities	12	**12,989**	17,122	11,767
Provisions		**621**	483	460
Current tax payable		**17,150**	12,906	18,287
Total current liabilities		**212,493**	191,856	203,981
Trade and other payables	12	**21,166**	24,835	23,663
Derivative financial liabilities	12	**110**	509	228
Provisions		**1,229**	1,717	1,419
Deferred tax liabilities		**4,089**	5,106	4,827
Total non-current liabilities		**26,594**	32,167	30,137
Total liabilities		**239,087**	224,023	234,118
Total equity and liabilities		**528,071**	486,374	511,774

Condensed Consolidated Interim Statement of Cash Flows
For the six months ended 30 June 2013

	Note	**Six months ended 30 June 2013 (unaudited) €'000**	Six months ended 30 June 2012 (unaudited) €'000
Cash flows from operating activities			
Profit before tax		**77,005**	68,668
Financial income	6	**(1,799)**	(1,683)
Financial expense	6	**179**	106
Depreciation and amortisation		**19,842**	14,794
Employee equity-settled share-based payments expense		**8,145**	5,366
Foreign currency exchange loss / (gain)		**1,022**	(1,148)
Loss on disposal of property, plant and equipment and intangible assets		**13**	121
Cash from operations before changes in working capital		**104,407**	86,224
Increase in trade and other receivables		**(10,987)**	(249)
Increase in trade and other payables and provisions		**15,059**	30,533
Cash generated from operations		**108,479**	116,508
Income taxes paid		**(10,841)**	(8,987)
Net cash from operating activities		**97,638**	107,521
Cash flows from investing activities			
Purchase of property, plant and equipment		**(16,535)**	(13,978)
Purchase of intangible assets		**(11,929)**	(8,842)
Purchase of businesses	10	**(2,415)**	(3,554)
Payment of contingent deferred consideration	10	**(88)**	(510)
Proceeds from disposal of property, plant and equipment and intangible assets		**45**	77
Transfers from / (to) financial assets – deposits		**3,701**	(6,997)
Interest received		**1,708**	1,660
Net cash used in investing activities		**(25,513)**	(32,144)
Cash flows from financing activities			
Proceeds from the issue of new shares under option agreements		**113**	782
Purchase of shares by long term incentive plan trust		**(12,264)**	(2,790)
Dividends paid	14	**(39,803)**	(34,355)
Movements in current and non-current restricted cash balances		**3,315**	(10,318)
Interest paid		**(258)**	(71)
Net cash used in financing activities		**(48,897)**	(46,752)
Net increase in cash and cash equivalents		**23,228**	28,625
Cash and cash equivalents at start of period		**129,004**	111,139
Foreign currency exchange (loss) / gain in cash and cash equivalents		**(9,766)**	3,649
Cash and cash equivalents at end of period	11	**142,466**	143,413

Condensed Consolidated Interim Statement of Changes in Equity
For the six months ended 30 June 2013

	Attributable to equity holders of the Company										
(unaudited)	***Number of ordinary shares in issue***	**Issued share capital €'000**	**Share premium €'000**	**Foreign exchange translation reserve €'000**	**Cash flow hedge reserve €'000**	**Other reserves €'000**	**Treasury shares €'000**	**Shares held by long term incentive plan trust €'000**	**Share-based payment reserve €'000**	**Retained earnings €'000**	**Total €'000**
Balance at 1 January 2013	*50,850,848*	5,085	40,038	14,110	451	1,240	(34,177)	(56,191)	22,792	284,308	277,656
Total comprehensive income for the period											
Profit	-	-	-	-	-	-	-	-	-	**66,995**	**66,995**
Foreign exchange translation	-	-	-	**(13,451)**	-	-	-	-	-	-	**(13,451)**
Net change in fair value of cash flow hedge reserve	-	-	-	-	**1,606**	-	-	-	-	-	**1,606**
Deferred tax on cash flow hedges	-	-	-	-	**(201)**	-	-	-	-	-	**(201)**
Deferred tax on share-based payments	-	-	-	-	-	-	-	-	-	**(81)**	**(81)**
Total comprehensive income for the period	-	-	-	**(13,451)**	**1,405**	-	-	-	-	**66,914**	**54,868**
Transactions with owners of the Company, recognised directly in equity											
Shares issued – exercise of share options (Note 15)	***7,627***	**1**	**112**	-	-	-	-	-	-	-	**113**
Own shares acquired by the long term incentive plan trust – 185,000 ordinary shares (Note 15)	-	-	-	-	-	-	-	**(12,264)**	-	-	**(12,264)**
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	-	**8,145**	-	**8,145**
Equity-settled transactions – vestings	-	-	-	-	-	-	-	**8,675**	**(8,652)**	**246**	**269**
Transfer to retained earnings on exercise of share options (Note 15)	-	-	-	-	-	-	-	-	**(42)**	**42**	-
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	-	-	**(39,803)**	**(39,803)**
Total contributions by and distributions to owners of the Company	***7,627***	**1**	**112**	-	-	-	-	**(3,589)**	**(549)**	**(39,515)**	**(43,540)**
Balance at 30 June 2013	***50,858,475***	**5,086**	**40,150**	**659**	**1,856**	**1,240**	**(34,177)**	**(59,780)**	**22,243**	**311,707**	**288,984**

Condensed Consolidated Interim Statement of Changes in Equity (continued)

For the six months ended 30 June 2012

	Attributable to equity holders of the Company										
(unaudited)	*Number of ordinary shares in issue*	Issued share capital €'000	Share premium €'000	Foreign exchange translation reserve €'000	Cash flow hedge reserve €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2012	*50,725,021*	5,072	37,826	13,873	-	1,185	(34,177)	(33,397)	21,918	218,086	230,386
Total comprehensive income for the period											
Profit	-	-	-	-	-	-	-	-	-	59,731	59,731
Foreign exchange translation	-	-	-	3,921	-	-	-	-	-	-	3,921
Net change in fair value of cash flow hedge reserve	-	-	-	-	(1,675)	-	-	-	-	-	(1,675)
Deferred tax on cash flow hedges	-	-	-	-	209	-	-	-	-	-	209
Deferred tax on share-based payments	-	-	-	-	-	-	-	-	-	415	415
Total comprehensive income for the period	-	-	-	3,921	(1,466)	-	-	-	-	60,146	62,601
Transactions with owners of the Company, recognised directly in equity											
Shares issued – exercise of share options (Note 15)	*40,023*	4	778	-	-	-	-	-	-	-	782
Own shares acquired by the long term incentive plan trust – 55,155 ordinary shares (Note 15)	-	-	-	-	-	-	-	(2,790)	-	-	(2,790)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	-	5,366	-	5,366
Equity-settled transactions – vestings	-	-	-	-	-	-	-	13,303	(10,735)	(2,207)	361
Transfer to retained earnings on exercise of share options (Note 15)	-	-	-	-	-	-	-	-	(148)	148	-
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	-	-	(34,355)	(34,355)
Total contributions by and distributions to owners of the Company	*40,023*	4	778	-	-	-	-	10,513	(5,517)	(36,414)	(30,636)
Balance at 30 June 2012	*50,765,044*	5,076	38,604	17,794	(1,466)	1,185	(34,177)	(22,884)	16,401	241,818	262,351

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 2013 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 34.

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 2012, prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU together with an unqualified audit report thereon and no emphasis of matter 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 27 August 2013.

2. Basis of preparation and accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland's Financial Regulator and with IAS 34 'Interim Financial Reporting' as adopted by the EU. The condensed consolidated interim financial statements are prepared on the historical cost basis except for betting transactions and forward foreign exchange contracts (which are recorded as derivative financial instruments), contingent deferred consideration and certain share-based payments, all of which are stated at fair value (grant date fair value in the case of equity-settled share-based payments). The 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 2012, except as set out below.

The Group has adopted the following accounting policies, standards, interpretations and amendments to existing standards during the period ended 30 June 2013:

<u>IFRS 13 'Fair Value Measurement'</u>
IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 'Financial Instruments: Disclosures'. Some of these disclosures are specifically required in interim financial statements for financial instruments; accordingly, the Group has included additional disclosures in this regard (see Note 13). IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013.

<u>Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'</u>
As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of comprehensive income, to present separately items that may be reclassified to profit or loss in the future from those that would never be so reclassified. Tax impacts have also been so allocated. Comparative information has been re-presented accordingly. The adoption of the Amendments to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

<u>Amendments to existing standards</u>
During the period, a number of amendments to existing accounting standards became effective. These have been considered by the directors and have not had a significant impact on the Group's consolidated financial statements.

3. Judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements as at and for the year ended 31 December 2012.

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

The Online (ex Australia), UK Retail, Irish Retail and Telephone segments derive their revenues primarily from sports betting and/or gaming (gaming machines, games, casino, bingo and poker) and business to business ('B2B') services. Online (ex Australia) services are delivered primarily through the internet, Telephone through the public telephony system and UK and Irish Retail through licensed bookmaking shop estates. The Online (ex Australia) and Telephone segments derive their revenues primarily from the UK and Ireland, the UK Retail segment from retail outlets in Great Britain and Northern Ireland and Irish Retail from retail outlets in the Republic of Ireland. The Online Australia segment earns its revenues from sports betting services provided to Australian customers using primarily the internet with a small proportion using the public telephony system.

The 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 2012. Central operating expenses are allocated to reportable segments based on internal management allocation methodologies. Any expenses that are not directly allocated to reportable segments in internal management reports are shown in the reconciliation of reportable segments to Group totals. The Group does not allocate income tax expense or interest to reportable segments. Treasury management is centralised for the Online (ex Australia), UK Retail, Irish Retail and Telephone segments. The Online Australia segment manages its own treasury function under Group Treasury oversight. Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

Reportable business segment information for the six months ended 30 June 2013:

	Online (ex Australia) €'000	Online Australia €'000	UK Retail €'000	Irish Retail €'000	Telephone €'000	Total reportable segments €'000
Income from external customers	**161,383**	**86,495**	**61,701**	**58,242**	**12,006**	**379,827**
Inter-segment trading	**-**	**-**	**(62)**	**(246)**	**308**	**-**
Total income	**161,383**	**86,495**	**61,639**	**57,996**	**12,314**	**379,827**
Direct betting costs	**(20,806)**	**(21,259)**	**(14,856)**	**(5,531)**	**(180)**	**(62,632)**
Gross profit	**140,577**	**65,236**	**46,783**	**52,465**	**12,134**	**317,195**
Depreciation and amortisation	**(7,165)**	**(4,406)**	**(4,072)**	**(3,623)**	**(576)**	**(19,842)**
Other operating expenses	**(91,444)**	**(44,334)**	**(34,883)**	**(41,250)**	**(10,057)**	**(221,968)**
Reportable segment profit	**41,968**	**16,496**	**7,828**	**7,592**	**1,501**	**75,385**

4. Operating segments (continued)

Reportable business segment information for the six months ended 30 June 2012:

	Online (ex Australia) €'000	Online Australia €'000	UK Retail €'000	Irish Retail €'000	Telephone €'000	Total reportable segments €'000
Income from external customers	127,933	67,176	47,863	56,982	11,285	311,239
Inter-segment trading	-	-	(83)	(2)	85	-
Total income	127,933	67,176	47,780	56,980	11,370	311,239
Direct betting costs	(18,005)	(15,376)	(7,712)	(5,121)	(134)	(46,348)
Gross profit	109,928	51,800	40,068	51,859	11,236	264,891
Depreciation and amortisation	(4,037)	(3,433)	(3,070)	(3,768)	(486)	(14,794)
Other operating expenses	(69,975)	(35,146)	(29,424)	(39,048)	(9,413)	(183,006)
Reportable segment profit	35,916	13,221	7,574	9,043	1,337	67,091

Reconciliation of reportable segments to Group totals

	Six months ended 30 June 2013 €'000	Six months ended 30 June 2012 €'000
Income		
Total income from reportable segments, being total Group income	**379,827**	311,239
Profit and loss		
Total profit from reportable segments	**75,385**	67,091
Unallocated amounts:		
Financial income – non-Online Australia (1)	**346**	293
Financial income – Online Australia	**1,453**	1,390
Financial expense – non-Online Australia (1)	**(154)**	(106)
Financial expense – Online Australia	**(25)**	-
Profit before tax	**77,005**	68,668

(1) The non-Online Australia segments comprise the Online (ex Australia), UK Retail, Irish Retail and Telephone operating segments. Financial expense relating to these segments is primarily in respect of guarantee and facility fees, other interest amounts payable and the unwinding of discounts on provisions and other non-current liabilities.

(b) Geographical segment information

The Group considers that its primary geographic segments are 'UK', 'Australia' and 'Ireland and rest of world'. The UK geographic segment consists of the UK Retail bookmaking business, online and telephone sports betting from UK customers and online gaming from UK customers. The Australia geographic segment consists primarily of online sports betting, plus a small proportion of telephone sports betting, from Australian customers. The Ireland and rest of world geographic segment is composed of the Irish Retail bookmaking business, online and telephone sports betting from Irish and rest of world customers, online gaming from Irish and rest of world customers and B2B services provided to rest of world customers. Revenues from customers outside the UK, Australia and Ireland are not considered sufficiently significant to warrant separate reporting.

4. Operating segments (continued)

Group revenues by geographical segment are as follows:

Income

	Six months ended 30 June 2013 €'000	Six months ended 30 June 2012 €'000
UK	**187,157**	146,762
Australia	**86,495**	67,176
Ireland and rest of world	**106,175**	97,301
Total	**379,827**	311,239

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

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

Non-current assets

	30 June 2013 €'000	30 June 2012 €'000	31 December 2012 €'000
UK	**112,522**	96,522	104,854
Australia	**81,722**	94,724	91,764
Ireland and rest of world	**73,858**	71,544	72,819
Total	**268,102**	262,790	269,437

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

5. Direct betting costs

Direct betting costs comprise:

	Six months ended 30 June 2013 €'000	Six months ended 30 June 2012 €'000
Betting taxes	**25,272**	15,537
Software supplier costs	**11,787**	9,842
Other direct betting costs	**25,573**	20,969
	62,632	46,348

Betting taxes comprise betting taxes levied on gross win and amounts staked, Machine Gaming Duty (which was introduced on 1 February 2013) and Goods and Services Tax ('GST') on Online Australia segment gross win.

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

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

6. Financial income and expense

	Six months ended 30 June 2013 €'000	Six months ended 30 June 2012 €'000
Recognised in profit or loss:		
Financial income		
On financial assets at amortised cost:		
Interest income on short term bank deposits	**1,799**	1,683
	1,799	1,683
Financial expense		
On financial liabilities at amortised cost:		
Interest on bank guarantees and bank facilities, and other interest payable	**114**	49
Unwinding of the discount on provisions and other non-current liabilities	**65**	57
	179	106
Recognised in other comprehensive income:		
Effective portion of changes in fair value of cash flow hedges	**4,943**	(1,675)
Fair value of foreign exchange cash flow hedges transferred to income statement	**(3,337)**	-
Net change in fair value of cash flow hedge reserve	**1,606**	(1,675)
Foreign exchange (loss) / gain on translation of the net assets of foreign currency denominated subsidiaries	**(13,451)**	3,921
	(11,845)	2,246

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 13.0% (six months ended 30 June 2012: 13.0%), which compares to the standard Irish corporation tax rate of 12.5%.

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 the Long Term Incentive Plan and share options granted to employees.

The calculation of basic and diluted EPS is as follows:

	Six months ended 30 June 2013	Six months ended 30 June 2012
Numerator in respect of basic and diluted earnings per share (€’000):		
Profit attributable to equity holders of the Company	**66,995**	59,731
Denominator in respect of basic earnings per share (in ’000s):		
Ordinary shares in issue at the beginning of the period	**50,851**	50,725
Adjustments for weighted average number of:		
- ordinary shares issued during the period	**6**	16
- ordinary shares held in treasury	**(1,734)**	(1,734)
- ordinary shares held by long term incentive plan trust	**(1,066)**	(847)
Weighted average number of ordinary shares in issue during the period	**48,057**	48,160
Adjustments to derive denominator in respect of diluted earnings per share (in ’000s):		
Dilutive effect of Share Option Schemes, Sharesave Scheme, Long Term Incentive Plan and shares held by long term incentive plan trust	**814**	991
Adjusted weighted average number of ordinary shares in issue during the period	**48,871**	49,151
Basic earnings per share	**€1.394**	€1.240
Diluted earnings per share	**€1.371**	€1.215

9. Goodwill

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

	Online (ex Australia) €'000	Online Australia €'000	UK Retail €'000	Irish Retail €'000	Total €'000
Balance at 1 January 2012	13,303	60,671	11,426	8,207	93,607
Arising on acquisitions during the year	-	-	2,604	125	2,729
Foreign currency translation adjustment	-	52	194	-	246
Balance at 31 December 2012	13,303	60,723	14,224	8,332	96,582
Arising on acquisitions during the period (Note 10)	**-**	**-**	**809**	**1,793**	**2,602**
Foreign currency translation adjustment	**-**	**(6,252)**	**(404)**	**-**	**(6,656)**
Balance at 30 June 2013	**13,303**	**54,471**	**14,629**	**10,125**	**92,528**

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 2013 and, on the basis of this review, are satisfied that the carrying amount of the Group's goodwill at 30 June 2013 is not less than its recoverable amount.

10. Business combinations

Six months ended 30 June 2013

Shop property business acquisitions

In 2013, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in Great Britain and Ireland.

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

	Provisional fair values 30 June 2013 €'000
Identifiable net assets acquired:	
Property, plant and equipment	**251**
	251
Goodwill arising on acquisition – UK Retail and Irish Retail	**2,602**
Consideration	**2,853**
The consideration is analysed as:	
Cash consideration	**2,415**
Contingent deferred consideration	**438**
	2,853

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

Information in respect of amounts staked, income, operating profit and cash flows for the acquired businesses in respect of the period from acquisition and for the period ended 30 June 2013 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed targets for the next three years following the date of acquisition. The contingent deferred consideration amount of €438,000 at 30 June 2013 represents management's best estimate of the fair value of the amounts that will be payable.

During 2013, the Group also paid a total of €88,000 in respect of contingent deferred consideration for a 2012 UK Retail acquisition (see below).

10. Business combinations (continued)

Six months ended 30 June 2012

Shop property business acquisitions

In 2012, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in Great Britain.

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

	Fair values 30 June 2012 €'000
Identifiable net assets acquired:	
Property, plant and equipment	1,044
	1,044
Goodwill arising on acquisition – UK Retail	2,604
Consideration	3,648
The consideration is analysed as:	
Cash consideration	3,554
Contingent deferred consideration	94
	3,648

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

Information in respect of amounts staked, income, operating profit and cash flows for the acquired businesses in respect of the period from acquisition and for the period ended 30 June 2012 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed targets in the 12 months after the date of acquisition. The contingent deferred consideration amount of €94,000 at 30 June 2012 represented management's best estimate of the fair value of the amounts that will be payable.

During 2012, the Group also paid a total of €510,000 in respect of contingent deferred consideration for a 2010 UK Retail acquisition and a 2011 UK Retail acquisition.

Net cash outflow from purchase of businesses

	Six months ended 30 June 2013 €'000	Six months ended 30 June 2012 €'000
Cash consideration – acquisitions in the period	**2,415**	3,554
Cash consideration – acquisitions in previous periods	**88**	510
	2,503	4,064
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses	**2,415**	3,554
Payment of contingent deferred consideration	**88**	510
	2,503	4,064

11. Financial assets and cash and cash equivalents

	30 June 2013	31 December 2012
	€'000	€'000
Non-current		
Financial assets – restricted cash	**993**	5,359
	993	5,359
Current		
Financial assets – restricted cash	**33,084**	32,961
Financial assets – deposits	**37,919**	42,014
Cash and cash equivalents	**142,466**	129,004
	213,469	203,979
Total	**214,462**	209,338

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

	30 June 2013	31 December 2012
	€'000	€'000
Cash	**45,615**	42,488
Short term bank deposits – with an original maturity of less than three months	**96,851**	86,516
Cash and cash equivalents in the statement of cash flows	**142,466**	129,004

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

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

	30 June 2013	31 December 2012
	€'000	€'000
Euro	**60,578**	82,643
GBP	**77,889**	54,461
AUD	**73,872**	69,453
USD	**1,556**	2,253
Other	**567**	528
	214,462	209,338

Included in non-current financial assets – restricted cash at 30 June 2013 are amounts totalling €993,000 (31 December 2012: €5,359,000) which are restricted at that date and beyond 30 June 2014 (31 December 2012: beyond 31 December 2013). This balance relates to bank deposits held by the Online Australia business segment to guarantee certain obligations relating to gambling licences and office accommodation held under operating leases (31 December 2012: €1,359,000). At 31 December 2012, there was a deposit of €4,000,000 relating to the Online (ex Australia) business segment which was restricted at that date as it formed part of a guarantee issued in favour of a gaming regulatory authority to guarantee the payment of player funds, prizes and taxes due by the Group. This guarantee was terminated in 2013.

Included in current financial assets – restricted cash at 30 June 2013 are bank deposits totalling €33,084,000 (31 December 2012: €32,961,000) which were either (1) restricted at that date, as they represented client funds balances securing player funds held by the Group or (2) required to be held to guarantee third party letter of credit facilities.

Included in current financial assets – deposits are bank deposits totalling €37,919,000 (31 December 2012: €42,014,000) which had an initial cost of €37,909,000 (31 December 2012: initial cost of €42,159,000). The maturity of these investments falls outside the three months' timeframe for classification as cash and cash equivalents under IAS 7 'Statement of Cash Flows', and, accordingly, the related balances have been separately reported in the consolidated statement of financial position.

12. Trade and other payables and derivative financial liabilities

Current liabilities

	30 June 2013	31 December 2012
	€'000	€'000
Trade and other payables		
Trade payables	**23,142**	19,789
Customer balances	**57,847**	56,765
PAYE and social security	**4,900**	4,921
Value added tax and goods & services tax	**2,926**	4,670
Betting duty, data rights and product & racefield fees	**9,941**	4,865
Employee benefits	**22,536**	30,146
Contingent deferred consideration – business combinations	**5,474**	2,581
Accruals and other liabilities	**54,967**	49,730
	181,733	173,467
Derivative financial liabilities		
Sports betting open positions	**12,989**	11,767

Non-current liabilities

	30 June 2013	31 December 2012
	€'000	€'000
Trade and other payables		
PAYE and social security	**350**	593
Employee benefits	**13,691**	13,083
Contingent deferred consideration – business combinations	**5,959**	9,216
Accruals and other liabilities	**1,166**	771
	21,166	23,663
Derivative financial liabilities		
Sports betting open positions	**110**	228

13. Financial instruments

Carrying amounts versus fair values

The fair values of financial assets and financial liabilities at 30 June 2013, together with the carrying amounts in the consolidated statement of financial position, are as follows:

	Carrying amount €'000	Fair value €'000
Non-current financial assets		
Financial assets – restricted cash	**993**	**993**
	993	**993**
Current financial assets		
Trade receivables	**6,036**	**6,036**
Other receivables	**3,772**	**3,772**
Derivative financial assets – forward contract cash flow hedges	**2,121**	**2,121**
Financial assets – restricted cash	**33,084**	**33,084**
Financial assets – deposits	**37,919**	**37,919**
Cash and cash equivalents	**142,466**	**142,466**
	225,398	**225,398**
Total financial assets	**226,391**	**226,391**
Current financial liabilities		
Trade and other payables	**(176,259)**	**(176,259)**
Non-derivative financial liabilities – contingent deferred consideration	**(5,474)**	**(5,474)**
Derivative financial liabilities – sports betting open positions	**(12,989)**	**(12,989)**
	(194,722)	**(194,722)**
Non-current financial liabilities		
Trade and other payables	**(15,207)**	**(15,207)**
Non-derivative financial liabilities – contingent deferred consideration	**(5,959)**	**(5,959)**
Derivative financial liabilities – sports betting open positions	**(110)**	**(110)**
	(21,276)	**(21,276)**
Total financial liabilities	**(215,998)**	**(215,998)**
Net financial assets	**10,393**	**10,393**

Financial risk management – credit risk of trade and other receivables
The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2012.

13. Financial instruments (continued)

Financial instruments carried at fair value

Fair value hierarchy
The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to the valuation method used. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the asset or liability.

	30 June 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
Derivative financial assets	**-**	**2,121**	**-**	**2,121**
	-	**2,121**	**-**	**2,121**
Derivative financial liabilities	**-**	**-**	**(13,099)**	**(13,099)**
Non-derivative financial liabilities	**-**	**-**	**(11,433)**	**(11,433)**
	-	**-**	**(24,532)**	**(24,532)**
Total	**-**	**2,121**	**(24,532)**	**(22,411)**

Basis for determining fair values
The following are the significant methods and assumptions used to estimate the fair values of the financial instruments above:

Trade and other receivables
The fair value of trade and other receivables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Financial assets and cash and cash equivalents
The fair values of restricted cash, deposits and cash and cash equivalents are based on the nominal value of the relevant cash and bank deposit balances, as all are held at variable interest rates.

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

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

The fair value of open sports bets at the period end (Level 3 above) has been calculated using the latest available prices on relevant sporting events. The fair value calculation also includes the impact of any hedging activities in relation to these open positions, which is not significant.

Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

The contingent deferred consideration payable balance represents management's best estimate of the fair value of the amounts that will be payable, discounted, as appropriate, using a market interest rate. The fair value is estimated by assigning probabilities, based on management's current expectations, to the potential payout scenarios.

13. Financial instruments (continued)

Sensitivity analysis in respect of Level 3 financial instruments carried at fair value
The following sensitivity analysis has been performed for the Level 3 financial liabilities carried at fair value at 30 June 2013:

Sports betting open positions
The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. Changes in those expectations and ultimately the actual results when the events occur will result in changes in fair value. While it is unlikely that the results of all sporting events would vary against expectation in a similar linear manner, a 10% positive and negative (from the viewpoint of the results of the Group) movement in the overall probability estimate of relevant sporting event outcomes would result in a €982,000 decrease and €893,000 increase, respectively, in the value of open sports bets at 30 June 2013.

Contingent deferred consideration
The fair value of contingent deferred consideration is primarily dependent on the future performance of both the acquired businesses and the Group against predetermined targets and on management's current expectations thereof. An increase and decrease of 10% in management's expectation as to the amounts that will be paid out would increase and decrease the value of contingent deferred consideration at 30 June 2013 by €2,728,000 and €2,763,000, respectively.

Movements in the period in respect of Level 3 financial instruments carried at fair value
The movements in respect of the financial assets and liabilities carried at fair value in the six months to 30 June 2013 are as follows:

	Sports betting open positions €'000	**Contingent deferred consideration €'000**	**Total €'000**
Balance at 1 January 2013	**(11,995)**	**(11,797)**	**(23,792)**
Arising on acquisition (Note 10)	**-**	**(438)**	**(438)**
Recognised in the income statement	**(372,660)**	**(28)**	**(372,688)**
Settlements	**371,556**	**88**	**371,644**
Foreign currency translation adjustment	**-**	**742**	**742**
Balance at 30 June 2013	**(13,099)**	**(11,433)**	**(24,532)**

14. Dividends paid on ordinary shares

	Six months ended 30 June 2013 €'000	Six months ended 30 June 2012 €'000
Ordinary shares:		
- final dividend of 81.0 cent per share for the year ended 31 December 2012 (31 December 2011: 70.0 cent)	**39,803**	34,355
	39,803	34,355

The directors have proposed an interim dividend of 45.0 cent per share which will be paid on 27 September 2013 to shareholders on the Company's register of members at the close of business on the record date of 6 September 2013. This dividend, which amounts to approximately €22,107,000, has not been included as a liability at 30 June 2013. The interim dividend for the period ended 30 June 2012 was 39.0 cent per share, amounting in total to €19,122,000.

15. Changes in equity

All ordinary shares issued during the six months ended 30 June 2013 and 30 June 2012 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.

A total of 1,734,000 shares were held in treasury as of 30 June 2013 (30 June 2012: 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 2013 (30 June 2012: €34,177,000). At 30 June 2013, the Company held a further 1,107,378 of its own shares (30 June 2012: 704,886 shares), in respect of potential future awards relating to the Group's Long Term Incentive Plan ('LTIP'). The Company's distributable reserves at 30 June 2013 and 30 June 2012 are further restricted by these respective amounts.

As detailed in the consolidated statement of changes in equity, the movement in the share-based payment reserve and in the shares held by the long term incentive plan trust is due to the equity-settled share-based payments charge, the vesting of LTIP awards and the purchase of shares by the long term incentive plan trust during the six month period ended 30 June 2013. A total of 348,064 shares in respect of the 2010 LTIP 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 2013 (six months ended 30 June 2012: 528,338 shares relating to the 2009 LTIP awards).

The movement in the foreign exchange translation reserve in the six months to 30 June 2013 reflects the weakening of the AUD and GBP against the Euro in the period.

The cash flow hedge reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred at that date. The Group has entered into foreign exchange forward contracts to hedge a portion of GBP exposures expected to arise from GBP denominated income in the second six months of 2013 and the first six months of 2014. The fair value gain of €1,856,000 at 30 June 2013 (30 June 2012: loss of €1,466,000), which is stated after applicable deferred taxation of €265,000 (30 June 2012: deferred tax asset of €209,000), arises as the applicable forward contract EUR-GBP rates were stronger than the relevant forward foreign exchange rate ruling at 30 June 2013 (30 June 2012: the applicable EUR-GBP rates were weaker than the relevant forward foreign exchange rate ruling at 30 June 2012).

Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund and a net wealth tax reserve.

16. Commitments and contingencies

(a) Guarantees
The Group has uncommitted working capital overdraft facilities of €15.1m (31 December 2012: €15.5m) with Allied Irish Banks plc. These facilities are secured by a Letter of Guarantee from Paddy Power plc.

The Group has bank guarantees (1) in favour of certain gaming regulatory authorities to guarantee the payment of player funds, player prizes, and certain taxes and fees due by a number of Group companies and (2) in respect of certain third party rental and other property commitments and letter of credit facilities. The maximum amount of the guarantees at 30 June 2013 was €2,174,000 (31 December 2012: €5,629,000). No claims had been made against the guarantees as of 30 June 2013 or 31 December 2012. The guarantees are secured by counter indemnities from Paddy Power plc and certain of its subsidiary companies, and, at 30 June 2013, were also secured by cash deposits totalling €1,719,000 (31 December 2012: €5,359,000) over which the guaranteeing banks hold security. The fair value accounting impact of these guarantees is deemed to be immaterial.

The Group has cash amounts totalling €32,358,000 (31 December 2012: €32,961,000) deposited in client fund accounts held for the benefit of certain gaming regulatory authorities, of which the Isle of Man Gambling Supervision Commission is the most significant, as security for player funds owed by certain Group companies and as required under the terms of relevant gambling licences.

16. Commitments and contingencies (continued)

The Australian corporate sports bookmaking licence issued to Sportsbet and IAS require those companies to hold sufficient cash funds to cover monies owed to customers. At 30 June 2013, the total value of relevant customer balances attributable to the Online Australia business segment was €29,453,000 (AUD41,738,000) (31 December 2012: €25,546,000 (AUD32,474,000)) and the combined cash and cash equivalent balances held by Sportsbet and IAS at that date totalled €69,852,000 (AUD98,987,000) (31 December 2012: €64,747,000 (AUD82,307,000)).

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

(b) Capital commitments

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

	30 June 2013	31 December 2012
	€'000	€'000
Property, plant and equipment	**3,439**	3,342
Intangible assets	**860**	2,625
	4,299	5,967

17. Related parties

There were no material transactions with related parties during the six months ended 30 June 2013 or 30 June 2012 or the year ended 31 December 2012.

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

18. Events after the reporting date

Dividend

In respect of the current period, the directors propose that an interim dividend of 45.0 cent per share (2012: 39.0 cent per share) be paid to shareholders on 27 September 2013. This dividend has not been included as a liability in these condensed consolidated interim financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 6 September 2013. The total estimated dividend to be paid amounts to €22,107,000 (2012: €19,122,000).

Independent Review Report to Paddy Power plc

Introduction
We have been engaged by Paddy Power plc ('the Company') to review the condensed consolidated interim financial statements in the half yearly financial report for the six months ended 30 June 2013, which comprise the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in equity and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

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

Directors' responsibilities
The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly report in accordance with the TD Regulations and the Transparency Rules of the Central Bank of Ireland and the Disclosure and Transparency Rules of the UK FCA.

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the half yearly financial report for the six months ended 30 June 2013 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Central Bank of Ireland and the Disclosure and Transparency Rules of the UK FCA.

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

27 August 2013