

## APPENDIX - Long Term Incentive Plan (LTIP)<sup>1</sup>

### Section 1

This Appendix relates to vested but unexercised Options under the LTIP (the *LTIP Options*) that you may hold under the following LTIP grants:

- LTIP 2011/12
- LTIP 2012/13

How does the Merger affect my vested LTIP Options?

Ordinarily, LTIP Options can be exercised at any time for up to 7 years after the vesting date. They lapse at the end of the exercise period.

However, as a result of the Merger, you have three choices in relation to your vested LTIP Options. You will need to complete the enclosed Election Form to make a choice.

- Choice 1 - Exercise a vested LTIP Option on the Court Sanction date and decide whether you wish to carry out a "hold all", "sell to cover" or "sell all" transaction in respect of the Betfair Shares you acquire;
- Choice 2 - Exercise a vested LTIP Option on or after the Merger becomes effective and before 30 days after the Court Sanction date (the *Lapse Date*) and decide whether you wish to carry out a "hold all", "sell to cover" or "sell all" transaction in respect of the Paddy Power Betfair Shares you acquire; or
- Choice 3 - Replace a vested LTIP Option with an equivalent vested option over a number of Paddy Power Betfair Shares calculated using the Merger Ratio of 0.4254 Paddy Power Betfair Shares for every one Betfair Share under your LTIP Option (*New Vested Option*). The New Vested Option will have the same original exercise period as your existing LTIP Option.

Choices 1 and 2 may create an immediate income tax liability depending on your personal circumstances.

Choice 3 would enable you to retain an unexercised vested option over Paddy Power Betfair Shares. You would not be a shareholder in Paddy Power Betfair so you would not be entitled to any rights as a shareholder such as dividends or voting rights, nor would you be entitled to any dividend equivalents.

If you do nothing, the exercise period will be curtailed and any unexercised vested LTIP Options will lapse on the Lapse Date.

The Court Sanction date will be shortly before completion of the Merger (the Effective Date). The exact timing of this is not yet fixed but it is currently expected to occur in the first half of 2016. We

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<sup>1</sup> *The 2009 long term incentive plan approved by resolution of the Betfair Board on 6 October 2010 and amended on 11 September 2012 and 6 March 2013.*

will notify you as soon as we have a clearer view of the date of expected completion and accordingly of the Lapse Date.

How do I know how many LTIP Options I have?

Your options are all visible in your online Computershare account and are also detailed on the enclosed Election Form. You can login at [www.computershare.com/Betfair](http://www.computershare.com/Betfair). You will need your Shareholder Reference Number (SRN, which is shown at the top of the cover letter), and PIN. If you have forgotten your PIN please click on the PIN reminder or call Computershare on +44 (0) 370 707 4010 or email them at [betfair@computershare.co.uk](mailto:betfair@computershare.co.uk).

When can I exercise my vested LTIP Options?

*Vested* LTIP Options remain exercisable at any time (subject to usual restrictions and permissions) until the Lapse Date (30 days after the Court Sanction date).

Any unexercised LTIP Options that are not replaced with New Vested Options will lapse on the Lapse Date (30 days after the Court Sanction date).

How do I exercise my vested LTIP Options?

You can log on to your Computershare account any time between now and shortly before the Court Sanction date to exercise LTIP Options that have already vested. We will let you know the exact deadline for online exercising of vested LTIP Options in due course.

Choice 1: If you wish to exercise your LTIP Options on the Court Sanction date you need to tick Box 1A, Box 1B or Box 1C on the enclosed Election Form and return it to Computershare offline.

Should you choose to exercise your LTIP Options on the Court Sanction date and choose to 'hold all' (Box 1C) then the Betfair Shares that you acquire will be transferred to Paddy Power Betfair under the Scheme and you will then receive the same consideration for your Betfair Shares as other Betfair Shareholders - which is 0.4254 Paddy Power Betfair Shares for each Betfair Share you hold. If you elect to 'hold all' you must ensure that you have transferred to Computershare an amount in cleared funds sufficient to meet any tax and social security withholding obligations that arise on exercise of your LTIP Options by no later than 5 working days before the Court Sanction date. If Computershare does not receive sufficient cleared funds by this deadline, you will be deemed to have elected a 'sell to cover' transaction. Computershare will contact you to confirm the deadline and the amount that you need to transfer and to provide details of how to make a transfer of funds to Computershare.

Should you choose to exercise your LTIP Options on the Court Sanction date and choose either a 'sell to cover' (Box 1B) or 'sell all' (Box 1A) transaction then the following will occur:

- 'sell to cover': the Company will use all reasonable efforts to arrange a sale of a sufficient number of your Betfair Shares to meet any tax and social security withholding obligations that arise on exercise. The remaining Betfair Shares will be subject to the terms of the Merger (as described above). There can be no guarantee that the sale will be possible, in which case it may be necessary for the resulting Paddy Power Betfair Shares which you will receive under the Merger to be sold as soon as reasonably practicable after completion of the Merger.

- 'sell all': the Company will use all reasonable efforts to arrange a sale of all the Betfair Shares you acquire prior to completion of the Merger but there can be no guarantee that this will be possible, in which case it may be necessary for the resulting Paddy Power Betfair Shares which you will receive under the Merger to be sold as soon as reasonably practicable after completion of the Merger.

Sufficient funds to meet any tax and social security withholding obligations that arise on exercise of your LTIP Options will be deducted from the sale proceeds due to you as a result of the sale of your Betfair Shares or, if necessary, your Paddy Power Betfair Shares.

Please refer to Section 2 below for some general information about the tax implications of exercising your LTIP Options at this time.

Choice 2: If you wish to exercise your LTIP Options on or after the Merger becomes effective and before the Lapse Date, you need to tick Box 2 on the Election Form and return it to Computershare offline. At the time you choose to exercise your LTIP Options, you will need to instruct Computershare offline directly by completing an Exercise Form, if relevant, following the insider process (see below).

The effect of exercising during this period is the same as described above save that, if you elect 'sell to cover' or 'sell all' then this instruction will be carried out in relation to the Paddy Power Betfair Shares which you will receive automatically in exchange for your Betfair Shares.

Please refer to Section 2 below for some general information about the tax implications of exercising your LTIP Options at this time.

How do I elect to receive a New Vested Option?

Choice 3: In order to replace a vested LTIP Option with a New Vested Option you need to tick Box 3 on the Election Form and return it to Computershare.

What are the terms of the New Vested Options?

If you elect Choice 3, your LTIP Options will be replaced by New Vested Options which will have the same lapse dates as the original LTIP Options. The Merger Ratio of 0.4254 Paddy Power Betfair Shares for every one Betfair Share will be used to calculate the number of Paddy Power Betfair Shares under the New Vested Options, rounded up to the nearest whole share.

What happens if I take no action?

If you do not take any action, your LTIP Options will lapse on the Lapse Date.

Election Form

The Election Form which is enclosed in this pack must be completed in order for you to be granted New Vested Options or for Computershare to complete an exercise transaction at the time that you specify.

Exercise Form

If you choose to exercise your vested LTIP Options on or after the Effective Date and before the Lapse Date, then you will also need to complete and submit the Exercise Form to Computershare prior to the date on which you wish to exercise. The Exercise Form can be downloaded from your Computershare account or Betfair Today. If you complete the Election Form to indicate that you intend to exercise your LTIP Options on or after the Effective Date and before the Lapse Date and Computershare does not receive your Exercise Form, you will be deemed to have elected to exercise your LTIP Options on the last possible exercise date before the Lapse Date and to have elected a 'sell to cover' transaction.

#### Insiders

If you are an Insider please refer to the separate Insiders Appendix in this pack for important information that may impact your choices.

#### Settlement

If you elect Choice 1 or Choice 2 in respect of your vested LTIP Options, should you have chosen to retain some or all of your shares (i.e. carried out a 'sell to cover' or 'hold all' transaction in relation to vested LTIP Options) then the resulting Paddy Power Betfair Shares will be automatically transferred to your Computershare nominee account.

If you elect Choice 3 in respect of your vested LTIP Options, option certificates for your New Vested Options will be provided to you as soon as possible after completion of the Merger.

#### Leaving Betfair employment

Please note that the choices described above do not apply to any LTIP Options that have already lapsed or would otherwise lapse (for example on leaving employment) before you have exercised your LTIP Option.

#### What if the Merger does not complete?

If the Merger does not happen, for whatever reason, your LTIP Options will continue just as they are currently and you will be able to exercise them subject to the rules of the LTIP.

## Section 2

### LTIP Options - UK tax summary

This Appendix contains a summary of the main UK tax implications of making the choices described in this Appendix for employees of Betfair. The summary is based on existing law and what Betfair and Paddy Power understand to be current HMRC practice as at 31 October 2015. The summary is intended as a general guide only and applies only to participants resident for tax purposes in the UK throughout the time between the date that the LTIP Options were granted to them and the time that they are exercised. It does not constitute tax advice to any individual participant. If you are in any doubt about your taxation position, or you are a resident or otherwise subject to taxation in a jurisdiction outside the UK and in particular if your tax residency has changed during the period between grant and exercise, you should consult your own tax adviser immediately.

#### Income tax and National Insurance contributions

Choices 1 and 2:

If you exercise an LTIP Option, income tax and employees' National Insurance Contributions (*NICs*) will be payable on the market value of the Betfair Shares at the time of exercise (the *Option Gain*). The date of exercise will be the Court Sanction date if you elect Choice 1.

If you exercise your LTIP Option on or after the Effective Date (Choice 2), we expect the market value of a Betfair Share for this purpose to be equal to the value of the consideration paid by Paddy Power under the terms of the Merger being, for each Betfair Share, 0.4254 Paddy Power Shares at the time the LTIP Options are exercised.

Choice 3:

There is no income tax or *NICs* to pay on the replacement of the vested LTIP Options with New Vested Options. Income tax and *NICs* may be payable on the exercise of the New Vested Options at a later date.

#### Capital gains tax (CGT)

CGT is chargeable on your aggregate capital gains (less allowable losses) in a tax year to the extent they exceed your CGT annual exemption in the relevant tax year. For the tax year ending 5 April 2016, the annual exemption is £11,100.

The CGT rules are complicated. However, in summary, on the disposal of shares any gain will normally be calculated as the difference (if any) between the disposal proceeds and the "base cost" of the shares being disposed of.

The "base cost" of a Betfair Share acquired on the exercise of an LTIP Option will normally be equal to the amount on which tax is payable. The base cost of a Betfair Share acquired on the exercise of an LTIP Option should therefore be equal to its market value on the date of exercise. The market value of a Betfair Share acquired from the exercise of an LTIP Option on or at any time before the Court Sanction will be derived from the quoted price for a Betfair Share. The market value of a Betfair Share acquired from the exercise of an LTIP Option on or after the Effective Date until the Lapse Date, is expected to be derived from 0.4254 of the quoted price for a Paddy Power Betfair Share.

However, for CGT purposes there are share identification rules (described briefly below) that determine which shares you are deemed to have disposed of.

Choice 1: If you exercise your LTIP Options on the Court Sanction date and you elect a 'sell all' or 'sell to cover' transaction, the sale of your Betfair Shares either in whole (if you elect to 'sell all') or to meet income tax and NICs liabilities (if you elect to 'sell to cover') will be a disposal for CGT purposes. No chargeable gain is expected to arise if the Betfair Shares are sold on the same day as the LTIP Option is exercised. However, whilst the Company will use all reasonable efforts to arrange a sale on this basis there can be no guarantee that this will be possible and it is possible that a chargeable gain (or loss) may arise due to a change in the share price from the date of exercise to the date of the eventual sale.

If you elect to 'hold all' or 'sell to cover', receipt of the Paddy Power Betfair Shares under the Scheme in exchange for the Betfair Shares you have not sold should not be treated for CGT purposes as a disposal of the Betfair Shares you acquire on the exercise of your LTIP Options. CGT may be payable on any later sale of the Paddy Power Betfair Shares you receive.

The exchange of the Betfair Shares which you acquire from the exercise of LTIP Options or other options or awards over Betfair Shares under the Betfair Employee Share Plans before the Scheme Record Time for Paddy Power Betfair Shares under the Scheme should be treated as a reorganisation for the purposes of CGT. This means you should not be treated as having made a disposal of your Betfair Shares for CGT purposes as a result of the exchange, and the Paddy Power Betfair Shares issued to you should be treated as the same asset as the relevant Betfair Shares. The Paddy Power Betfair Shares should therefore have the same base cost for CGT purposes as the Betfair Shares they replace. The above treatment will apply only if the exchange is effected for bona fide commercial reasons and does not form part of arrangements of which the main purpose, or one of the main purposes, is an avoidance of a liability to capital gains tax or corporation tax. You are advised in this regard that HMRC has granted clearance under section 138 of the Taxation of Chargeable Gains Act 1992.

Choice 2:

If you exercise your LTIP Options on or after the Effective Date you will automatically receive Paddy Power Betfair Shares in exchange for the Betfair Shares you acquire on the exercise of your LTIP Options. Receipt of the Paddy Power Betfair Shares in exchange for the Betfair Shares should not be treated for CGT purposes as a disposal of those Betfair Shares.

The exchange of the Betfair Shares which you acquire from the exercise of LTIP Options for Paddy Power Betfair Shares should be treated as a reorganisation for the purposes of CGT. This means you should not be treated as having made a disposal of your Betfair Shares for CGT purposes as a result of the exchange, and the Paddy Power Betfair Shares issued to you should be treated as the same asset as the relevant Betfair Shares. The Paddy Power Betfair Shares should therefore have the same base cost for CGT purposes as the Betfair Shares they replace. The above treatment will apply only if the exchange is effected for bona fide commercial reasons and does not form part of arrangements of which the main purpose, or one of the main purposes, is an avoidance of a liability to capital gains tax or corporation tax. You are advised in this regard that HMRC has granted clearance under section 138 of the Taxation of Chargeable Gains Act 1992.

If you elect a 'sell all' or 'sell to cover' transaction, the sale of your Paddy Power Betfair Shares either in whole (if you elect to 'sell all') or to meet income tax and NICs liabilities (if you elect to 'sell to cover') will be a disposal for CGT purposes. No chargeable gain is expected to arise if the Paddy Power Betfair Shares are sold on the same day as the LTIP Option is exercised.

If you elect a 'hold all' or 'sell to cover' transaction, CGT may be payable on any later sale of the Paddy Power Betfair Shares which you retain.

Choice 3:

No CGT is payable on the replacement of the vested LTIP Options with New Vested Options.

CGT identification rules

CGT identification rules can, in certain circumstances, affect the calculation of any CGT liability. This is a complex area and you are strongly advised to get specialist independent financial advice. For further information, visit:

<http://www.hmrc.gov.uk/manuals/cgmanual/CG51560.htm>.

Accounting for income tax and CGT

In accordance with the LTIP rules, unless you elect a 'hold all' transaction and transfer sufficient funds to Computershare to meet the liability in respect of income tax and NICs prior to exercise, Betfair will sell or procure the sale of sufficient Betfair Shares and/or the resulting Paddy Power Betfair Shares on your behalf in order to pay the amount of income tax and National Insurance contributions due on the exercise of your LTIP Option. This will be accounted for via PAYE.

Any CGT on the sale of Betfair Shares or the sale of any Paddy Power Betfair Shares is payable by you to HMRC under self-assessment. You are recommended to put aside money to pay any tax due when the time comes.

Under self-assessment rules you are required to provide HMRC with all information needed to calculate your taxable income and any chargeable gains. Even if you do not automatically receive a tax return, you must request one from HMRC.

If these liabilities arise on or before 5 April 2016, the tax would be due to be paid to HMRC by 31 January 2017 at the latest. If they arise on or after 6 April 2016, the tax would be due to be paid to HMRC by 31 January 2018 at the latest. You may be required to make tax payments earlier than these dates if you are liable to make payments on account. If you send in a paper tax return, it must be returned by no later than 31 October after the end of the tax year in which the Option exercise or disposal of shares occurs. If you file your tax return online, you must do so by no later than the following 31 January. For further information, visit [www.hmrc.gov.uk/sa](http://www.hmrc.gov.uk/sa).