Paddy Power plc

Entertainment Mode

110%

Going Mobile

Giant Erection

Volcano Betting

Sin Bin

Social Paddy

Psychic Power

Bricks & Clicks

Paddy TV

Election Betting

Pope My Ride

Annual Report 2010

PPad

Manual Report

User Guide

Contents

WARNING:

iPhones™, iPads™ and Androids™ became the must have devices of 2010 and, riding the wave of mobile opportunity, the Paddy Power App unleashed the full potential of mobile betting. Having 'Paddy in your Pocket' was more popular than Justin Bieber at a teenage girls disco resulting in a 310% increase in our mobile sports betting turnover in 2010. But it wasn't all about technology, 2010 was also the year of a World Cup, a Papal visit, a psychic octopus, one very temperamental volcano, a sponsored confession box and a general election and, as you would expect from Paddy Power, we were there every step of the way trying to add some 'aPPyness'!

At a Glance
Financial Highlights

1

Total amounts staked *

€3,834m +39%
2009: €2,752m

Total income *

€444m +50%
2009: €296m

Adjusted diluted earnings per share **

€1.689 +40%
2009: €1.207

Dividends per share

75.00c +28%
2009: 58.40c

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

** *Adjusted earnings per share in respect of 2010 is calculated excluding a gain on revaluation of the Sportsbet buyout call options of €7,116,000 and the recognition of a deferred tax asset in respect of prior period GB retail tax losses of €1,770,000.*

Company Secretary and Registered Office
David Johnston - Airton House, Airton Road, Tallaght, Dublin 24.

Stockbrokers
Goodbody Stockbrokers - Ballsbridge Park, Ballsbridge, Dublin 4.
Investec - 2 Gresham Street, London, EC2V 7QP.

Legal advisers
Arthur Cox - Earlsfort Centre, Earlsfort Terrace, Dublin 2.

Auditor
KPMG - 1 Stokes Place, St Stephen's Green, Dublin 2.

Principal bankers
Allied Irish Banks plc - 100-101 Grafton Street, Dublin 2.
Lloyds TSB plc - Bailey Drive, Gillingham Business Park, Kent, ME8 0LS.
Barclays Bank - Barclays House, Victoria Street, Douglas, Isle of Man, IM99 1AJ.

Registrars
Computershare Investor Services (Ireland) Limited.
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

Registered number
16956.

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

Getting Started

Chairman's Statement

2

Dear Shareholder,

I am delighted to report on a highly successful year for Paddy Power. Despite the difficult economic conditions, the Group delivered record turnover of €3.8 billion and operating profit of €104m. Earnings per share grew by 40% and the Board is recommending a full year dividend of 75c, an increase of 28% versus 2009. The fundamental pillars of this strong performance are product innovation, value for customers and brand differentiation. The fruits of investment in the business, combined with an unusually high proportion of bookmaker friendly results in the second half of the year, ensured that 2010 was a milestone year for the Group.

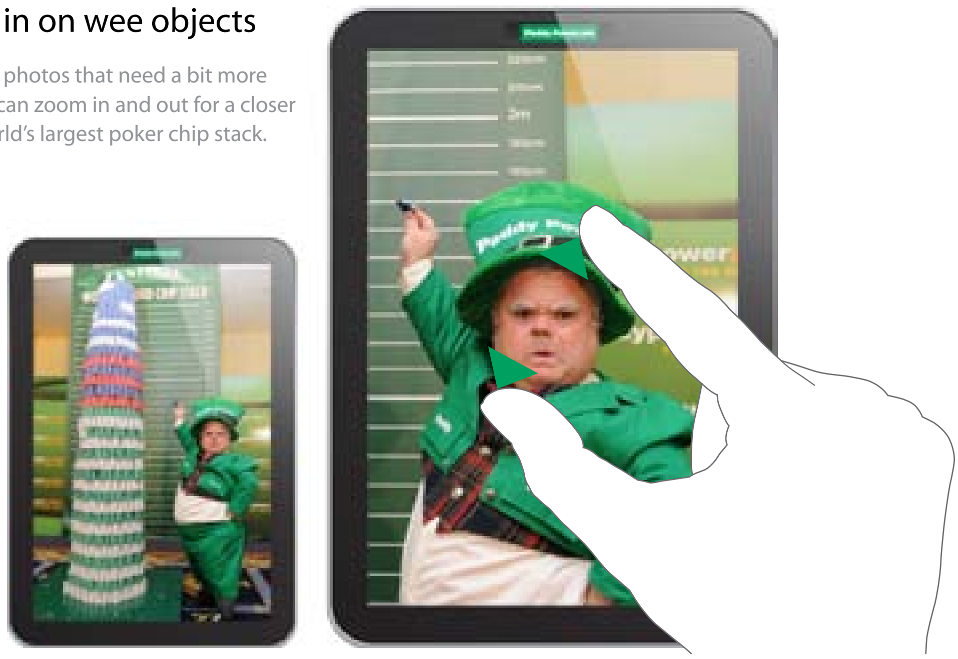
€m	2010	2009	% Change	% Change in Constant Currency ('CC')
Amounts staked	3,834	2,752	+39%	+34%
Sportsbook gross win %	*9.3%*	*8.5%*		
Gross win	**443.5**	**295.9**	**+50%**	**+45%**
Gross profit	383.3	258.0	+49%	+44%
Operating costs	(279.5)	(191.3)	+46%	+42%
Operating profit	**103.8**	**66.7**	**+56%**	**+48%**
Profit before tax*	**104.2**	**67.2**	**+55%**	**+48%**
EPS, adjusted diluted*	168.9 cent	120.7 cent	+40%	
Dividends	75.0 cent	58.4 cent	+28%	
Net cash, at year end	**€159m**	**€75m**		

**2010 excludes gains re the Sportsbet buyout call options revaluation and UK deferred tax asset recognition (where applicable)*

As well as driving earnings growth, business developments in recent years have fundamentally changed the profile of Paddy Power's activities, and positioned it positively for future growth.

Zooming in on wee objects

When viewing photos that need a bit more attention you can zoom in and out for a closer look at the world's largest poker chip stack.



PPad Apps

The following apps are included with PPad:

Going Mobile

Going Mobile
Now you can have Paddy in your pocket all the time! The new Paddy Power App for iPhone, iPad and Android stole the show in 2010, rocketing mobile betting into the stratosphere and resulting in a mobile sports bet being struck every three seconds!


Giant Erection

Giant Erection
Spanning 270ft in length and 50ft high, the Hollywood style Paddy Power sign overlooking the 2010 Cheltenham Festival turned a few heads, raised even more eyebrows and entered the record books as the longest free-standing billboard in the world.


Volcano Betting

Volcano Betting
What better way to follow a giant erection than a massive eruption! Coming to the rescue of would-be holiday makers, volcanobetting.com allowed people to 'insure' the cost of their holiday by placing a bet on their departure airport closing for at least one hour.


Sin Bin

Sin Bin
Forgive me Father for I have sinned. Where better to clear your conscience than a trip down to the Paddy Power Sin Bin, the world's first sponsored confession box. Drop in to see Father Michael at St. Etheldreda's Church, Newmarket, and tell him Paddy sent you!


Social Paddy

Social Paddy
In 2010, our Twitter, Facebook and YouTube channels attracted more followers, fans and viewers than ever before. On Facebook we now have more "fans" than the next ten competing bookmakers combined and we're only getting started!


Psychic Power

Psychic Power
With the phenomenal success of Paul the Psychic Octopus during the 2010 World Cup, we joined forces with the National Sea Life Centre to test the psychic skills of Paul's Irish cousin, Paddy. However the Celtic cephalopod had his own plans.


Bricks & Clicks

Bricks & Clicks
2010 was not just about online. Paddy Power is about Bricks and Clicks! In 2010, we continued to expand our retail presence both at home and abroad. We opened the doors to 31 new betting shops in the UK and nine in Ireland.


Paddy TV

Paddy TV
Blind footballers, outrageous office e-mails and a difficult moment in the lads' changing room. It can mean only one thing, Paddy Power are on TV. England's Blind Football team stole the show with a display of skill that wouldn't seem out of place on MOTD (just ask Tiddles!).


Election Betting

Election Betting
The UK general election attracted huge betting interest as punters sniffed change was in the air. Our political betting website, electionbetting.com, went into overdrive with scores of political betting markets on offer.


Pope My Ride

Pope My Ride
To coincide with the visit of His Holiness to the UK, we put our very own Pope and Pope-mobile on the streets of Glasgow, Edinburgh and London allowing thousands more fans to get a glimpse of El Papa.


PP
Going Mobile
Paddy Power plc
pour homme, pour femme,
pour iPhone™, iPad™ & Android™!

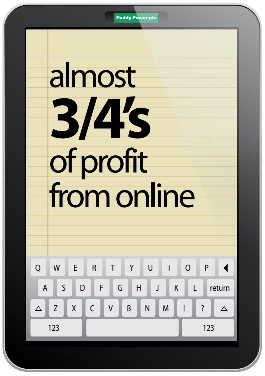
Going Mobile

May 2010 saw the launch of our iPhone App. We were the only bookmaker - around the world - in the Apple App Store at one stage. In September, the Paddy Power App was the number one most downloaded App in the Irish store. Mobile betting means our customers are only ever one touch away from Paddy Power, whether out and about, at the races or home watching the match.

Hot on the heels of our iPhone offering we also introduced Apps for the iPad and the Android, which is apparently a kind of phone rather than an actual robot. In total, our mobile sports betting turnover increased by over 300% in 2010 and accounted for 19% of total sportsbook stakes by the first two months of 2011.

Paddy Power: An International Company

Almost two thirds of Paddy Power's profits were generated outside of Ireland in 2010. We are the third largest online bookmaker and sixth largest online gaming business in Britain and Ireland and, at the current trajectory, we will have more shops in the UK than Ireland by 2013. The acquisition and growth of Sportsbet and IAS made us the number 1 online corporate bookmaker in Australia. Last week's successful completion of the early buyout of the minority shareholdings in Australia puts further capital at work in this fast growing market. Meanwhile our new B2B activities have seen us expand into France, in partnership with PMU.



Paddy Power: An Online Company

A full year's contribution from our Australian acquisitions is reflected in the results bringing greater visibility to the scale of the Group's online business. Online gross win last year was €250m, an 88% increase over 2009. This level of online revenue, together with the Group's total profit after tax of €97m, gives us a position of scale amongst the top-tier of online betting and gaming operators to fund further online investment. Our position is bolstered by strong momentum and less regulatory complexities than faced by many of our peers.

Evidence of the significant online investment, and the related returns, are clearly visible. Last year, we were at one stage the only bookmaker globally to have an iPhone app in Apple's App Store. We were also at one point the only bookmaker with an iPhone and iPad app in the App Store and an app in the Android Marketplace. We also launched over 100 new online games including a selection for mobile.

Paddy Power has more followers on YouTube, Facebook and Twitter combined than the next five competing bookmakers put together – an illustration of how well the Paddy Power brand works online.

All told, almost three quarters of Paddy Power's profits were generated online last year.

Taxation

In January 2011, the Irish Government passed legislation extending the 1% tax on Irish retail stakes to online and telephone bookmakers in respect of bets taken in Ireland, effective from a date to be set by the Minister for Finance. We urge the new Government to ensure it can stringently enforce the tax on all operators supplying the Irish market, irrespective of where they are located, before the legislation is implemented. Any failure to enforce in full will lead to companies which employ staff and pay taxes in Ireland being put at a disadvantage in what is a highly competitive market. It is more essential than ever before that Ireland remains an attractive and competitive location to support the expansion of business and the creation of new jobs.

Paddy Power has a demonstrable track record of providing high quality jobs and a major tax contribution to Ireland. The Group paid €42m to the Irish Exchequer last year and the extension of Irish betting tax and employer payroll taxes this year will add some €5m and €2m respectively per annum to this. Last year, Paddy Power created 121 jobs in Ireland, as well as announcing plans to increase its Irish employees by 500 to 2,210 by 2013 driven by its international expansion. A further 900 new jobs are expected to be created outside of Ireland by 2013.

The Board

William Reeve joined the board as a non-executive director last May. William is an online entrepreneur and has founded, led and guided many successful online businesses. William's understanding of the online market place and his track record of delivering consumer concepts via the internet has already been of substantial assistance to Paddy Power as it continues to grow its online businesses.

IMPORTANT:
Sportsbook amounts staked are up 16% and total gross win is up 38% in the first two months of 2011.

Financial Position and Dividends

Profit growth at Paddy Power converts strongly into increased cash flow. Last year, operating cashflow (after maintenance capex and LTIP trust share purchases) was €142m, or 111% of headline EBITDA.

Strong cash generation has been used to fund investment and increase cash returns for shareholders, whilst still leaving the Group with a strong balance sheet and flexibility for expansion. Net cash at 28 February 2011, less cash expenditure of AUD123m (€91m) related to the Sportsbet acquisition, remained strong at €87m or €47m excluding customer balances.

The Board is proposing to increase the final dividend by 29% to 50.0 cent per share. This would bring the total dividend in respect of 2010 to €36.4m or 75.0 cent per share, an increase of 28% on 2009.

Outlook

The year has started well. Turnover growth and sporting results have been strong, notwithstanding Australia being affected by severe adverse weather. Sportsbook amounts staked are up 16% and total gross win is up 38% in the first two months (in constant currency versus the same period last year). This reflects the strong momentum in the Group, as well as a weak 2010 comparable. The Group looks forward to 2011 and beyond with confidence.

Nigel Northridge
Chairman

4 March 2011

Getting the Basics Right

Chief Executive's Review

3

Substantial progress was made in the successful implementation of our strategy in 2010. In recent years, this strategy has been built upon investment in value, product and brand to enable us to:
- grow share in all our existing markets;
- pursue multi-channel growth in the UK;
- enter other attractive regulated markets.

This strategy has resulted in strong growth in scale and profitability, whilst avoiding the legal risk, curtailment of other opportunities and lack of sustainability which may come from large investments in unregulated markets.

Grow Share in All Our Existing Markets

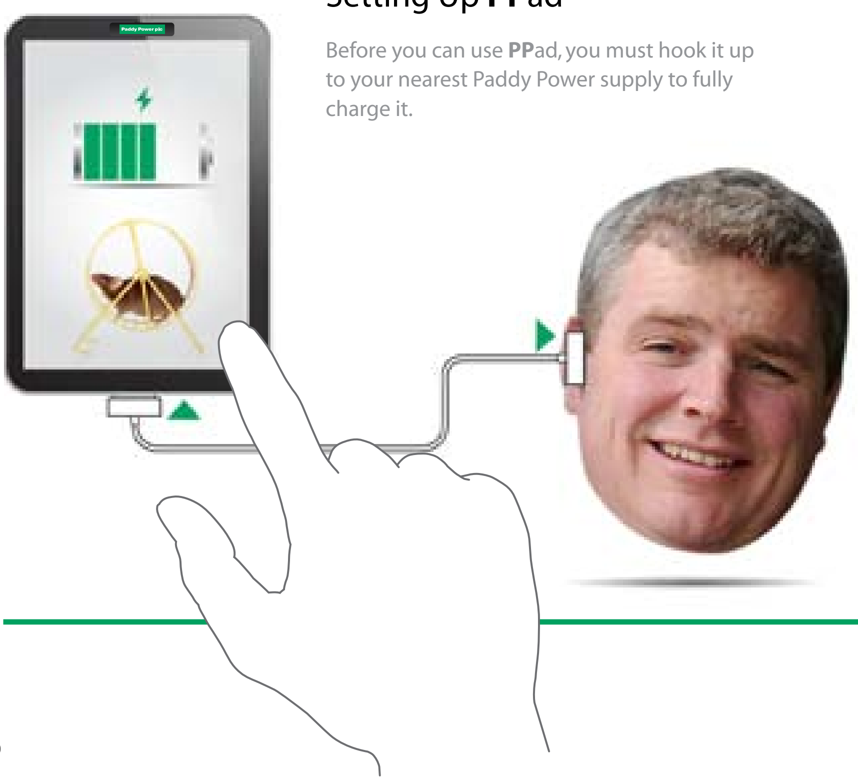
Paddy Power's approach to driving growth has been consistent since its inception – differentiation based on more product, more value and more entertainment than any competitor. The mix and detail of this approach constantly evolves.

Since the onset of more difficult economic conditions, we have significantly stepped up the value of our offer to win market share from competitors less prepared to invest for the long term. There was no easing up last year with our biggest ever Money-Back Special payout. In addition, our Australian punters were introduced to early pay-outs and we had some high profile justice payouts on unlucky golfers. Genuine Paddy Power value means much more than competitive pricing – it's a unique approach to being generous in entertaining ways that resonate with customers and differentiate us from the rest of the pack.

Technology development has facilitated opportunities for product innovation and enhanced marketing. In 2010, smart phone technology has changed how the internet is consumed, while social media has opened up new ways to reach and interact with customers. Paddy Power has taken full advantage of these opportunities. For example, a mobile phone sports bet is struck on average every three seconds on paddypower.com, while our expertise in app development has enabled the rapid creation of an Election Betting app, supported by a dedicated @pppolitics Twitter feed. We also continue to invest significantly in technology to ensure that we retain the capability to exploit the opportunities afforded by new media and technologies.

Setting Up **PP**ad

Before you can use **PP**ad, you must hook it up to your nearest Paddy Power supply to fully charge it.



IMPORTANT:
Our UK online growth actually accelerated last year – having increased active customers by an average of 28% over the previous three years, we grew by a further 56% in 2010, from a substantially higher base.

Whilst expanding internationally, we continue to strengthen our business in Ireland. We are already the largest online operator in Ireland, and our position improves as we gain scale internationally and develop further capabilities which can further enhance our domestic position. In Irish Retail, we have grown our market share from some 25% to 26% prior to the downturn to over 30% now, as more price and brand conscious consumers respond to our offer, coupled with the closure of shops by our competitors. Our Irish shops are well positioned for the current challenging market conditions with turnover per shop more than twice the average of our competitors and direct costs per shop 14% lower than two years ago. We estimate that our competitors have closed 200 shops since August 2008, while we have closed none and opened 20 over the same period. We expect this trend to continue.

Pursue Multi-channel Growth in the UK

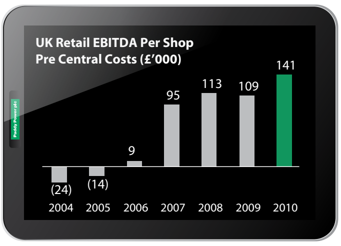
Notwithstanding the expansion of our international activities, the UK remains very attractive to Paddy Power as a substantial regulated market, with an established betting culture that is highly receptive to our products and brand.

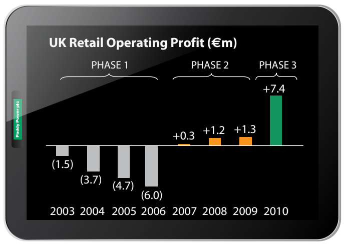
The online market has obvious attractions given its strong structural growth drivers (mobile internet usage, live online streaming of sports and casino, new online advertising opportunities) and our track record of both growing with the market and taking market share. Our growth actually accelerated last year – having increased active customers by an average of 28% over the previous three years, we grew by a further 56% in 2010, from a substantially higher base.

In the retail market, we are also generating strong returns with the strength of our offer enabling us to win market share from the best performing shops of our competitors. Last year, our EBITDA per shop was £141,000 as compared to a capital cost of £235,000 for new openings, excluding acquired units. The expected benefits from new and maturing shops, lower per shop depreciation and increased scale to cover central overheads and facilitate further cost reductions, are all feeding strongly into operating profit – the €7.4m achieved in 2010 representing a €13.4m turnaround versus 2006.

Despite the challenges of migration online, our telephone business has also grown its UK operations substantially, with UK customers increasing by 20% and UK gross win by 32% last year.

This multi-channel approach gives us greater scale for investment in brand, product and other spending that benefits all channels. Activities in each channel also directly compliment each other: for example, a retail presence increases trust online, cash deposit/withdrawals at shops enhance online payment options and online technical capabilities add to the retail product offering.





Giant Erection
PADDY POWER
107,000
107,000
107,000
"It was a truly spectacular sight. I've never seen anything so big"
PADDY POWER
Paddy Power plc

Giant Erection

Cheltenham is widely considered the Oscars of the jump racing world and, to celebrate the 2010 Festival, we installed our very own Hollywood-esque sign on Cleeve Hill overlooking the iconic race course.

In what was the longest free-standing billboard in the world, the monster Paddy Power sign spanned a massive 270ft in length dwarfing the iconic Hollywood landmark which measures a puny 200ft. As well as being the world's longest sign, the giant Paddy Power stands at a mighty 50ft in height - making it taller than three double-decker London buses stacked on top of each other.

The reaction by race goers was overwhelmingly positive and our YouTube video chronicling the gigantic erection achieved an equally impressive 107,000 views.

Getting the Basics Right

Chief Executive's Review *(continued)*

3

There is still significant potential for Paddy Power in the UK. Despite our progress online, we still only have a low double-digit percentage share of the online sports betting market and we will continue to make significant inroads into the gaming market. In retail, we are on track to reach our target of at least 150 shops by 2011 but that is still less than 2% of the market. Momentum is good with the 31 shops opened last year representing our largest ever number in a single year. These openings also included seven shops acquired over three transactions, with the strong uplift in performance of these units since our acquisition demonstrating a further option we have to grow our estate selectively.

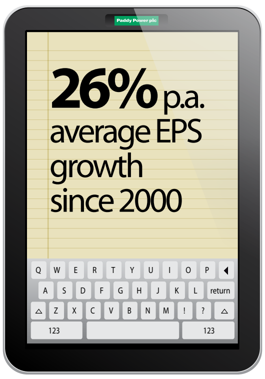
Enter Other Attractive Regulated Markets

Strong growth opportunities in our existing markets allow Paddy Power to be selective about expansion further afield. Nonetheless we are committed to entering new markets where attractive opportunities exist, as we have done in Australia and France.

Our Australia expansion has been very successful to date and, notwithstanding the market, as expected, becoming more competitive, we remain excited by its prospects. The division generated EBITDA (pre Group central cost allocations) of AUD40m in 2010, up 72% versus the twelve months prior to our initial acquisition. The Sportsbet brand holds a clear leadership position versus other online corporate bookmakers; however when the online share of the TABs (the licensed retail monopolies) are added, our share is lowered, leaving substantial scope for growth.

In addition, we expect the Australian online market to continue to grow strongly, driven by the same macro drivers we have seen elsewhere, plus the attraction of the better value and choice available online compared to the offerings of the retail monopolies. We are looking forward to the completion this year of the migration of Sportsbet and IAS to the same technology operating platform as Paddy Power. This will substantially enhance the product offering of both our Australian brands, as well as leaving them ideally prepared should online betting-in-running or gaming be allowed at some point by the Australian government. Against this backdrop, we were pleased to increase our ownership of Sportsbet to 100% last week giving us the benefits of full control, combined with our Australian partners' continued involvement.

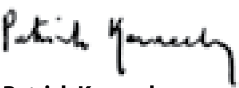
While our preference is to enter new markets on a B2C basis, sometimes the risk-reward profile of a B2B approach may be more attractive. That was our conclusion in relation to the French online market and we were delighted to begin supplying sports book risk management and pricing expertise to PMU on schedule in June. Successful live operation enhances our credentials established by winning such a prestigious first client and we continue to seek further B2B relationships.



Australia and France represent two excellent proven examples of how Paddy Power can leverage and migrate its core competencies to work effectively elsewhere as other international markets regulate.

Conclusion

Paddy Power has a track record of delivering growth. In the ten years since flotation in 2000, we have increased turnover from €363m to over €3.8 billion, an average annual growth rate of 27%, and earnings per share at an average annual growth rate of 26%. We continue to invest, particularly in our online and technology capabilities, to maintain that virtuous circle of revenue growth, generating more cash for investment, to drive further revenue growth. As a result of the substantial opportunities in our markets, and our positioning to avail of them, we look forward to 2011 and beyond with confidence.



Patrick Kennedy
Chief Executive

4 March 2011

20.10 Operating System

Operating & Financial Review

4

Paddy Power is an international betting and gaming group. Operations are divided across Online, Retail and Telephone channels. Betting and gaming services are provided predominantly to consumers, mainly in the UK, Ireland and Australia, but also to business-to-business clients globally.

The profile of the Group's activities has changed significantly over recent years with the online channel accounting for 72% and non-Irish customers accounting for 64% of operating profit in 2010.

Operating Profit by Division (€m)	**2010**	**% of Group**	**2009**	**% of Group**
Online (ex Australia)	57.5	55%	45.7	69%
Online Australia	19.5	19%	4.6	7%
Irish Retail	17.6	17%	16.3	24%
UK Retail	7.4	7%	1.3	2%
Telephone (ex Australia)	1.8	2%	(1.2)	(2%)
Group	**103.8**	**100%**	**66.7**	**100%**

(Online Australia also includes legacy telephone operations accounting for less than 10% of gross and operating profit in 2010)

Operating Profit by Geography (€m)	**2010**	**% of Group**	**2009**	**% of Group**
UK	45.7	44%	29.4	44%
Australia	19.5	19%	4.6	7%
Ireland and Rest of World	38.6	37%	32.7	49%
Group	**103.8**	**100%**	**66.7**	**100%**

(Online and Telephone operating profit allocated by geography based on average divisional profit margins applied to gross win)

Sporting Results and Trading

Sporting results in the first half of the year threw up a rare, unusual and bizarre overall gross win percentage – in line with our expectations. The fact that the swings and roundabouts balanced out highlights the potential benefits of an ever increasing diversity of events and markets.

The second half of the year got off to a great start with the concluding stages of the World Cup pushing up our total stakes on the tournament to €86m and gross win to €18m. Thankfully, the combination of the Germans and optically challenged referee's assistants did take out some of the teams carrying our biggest liabilities. Nonetheless, we did get stung by Paul Oktopus correctly predicting the winner in all of Germany's World Cup matches from his office in the Sea Life Aquarium, landing punters a few squid. Always keen to embrace new innovations we lost no time in appointing his first cousin, Paddy the Psychic Octopus, to the senior management team to predict the outcome of major sporting events. With a gross win percentage 1% above our normal expectations in the second half of the year, we're thinking of donating Paddy to the Irish government in the national interest.

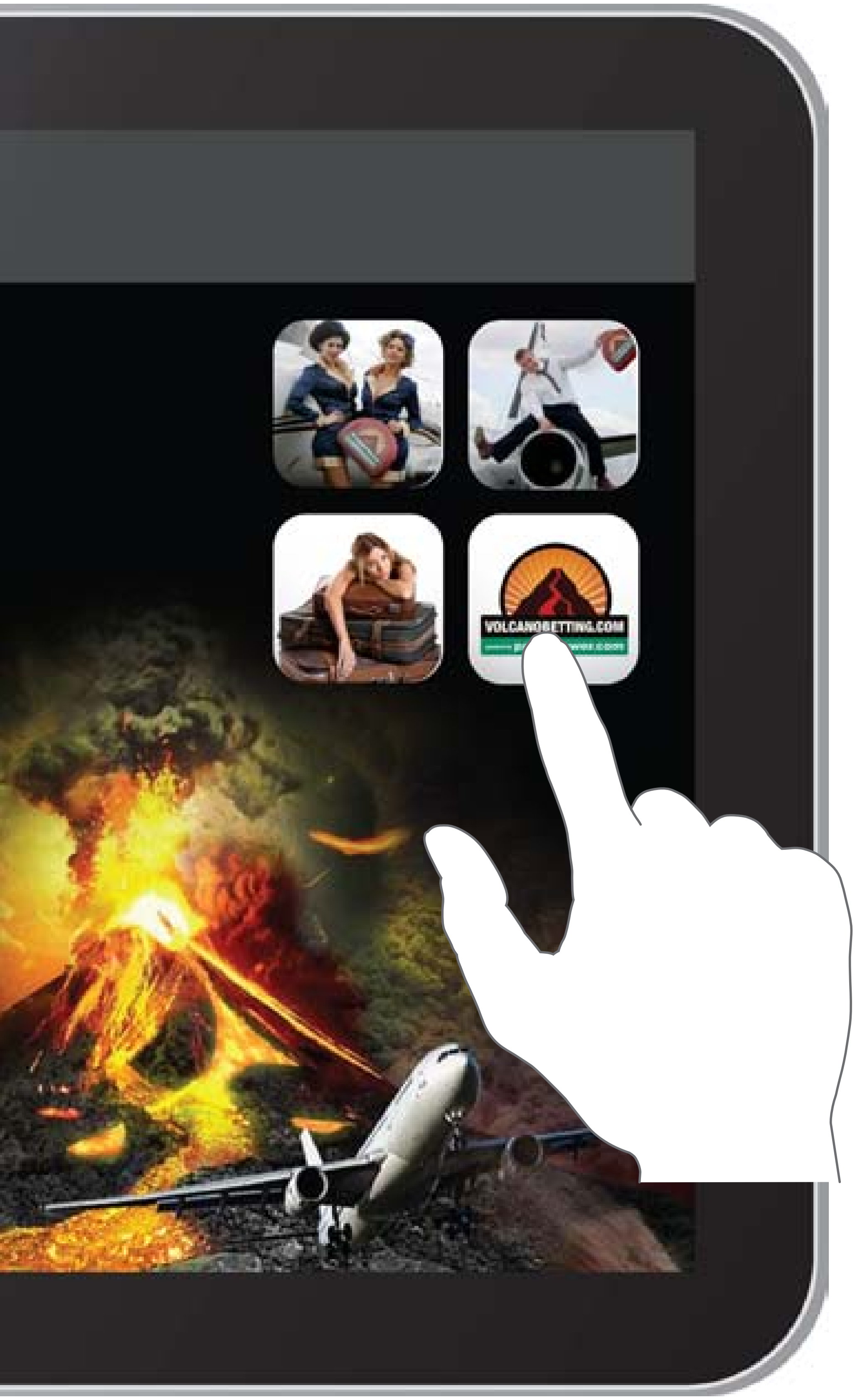
Paddy's achievement was all the more heroic given our ongoing commitment to give better value than the competition through extra places for each-way bets (e.g. seven in the British Open), justice payouts on selections that let our punters down (e.g. Andy Murray when Nadal withdrew during the Australian Open) and early payouts on selections that we figured weren't going to let our punters down (e.g. So You Think in the Cox Plate). In the crazy world of sports where Andy Carroll is only slightly cheaper than Zinedine Zidane and more expensive than David Villa, at least our commitment to great value and entertainment for our punters will not change.

IMPORTANT:

Almost two thirds of Paddy Power's profits were generated outside of Ireland in 2010.

4


Volcano Betting
1105 DUBLIN CANCELLED
1245 LONDON CANCELLED
1325 PARIS CANCELLED
1620 MELBOURNE CANCELLED
Paddy Power plc
FRUSTRATED
STRESSED
QUITE ANNOYED
HAPPY
ANNOYED
REALLY ANNOYED
F$%@ING
LIVID
MAD
ANGRY



Volcano Betting

In April, air travel in Europe literally ground to a halt courtesy of a previously inactive Icelandic volcano with an unpronounceable name. Eyjafjallajökull's impact on air travel was immediate and, with no end in sight, we spotted opportunity in adversity and launched volcanobetting.com.

Volcanobetting.com allowed would-be holidaymakers to place a bet on a wide range of UK or Irish airports closing for at least a one hour period due to volcanic ash contamination on any given date between June 1st and August 31st. The odds on offer varied by airport and by date; as an example a £1,000 holiday leaving London Heathrow on July 18th could be covered by placing a bet of £50 at 20/1.

Turnover was literally flying in the first two weeks before the worst thing that could happen happened; the volcano stopped erupting. Short lived but much loved, volcanobetting.com, just like Eyjafjallajökull, remains dormant…… for now!

ONLINE

€m	2010	2009	% Change	% Change in CC
Sportsbook gross win	176.7	80.3	+120%	+105%
Gaming & other gross win	72.8	52.5	+39%	+34%
Total gross win	**249.5**	**132.8**	**+88%**	**+77%**
Operating profit	**75.0**	**49.4**	**+52%**	**+44%**
% of Group operating profit	72%	74%		
Active customers	**838,043**	**537,202**	**+56%**	

(Active customers defined as those who have bet in the reporting period, excluding indirect B2B customers and Australia pre Q4'09)

Last year our online operations generated €250m of gross win and €75m of operating profit. Operating profit growth of €26m comprised paddypower.com growth of €12m and Australian growth of €14m (of which €4m arose from having a full year contribution).

!

IMPORTANT:
Paddy Power's online earnings have a unique profile with 71% of revenue generated from sports betting and our profits generated from the legal regulated markets of the UK, Australia and Ireland.

Paddy Power's online earnings have a unique profile with 71% of revenue generated from sports betting and our profits generated from the legal regulated markets of the UK, Australia and Ireland. We see this strength in sports betting as a significant asset, as it is the largest individual segment in online gambling, and also has the highest potential for product differentiation and barriers to successful new entrants. A strong sportsbook position can also enhance gaming profitability and growth when backed up by investment in product, marketing and intelligent cross selling. Whilst regulations currently preclude the Group from availing of this opportunity in Australia, gaming contributes almost as much revenue as sports betting for paddypower.com.

In constant currency versus proforma comparatives, online gross profit increased by 51% and operating costs by 66%, reflecting in part investment in key areas such as mobile betting to ensure the Group remains part of the 'big-get-bigger' segment of online operators. Overall, we significantly strengthened our market position in 2010, ending the year with more customers, more scale and more capabilities, as well as significantly higher profits, compared to a year previously.

ONLINE DIVISION (Excluding Australia)

€m	2010	2009	% Change	% Change in CC
Amounts staked	1,126.0	856.4	+31%	+29%
Sportsbook gross win	90.9	55.3	+64%	+61%
Sportsbook gross win %	*8.6%*	*6.9%*		
Gaming & other gross win	72.8	52.5	+39%	+34%
Total gross win	**163.7**	**107.8**	**+52%**	**+48%**
Gross profit	143.0	94.6	+51%	+47%
Operating costs	(85.5)	(48.9)	+75%	+72%
Operating profit	**57.5**	**45.7**	**+26%**	**+20%**

The online division (excluding Australia) grew its profits by 26% in the period to €58m (or by 20% in constant currency excluding a €2.1m benefit from positive exchange rate movements). An improvement in sports results contributed to this increased profit but sportsbook stakes and gaming gross win also grew substantially, by 28% and 34% respectively in constant currency. Active customers increased by 44%, driven by 56% growth in UK customers. Both sportsbook and gaming active customers grew strongly, up 45% and 48% respectively.

After negligible operating cost growth in 2009, costs increased by 72% in constant currency. Increased taxation was a significant factor with the extension of payroll taxes in Ireland and higher UK VAT adding almost €3m or 6% to online costs. Further cost increases arose as a result of revenue growth, and specific investment decisions taken in a wide range of areas to drive future growth including:

- Increased investment in proven initiatives such as streamed live sports online, terrestrial TV advertising in the UK for both Sportsbook and Gaming, enhanced gaming promotions and further investment in website development;
- Exploiting new opportunities such as the potential from pay-per-click advertising, smart phone usage and other geographies;
- People costs linked to direct volume growth, a step-up in our infrastructure in areas such as B2B and IT, and performance related pay.

As well as driving growth, these investments contribute to the quality of our customers' experience and we were pleased to win best Customer Relations Operator at the E-Gaming Review awards in 2010.

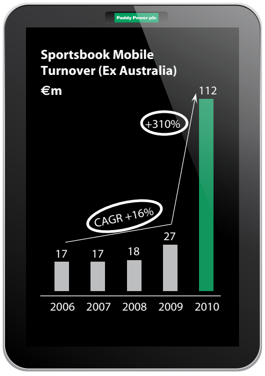
Online Channel Active Customers	**2010**	**2009**	**% Change**
UK	474,617	304,301	+56%
Ireland and Rest of World	167,672	142,100	+18%
Total	**642,289**	**446,401**	**+44%**

Online Customers Product Usage	**2010**	**2009**	**% Change**
Sportsbook only	355,842	253,233	+41%
Gaming only	85,613	62,108	+38%
Multi-product customers	200,834	131,060	+53%
Total	**642,289**	**446,401**	**+44%**

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

(A) Sportsbook

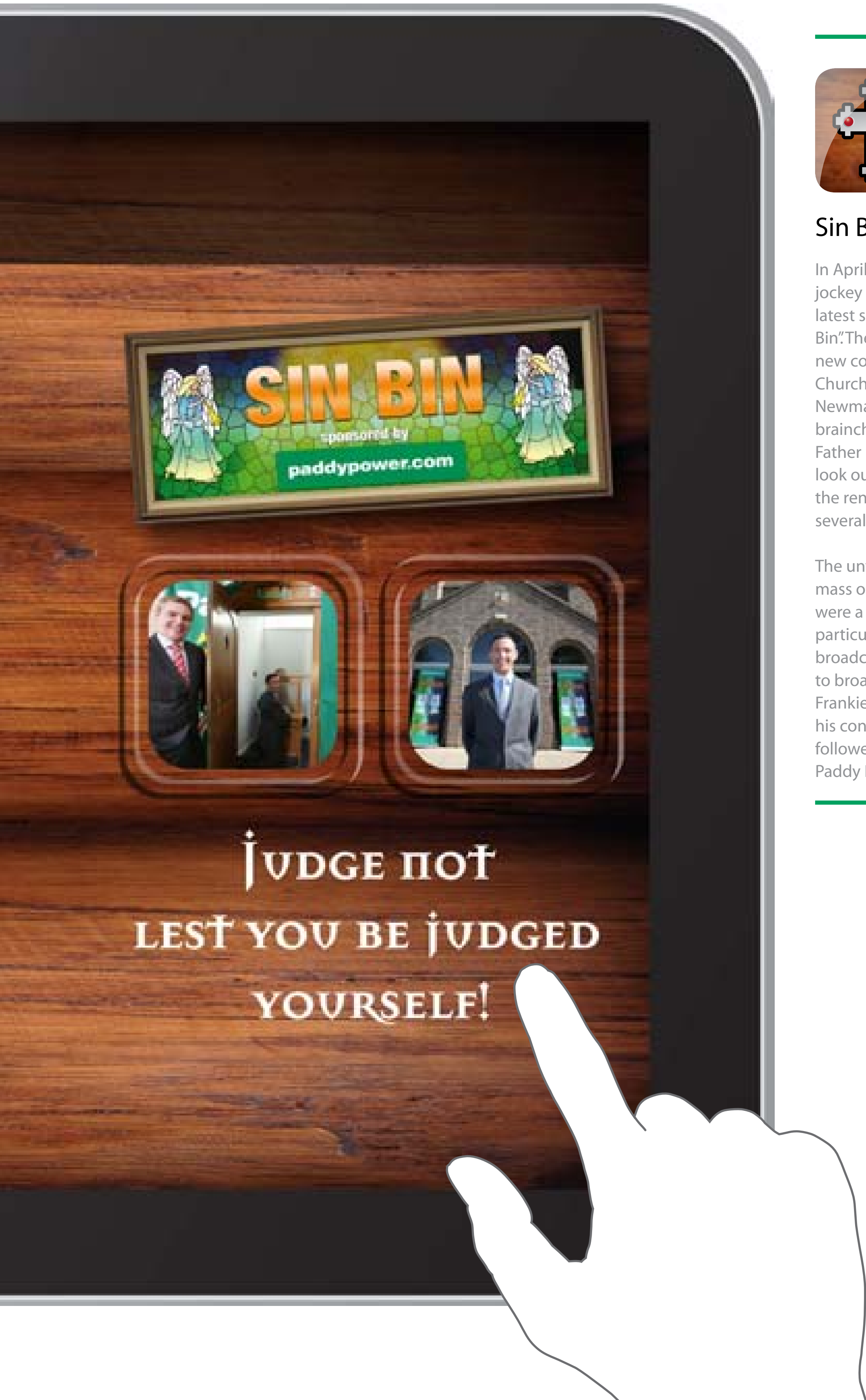
The amounts staked on the online sportsbook increased by 28% in constant currency to €1.053 billion. Within this, bet volumes grew 50% to 63.8m while the average stake per bet decreased by 15% in constant currency to €16.52. The reduction in average stake per bet is due to a combination of factors, including the significant growth in active customers and more challenging economic circumstances. We saw strong growth in both racing and football turnover as a result of continued development of our product which included significant investment in live betting markets and a new live betting interface. This expansion in the choice of markets, together with the option of mobile betting, contributed to growth in the average number of bets per customer, partially offsetting the reduction in average stake per bet.



Sportsbook gross win increased by 61% in constant currency. This growth was helped by a rebound in the gross win percentage to 8.6%, which was above the upper end of our normal expected range of 7.0% to 8.0%. This improvement was despite our biggest ever Money-Back Special refund being triggered when Spain and Holland finished 0:0 in the World Cup final, which resulted in over 25,000 online customers receiving back their losing stakes (and over 50,000 customers across the Group).

The Paddy Power book of course goes way beyond sport. Special events such as the Royal nuptials generate much to bet on from the stag night to the dress (Paddy gave his views on both to the media outside Buckingham Palace despite, we suspect, a small chasm between his knowledge of the two subjects). Sometimes even Paddy's 'expertise' reaches its limits though, resulting in us commissioning and publishing independent political opinion polls, reinforcing our leadership position in political betting. There is almost no subject for which our traders cannot provide a betting market. Their diverse output generated great interest at home and abroad, ranging from our volcano eruption betting which was covered in National Geographic magazine, the name of Apple's next device (The Economist) and the next species to become extinct (Wall Street Journal).

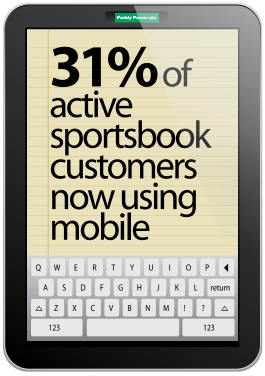
Sin Bin
penance generator
10 Hail Marys
10 Our Fathers
10/1 No. 4 Newmarket 3.30
father paddy 10 mins ago
20 Hail Marys
1 Decade of the Rosary
33/1 No. 8 Leopardstown 4.40
father paddy 30 mins ago
Paddy Power plc



Sin Bin

In April, we teamed up with champion jockey Frankie Dettori to unveil our latest sponsorship, the "Paddy Power Sin Bin". The celestial sponsorship funded a new confession box for St. Etheldreda's Church in the home of UK flat racing, Newmarket. The sponsorship was the brainchild of Newmarket Parish Priest Father Michael Griffin who was on the look out for innovative ways to finance the renovation of his church which was several years overdue.

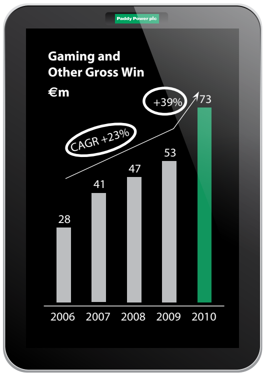
The unveiling took place after 10 o'clock mass on April 27th. The congregation were a little bemused by the whole affair, particularly when a Sky News outside broadcast unit descended on the Church to broadcast the unveiling live on TV. Frankie Dettori had the honour of having his confession heard first in the Sin Bin followed by the perennially penitent Paddy Power.



There were, as always, numerous product innovations in the year, but the stand-out highlight was mobile. After a few false dawns and several dodgy ringtones, the year of the mobile came with turnover up over 300% to €112m, or 11% of total sportsbook stakes. In January to February of this year, 31% of our online sportsbook customers transacted with us via mobile, generating 19% of the total amounts staked. We were first-to-market with a series of award winning mobile applications. These releases were backed up with a major brand advertising campaign in the UK and Ireland showcasing our technology credentials (for those that might mistake us for just a 'cheeky chappy'). In addition, we made significant investment in the evolving mobile advertising channels. We expect more innovation and growth this year as we continue to adapt our smartphone platform to the demands of the mobile user.

(B) Gaming & Other

Gaming and other revenue increased by 34% in constant currency to €73m driven by growth in Games, Casino and Bingo. Significant enhancement to the quality of our gaming offer and promotions expertise encouraged us to conduct more direct customer acquisition for gaming. TV advertisements were run for the first time for both Games and Bingo in June and good results led to further campaigns, as well as increased focus on pay-per-click advertising for gaming.



Growth in sportsbook customers is a key potential driver for Games and Casino growth. To leverage that opportunity, significant investments have been made in expertise, analysis and technology to customise cross-selling, ongoing promotional offers and product presentation. This customisation is to the preferences and behaviours of players, both in their early life and as they evolve over time. Progress and investment in this area is highlighted by the 53% increase in active multi-product customers.

Our ability to offer more games more quickly accelerated last year and we increased our selection of games to over 200. Last year we introduced over 100 new games, versus 52 in 2009, incorporating innovative promotions such as '20 Games in 20 Days' in April and '24 Games in 24 Hours' in October (the 'techies' are all getting full Star Trek box sets if they manage '60 Games in 60 Minutes'). We also took advantage of the increased appetite for live streamed product with further investment in our Live Casino offer. In addition, Paddy Power benefited from a competitive market amongst technology suppliers: we now use over 15 suppliers across Games and Casino, giving us 'best of breed' products for our customers and flexible competitively priced supply.

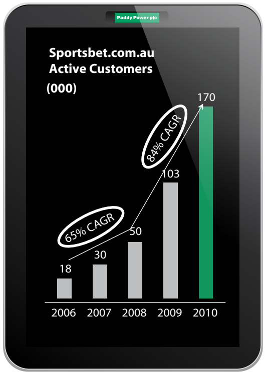
Bingo was our fastest growing gaming segment last year which exemplifies how Paddy Power can adapt its capabilities to new areas. Bingo's performance was driven by our core strengths in distinguishing our product from the rest of the pack, and online and offline marketing that combines creativity with detailed analytics behind the scenes.

Our Poker business continues to perform well relative to its peers but faces ongoing challenges from sites taking play from the U.S. In this context, we were pleased to increase new player sign-ups helped by our sportsbook growth, another successful Irish Open Poker Tournament (which attracted record player numbers) and the towering achievement of a world record chip stack at our Irish Winter Festival. The last time we piled chips so high involved two slices of buttered bread and the mother of all hangovers!

B2B revenues grew strongly, as expected, with the commencement of service to PMU in June and we aim to build a portfolio of such deals in markets where a B2B entry offers a more attractive risk reward profile than B2C. We also transact with business customers through our sports risk management business (Airton Risk Management). It targets companies with exposures to sporting results from marketing or player bonus arrangements and enjoyed a turnover boost from the World Cup.

For some time, we have been evaluating options to further invest in Paddy Power Trader to grow its contribution to a worthwhile level. We have concluded that the balance of risk and reward is not favourable for such an investment relative to our other opportunities and we are winding down the service. The decision does not give rise to any material costs or impact on our expected profits over the coming years.

ONLINE AUSTRALIA DIVISION



€m	2010	2009
Amounts staked	1,230.4	450.3
Gross win	**97.0**	**31.8**
Sportsbook gross win %	*7.9%*	*7.1%*
Gross profit	**75.3**	**22.3**
Operating costs	(55.8)	(17.7)
Operating profit	**19.5**	**4.6**
Active customers	198,132	92,820

(Active customers defined as customers who have bet in the reporting period for 2010 or post acquisition in quarter 4 for 2009)

(The division also includes legacy telephone operations accounting for less than 10% of gross and operating profit in 2010)

Our Australian operations generated excellent financial results last year driven by a strong performance from our mass market online brand, sportsbet.com.au. In constant currency versus pro-forma comparatives, online gross win grew by 44%, amounts staked by 20% and bet volumes by 28%. Online active customers were up 46% last year as compared to 2009 pro-forma comparatives, with growth of 66% in active customers of sportsbet.com.au.

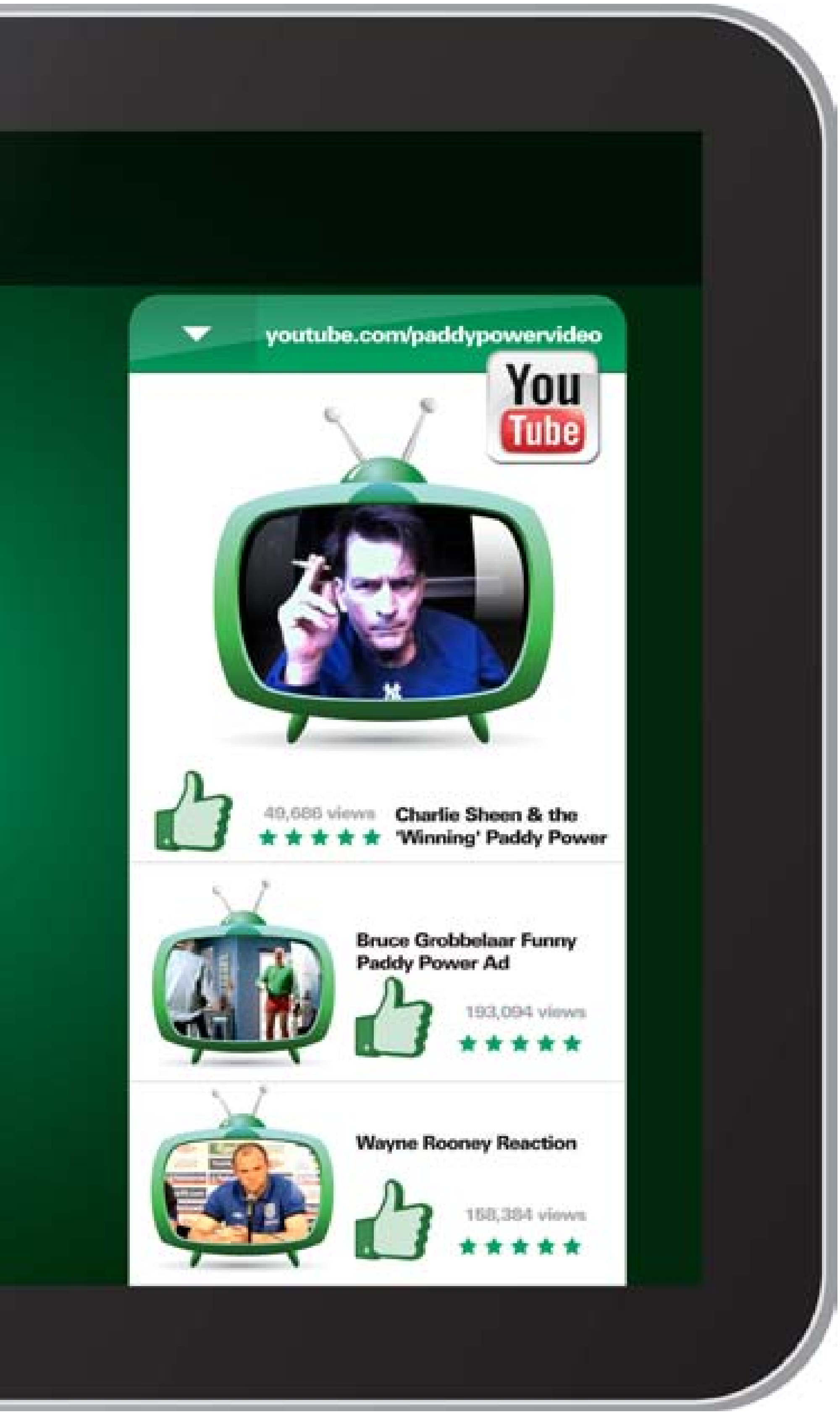
The gross win percentage increased significantly to 7.9% and, assuming normal sports results and channel mix, we would expect a gross win percentage around this level going forward. This represents a significant increase in expectations versus, for example, the 6.2% achieved by Sportsbet pre-acquisition in the year ended 30 June 2009. The increase reflects risk management process changes and an emphasis towards a more mass-market (albeit lower staking) online customer base, and away from lower margin telephone business. In constant currency versus pro-forma comparatives, these changes lower growth in turnover, up 11% last year, but more importantly, maintain strong growth in gross win, up 25% last year.

The level of deductions between gross win and gross profit also improved at 23% of gross win in 2010 compared to 30% in 2009. This was driven by a reduction in the betting duty levied by the Northern Territory and agreements reached in the second half of last year with Racing Victoria Limited, Queensland Racing and South Australia's racing bodies to calculate their product fees as a percentage of gross win (rather than turnover) until at least June 2012. This issue continues to be the subject of litigation with other Australian racing bodies, including Racing New South Wales ('RNSW'). In June last year, a Federal Court judgement in the RNSW case was delivered substantially in Sportsbet's favour, but the full Federal Court later upheld an appeal by RNSW against this judgement. Sportsbet subsequently lodged an application for leave to appeal to the High Court with a decision on the application to appeal expected on 11 March. New South Wales has also recently introduced legislation which has stopped the exploratory trials of the Sportsbet 'Betbox' branded online access terminals.

IMPORTANT:

Our Australian operations' online gross win grew by 44% and amounts staked by 20% in constant currency versus pro-forma comparatives.


Social Paddy
twitter.com/paddypower
facebook.com/paddypower
paddypower
Waiting at Gloucester airport to welcome my guests off the #partyplane. We're going to the #GoldCup. It's going to be mad craic @hectoron2fm
Still can't believe Cheltenham is over. There's a hole in my life! Anyone want to talk about the Grand National...
pphorseracing R moore is evs fav with pp for gb jocks flat title begining at catterick tomorrow. K fallon 3, p hanagan 4, r hughes 7, 20 bar #horseracing
@ACinq9 @posephoto #Uruguay 7/5. On paper they're the better team but sometimes in int friendlies the home team is the only one up for it!
pphorseracing Dream ahead just did 1st gallop with vainglory. Very relaxed indeed & grown enormously. V muscular #horseracing
#Ireland 2/1 to beat #Uruguay tonight, I think that's a decent enough price in a friendly – they'll want to impress the crowd (both of them)
Paddy Power
Paddy Power plc



Social Paddy

It's been a great year for us in the world of Social Media. Our Twitter, Facebook and YouTube channels attracting more and more followers, fans and viewers than ever before. We've had hundreds of thousands of viewers for our television adverts and our now famous "Nob Nation" videos produced by Ireland's leading video satirists.

On Facebook we've gone from strength to strength and have more "fans" than the next ten competing bookmakers combined! During Cheltenham our page was abuzz with the tips flying backwards and forwards as our fans really got stuck in.

Meanwhile we're also more active than ever in the "Twittersphere", in daily contact now with over 10,000 followers. There is no better way to keep in touch with our customers and with channels devoted to customer service, our special offers and even showbiz, politics and racing, we've got every angle covered!

RETAIL

Both our retail businesses grew their profits last year despite the challenging economic backdrops. UK Retail clearly has a strong opportunity to grow profits as we expand the size of the estate, however the EBITDA from the existing units also grew strongly. Irish Retail profitability also increased as it benefited from consumers continuing to respond to its value offering and a normalisation of sporting results.

We expect to continue to grow our retail market share in both the UK and Ireland by offering outstanding value to more price conscious consumers. New innovative offers introduced in 2010 included paying out on two winners where an early leader, frustratingly for punters, fails to finish the job ('Winner Winner'), extending our unbeatable money back on all losers to greyhound racing and an unparalleled level of daily price enhancements.

Product innovation continues across all aspects of the retail offering. Newly introduced Self Service Betting Terminals give customers further service and choice about how they want to bet – they're similar to the express self-service checkouts at supermarkets, only with the added distinction of actually being quick! Our shop audio team now also communicates key time-sensitive news impacting odds and alerts for major Paddy Power specials on Twitter. Such developments leverage online expertise in a retail setting driving more benefits out of the multi-channel approach.

IRISH RETAIL DIVISION

€m	2010	2009	% Change
Amounts staked	908.4	949.1	-4%
Gross win	**109.6**	**106.0**	**+3%**
Gross win %	*12.1%*	*11.2%*	
Gross profit	**100.3**	**96.2**	**+4%**
Operating costs	(82.7)	(79.9)	+4%
Operating profit	**17.6**	**16.3**	**+8%**
Shops at year end	207	198	+5%

The amounts staked within Irish Retail decreased by 4% to €908m; however gross win increased by 3% to €110m, driven by an improved gross win percentage. We opened nine new shops last year, including two which we acquired. Excluding the impact of new shops, like-for-like amounts staked were down 7%, gross win was up 0.2% and operating costs up 1%. The reduction in like-for-like stakes was due entirely to a fall in average stake per slip of 11% to €18.16, with the number of slips increasing by 5% despite the increased year on year weather disruption to events in January and December.

IMPORTANT:
Both our retail businesses grew their profits last year despite the challenging economic backdrops.

UK RETAIL DIVISION

€m	2010	2009	% Change	% Change in CC
Amounts staked	276.3	198.3	+39%	+34%
OTC gross win	30.0	21.3	+41%	+36%
Sportsbook gross win %	*11.9%*	*11.6%*		
Machine gross win	24.2	14.1	+72%	+66%
Total gross win	**54.2**	**35.4**	**+53%**	**+47%**
Gross profit	**45.8**	**30.0**	**+53%**	**+47%**
Operating costs	(38.4)	(28.7)	+34%	+30%
Operating profit	**7.4**	**1.3**	**+484%**	**+351%**
Shops at year end	124	93	+33%	

(Machine gross win above and throughout this statement is after the deduction of VAT at 17.5% in 2010 and 15% in 2009)

UK Retail operating profit increased almost six-fold from €1.3m to €7.4m. New shops opened in 2010, and a full year impact from openings in 2009, were, as expected, an important driver of this growth; however our existing shops also significantly increased their profitability driven by the introduction of new 'Storm' FOBT machines, as well as the benefit of the World Cup, more normal sports results and stronger sterling (which added approximately €0.4m to profit).

In constant currency, turnover grew 34% to €276m, while gross win increased by 47% to €54m. Like-for-like gross win grew 12% in constant currency: this comprised machine growth of 20% and over-the-counter ('OTC') growth of 7% on like-for-like OTC turnover up 2%. The average OTC stake per bet was down 3% in constant currency to €15.70 while like-for-like bet numbers grew 5%.

There were 492 machines installed at year end, an increase of 124 compared to last year as a result of new shop openings. The average gross win per machine per week including VAT was £1,072, an increase of 24% compared to last year.

Operating costs grew 30% in constant currency driven by a 35% increase in average shop numbers. Like-for-like costs (including central costs) were up 2.6% in constant currency reflecting in part the 2.5% increase in UK VAT last year. The further increase in UK VAT to 20% from January 2011 will reduce the Group's profits by approximately €1.3m at current levels of activity, with the majority of this impact within UK Retail. Costs will also increase next year by some €0.2m as a result of changes to the UK Horseracing Levy effective from April 2011. We await detailed provisions from the Treasury on the expected replacement of the existing VAT and AMLD regime for machine taxation with a gross profits tax ('GPT') effective next year. While we are hopeful the Treasury remain true to their original objective for any change to be tax neutral, the change could adversely impact efficient machine and expanding operators such as Paddy Power.

We opened 31 new shops last year, including seven which we acquired, at an average capital cost per unit of €314,000 (£267,000) including lease premia and acquisition costs. EBITDA per shop pre central costs averaged €164,000 (£141,000), an increase of 29% in constant currency. After central costs, EBITDA and EBIT per shop were £100,000 and £58,000 respectively, despite the estate not being mature or at its optimal scale as yet.


Psychic Power
Paddy Power plc
Europe?
Vs
USA?
Predict

Psychic Power

Following the phenomenal success of Paul the Psychic Octopus at predicting the results of selected 2010 World Cup matches from his home in Oberhausen, Germany, we joined forces with the National Sea Life Centre in Bray to give Paul's Irish cousin, Paddy, a shot at predicting the outcome of sporting events a little closer to home.

'Paddy the Psychic Octopus' took up residence in his new home at Sea Life in Bray at the beginning of August and began his psychic training. Paddy's first prediction on the All Ireland Hurling Final proved right on the money when the intuitive cephalopod chose to feed from a perspex feeding box adorned in the Tipperary colours.

Buoyed by Paddy's apparent psychic ability, we planned a major media event around the 2010 Ryder Cup where Psychic Paddy would predict the winner of the historic golf event live via webcam. However, psychic Paddy had other plans and, to the disbelief of shocked Sea Life staff, laid hundred of eggs in his aquarium home. Sadly the laying of eggs marks the end of the octopus life cycle and we never got to see his (or rather her) Ryder Cup prediction.

TELEPHONE DIVISION (Excluding Australia)

€m	2010	2009	% Change	% Change in CC
Amounts staked	293.2	297.4	-1%	-3%
Gross win	**19.0**	**14.9**	**+27%**	**+25%**
Gross win %	*6.5%*	*5.0%*		
Gross profit	**18.9**	**14.9**	**+27%**	**+24%**
Operating costs	(17.1)	(16.1)	+6%	+5%
Operating profit / (loss)	**1.8**	**(1.2)**	**n/a**	**n/a**

Our telephone business is an integral part of our full service offering to customers. Not the kind of full service Charlie Sheen has been enjoying mind. Recent years have been a story of two very different geographic performances. Ireland remains very difficult with amounts staked down 13% last year, and down a full 31% versus 2007, driven by reductions in average stake per bet. However, we managed to recoup that by continuing to take market share in the UK, helped by a materially better value offer than the competition. UK active customers were up 20% and amounts staked up 5% last year. With turnover broadly maintained by the performance in the UK, a return to a normal gross win percentage restored the channel to profitability.

Bet volumes grew strongly by 19% to 5.3m, driven by growth in active customers of 14% and increased bets per customer of 4%. The average stake per bet decreased by 18% in constant currency to €55.30 due to the weak economic conditions and the impact of attracting incremental but smaller than average sized bets from some customers.

Operating costs grew by 5% in constant currency driven by growth in bet volumes and new customer acquisition costs, particularly in the UK market. Many new telephone customers also go on to bet with Paddy Power online, boosting the overall return on customer acquisition spending.

Telephone Channel Active Customers	2010	2009	% Change
UK	49,223	40,849	+20%
Ireland and Rest Of World	23,902	23,107	+3%
Total	**73,125**	**63,956**	**+14%**

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

Brand

Notwithstanding all the other changes in our business, the Paddy Power brand – and brand values of fun, occasional irreverence and putting the customer first – remains our greatest asset and source of difference, and we continuously invest in it to stay ahead. Like Pamela Anderson visiting a plastic surgeon.

Putting the customer first and fairness are core principles at Paddy Power. There are lots of small, low profile ways we do this such as by being transparent about charges and terms. However, it's our approach to certain official results that demonstrates the difference most prominently. As we put it when refunding backers of Dustin Johnson when he missed out on the play-off for the USPGA after a ruling that he grounded his club in sand: 'Dustin may have to live with the fact that rules have robbed him of a chance to win a major but we don't have to live with such strait-jacket nonsense'. Some of our competitors actually stated that they 'never gave the idea of refunding a moment's thought' – a stark contrast which we advertised with the question, 'Who do you bet with?'. We believe that the differentiation, loyalty and turnover that this approach generates more than covers any short term cost.

The ongoing investment in the brand highlighted throughout this statement is of course not just done because it's fun; it continues because it delivers measurable, cost effective results. This is illustrated not only in the financial performance of the business but equally in the brand loyalty of our clients and the ability of the brand to appeal across different platforms, driving growth despite the current tough times.

IMPORTANT:

The Paddy Power brand – and brand values of fun, occasional irreverence and putting the customer first – remains our greatest asset and source of difference, and we continuously invest in it to stay ahead.

Taxation

Following the strong performance in UK Retail, a deferred tax asset of €1,770,000 in respect of accumulated losses in Great Britain was recognised over the course of last year. Excluding this credit and the €7,116,000 gain on the revaluation of the Sportsbet buyout call options, the underlying effective tax rate was 15.7%, compared to 13.0% in 2009. The increased rate was as a result of the addition of Australian profits to the mix with an effective corporation tax rate of 30% under the historic structure which included minority shareholders. Over the next two years, assuming no other changes, the Group would expect its effective tax rate to gradually fall to approximately 14%.

Upon the implementation in September 2007 of the UK Gambling Act 2005, we significantly reduced the cost of deductions between gross win and gross profit within the Online and Telephone divisions. In 2010, the Department for Culture, Media and Sport in the UK consulted on proposals to introduce new license requirements for overseas-based online firms providing services to UK consumers. No policy changes have been announced to date.

Cash Flow, Cash Balances and Foreign Exchange

Net cash generated from operating activities was €160m in 2010, up €75m compared to 2009. This was driven by operating profit post tax growth of €35m, increased working capital inflows of €27m driven by strong online growth, and higher depreciation and share based incentive charges of €14m. Capital expenditure was €24m, mainly connected with the organic opening and upgrading of retail outlets. Despite our retail expansion, capex has remained broadly in line with depreciation, helped by the quality materials and equipment previously invested in the estate all wearing well. Expenditure on acquisitions was €19m related to the additional 9.8% of Sportsbet purchased in February 2010, Sportsbet contingent consideration paid in August 2010 and retail shops acquired.

Last year, sterling and Australian dollar denominated operating profits were approximately £64m and AUD34m respectively. Accordingly, Group operating profit year-on-year can be positively impacted by a weaker Euro versus these currencies and adversely impacted by a stronger Euro versus these currencies.

As at 31 December 2010, the Group had net cash of €159m (2009: €75m) including cash balances held on behalf of customers of €42m (2009: €33m). This is net of third party debt within the Group's Australian operations of €5m which the Group can now manage more efficiently with 100% ownership. Net cash at 28 February 2011, less cash expenditure of AUD123m (€91m) related to last week's acquisition, remained strong at €87m or €47m excluding customer balances.

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

4 March 2011

Connectivity

Corporate Social Responsibility

5

Paddy Power appreciates that it has important responsibilities to its customers and the broader community, as well as to its employees and shareholders. The Group is committed to acting fairly and properly in its dealings with all stakeholders and the directors are cognisant of the significant impact that environmental, social and governance matters may have on our business. We have set out below brief overviews of some areas of particular focus for the Group.

Employees

Our people are pivotal to everything we do and we are fortunate to have such a range of talented people that epitomise our devotion to customer service, our dedication to product excellence and our brand values of 'fun, fair and friendly'.

The Group continues to focus heavily on employee communication, development and retention. In 2010, the employee appraisal process continued to bring further focus to the personal development planning of employees, aligning personal objectives with those of the business, thus improving employee engagement at all levels within the business. We also want people to have a longer term stake in the Group's performance and we continue to offer schemes that encourage share ownership amongst employees.

We are committed to communications from the top down and our Chief Executive attends employee consultation forums and induction meetings for all new head office staff. We strive to continually improve internal communications, promoting usage of the staff intranet and increasing the frequency of meetings of our head office employee communications groups. In 2010, we introduced a series of employee information briefing sessions at our head office that promote awareness of other internal business units, advocate integration between teams and encourage communication and consultation across the Group.

Our dedicated in-house recruitment function continues to source the next generation of management talent through increased usage of our dedicated careers website 'www.workwithpaddy.com' and various online and social networking recruitment tools. Opportunities for employment, advancement, training and development are determined on the basis of each individual's ability and performance record, irrespective of their gender, ethnic origin, nationality, age, religion, sexual orientation or disability.

Our presence in the UK continued to grow apace in 2010, with the number of people working for the Group in the UK rising by 33% to 644. This has been driven by the aggressive expansion plans of our business in the UK, which will continue in 2011 and beyond.

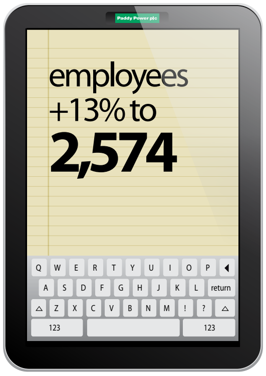
The number of staff employed in the Group increased by 13% over the course of the year to 2,574 including our Australian business.

!

IMPORTANT:
Paddy Power appreciates that it has important responsibilities to its customers and the broader community, as well as to its employees and shareholders.

Safety, Health and Welfare at Work Act 2005

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



Responsible gambling

We strive to protect the small number of our customers who may have difficulties with gambling. For most people, gambling is a harmless and fun leisure activity; however, if a customer does develop a problem with gambling, we actively refer them to the relevant experts who can help. Our close association with Gamcare, a registered UK charity and a leading authority on the provision of information, advice and practical help to promote responsible gambling, helps us to protect our customers. We also provide significant funding to Gamcare via agreed contributions to the Responsibility in Gambling Trust. All of our customer service agents are certified by Gamcare and undergo regular Gamcare training to ensure they offer the most professional service possible to those who might be suffering from a problem with gambling. We also display information about Gamcare in all of our shops.

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

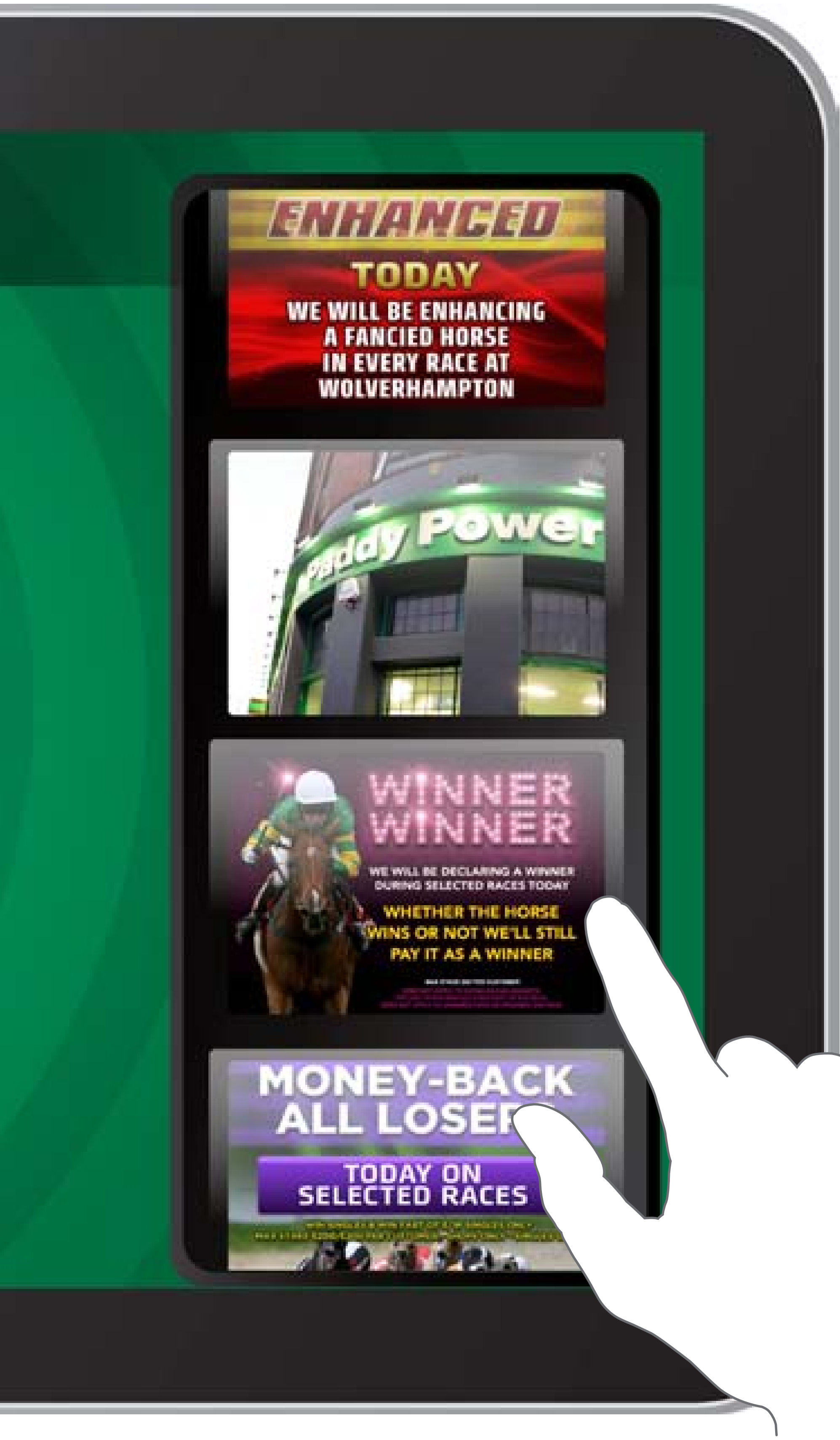
We empower our customers to stay in control of their own gambling activity by allowing them to set limits on the maximum value and frequency of deposits to their account. In addition, we have strict processes in place to ensure that any customers who wish to go further and exclude themselves completely from transactions with us can do so. We offer this self exclusion option to our customers directly through our customer service agents and police it rigorously.

In Australia, we have implemented a Responsible Gambling Code of Conduct, which is continually reviewed to assist customers with difficulties that may arise from problem gambling.

It is illegal for anyone under the age of 18 to bet with us and we take our responsibilities in this area very seriously. We use age verification software to carry out electronic checks whenever a potential customer is proposing to use a payment method that might be available to someone under 18 years of age and the public data infrastructure exists for us to complete such checks. We work closely with age verification software providers to help develop new and better ways of verifying the age of potential customers over the increasing range of payment methods available. We also recommend that our online customers install web filtering software if they share their computer with anyone under the age of 18. Staff in our betting shops are trained to be vigilant and not to accept bets from anyone under the age of 18, requesting reliable proof of age if they are in any doubt.

Connectivity

Corporate Social Responsibility *(continued)*



Bricks & Clicks

2010 was not just about online. In 2010, we continued to expand our retail presence both at home and abroad. We opened the doors to 31 new betting shops in the UK and nine in Ireland. Our expansion was supported with product innovation across all aspects of the retail offering. Newly introduced Self Service Betting Terminals give customers further service and choice about how they want to bet – they're similar to the express self-service checkouts at supermarkets, only with the added distinction of actually being quick!

Our shop audio team now also communicates key time sensitive news impacting odds and alerts for major Paddy Power specials on Twitter. Such developments leverage online expertise in a retail setting driving more benefits out of the multi-channel approach. New innovative retail offers introduced in 2010 included paying out on two winners where an early leader, frustratingly for punters, fails to finish the job ('Winner Winner'), extending our unbeatable money back on all losers to greyhound racing and an unparalleled level of daily price enhancements.

> IMPORTANT:
> The Group increased its charitable donations by 43% to €459,000 in 2010 and was involved in a number of major charitable initiatives.

Environment

Paddy Power has a proactive approach to helping all its personnel conduct business in a manner that protects the environment. The Group encourages efficient use of resources, recycling wherever possible and is compliant with all relevant environmental legislation. The Group has introduced a complete waste management policy in its head office and retail shops and we now recycle almost 100% of all their waste. Examples of environmental initiatives in place during 2010 include:

- use of long life energy efficient light bulbs in all shops;
- use of more efficient, and lower cost, combined heat and power ('CHP') generated electricity in our shops;
- replacement of night storage heating in shops with lower electricity consumption split heating and cooling systems;
- using only eco-friendly cleaning products in our shops;
- reducing the level of packaging waste in respect of all cased goods and furniture;
- installation of more water efficient flushing systems in newly fitted-out shops to reduce water consumption; and
- running a charity-administered mobile phone and used inkjet cartridge re-cycling programme in our head office.

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

Community

Paddy Power believes that a responsible approach to developing relationships between companies and the communities they serve is a vital part of delivering business success. We maintain relationships with a large number of charitable organisations, ranging from those supporting the local communities in which our shops play a key role, through to national charities focusing on the welfare of specific groups. Our Charity Committee, which is comprised of employees from across the Group, has responsibility for maximising the effectiveness of the Group's charitable strategy and for the implementation and management of that strategy.

During the year, the Group spent a total of €459,088 on charitable donations (2009: €321,564) and was involved in a number of major charitable initiatives, some of which are further described below by the Charity Committee.

"Disaster struck the people of Haiti on 12 January 2010 when a devastating earthquake ripped through the capital city of Port-au-Prince causing the deaths of an estimated 316,000 people.

Our Charity Committee was quick to react and launched a range of fundraising initiatives including sponsorship of the InterSevens Haiti Earthquake Appeal Fund 'Soccer Marathon', an intercompany seven-a-side soccer tournament. Fifty teams from corporate Ireland took part in the event which raised over €85,000 for the relief efforts.

In February, we literally got our hands dirty when we climbed onboard the 'Shave or Dye' campaign for the Irish Cancer Society. Along with numerous Paddy Power staff shaving or dying their hair for the month, we made Irish radio celebrity Tony Fenton an offer he couldn't refuse – to dye his hair Paddy Power green!

Leading children's charity Barnardos was selected as our Charity of the Year in Ireland and the UK. We engaged in various fund raising initiatives including pledging €1,000 for every Irish trained winner at the Cheltenham Festival and £1,000 for every goal scored by Wayne Rooney at the World Cup. I think you can figure out for yourself which cost us more!

We were once again proud to support the extraordinary work of HEALS, a voluntary organisation working in the area of Equine Assisted Therapy and Equine Assisted Learning. We also entered the second year of the Paddy Power Sports Graduate Programme at Dublin City University, through which we sponsor a sports scholarship placement initiative.

Last but not least, an honorary mention for the now legendary Paddy Power Christmas Cake Sale which raised a mouth watering €5,000 for the Society of St Vincent de Paul."

Syncing
Board of Directors

6

Executive Directors

Patrick Kennedy (aged 41) is the Chief Executive. He joined the Group in an executive capacity in September 2005 and became Chief Executive in January 2006. Patrick was already a Board member, having been appointed as a non-executive director in March 2004. Before joining Paddy Power, Patrick was Chief Financial Officer of Greencore Group plc, having previously been Group Development Director. Patrick has also worked with KPMG Corporate Finance both in Ireland and the Netherlands, and as a strategy consultant with McKinsey & Company in London, Dublin and Amsterdam. Patrick is also a non-executive director of Elan Corporation, plc and Bank of Ireland Group plc. Patrick has been a member of the Risk Committee since January 2006.

Breon Corcoran (aged 39) is Chief Operating Officer with responsibility for the Group's online businesses, its technology function and the Group human resources function as well as its Australian operations and development opportunities in certain key geographies. Prior to his appointment as Chief Operating Officer in August 2010, Breon was Managing Director - Non Retail and Development. He joined the Group in April 2001 with responsibility for development of the non-retail business having previously worked with J.P.Morgan and Bankers Trust as well as a number of start-ups. Breon is a graduate of Trinity College, Dublin with an MBA from INSEAD. He was appointed to the Board in August 2004 and has been a member of the Risk Committee since January 2005.

Jack Massey (aged 42) is the Finance Director. He joined the Group and was appointed to the Board in April 2006. He previously worked with ITG Europe, the European division of the NYSE quoted company, Investment Technology Group Inc., where he had been Chief Operating Officer since 2002. Jack joined ITG Europe in 1998 as Finance Director. Prior to that, he worked with Ulster Bank Markets as Head of Financial and Management Reporting and previous to that as a Manager with Arthur Andersen. He is a Fellow of Chartered Accountants Ireland and a graduate of University College Dublin.

Non-executive Directors

Nigel Northridge (aged 55), Chairman, was appointed as a non-executive director in July 2003 and as Chairman from January 2009. Nigel spent 32 years with Gallaher Group plc in sales and marketing roles, becoming group chief executive in 2000, a position in which he oversaw significant growth in shareholder value, leading to the sale of the company in 2007 for £9.4 billion. Nigel is Chairman of Debenhams plc and a non-executive director of Inchcape plc. Nigel has been a member of the Nomination Committee since September 2003 (becoming Committee Chairman in January 2009) and of the Remuneration Committee since July 2007.

Tom Grace (aged 62) was appointed as a non-executive director and Audit Committee Chairman in January 2006 and became Senior Independent Director in January 2009. Tom was a partner with PricewaterhouseCoopers from 1983 to 2005, where he led the Insolvency Department from 1987 onwards. With 34 years experience in total at PricewaterhouseCoopers, Tom also worked in the audit and management consultancy divisions, principally in the area of financial advice. Tom is also well known as a former rugby international and is currently honorary treasurer of the Irish Rugby Football Union. He won 25 international rugby caps for Ireland between 1972 and 1978 and captained the side on eight occasions. He also toured as a British and Irish Lion in 1974.

Fintan Drury (aged 52) is chairman of sports and conference management company PLATINUM ONE Ltd and of global renewable energy company, Mainstream Renewal Power. Fintan founded Drury Communications in 1988 and grew the company into the market leader in corporate communications in Ireland prior to selling it in 1999. He joined the Board of Paddy Power in August 2002, and was Chairman of the Group from May 2003 to December 2008. Fintan has been a member of the Nomination Committee since September 2003.

Stewart Kenny (aged 59) was a co-founder of Paddy Power in 1988. He has considerable experience in the betting industry, training with Ladbrokes in London for two years before establishing a chain of betting shops, Kenny O'Reilly Bookmakers. He sold that business to Coral in 1986 and subsequently re-entered the business, opening ten betting shops between 1986 and 1988. He was Group Chief Executive from 1988 to 2002, and Chairman from 2002 to 2003. Stewart has been a member of the Risk Committee since June 2006.

Jane Lighting (aged 54) was appointed as a non-executive director in September 2009 and as a member of the Audit and Remuneration Committees in October 2009. She was Chief Executive of Five, the UK's fifth terrestrial television channel, until 2008. Prior to joining Five in 2003, Jane was Chief Executive of Flextech plc. Jane is a Trustee and Fellow of the Royal Television Society and a Council Member of the British Screen Advisory Council and is a non-executive director of Trinity Mirror Group plc.

Pádraig Ó Ríordáin (aged 45) was appointed as a non-executive director in July 2008. Pádraig is Managing Partner of Arthur Cox, a leading Irish law firm. He studied law in the National University of Ireland and Harvard Law School and has practiced in New York and Dublin. In addition to his role in managing Arthur Cox, Pádraig advises a range of public companies, private companies and state related entities on their transactional and business issues and has a specialist expertise in regulated industries. In 2009, he was named European Managing Partner of the Year at the Lawyer European Awards and the British Legal Awards. He is also a non-executive director of TVC Holdings plc. Pádraig has been Chairman of the Remuneration Committee since August 2008 and a member of the Nomination Committee since August 2009.

David Power (aged 64) co-founded Paddy Power in 1988 and has been a non-executive director since that date. He merged a significant proportion of the betting shops controlled by him and trading as Richard Power Bookmakers with Paddy Power in 1988. He is an on-course bookmaker. He has been Chairman of the Risk Committee since September 2003.

William Reeve (aged 38) was appointed as a non-executive director in May 2010. He is a co-founder of LOVEFiLM International, and ran the operation from its inception in 2003 until 2008, by which time it had become Europe's largest online film rental service. Prior to LOVEFiLM, William co-founded Fletcher Research in 1997, which became the UK's largest internet research firm and was subsequently acquired by the NASDAQ listed company, Forrester Research. William is currently executive chairman of TrueKnowledge.com and also serves as non-executive director with a number of high growth Internet companies. He is a former strategy consultant with McKinsey & Company and a graduate of University College, Oxford.

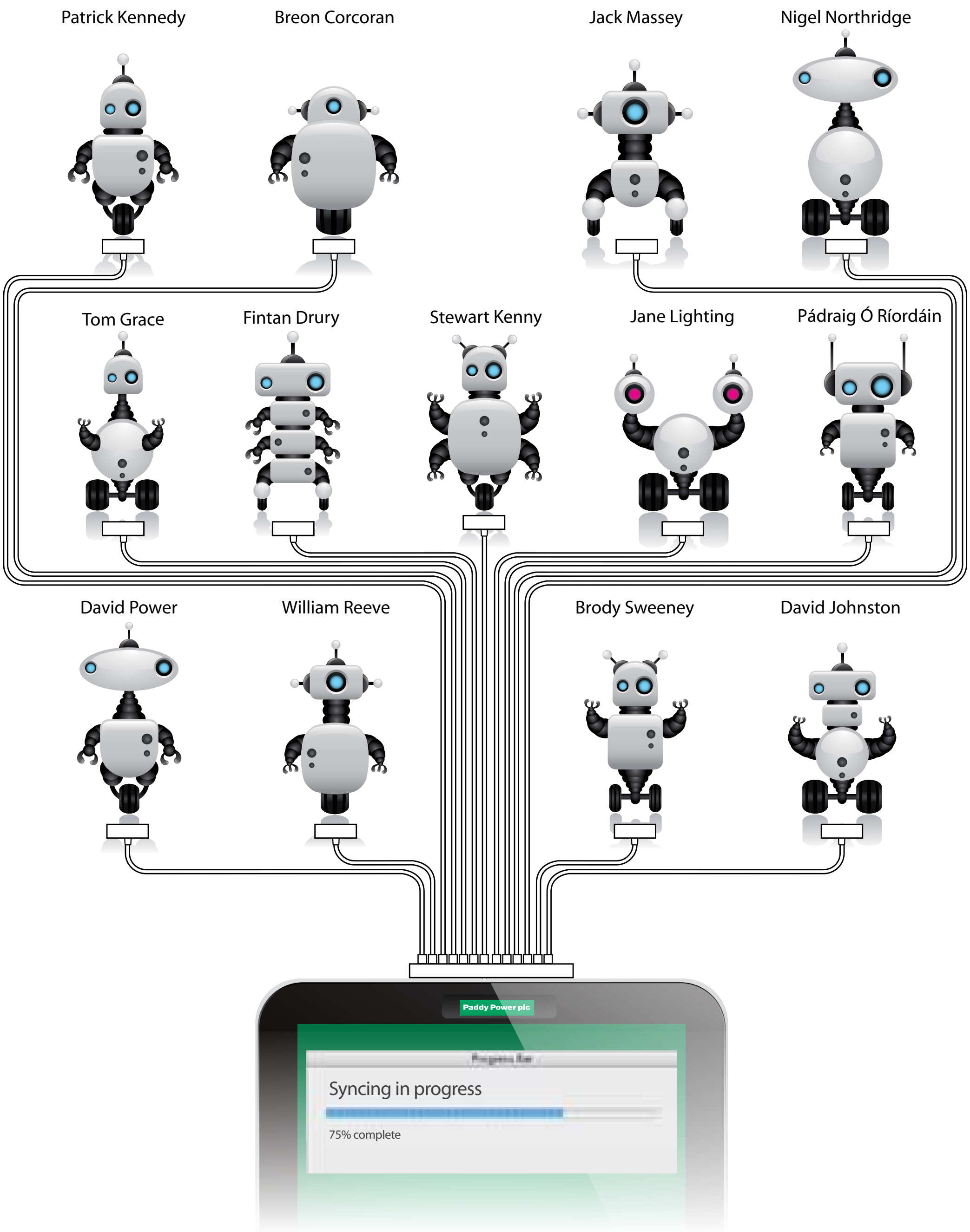
Brody Sweeney (aged 50) was appointed as a non-executive director and as a member of the Audit Committee in February 2005. He is the founder of O'Brien's Irish Sandwich Bars and of Connect Ethiopia, the Irish business charity. Brody has been a member of the Nomination Committee since February 2009.

Secretary

David Johnston (aged 38) was appointed as the Company Secretary in March 2007. A solicitor, David was previously company secretary and chief legal counsel of Telefónica O2 Ireland, the mobile telecommunications operator, and prior to that was in private practice with McCann FitzGerald Solicitors.

PPad power

Extra power can be inserted, use the extra cables to connect directly into **PP**ad.



Tips and Troubleshooting
Directors' Report

7

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2010.

Principal activities

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

Results

The Group's profit for the year of €96.7m reflects an increase of 65% on the 2009 profit figure of €58.5m. Basic earnings per share amounted to 192.7 cent compared with 121.9 cent in the previous year, an increase of 58%. The financial results for the year are set out in the consolidated income statement on page 64. Total equity attributable to Company equity holders at 31 December 2010 amounted to €228.4m (2009: €157.6m restated).

Dividends

An interim dividend amounting to 25.00 cent per share was paid during 2010. The directors recommend that a final dividend of 50.00 cent per share (2009: 38.90 cent per share), amounting to €24.3m (2009: €18.7m), be paid on 20 May 2011 to shareholders registered at close of business on 18 March 2011. This would make a total distribution of profit to shareholders of €36.4m in respect of the year ended 31 December 2010 (2009: €28.0m).

Business review and key performance indicators

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

Principal risks and uncertainties

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

- the economic, demographic, technological, consumer behaviour and other macro factors affecting demand for the Group's products especially in the Group's current primary markets of the UK, Ireland and Australia;
- changes in current tax law, interpretation or practice in the areas of betting tax, value added tax, payroll, corporation or other taxes, particularly in Ireland, the UK, Australia and the Isle of Man;
- increased payment obligations to racing and sporting bodies either directly or indirectly through related obligations to government authorities;
- the intensity of competition in the Group's markets and the Group's ability to successfully compete;
- the regulatory or legislative environment, interpretation or practices applicable to the Group's activities and the related risks from litigation by third parties or the Group;
- social, media or political sentiment towards the Group, its brands and its businesses;
- changes in the exchange rates between the euro and the foreign currencies in which the Group transacts business, primarily the pound sterling, the Australian dollar and the US dollar (the latter driven by poker play denominated in dollars, not transactions with US residents);

- the ability of the Group to maintain, develop and avoid disruption to its key information technology systems and/or to adequately protect customer and other key data and information;
- relationships with and performance by key suppliers, particularly those supplying software platforms, payment processing and data to support the Group's products;
- relationships with and performance for business-to-business customers;
- disruption to the sporting calendar or the broadcasting of major sporting events due to weather or other factors;
- the ability of the Group to attract and retain key employees;
- the performance of the Group in managing bookmaking risk so as to achieve gross win margins within expected percentage ranges;
- the performance of the Group in managing credit risk arising from credit betting customers; and
- the ability of the Group to enter new markets, launch new products or introduce new technologies or systems in a successful, cost effective and/or timely manner.

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

The composition and responsibilities of the Risk Committee are set out on pages 53 and 54. The Board has also established financial risk management objectives and policies which have been implemented by executive management, details of which are given in Note 3 to the consolidated financial statements on pages 81 to 85.

Tips and Troubleshooting 7

Directors' Report *(continued)*

Paddy TV

In 2010, we returned to TV screens across the UK with three commercials that were certain to get tongues wagging. The accidental sending of a dodgy e-mail to your entire office was joined by a cringe-worthy moment of male bonding in the locker room. However, the cornerstone of the campaign was a football-themed ad believed to be the world's first commercial featuring blind footballers.

A five-a-side match between two blind football teams takes an unexpected twist when a feline friend invades the pitch. Several of the players featured in the commercial went on to represent England in the 2010 World Blind Football Championships including the commercial's main protagonist, Ajmal Ahmed, the England captain. Of course no cats were actually injured and Tiddles remains our good friend.

We also returned to television screens in Australia with a new Sportsbet TV campaign which raised a wry smile on the face of punters Down Under.

Research and development

The Group performs research and development activities to ensure that it continues to be a recognised innovator in the betting and gaming industry. These activities support the introduction of new products, the creation of new betting markets, improved online customer experience and the development of better processes and systems. Continued research and development contributes to the Group's future growth and profitability. The Group recognised research and development expenditure (calculated by reference to Irish research and development tax credit rules) in 2010 of €0.4m (2009: €0.2m).

Market research

The Group undertakes market research across all business divisions in Ireland, the UK and Australia. In 2010, research undertaken included brand research and customer satisfaction surveys.

Events since the year end and future developments

The significant events affecting the Group since the year end are the recommendation to pay dividends to shareholders as noted above and the purchase of the remaining 39.2% shareholding in Sportsbet Pty Limited on 1 March 2011 (see Note 34 to the consolidated financial statements). The directors do not anticipate any substantial changes in the nature of the business.

Amendment of Articles of Association

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

Rights and obligations attaching to the Company's shares

As at 4 March 2011, the Company had 50,410,720 shares in issue, all of which are of the same class and carry the same rights and obligations (apart from 1,734,000 shares held by the Group as treasury shares which have no voting rights and no entitlement to dividends). With regard to the Company's shares: (i) there are no restrictions on their transfer; (ii) no person holds shares carrying special rights with regard to the control of the Company; (iii) there are no shares to which an employee share scheme relates carrying rights with regard to the control of the Company; (iv) there are no restrictions on the voting rights attaching to the Company's shares; and (v) there are no agreements between shareholders that are known to the Company that may result in restrictions on the transfer of securities or on voting rights. Further information on the Company's share capital is set out in Note 19 to the consolidated financial statements.

Own shares held

The Paddy Power plc Employee Benefit Trust (the 'Trust') was originally established to manage the Long Term Incentive Plan and also manages the Managers' Deferred Share Award Scheme (collectively referred to as the 'share award schemes'). Further information on these schemes is presented in the Remuneration Committee Report on page 59. During the year ended 31 December 2010, the Trust purchased 354,500 (2009: 540,000) Paddy Power plc shares at a cost of €9.0m (2009: €14.1m). During 2010, the Trust transferred 336,804 (2009: 268,144) ordinary shares that had vested to beneficiaries of the Trust. At 31 December 2010, the Trust held 1,456,407 (2009: 1,438,711) ordinary shares in Paddy Power plc, representing 2.92% (2009: 2.89%) of the issued share capital. Further information is set out in Note 21 to the consolidated financial statements.

As of 31 December 2010 and 2009, the Company's ordinary shares held in treasury totalled 1,734,000 shares and represented 3.47% (2009: 3.48%) of the issued share capital. The treasury shares have no voting rights and have no entitlement to dividends. Further information is set out in Note 19 to the consolidated financial statements.

Substantial holdings

As at 4 March 2011, details of interests of over three percent in the ordinary share capital carrying voting rights (excluding directors) which have been notified to the Company are:

	Holding	%
Standard Life Investments Limited	3,397,853	6.98%
UBS Investment Bank	3,037,701	6.24%
Ameriprise Financial Inc.	2,431,158	4.99%
Capital Research and Management Company	1,802,146	3.70%
John Corcoran	1,500,000	3.08%
Marathon Asset Management L.L.P.	1,466,748	3.01%

Directors' power to purchase and allot Company shares

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

Board of Directors and Company Secretary

William Reeve was appointed to the Board on 19 May 2010 and is proposed for election by the shareholders at the AGM to be held on 17 May 2011. Breon Corcoran and Brody Sweeney retire from the Board by rotation in 2011 and, being eligible, offer themselves for re-election. In line with the principles of the Combined Code on Corporate Governance (June 2008), directors who have served for in excess of nine years should be subject to annual re-election. David Power and Stewart Kenny, being non-executive directors who have served longer than nine years, offer themselves for re-election at the AGM to be held on 17 May 2011.

Fintan Drury, who will complete a third term as a director in 2011, will step down from the Board before the end of 2011.

In line with the principles of the new UK Corporate Governance Code published in June 2010, the Group will adopt a policy of annual re-election for all board directors with effect from the AGM to be held in May 2012.

Directors' remuneration

Details of directors' remuneration are given in the Remuneration Committee Report on pages 58 and 59 and in Note 7 to the financial statements on page 88. No director or employee is entitled to any compensation for loss of office or employment occurring as a result of a takeover of the Company.

Directors' and Secretary's interests

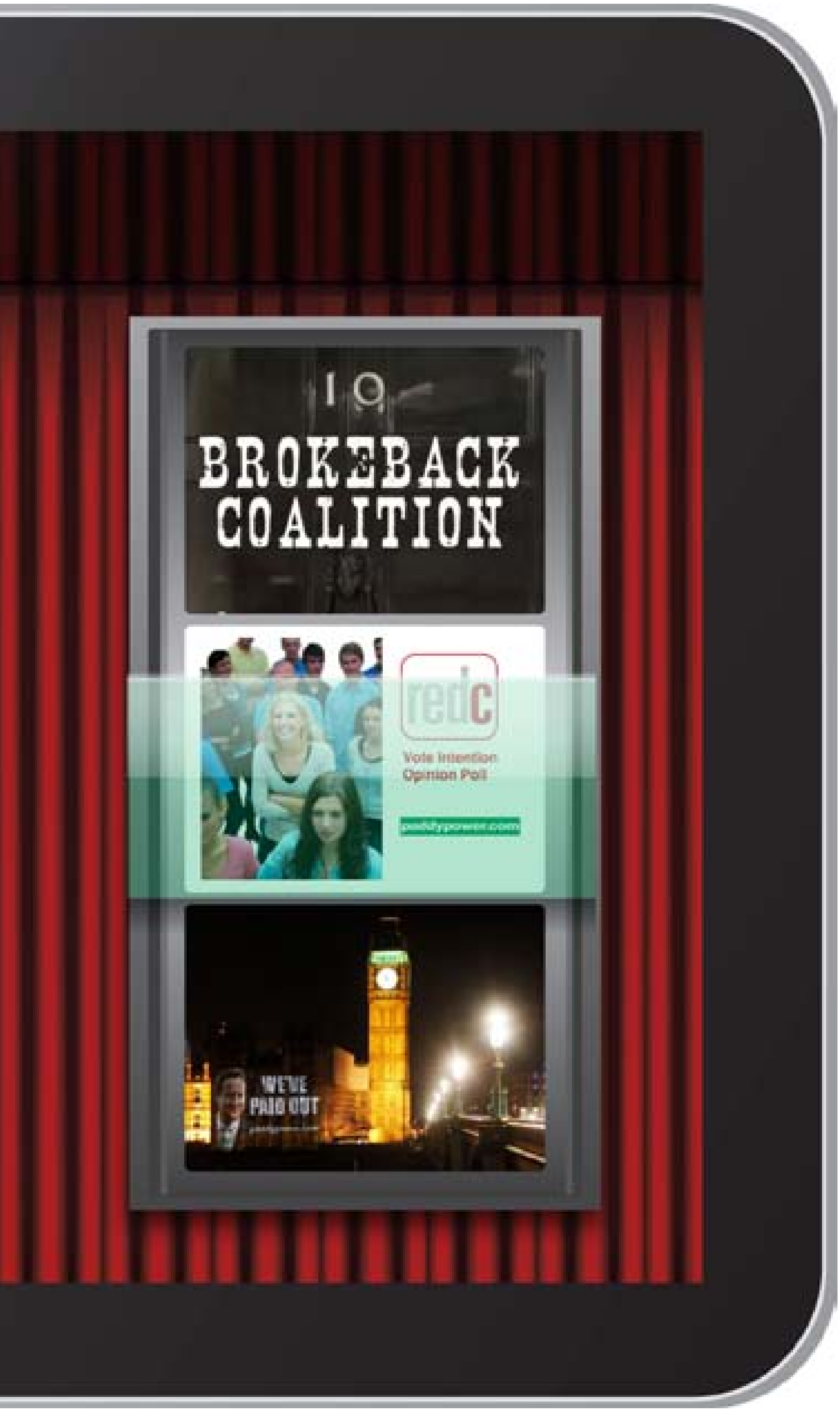
The interests of the directors and Company Secretary who held office at 31 December 2010 in the share capital of Paddy Power plc, all of which were beneficially owned, were as follows:

	Number of ordinary shares of €0.10 each	
	31 December 2010	**31 December 2009 (or date of appointment if later)**
Patrick Kennedy	264,921	180,873
Breon Corcoran	270,905	177,363
Jack Massey	59,058	42,540
Nigel Northridge	6,000	6,000
Tom Grace	-	-
Fintan Drury	34,200	34,200
Stewart Kenny	445,020	444,440
Jane Lighting	-	-
Pádraig Ó Ríordáin	2,000	-
David Power	3,928,692	4,228,692
William Reeve	1,680	-
Brody Sweeney	-	5,550
David Johnston (Secretary)	-	-

There have been no changes in the above shareholdings between 31 December 2010 and the date the directors approved these financial statements.

Tips and Troubleshooting

Directors' Report *(continued)*



Election Betting

In the UK we paid out over £100,000 on the Conservatives winning the most seats in the UK Election before a single vote had been cast. Cameron's strong performance in the final TV debate saw a relentless tide of betting support for the Conservatives, shortening the odds on the Tories winning most seats at the Election from 1/5 to 1/16. In our usual understated way we chose to unveil our early payout by creating a light-show on the side of the House of Commons.

In Ireland we dipped our toe into political polling with our first national opinion poll which gave a strong indication that the winds of political change were gaining momentum. Our political betting website, electionbetting.com, became a popular iPhone App and our dedicated political betting Twitter feed, @pppolitics, rapidly built up a loyal and vocal band of followers.

Share ownership and dealing

The Company has established share ownership guidelines for executive directors to ensure the interests of executive directors are aligned with that of shareholders. Further details are set out within the Remuneration Report on page 59.

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

The directors and the Company Secretary, who held office at 31 December 2010, had the following movements in share options during the year and held the following share options at 31 December 2010:

	Number of options at start of year	Options exercised during the year (a)	Options granted during the year	Options lapsed during the year	Number of options at end of year	Exercise price (b)	Exercise period
Patrick Kennedy	1,785	-	-	-	1,785	€11.29	4 December 2011 – 3 June 2012
	1,236	-	-	-	1,236	€9.45	4 December 2013 – 3 June 2014
Breon Corcoran	20,000	(20,000)	-	-	-	€8.15	24 February 2007 – 24 February 2011
	1,989	-	-	-	1,989	€9.45	4 December 2011 – 3 June 2012
Jack Massey	1,989	-	-	-	1,989	€9.45	4 December 2011 – 3 June 2012
David Johnston (Secretary)	4,000	-	-	-	4,000	€24.17	5 September 2010 – 5 September 2017
	1,989	-	-	-	1,989	€9.45	4 December 2011 – 3 June 2012

(a) The options exercised during the year were under the terms of the Company's Share Option Scheme (see Note 21).

(b) The market price of the Company's shares at 31 December 2010 was €30.70 and, for the year then ended, the Company's daily closing share price ranged between €22.75 and €30.80 (2009: ranged between €10.52 and €25.75 and was €24.75 at year end).

During the year ended 31 December 2010, the executive directors and the Company Secretary had the following interests and were conditionally granted the following share awards under the Long Term Incentive Plan scheme:

	Awards outstanding at start of year	Granted during year	Vested during year	Awards outstanding at end of year	Date awards granted	Weighted average share price at date of grant	Cost of shares vested to directors during the year €'000
Patrick Kennedy	270,000	4,048	(84,048)	190,000	2008 & 2009	€20.53	1,465
	-	100,000	-	100,000	2 March 2010	€23.76	-
Breon Corcoran	205,000	3,542	(73,542)	135,000	2008 & 2009	€16.44	1,282
	-	80,000	-	80,000	2 March 2010	€23.76	-
Jack Massey	85,000	1,518	(31,518)	55,000	2008 & 2009	€20.32	549
	-	25,000	-	25,000	2 March 2010	€23.76	-
David Johnston (Secretary)	5,500	-	-	5,500	2008 & 2009	€18.94	-

The awards are subject to the rules of the scheme and will vest if testing growth performance targets are met over the allowable vesting period. Further details of the scheme are outlined in the Remuneration Committee Report and in detail in Note 21 to the consolidated financial statements. Included in current year award grants and vestings are a small number of vested shares which relate to dividends earned over the vesting period in respect of the shares vested during the year. The cost of shares vested during the year included in the table above represent the value of shares at original cost vested from the Long Term Incentive Plan (see Note 21) to directors during the year.

Transactions with directors and parties related to them have been disclosed in Note 7 to the consolidated financial statements on page 89. The directors and secretary have no interests in shares in any other Group companies.

Political donations

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

Books of account

The measures which the directors have taken to ensure that proper books of account are kept are: the appointment of suitably qualified personnel, the adoption of suitable policies for recording transactions, assets and liabilities, and the appropriate use of computers and documentary systems. The Group and Company books of account are kept at Airton House, Airton Road, Dublin 24.

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

For the purpose of Regulation 21 of Statutory Instrument 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006', the information given under the following headings on pages 106 and 107 (Share capital and reserves), page 36 (Board of Directors), pages 58 to 60 (Performance bonus and Long term incentive bonus plan), page 59 (Long Term Incentive Plan), page 59 (Share options), page 60 (directors' service contracts) and pages 107 to 111 (Share schemes) is deemed to be incorporated in the Directors' Report. The Company's outsourcing contract with PMU can be terminated by PMU in some circumstances if there is a change of control in the Company.

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

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

1. The Chairman's Statement on pages 2 to 7, the Chief Executive's Review on pages 8 to 12 and the Operating & Financial Review on pages 13 to 29 which include a review of the external environment, key strategic aims and financial and other key performance measures.
2. The Corporate Governance statement on pages 50 to 57.
3. The Remuneration Committee Report on pages 58 to 60.
4. The Corporate Social Responsibility report on pages 30 to 35.
5. Details of earnings per share on page 93.
6. Details of shares purchased by the Company on page 106.
7. Details of derivative financial instruments on pages 122 to 124.

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

For the purpose of Statutory Instrument 450/2009 'European Communities (Directive 2006/46/EC) Regulations 2009', the Corporate Governance statement on pages 50 to 57 is deemed to be incorporated in the Directors' Report.

Auditor

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

Going concern

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

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

4 March 2011

Pope My Ride
Pope My Ride
paddypower.com
Paddy Power plc

Pope My Ride

It's not every day that the boss of the Catholic Church decides to pay a visit to the UK so, to celebrate the momentous occasion, we put our very own Pope and Popemobile on the streets of Glasgow, Edinburgh and London. The Paddy Power Popemobile proved popular not only with crowds on their way to see the real Pope but also to the ever-watchful police, resulting in what must be the first time a Papal car has ever been clamped!

We were lucky to dodge a betting coup after the Pontiff failed to kiss the tarmac on arrival at Edinburgh airport, scuppering a host of bets placed at odds of 10/1. Francis Arinze of Nigeria is the 2/1 favourite to succeed Benedict to become the next Pope while Father Dougal Maguire of Craggy Island remains the 1000/1 outsider.

Corporate Governance

The Board is committed to maintaining the highest standards of corporate governance. The following describes how the Group applies the main and supporting principles of section 1 of the Combined Code on Corporate Governance (June 2008), which sets out principles of good governance and a code of best practice.

On 29 September 2010, the Irish Stock Exchange ('ISE') amended the Listing Rules of the ISE to require listed companies to apply the provisions of the new UK Corporate Governance Code published in June 2010. The UK Corporate Governance Code applies to accounting periods beginning on or after 30 September 2010. In addition, the ISE introduced the Irish Corporate Governance Annex to apply to accounting periods beginning on or after 18 December 2010.

The Board welcomes these corporate governance developments, which apply to the Group for the year ending 31 December 2011.

Our policy on corporate governance is as follows:

Board role and responsibilities

Your Board has overall responsibility for the leadership, control and oversight of the Group. Responsibility for the management of the Group has been delegated by the Board to executive management. This delegation is effected through the Chief Executive, who is accountable to the Board for its exercise. The functions of Chairman and Chief Executive are not combined and both roles' responsibilities are clearly divided. A number of responsibilities of the Board are delegated to committees of the Board.

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

Induction and development of non-executive directors

New directors are provided with extensive induction materials and are comprehensively briefed on the Group, its operations, corporate governance best practice and their duties as a director. Briefings with the executive directors and senior management are also held on a regular basis.

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

Board composition, refreshment and renewal

The Board should comprise a mix of the necessary business skills required to provide leadership, control and oversight of the management of the business and to contribute to the development and advancement of business strategy. Paddy Power is a specialist business and it is in the best interests of all shareholders that it should always retain the betting industry savvy that has been part of the fabric of the Board, both as a private and public company.

The current Board comprises a mix of executive directors, founding directors and directors recruited for the particular skill and experience they would bring to Paddy Power. The standard terms of the letter of appointment of non-executive directors are available, on request, from the Company Secretary.

At each Annual General Meeting of the Company, it has been the practice that every director who has been in office at the completion of each of three successive Annual General Meetings since he or she was last appointed or reappointed, should retire from office. That practice will continue for the AGM on 17 May 2011.

Any director appointed by the Board is subject to election by shareholders at the first opportunity after his or her appointment. Non-executive directors who have served longer than nine years (e.g. three three-year terms) are subject to annual re-election. Reappointment is not automatic. Directors who are seeking re-election are subject to a performance appraisal, which is overseen by the Nomination Committee.

In line with the principles of the new UK Corporate Governance Code, the Group will adopt a policy of annual re-election for all board directors with effect from the AGM to be held in May 2012.

The Board is committed to a policy of Board refreshment and renewal. William Reeve was appointed to the Board on 19 May 2010 and will seek election at the 2011 AGM. This follows the appointment of Jane Lighting to the Board in September 2009. The appointments of William Reeve and Jane Lighting to the Board as non-executive directors formed part of a recruitment process undertaken in conjunction with external recruitment consultants.

Breon Corcoran retires from the Board by rotation in 2011 and, being eligible, offers himself for re-election at the 2011 AGM. As Brody Sweeney has completed a second three year term, the Board has carried out a review of his remaining as a non-executive director in the context of his performance and commitment to the role and believe that it is appropriate for him to do so. Brody, therefore also offers himself for re-election at the 2011 AGM. Fintan Drury, who will complete a third term as a director in 2011, will step down from the Board before the end of the year.

David Power and Stewart Kenny, both founder members of the Company, have served on the Board for longer than nine years. The Combined Code sets out that non-executive directors may serve longer than nine years, subject to annual re-election. The Board has performed a review of the appropriateness of their continuing to serve as directors and believes that their experience within the industry remains central to your Company's continued development and success and that their continuance in office is in the best interests of the Company and its shareholders. Both David and Stewart therefore offer themselves for re-election at the AGM in May 2011.

Directors' independence

The Combined Code states that at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent. The Group has determined that Tom Grace, Fintan Drury, Jane Lighting, Pádraig Ó Ríordáin, William Reeve and Brody Sweeney are independent. The Chairman, Nigel Northridge, was independent on his appointment to the Board as a non-executive director in July 2003 and as Chairman in January 2009. David Power and Stewart Kenny are founder members of the Company and have served on the Board for longer than nine years and are not considered by the Board to be independent. There are three executives on the Board (Patrick Kennedy, Breon Corcoran and Jack Massey).

The Board currently comprises six independent non-executive directors, two non-executive directors and three executive directors. Fintan Drury will step down from the Board before the end of 2011. On his retirement, the Board will remain compliant with the Combined Code such that at least half the Board, excluding the Chairman, will comprise directors determined by the Board to be independent.

As part of its review, the Board considered the independence of Fintan Drury. Fintan joined the Board in August 2002 and was Chairman of the Group from May 2003 to December 2008. The Board has concluded that, notwithstanding his prior role as Chairman, Fintan is independent in character and judgement and is accordingly an independent non-executive director within the spirit and meaning of the Combined Code.

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

The Chairman's role

I have been Chairman of the Group since January 2009. The Chairman is responsible for the leadership of the Board, ensuring its continued effectiveness in carrying out its duties and setting its agenda. The Chairman is also responsible for ensuring that all directors receive accurate, timely and clear information. The Chairman facilitates the effective contribution of his non-executive colleagues and ensures constructive relationships exist between executive and non-executive directors. He is the guarantor of effective communications with shareholders and ensures that the Board is apprised of the views of shareholders.

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

Directors' fees

As reported in the 2007 Annual Report, the standard non-executive fee was set at €70,000 in 2008. It was also agreed that the Audit Committee chair would receive an additional fee of €20,000, that chairs of other Committees would be paid an additional fee of €12,000 and that the Chairman would receive an annual fee of €200,000.

These fees were reviewed in January 2010 and it was agreed that they would remain unchanged.

Non-executive directors are not eligible to participate in the Group's bonus schemes, option plans or share award schemes. None of the remuneration of the non-executive directors is performance related. The non-executive directors' fees are not pensionable and non-executive directors are not eligible to join any Group pension plans.

Board performance evaluation

As Chairman, it is my responsibility to ensure that the performance of all directors is at the levels required and I have met with all the directors individually to discuss their performance. The senior independent director has conducted a review of my performance with the non-executive directors, while also taking into account the views of the executive directors, the results of which have been discussed with me.

The Board conducts an annual evaluation of its own performance as do each of its Committees. This involves the completion of assessment questionnaires by all directors covering the performance of the Board and by the Committee members in relation to the individual Committees. Other aspects that are reviewed include the effectiveness of the Chairman, executive and non-executive directors, the monitoring of operational performance, corporate governance, as well as leadership and culture. A summary of the conclusions from the evaluation are considered by the Board and any appropriate actions are taken. The Board also recognises the need for periodic external evaluation, which is now required at least every three years as set out in the new UK Corporate Governance Code.

Board operations and committees

The Board holds at least eight full Board meetings each year. The Board also visited a selection of the Group's retail outlets in the UK in 2010 and three of the non-executive directors separately visited the Group's Australian division during the year. I expect all Board members to be available to me between meetings.

The composition of the Board committees as at 4 March 2011 was as follows:

Audit
Tom Grace (Chair); Jane Lighting; Brody Sweeney.

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

Nomination
Nigel Northridge (Chair); Fintan Drury; Pádraig Ó Ríordáin; Brody Sweeney.

Risk
David Power (Chair); Breon Corcoran; Patrick Kennedy; Stewart Kenny.

Audit Committee

The Audit Committee's responsibilities include:

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

The Audit Committee has unrestricted access to the Group's external and internal auditors, with whom it meets at least twice a year, both with and without management. These meetings ensure that there are no restrictions on the scope of their audits, and allow discussion of any matters that the auditors did not wish to raise in the presence of management.

The Chairman of the Audit Committee visited the Group's Australian business in October 2010, where he met with the local internal and external auditors and management team and attended a meeting of the local audit committee.

The Audit Committee is responsible for ensuring that external auditor objectivity and independence is safeguarded where the auditor also provides non-audit services to the Group. A breakdown of the non-audit fees provided by the Group's auditors in 2010 is set out on page 91.

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

Paddy Power engaged KPMG, during 2010, to provide tax advisory services to the Group. KPMG also provided one-off services, during 2010, relating to the acquisition of Sportsbet. Excluding the related one-off fees for these services, non-audit fees paid to KPMG in 2010 were not in excess of the audit fee.

To ensure a rigorous, objective and independent external audit, the Company undertook a tender process for the provision of audit services to the Group following completion of the financial statements for the year ended 31 December 2010. The Company received written tenders and presentations from the four leading global audit firms for the role of external auditor. Following detailed consideration, it was decided to retain KPMG as the Group's external auditor.

When taking the decision to retain KPMG as external auditor, in order to ensure that the perceived independence and objectivity of the auditors is maintained, the Audit Committee agreed that KPMG would cease to be the primary tax advisor to the Group and that this work would be undertaken by another accounting firm. Tax advice constitutes the vast majority of non-audit fees incurred by the Group. The Audit Committee has also set a policy that non-audit fees should not exceed audit fees on an annual basis, save in exceptional circumstances. To further ensure that auditor objectivity is not compromised, KPMG have also changed the lead audit partner for the Paddy Power Group in accordance with their rotation policy.

The Audit Committee is comprised of three directors all of whom have been determined by the Board to be independent.

The Board has determined that Tom Grace, the Chairman of the Committee, has recent and relevant financial experience and therefore satisfies the requirements of the Combined Code.

Remuneration Committee

The Remuneration Committee is primarily responsible for making recommendations to the Board on remuneration policy for the Group's executive directors and selected senior management. The report of the Remuneration Committee is set out on pages 58 to 60.

The Remuneration Committee is comprised of three directors all of whom have been determined by the Board to be independent.

Nomination Committee

The Nomination Committee is primarily responsible for recommending candidates to the Board for appointment as directors and ensuring that appropriate procedures are followed for all such appointments.

To facilitate the search for candidates to serve as non-executive directors, the Committee uses the services of independent consultants.

Risk Committee

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

Attendance at Board and Committee meetings

There were eight full meetings of the Board in 2010.

The attendance at Board and Committee meetings by the directors who held office in 2010 are set out below:

	Note	Board	Audit	Remuneration	Nomination	Risk
Number of meetings held in 2010		8	5	4	3	2
Attended by:						
N Northridge*		8		4	3	
T Grace*		8	4			
F Drury*		8			3	
S Kenny**		8				2
J Lighting*		6	5	4		
P Ó Ríordáin*		7		4	2	
D Power**		8				2
W Reeve*	(1)	4				
B Sweeney*		8	5		2	
P Kennedy***		8				2
B Corcoran***		8				2
J Massey***		8				

* Independent non-executive director
** Non-executive director
*** Executive director
(1) William Reeve was appointed to the Board on 19 May 2010. There were four Board meetings after his appointment, all of which he attended.

The Board places considerable importance on attendance at both scheduled Board and Committee meetings. During the year, no director attended less than 75% of scheduled Board or Committee meetings.

All of the directors were in attendance at the 2010 AGM on 18 May 2010.

Senior Independent Director

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

Company Secretary

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

Internal control

The Combined Code on Corporate Governance states that:

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

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

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

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

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

The Board, through the Audit Committee, is responsible for conducting a review of the effectiveness of the Group's systems of internal controls. This review has been performed in respect of the year ended 31 December 2010. The directors consider that the procedures necessary to implement the Turnbull guidelines on internal control in the Combined Code have been properly established.

Relations with shareholders

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

There is regular discussion between Group management and analysts, brokers and institutional shareholders, ensuring that the market is appropriately informed on business activities. Visits to the Group's headquarters are encouraged and tours of our retail outlets are undertaken regularly. Feedback from major shareholders and reports by analysts are communicated to directors so directors can monitor their views on the Group.

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

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

Compliance

The directors confirm that the Company has complied throughout the accounting period with the provisions of the Combined Code.

Conclusion

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

Nigel Northridge

Nigel Northridge
Chairman

4 March 2011

Remuneration Committee Report

The Remuneration Committee

The Remuneration Committee operates within agreed terms of reference and has responsibility for making recommendations to the Board on the Group's general policy relating to executive remuneration, and to determine, on behalf of the Board, specific remuneration packages for the executive directors. Outside independent professional advice is sought where necessary. In addition to the remuneration of the executive directors, the Committee is also responsible for approving the remuneration of those other senior executives who report directly to the Chief Executive ('senior executives'). Membership of the Remuneration Committee is set out on page 53.

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

Remuneration policy

General

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

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

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

Consistent with this policy, the benefit packages awarded to executive directors are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration, designed to motivate them, but not to detract from the goals of corporate governance.

Basic salaries and benefits

Salaries of executive directors are set by reference to those prevailing in the market. Employment related benefits relate principally to medical, life and health insurances and to the provision of a company car or car allowance. No fees are payable to executive directors.

Performance bonus

Under current arrangements, which are reviewed annually by the Remuneration Committee, executive directors have targeted bonuses of 40% to 50% of salary subject to the attainment of specific and stretching targets set for each individual. The level earned in any one year depends on the Committee's assessment of each individual's performance and the overall performance of the Group against predetermined revenue and profitability targets for the year. The maximum payout under the bonus scheme can be twice the bonus target (i.e. a maximum of 80% to 100% of salary) and this will only be achieved with substantial out-performance in the year under review.

Pension entitlements

The Group does not operate any pension scheme or make pension provision for non-executive directors. Each executive director has an independent pension trust into which the Group makes defined contributions.

Targeted remuneration

The targeted composition of each director's annual remuneration (excluding sundry benefits) is as follows:

	Performance related	Non-performance related
Executive		
Patrick Kennedy	28%	72%
Breon Corcoran*	24%	76%
Jack Massey	24%	76%
Non-executive		
Nigel Northridge	-	100%
Tom Grace	-	100%
Fintan Drury	-	100%
Stewart Kenny	-	100%
Jane Lighting	-	100%
Pádraig Ó Ríordáin	-	100%
David Power	-	100%
William Reeve	-	100%
Brody Sweeney	-	100%

* this percentage excludes the possible impact of the long term incentive bonus plan as described below.

Long Term Incentive Plan

It is Group policy to motivate its key executives to deliver superior performance over the long term and, at the Annual General Meeting held on 22 June 2004, the shareholders approved the 2004 Long Term Incentive Plan ('LTIP'). This plan, details of which are included in Note 21 to the consolidated financial statements, allows shares conditionally awarded to executives to be earned over a three to five year period subject to the achievement of testing earnings per share growth targets. Details of share awards to the executive directors and the Company Secretary are included with the directors' and secretary's interests in the Directors' Report on page 46.

Shareholding guidelines

The Group has put in place share ownership guidelines for executive directors to ensure the interests of executive directors are aligned with those of shareholders. In summary, the guidelines are that the current market value of the shares in the Company held by the relevant director should be at least 1.5 times salary for the Chief Executive and 1 times salary for other executive directors.

Share options

Details of options granted to the executive directors prior to the introduction of the LTIP and options granted to executive directors under the Sharesave Schemes are included with the directors' and secretary's interests in the Directors' Report on page 46. All options are granted at the market price on the date of grant, with the exception of options granted under Revenue approved sharesave schemes which are granted at a discount. Further details of these plans are given in Note 21 to the consolidated financial statements.

The market price of the Company's shares at 31 December 2010 was €30.70 and, for the year then ended, the Company's daily closing share price ranged between €22.75 and €30.80.

Long term incentive bonus plan

As first disclosed in the 2009 Annual Report, Breon Corcoran participates in a cash based long term incentive bonus plan in respect of the 2009 to 2012 period.

There are two components to the plan and payment there under is based on the achievement of two separate and very challenging performance targets, one based on operating profit in the Group's online and telephone divisions (excluding Australia) and the other on EBITDA in the Group's Australian business in the years ended 31 December 2012 and 30 June 2012, respectively.

Under the plan, Breon Corcoran has the potential to earn a cash payment of between €0.25m and €1.5m if the online and telephone divisions (excluding Australia) generate operating profit in 2012 above challenging predefined thresholds and between €0.4m and €1.0m if EBITDA in the Group's Australian business in the year ended 30 June 2012 is above challenging predefined thresholds. The payment of 70% of any amount due under the plan is scheduled for around March 2013, at which date Breon Corcoran must also be employed by the Group for a payment to be made to him. The remaining 30% will be paid on the one year anniversary of the original payment date, provided that Breon is still an employee of the Company on that date.

The interests of Mr Corcoran under the plan did not change between the start and end of the financial period and no benefit crystallised in this period.

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

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

Directors' detailed emoluments
Full details of the emoluments of the directors are set out in Note 7 to the consolidated financial statements on pages 88 and 89.

Padraig Ó Ríordáin

Pádraig Ó Ríordáin
Chairman, Remuneration Committee

4 March 2011

Statement of Directors' Responsibilities
In respect of the Annual Report and the Financial Statements

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

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

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Acts 1963 to 2009 provide in relation to such financial statements that references in the relevant part of the Acts to financial statements giving a true and fair view are references to their achieving a fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

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

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

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Group and Company, and which enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2009, and, as regards the Group financial statements, Article 4 of the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 (the 'IAS Regulation'). They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility Statement, in accordance with the Transparency Regulations

Each of the directors, whose names and functions are listed in the Board of Directors section on page 36, confirm that, to the best of each person's knowledge and belief:
- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2010 and of the profit of the Group for the year then ended;
- the Company financial statements, prepared in accordance with generally accepted accounting practice in Ireland, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2010;
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Patrick Kennedy *Chief Executive*	**Jack Massey** *Finance Director*

4 March 2011

Independent Auditor's Report to the Members of Paddy Power plc

We have audited the Group and Company financial statements (the 'financial statements') of Paddy Power plc for the year ended 31 December 2010, which comprise the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Financial Position and Company Balance Sheet, the consolidated Statement of Cash Flows, the consolidated Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU, and for preparing the Company financial statements in accordance with applicable law and the financial reporting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland ('Generally Accepted Accounting Practice in Ireland'), are set out in the Statement of Directors' Responsibilities on page 61.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and have been properly prepared in accordance with the Companies Acts 1963 to 2009 and Article 4 of the IAS Regulation, and whether, in addition, the Company financial statements give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland and have been properly prepared in accordance with the Companies Acts 1963 to 2009. We also report to you our opinion as to: whether proper books of account have been kept by the Company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We are required by law to report to you our opinion as to whether the description of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated Group financial statements, set out in the Corporate Governance statement, is consistent with the consolidated financial statements. In addition, we review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2008 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Review, the Operating & Financial Review and the Remuneration Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009 and Article 4 of the IAS Regulation;
- the Company financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs as at 31 December 2010; and
- the Company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' Report on pages 38 to 47 and the description in the Corporate Governance statement of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated Group financial statements is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet on page 129, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2010 a financial situation which under Section 40(1) of the Companies (Amendment) Act 1983 would require the convening of an extraordinary general meeting of the Company.

KPMG

Chartered Accountants
Registered Auditor

Dublin

4 March 2011

Consolidated Income Statement
Year ended 31 December 2010

	Note	Total 2010 €'000	Total 2009 €'000
Amounts staked by customers		**3,834,316**	2,751,537
Continuing operations			
Income	4	**443,527**	295,928
Direct betting costs	5	**(60,256)**	(37,954)
Gross profit		**383,271**	257,974
Employee expenses	6	**(129,883)**	(90,146)
Property expenses		**(30,432)**	(25,222)
Marketing expenses		**(50,358)**	(28,973)
Technology and communications expenses		**(22,259)**	(16,185)
Depreciation and amortisation		**(24,278)**	(18,113)
Other expenses, net		**(22,312)**	(12,641)
Total operating expenses		**(279,522)**	(191,280)
Operating profit		**103,749**	66,694
Financial income – on financial assets at amortised cost	8	**1,779**	900
Financial income – derivative financial instruments at fair value through profit or loss (Sportsbet buyout call options)	8	**7,116**	-
Financial expense	8	**(1,344)**	(402)
Profit before tax		**111,300**	67,192
Income tax expense	10	**(14,566)**	(8,717)
Profit for the year		**96,734**	58,475
Attributable to:			
Equity holders of the Company		**90,005**	56,946
Non-controlling interest		**6,729**	1,529
		96,734	58,475
Earnings per share			
Basic	11	**€1.927**	€1.219
Diluted	11	**€1.874**	€1.207

Notes 1 to 35 on pages 70 to 128 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

4 March 2011

Consolidated Statement of Comprehensive Income
Year ended 31 December 2010

	Note	2010 €'000	2009 Restated €'000
Changes in fair value of available-for-sale financial assets	15	**-**	241
Foreign exchange gain on revaluation of the net assets of foreign currency denominated subsidiaries	8	**12,667**	1,037
Deferred tax on share-based payments	22	**264**	-
Deferred tax on the changes in fair value of available-for-sale financial assets	22	**-**	(76)
Other comprehensive income for the year		**12,931**	1,202
Profit for the year		**96,734**	58,475
Total comprehensive income for the year		**109,665**	59,677
Attributable to:			
Equity holders of the Company		**100,718**	57,451
Non-controlling interest		**8,947**	2,226
Total comprehensive income for the year		**109,665**	59,677

Notes 1 to 35 on pages 70 to 128 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

4 March 2011

Consolidated Statement of Financial Position
As at 31 December 2010

	Note	31 December 2010 €'000	31 December 2009 Restated €'000
Assets			
Property, plant and equipment	12	**77,798**	76,727
Intangible assets	13	**51,510**	45,450
Goodwill	14	**76,967**	63,511
Financial assets	15	**9,735**	1,581
Deferred tax assets	22	**2,591**	1,291
Total non current assets		**218,601**	188,560
Trade and other receivables	17	**15,574**	16,120
Financial assets – restricted cash	18	**21,081**	9,025
Cash and cash equivalents	18	**139,581**	80,576
Total current assets		**176,236**	105,721
Total assets		**394,837**	294,281
Equity			
Issued share capital		**4,995**	4,977
Share premium		**20,876**	18,009
Treasury shares		**(34,177)**	(34,177)
Shares held by long term incentive plan trust		**(33,890)**	(31,858)
Other reserves		**33,699**	16,435
Retained earnings		**236,936**	184,177
Total equity – attributable to equity holders of the Company		**228,439**	157,563
Non-controlling interest		**15,798**	8,947
Total equity		**244,237**	166,510
Liabilities			
Trade and other payables	23	**115,336**	90,553
Derivative financial liabilities	23	**8,586**	5,448
Provisions	24	**278**	1,272
Borrowings	25	**1,885**	5,023
Current tax payable		**6,862**	2,497
Total current liabilities		**132,947**	104,793
Trade and other payables	23	**7,354**	3,003
Derivative financial liabilities	23	**16**	154
Provisions	24	**1,876**	1,611
Borrowings	25	**2,633**	11,498
Deferred tax liabilities	22	**5,774**	6,712
Total non current liabilities		**17,653**	22,978
Total liabilities		**150,600**	127,771
Total equity and liabilities		**394,837**	294,281

Notes 1 to 35 on pages 70 to 128 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy

Jack Massey

4 March 2011

Consolidated Statement of Cash Flows
Year ended 31 December 2010

	Note	2010 €'000	2009 €'000
Cash flows from operating activities			
Profit before tax		**111,300**	67,192
Financial income		**(8,895)**	(900)
Financial expense		**1,344**	402
Depreciation and amortisation		**24,278**	18,113
Cost of employee share-based payments		**13,427**	5,841
Foreign currency exchange loss		**177**	228
(Gain) / loss on disposal of property, plant and equipment and intangible assets		**(12)**	75
Other adjustments		**123**	-
Cash from operations before changes in working capital		**141,742**	90,951
Decrease / (increase) in trade and other receivables		**1,886**	(1,498)
Increase in trade and other payables and provisions		**29,776**	6,652
Cash generated from operations		**173,404**	96,105
Income taxes paid		**(13,159)**	(10,685)
Net cash from operating activities		**160,245**	85,420
Cash flows from investing activities			
Purchase of property, plant and equipment		**(16,431)**	(15,196)
Purchase of intangible assets		**(7,278)**	(3,658)
Purchase of businesses, net of cash acquired	16	**(10,460)**	(27,984)
Acquisition expenses paid	16	**(212)**	(2,437)
Proceeds from disposal of property, plant and equipment and intangible assets		**208**	295
Interest received		**1,902**	907
Net cash used in investing activities		**(32,271)**	(48,073)
Cash flows from financing activities			
Proceeds from the issue of new shares		**3,186**	4,648
Purchase of shares by long term incentive plan trust		**(9,048)**	(14,067)
Purchase of non-controlling interest	16	**(8,561)**	-
Dividends paid	20	**(30,769)**	(26,158)
Movements in current and non current restricted cash balances		**(12,808)**	(9,267)
Proceeds from secured bank loan		**-**	11,878
Proceeds from non-controlling shareholder loans		**-**	3,492
Repayment of non-controlling shareholder loans		**(3,067)**	-
Secured bank loan repayments		**(10,906)**	(1,041)
Finance lease repayments		**(961)**	(316)
Interest paid		**(1,229)**	(373)
Net cash used in financing activities		**(74,163)**	(31,204)
Net increase in cash and cash equivalents		**53,811**	6,143
Cash and cash equivalents at start of year		**80,576**	76,661
Foreign currency exchange gain / (loss) in cash and cash equivalents		**5,194**	(2,228)
Cash and cash equivalents at end of year	18	**139,581**	80,576

Notes 1 to 35 on pages 70 to 128 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

4 March 2011

Consolidated Statement of Changes in Equity
Year ended 31 December 2010

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Fair value reserve €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
	Attributable to equity holders of the Company (see Note 19)												
Balance at 1 January 2010	**49,767,339**	**4,977**	**18,009**	**75**	**-**	**1,392**	**(34,177)**	**(31,858)**	**14,968**	**184,177**	**157,563**	**8,947**	**166,510**
Total comprehensive income for the year													
Profit	-	-	-	-	-	-	-	-	-	**90,005**	**90,005**	**6,729**	**96,734**
Foreign exchange retranslation	-	-	-	**10,449**	-	-	-	-	-	-	**10,449**	**2,218**	**12,667**
Deferred tax on share-based payments (Note 22)	-	-	-	-	-	-	-	-	-	**264**	**264**	-	**264**
Total comprehensive income for the year	-	-	-	**10,449**	-	-	-	-	-	**90,269**	**100,718**	**8,947**	**109,665**
Transactions with owners of the Company, recognised directly in equity													
Shares issued (Note 19)	**186,775**	**18**	**2,867**	-	-	-	-	-	-	-	**2,885**	-	**2,885**
Own shares acquired by the long term incentive plan trust – 354,500 ordinary shares (Note 21)	-	-	-	-	-	-	-	**(9,048)**	-	-	**(9,048)**	-	**(9,048)**
Purchase of non-controlling interest – Sportsbet (Note 16)	-	-	-	-	-	**39**	-	-	-	**(6,568)**	**(6,529)**	**(1,952)**	**(8,481)**
Discount on loans from non-controlling interest	-	-	-	**48**	-	**(65)**	-	-	-	**17**	-	-	-
Repayment of non-controlling interest loans	-	-	-	-	-	**(198)**	-	-	-	-	**(198)**	**(144)**	**(342)**
Net wealth tax	-	-	-	-	-	**49**	-	-	-	-	**49**	-	**49**
Equity-settled transactions – expense recorded in income statement (Note 21)	-	-	-	-	-	-	-	-	**13,427**	-	**13,427**	-	**13,427**
Equity-settled transactions – vestings (Note 19)	-	-	-	-	-	-	-	**7,016**	**(5,934)**	**(741)**	**341**	-	**341**
Transfer to retained earnings on exercise of share options (Note 19)	-	-	-	-	-	-	-	-	**(551)**	**551**	-	-	-
Dividends to shareholders (Note 20)	-	-	-	-	-	-	-	-	-	**(30,769)**	**(30,769)**	-	**(30,769)**
Total contributions by and distributions to owners of the Company	**186,775**	**18**	**2,867**	**48**	-	**(175)**	-	**(2,032)**	**6,942**	**(37,510)**	**(29,842)**	**(2,096)**	**(31,938)**
Balance at 31 December 2010	**49,954,114**	**4,995**	**20,876**	**10,572**	-	**1,217**	**(34,177)**	**(33,890)**	**21,910**	**236,936**	**228,439**	**15,798**	**244,237**

Restated	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Fair value reserve €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
	Attributable to equity holders of the Company (see Note 19)												
Balance at 1 January 2009	49,270,742	4,927	11,318	(346)	-	1,136	(34,177)	(21,526)	13,733	152,175	127,240	-	127,240
Total comprehensive income for the year													
Profit	-	-	-	-	-	-	-	-	-	56,946	56,946	1,529	58,475
Foreign exchange retranslation	-	-	-	421	-	-	-	-	-	-	421	616	1,037
Fair value changes (Note 19)	-	-	-	-	84	-	-	-	-	-	84	81	165
Total comprehensive income for the year	-	-	-	421	84	-	-	-	-	56,946	57,451	2,226	59,677
Transactions with owners of the Company, recognised directly in equity													
Shares issued (Note 19)	496,597	50	6,691	-	-	-	-	-	-	-	6,741	-	6,741
Own shares acquired by the long term incentive plan trust – 540,000 ordinary shares (Note 21)	-	-	-	-	-	-	-	(14,067)	-	-	(14,067)	-	(14,067)
Business combinations – Sportsbet (Note 16)	-	-	-	-	-	-	-	-	-	-	-	6,903	6,903
Business combinations – IAS	-	-	-	-	(84)	-	-	-	-	(15)	(99)	(427)	(526)
Discount on loans from non-controlling interest (Notes 19 & 25)	-	-	-	-	-	256	-	-	-	-	256	245	501
Equity-settled transactions – expense recorded in income statement (Note 21)	-	-	-	-	-	-	-	-	5,841	-	5,841	-	5,841
Equity-settled transactions – vestings (Note 19)	-	-	-	-	-	-	-	3,735	(3,234)	(143)	358	-	358
Transfer to retained earnings on exercise of share options (Note 19)	-	-	-	-	-	-	-	-	(1,372)	1,372	-	-	-
Dividends to shareholders (Note 20)	-	-	-	-	-	-	-	-	-	(26,158)	(26,158)	-	(26,158)
Total contributions by and distributions to owners of the Company	496,597	50	6,691	-	(84)	256	-	(10,332)	1,235	(24,944)	(27,128)	6,721	(20,407)
Balance at 31 December 2009	49,767,339	4,977	18,009	75	-	1,392	(34,177)	(31,858)	14,968	184,177	157,563	8,947	166,510

Notes 1 to 35 on pages 70 to 128 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy

Jack Massey

4 March 2011

1. General information

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

The Company is a public limited company incorporated and domiciled in the Republic of Ireland and has its primary listing on the Irish Stock Exchange. The address of its registered office is set out on page 1 of this Annual Report.

The consolidated financial statements of the Group for the year ended 31 December 2010 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 4 March 2011.

2. Basis of preparation and summary of significant accounting policies

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

Further to IAS Regulation (EC1606/2002) ('Accounting standards adopted for use in the EU'), EU law requires that the annual consolidated financial statements of the Group be prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted by the European Union ('EU'). The consolidated financial statements have been prepared on the basis of IFRSs adopted by the EU and effective for accounting periods ending on or before 31 December 2010. The accounting policies set out below have been applied consistently by Group entities.

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

Recent accounting pronouncements

The IASB and the International Financial Reporting Interpretations Committee ('IFRIC') have issued the following standards and interpretations which were effective and significant for the Group in the year ended 31 December 2010:

Revised IFRS 3, 'Business Combinations (2008)'

From 1 January 2010, the Group has applied IFRS 3, 'Business Combinations (2008)' in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no significant impact on earnings per share in the current reporting period.

The revised standard impacts on the amounts recorded in goodwill and in the income statement for business combinations, and incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration is measured at fair value, with subsequent changes therein recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, are expensed as incurred.
- Any pre-existing interest in the acquiree is measured at fair value with the gain or loss recognised in profit or loss.
- Any non-controlling interest is measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

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

From 1 January 2010, the Group has applied IAS 27, 'Consolidated and Separate Financial Statements (2008)' in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and there was no impact on earnings per share in the current reporting period.

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

From 1 January 2010, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised. Previously, goodwill arising on the acquisition of non-controlling interests in a subsidiary would have been recognised, and represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

See Note 16 for the application of the new policy to the acquisition of non-controlling interests that occurred during the reporting period.

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

- IAS 32 Amendment, 'Classification of Rights Issues' (effective for the Group's 2011 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' (effective for the Group's 2011 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.

Basis of consolidation

The Group's financial statements consolidate the financial statements of Paddy Power plc and its subsidiary undertakings based on accounts made up to the end of the financial year. A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation except to the extent that unrealised losses provide evidence of impairment.

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

Judgements and estimates

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes and in Note 35:

- Note 14 – measurement of the recoverable amounts of cash generating units containing goodwill and indefinite life licences and brands intangible assets.
- Note 15 – embedded derivative financial assets.
- Note 16 – business combinations.
- Note 21 – measurement of share-based payments.
- Note 22 – utilisation of UK tax losses.
- Note 23 – sports betting open positions.
- Note 26 – credit risk arising from trade and other receivables.

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

Restatement of prior year financial information

As permitted by IFRS 3 'Business Combinations', and as a result of (1) the finalisation of fair value accounting for the acquisition of the 51% share of Sportsbet Pty Limited ('Sportsbet') and (2) the finalisation of fair value accounting for the Group's acquisition of the 100% interest in International All Sports Limited ('IAS') on a step acquisition basis, a number of adjustments have been made to the Group's 31 December 2009 comparative financial information. Where adjustments have been made to comparative information in respect of the year ended 31 December 2009 the relevant financial statement or note is headed up as 'Restated'. The principal adjustments made are summarised below:

Note (see below)	Deferred tax on Sportsbet brands intangible assets (1) €'000	Sportsbet buyout call option finalisation (2) €'000	Step acquisition of IAS (3) €'000	IAS acquisition balance sheet (4) €'000	Foreign currency retranslation and other (5) €'000	Total €'000
Intangible assets – computer software	-	-	-	354	12	**366**
Goodwill	1,464	1,055	(731)	1,165	(345)	**2,608**
Financial assets	-	(917)	-	-	-	**(917)**
Deferred tax assets	-	-	-	-	(1,993)	**(1,993)**
Current assets – other receivables	-	-	-	(302)	(10)	**(312)**
Total assets	**1,464**	**138**	**(731)**	**1,217**	**(2,336)**	**(248)**
Foreign exchange translation reserve	-	-	(81)	-	524	**443**
Retained earnings	-	-	467	-	-	**467**
Non-controlling interest	1,407	-	345	333	145	**2,230**
Current liabilities – trade and other payables	-	-	-	(80)	(20)	**(100)**
Current liabilities – provisions	-	-	-	(102)	-	**(102)**
Current liabilities – current tax payable	-	-	-	(1,470)	(49)	**(1,519)**
Non current liabilities – derivative financial liabilities	-	(138)	-	-	-	**(138)**
Non current liabilities – provisions	-	-	-	102	-	**102**
Non current liabilities – deferred tax	(2,871)	-	-	-	1,736	**(1,135)**
Total equity and liabilities	**(1,464)**	**(138)**	**731**	**(1,217)**	**2,336**	**248**

(1) The recognition of deferred tax at the relevant Australian tax rate of 30% on the value of the brands intangible assets recognised on the acquisition of Sportsbet.

(2) A revision in the net fair value of the Sportsbet buyout call options from a financial asset of €917,000 to a financial liability of €138,000 on finalisation of the valuation of these derivative financial instruments.

(3) A change in the consolidation accounting for the IAS acquisition to reflect the acquisition of IAS being completed in two stages, an initial 19.98% acquisition by the Group on 1 July 2009 and the final 80.02% acquisition on 1 October 2009.

(4) Changes to the 1 October 2009 IAS acquisition balance sheet to reflect subsequent information about conditions affecting balances at that date.

(5) Primarily relates to foreign currency retranslation adjustments as of 31 December 2009 in respect of the above and a reclassification of deferred tax balances between deferred tax assets and deferred tax liabilities.

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

The impact on previously reported balances is as follows:

	As previously reported €'000	Adjustment €'000	As restated €'000
Intangible assets	45,084	366	**45,450**
Goodwill	60,903	2,608	**63,511**
Financial assets	2,498	(917)	**1,581**
Deferred tax assets	3,284	(1,993)	**1,291**
Trade and other receivables	16,432	(312)	**16,120**
Foreign exchange translation reserve	(518)	443	**(75)**
Retained earnings	(184,644)	467	**(184,177)**
Non-controlling interest	(11,177)	2,230	**(8,947)**
Current liabilities – trade and other payables	(90,453)	(100)	**(90,553)**
Current liabilities – provisions	(1,170)	(102)	**(1,272)**
Current liabilities – current tax payable	(978)	(1,519)	**(2,497)**
Non current liabilities – derivative financial liabilities	(16)	(138)	**(154)**
Non current liabilities – provisions	(1,713)	102	**(1,611)**
Deferred tax liabilities	(5,577)	(1,135)	**(6,712)**

As the above adjustments to comparative information had no impact on 1 January 2009 balances, the statement of financial position at the beginning of the earliest comparative period (1 January 2009) has not been included in these financial statements.

Income

The services provided by the Group comprise sports betting, fixed odds games betting, online casino and games, peer to peer games including online poker and bingo, financial spread betting and business-to-business services. Income is stated exclusive of value added and general sales taxes and certain free bets, promotions and bonuses.

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

Income from online sportsbook, retail and telephone betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end.

Income from fixed odds games and the online casinos represents net winnings ('customer drop'), being amounts staked net of customer winnings.

Income from peer to peer games and financial spread betting represents commission income ('rake') and tournament fees earned from games completed by the period end. Income from business-to-business services represents fees charged for the services provided in the period.

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

Financial income

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

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

Financial expense

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

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

Operating segment reporting

Operating segments are distinguishable components of the Group that have been established based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Geographical segments provide services within a particular economic environment that are subject to risks and rewards that are different from those components operating in alternative economic environments. The Group has determined that its operating segments of online (ex Australia), Australia, Irish retail, UK retail and telephone (ex Australia) are its reportable operating segments. See Note 4 for further information on operating segments.

Exceptional items

Exceptional items are those that in management's judgement need to be disclosed by virtue of their size or incidence. Such items are included within the income statement caption to which they relate, and are separately disclosed either on the face of the consolidated income statement or in the notes thereto.

Foreign currency

Functional and presentation currency

The Group and Company financial statements are presented in euro which is also the Company's functional currency. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is primarily the euro, pound sterling and Australian dollar.

Foreign currency transactions

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

Gains and losses arising on the retranslation of cash and cash equivalent balances are included within 'other expenses' in the income statement rather than as a financial expense, as the directors consider that the gains or losses arising relate to operations, as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised. Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the statement of cash flows.

Foreign currency translation of foreign operations

To the extent that the Group's foreign operations are considered to have functional currencies which are different from the Group's presentation currency, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation and long term intra-group loans that are part of the net investment because repayment is not planned or foreseen, are translated to euro at foreign exchange rates ruling at the statement of financial position date. The revenues and expenses of these foreign operations are translated to euro at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity.

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

Business combinations

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

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

Costs relating to the acquisition of businesses that occurred since 1 January 2010 are expensed to the income statement when incurred.

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Intangible assets

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

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

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

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

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

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

The licences intangible assets recognised on the acquisition of the D McGranaghan Limited business and the brands intangible assets recognised on the acquisition of Sportsbet Pty Limited and International All Sports Limited are not amortised for the reasons set out in Note 13.

Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security.
In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

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

Non-financial assets

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

Non-derivative financial instruments

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

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

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

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

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

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

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

Financial assets

Restricted cash

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

Available-for-sale investments

Available-for-sale investments (representing the Group's 19.98% investment in IAS between 1 July 2009 and 1 October 2009) are recognised initially at their acquisition date fair value and subsequently at fair value based on their quoted bid price at the reporting date. Changes in the fair value of available-for-sale investments are recognised directly in other comprehensive income until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in profit or loss for the period. Where an investment previously classified as available-for-sale and measured at fair value has been transferred to the cost of investment in a subsidiary, amounts recorded in other comprehensive income will be treated as if the previously held equity interest had been disposed of. This is in accordance with IFRS 3, Revised.

Derivative financial instruments

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

Sports betting open positions

Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Group on initial recognition as financial liabilities at fair value through profit or loss.

Separable embedded derivatives

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

Leases

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

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

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

Income tax

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

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

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

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

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

Provisions

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

Long service leave

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

Lease reinstatement

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

Onerous contracts

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

Employee benefits

Pensions

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

Long term incentive bonus plans

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

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

Share-based payments

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

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

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

Share capital

Ordinary shares

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

Own shares held

Purchases of the Company's shares by the long term incentive plan trust, which have been conditionally awarded to executives under the terms of the share award schemes, and purchases of the Company's own shares held as treasury shares are shown separately as deductions from equity in the consolidated statement of financial position. Transaction costs relating to the purchase by the Company of its own shares are written off directly to retained earnings.

Repurchase of share capital (treasury shares)

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

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

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the statement of financial position date are disclosed in Note 34.

Earnings per share

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

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

Bank and credit card charges

Bank and credit card charges and fees that are considered integral to the operations of the Group's business are recognised in 'total operating expenses' in the consolidated income statement. Bank and credit card charges and fees that are related to the Group's financing activities are recognised in 'financial income and expense' in the consolidated income statement.

3. Financial risk management

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

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

Set out below is information on the Group's exposure to each of the above risks, and what its objectives, policies and processes are for measuring and managing those risks. Information is also provided on how the Group manages its capital. Quantitative disclosures in respect of these risks are included throughout these consolidated financial statements and, in particular, in Notes 25 to 31.

General

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

Market risk

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

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

Sports betting prices/ odds

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

Foreign currency risk

The Group is exposed to currency risk in respect of income, expenses, receivables, cash and cash deposits, and other financial assets and financial liabilities (primarily trade payables and customer balances) that are denominated in currencies that are not the functional currency of the entities in the Group. The currencies in which transactions are primarily denominated are the euro, the pound sterling ('GBP'), the Australian dollar ('AUD') and the US dollar ('USD').

3. Financial risk management *(continued)*

It is Group policy to ensure that foreign currency denominated liabilities, primarily customer balances, are broadly matched by foreign currency denominated assets, primarily cash deposits. This is generally achieved by monthly sales of net foreign currency inflows into euro (or the subsidiaries' functional currency) at spot rates. The Group's Australian activities are conducted by separate subsidiaries whose accounts are denominated in AUD. Foreign exchange impacts therefore arise on the retranslation of their income and expense into euro for Group reporting purposes. Subject to Investment Committee approval, the Group may make use of forward contracts, intentional imbalances between foreign currency denominated liabilities and assets, and derivatives to manage foreign currency exposures on expected future cash flows. During the years ended 31 December 2010 and 2009, the Group did not utilise either foreign currency forward contracts or derivatives.

While the Group generally maintained a naturally hedged balance sheet, as described in the preceding paragraph, during the years ended 31 December 2010 and 2009, its expected future foreign currency denominated income and expenses generally remained un-hedged. The average GBP exchange rate against the euro increased by approximately 4% in 2010 versus 2009 (fell by 11% in 2009 versus 2008), while the AUD exchange rate increased by 19% and USD exchange rate increased by approximately 5% (2009: increased by 6%). The change in the value of the euro against these currencies positively impacted the Group's profit for the year ended 31 December 2010 by approximately €2.9m (2009: adversely impacted by approximately €3.3m), primarily from the increases in the value of GBP versus the euro (approximately 57% of the total positive impact) and AUD versus the euro (approximately 25% of the positive impact).

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

The gain on retranslation of cash and cash equivalent balances in the year ended 31 December 2010 was €5,194,000 (2009: loss of €2,228,000). Within the cash retranslation gains and losses are gains of €235,000 (2009: losses of €3,605,000) that have been included within 'other expenses' in the income statement rather than as a financial expense, as the directors consider that the gain or loss relates to operations as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised (as described above). Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the statement of cash flows, with further analysis presented in Notes 8 and 9.

Interest rate risk

During 2009, the acquisition of Sportsbet and IAS resulted in borrowings being consolidated in the Group's statement of financial position. The Group acquired finance lease debt with the acquisition of a controlling interest in Sportsbet in July 2009. The acquisition of IAS resulted in the Group acquiring additional finance lease debt from IAS and also part funding the acquisition of IAS through a combination of secured bank debt and Sportsbet shareholder loans (both from the Paddy Power group and from the then 49% non-controlling shareholders in Sportsbet, according to their respective shareholdings). Finance lease debt, amounting to €1,260,000 at 31 December 2010 (2009: €1,887,000), is subject to repayment at fixed rates of interest ranging from 8.7% to 16.0% (2009: 8.7% to 15.0%) and at a weighted average rate of interest of approximately 12.5% (2009: 11.9%). The secured non-recourse bank debt of €2,284,000 at 31 December 2010 (2009: €11,453,000) is repayable on a quarterly basis up to 30 September 2012 and bears interest at the bank's base rate plus a margin (at 31 December 2010 the total interest rate was 9.27% (2009: 7.89%)). During 2010, the Group repaid €6,598,000 of bank debt over and above the scheduled repayment amounts from surplus cash. The shareholder loans, which had a face value of €1,072,000 and a carrying value of €974,000 at 31 December 2010 (2009: face value of €3,682,000 and a carrying value of €3,181,000), are from the 39.2% (2009: 49%) non-controlling shareholders in Sportsbet and are non-interest bearing. During 2010, an amount of €3,067,000 was repaid to non-controlling shareholders in respect of these loans (2009: €nil). No derivative financial instruments are used to manage the interest rate risk inherent in the Group's borrowings.

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

3. Financial risk management *(continued)*

Credit risk

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

Trade and other receivables

The Group's sports betting and gaming businesses (excluding Australia) are cash and credit card/ debit card businesses where there is a requirement that the customer pays in advance when a transaction is entered into. An option for customers to avail of credit is normal practice in the Australian online and telephone sports betting markets. Accordingly, the Australian sports betting business model is one where credit is sometimes granted to customers. Trade receivables (after provisions for impairment) amounted to €5,508,000 at 31 December 2010 (2009: €6,391,000); included in this balance are receivables from credit betting customers (primarily in Australia) of €3,986,000 (2009: €4,230,000). Credit lines are provided to customers on a case by case basis for higher value customers or based on credit ratings for smaller value customers. Individual credit limits are decided upon by the credit control function in the first instance after taking into account credit and background reference checks. The collectability of outstanding trade receivable balances is closely monitored by reference to aged receivables and other reports and any receivable balances considered to be uncollectible are provided against when identified. Trade and other receivables impairment allowances are established against individual receivable balances when there is objective evidence that such balances are likely to be uncollectible, either in full or in part. The impairment allowance also includes a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. There is no material concentration of sales with individual customers.

Cash investments

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

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

During 2009 and 2010, in response to financial market instability, the Group at certain times restricted its cash deposit investments to counterparties that had higher credit ratings and shortened the maturities of deposits placed. The Group continues to carefully measure counterparty risk by monitoring credit agency ratings, Credit Default Swap ('CDS') spread prices and other public information, and to take action to mitigate such risks as are identified.

Guarantees

The Group's policy is generally to only provide guarantees in respect of certain commitments of wholly-owned subsidiaries of the Group. The guarantees entered into are generally in respect of certain third party obligations of subsidiaries, such as overdraft facilities. As of 31 December 2010, there were no amounts outstanding in the consolidated financial statements under these guarantees (2009: €nil).

The Group has put in place certain third party bank guarantees in favour of the Isle of Man and Maltese gambling regulatory bodies. These guarantees (which are more fully described in Note 31) are required by the terms of gambling licences and cover the value of player funds held by certain Group companies. In addition, our Australian business has a number of third party guarantees (see also Note 31 for further details). Certain of these guarantees have been partly or fully cash backed by cash deposits which have been classified as either non current or current financial assets depending on when the relevant restrictions first end (see Note 18).

The Australian corporate sports bookmaking licences issued to Sportsbet and IAS require those companies to hold sufficient liquid funds to cover monies owed to customers. At 31 December 2010, the total amount of relevant customer balances attributable to the Australia operating segment was €23,562,000 (AUD30,951,000) (2009: €15,943,000 (AUD25,522,000)) and total cash balances amounted to €31,001,000 (AUD40,723,000) at that date (2009: €19,114,000 (AUD30,598,000)).

3. Financial risk management *(continued)*

Liquidity risk

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

The Group performs regular cash projections to ensure that there is sufficient cash on hand to meet its expected obligations as they fall due. The nature of the Group's business and the potential volatility in sporting results can result in significant differences between expected and actual short term cash flows. Consequently, a conservative approach is applied to cash forecasting and flexibility is built into the forecast to cover potentially adverse sporting results. Cash deposit placement time periods are decided upon by reference to cash inflows forecast and expected requirements in respect of the Group's financial obligations. The Group's treasury policy sets a maximum maturity on deposits of nine months. The overall maturity of deposits at 31 December 2010 and 2009 is set out in Note 18. It is the directors' belief that the Group's cash deposit balances can be withdrawn without significant penalty.

The Group has the following lines of credit:

- Loan facility of €8.9m (AUD11.7m) from National Australia Bank secured on the assets of Sportsbet (on a non recourse to shareholders basis), of which €2.3m (AUD3.0m) was drawn at 31 December 2010 (2009: €11.5m (AUD18.3m)). This loan facility relates to the part funding of the acquisition of IAS by Sportsbet. The loan facility reduces and repayment is required in the amount of €1.3m (AUD1.7m) each quarter until 30 September 2012 at which time the facility expires. The original loan facility amount was €15.2m (AUD20.0m). The loan bears interest at the bank's base rate plus a margin of 3.0% (2009: 3.0%).
- Shareholder loans from the non-controlling shareholders in Sportsbet with a face value of €1.1m (AUD1.4m) and a carrying value of €1.0m (AUD1.3m) which were fully drawn down at 31 December 2010 (2009: face value of €3.7m (AUD5.9m) and a carrying value of €3.2m (AUD5.1m)). These loans part funded the acquisition of IAS by Sportsbet. The loans are non-interest bearing.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling €7.5m. Interest is payable thereon at the bank's prime overdraft rate. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of Allied Irish Banks plc.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling GBP6.5m (€7.6m). Interest is payable thereon at the bank's sterling base rate plus 0.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of AIB Group (UK) plc.

At 31 December 2010, none of the bank overdraft facilities were being utilised.

Capital management

The Group has historically funded its operations through internally generated cash. Borrowings do not form part of its capital structure, apart from the consolidation of debt within its majority-owned subsidiaries in Australia during 2009 and 2010. The Group's financing and capital structure is kept under review by the Board. The Board is committed to capital discipline; however in the current environment a strong cash balance gives Paddy Power financial strength and flexibility for expansion organically or via acquisition, thereby creating more opportunity for the Group. Subsequent to the year end, a material amount of the Group's cash was invested in buying out the remaining 39.2% non-controlling shareholders in Sportsbet – see Note 34 for further information.

The Group has the authority to buy back up to ten percent of the Company's issued share capital between the dates of its Annual General Meetings ('AGM's), subject to the annual approval of its shareholders at the Company's AGM. No shares were acquired under this authority in 2010 or 2009. Shares bought back may either be cancelled or held in treasury. Since its first share buybacks in 2007, a total of 3,873,443 of the Company's own shares have been bought back at an average share price of €21.11, of which 2,139,443 were cancelled and the remaining 1,734,000 are held in treasury.

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

There were no significant changes in the Group's approach to capital management during 2010.

3. Financial risk management *(continued)*

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, with the exception of certain restrictions placed on Sportsbet's ability to distribute profits under the terms of its secured loan agreement with National Australia Bank (see further in Note 25).

In the year ended 31 December 2010, the Group earned a return on capital of 46.6% (2009: 40.0%). Capital is defined by the Group as total equity attributable to equity holders of the Company. Return on capital is calculated by dividing the profit for the year attributable to equity holders of the Company (€90,005,000 (2009: €56,946,000)) by the average capital attributable to the equity holders of the Company for the year. Average capital is calculated by taking the average of the start and end of year capital balances (the average of €157,563,000 and €228,439,000 respectively, being €193,001,000 (2009: average of €127,240,000 and €157,563,000 respectively, being €142,401,000)).

4. Operating segments

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

Income

Income for the years ended 31 December 2010 and 2009 is analysed as follows:

	2010 €'000	2009 €'000
Income in respect of sportsbook and gaming activities	**428,651**	282,972
Other commission and fee revenue (included in non retail income)	**14,876**	12,956
Total income	**443,527**	295,928

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

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

(a) Reportable business segment information

The Group considers that its reportable segments are as follows:
- Online (ex Australia);
- Australia;
- Irish retail;
- UK retail; and
- Telephone (ex Australia).

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

4. Operating segments *(continued)*

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies set out in Note 2 above. Central operating expenses are allocated to reportable segments based on internal management allocation methodologies. Any expenses that are not directly allocated to reportable segments in internal management reports are shown in the reconciliation of reportable segments to Group totals. The Group does not allocate income tax expense or interest. Treasury management is centralised for the online (ex Australia), Irish retail, UK retail and telephone (ex Australia) segments. The Australia segment manages its own treasury function. Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

Reportable business segment information for the year ended 31 December 2010

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

Reportable business segment information for the year ended 31 December 2009

	Online (ex Australia) €'000	Australia €'000	Irish retail €'000	UK retail €'000	Telephone (ex Australia) €'000	Total reportable segments €'000
Income from external customers, being total income	107,788	31,820	106,042	35,353	14,925	295,928
Direct betting costs	(13,202)	(9,527)	(9,814)	(5,411)	-	(37,954)
Gross profit	94,586	22,293	96,228	29,942	14,925	257,974
Depreciation and amortisation	(2,254)	(1,673)	(8,816)	(4,505)	(865)	(18,113)
Other operating expenses	(46,642)	(16,058)	(71,063)	(24,175)	(15,229)	(173,167)
Reportable segment profit / (loss)	45,690	4,562	16,349	1,262	(1,169)	66,694

Reconciliation of reportable segments to Group totals

	2010 €'000	2009 €'000
Income		
Total income from reportable segments, being total Group income (1)	**443,527**	295,928
Profit and loss		
Total profit and loss from reportable segments	**103,749**	66,694
Unallocated amounts:		
Financial income – non-Australia (2)	**411**	723
Financial income – Australia	**1,368**	177
Financial income – Australia – Sportsbet buyout call options (3)	**7,116**	-
Financial expense – non-Australia (2)	**(235)**	(126)
Financial expense – Australia	**(1,109)**	(276)
Profit before tax	**111,300**	67,192

(1) There are no inter-segment revenues or profits requiring elimination in any of the reporting years.
(2) The non-Australia segment comprises the online (ex Australia), Irish retail, UK retail and telephone (ex Australia) operating segments. Financial expense relating to this segment is primarily in respect of guarantee fees payable.
(3) Included in financial income in respect of the Australia segment is €7,116,000 of income relating to the increase in the fair value of the Sportsbet buyout call options – see Notes 8 and 15.

4. Operating segments *(continued)*

(b) Geographical segment information

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

Group revenues by geographical segment are as follows:

Income

	2010 €'000	2009 €'000
UK	**167,416**	103,131
Australia	**97,037**	31,820
Ireland and rest of world	**179,074**	160,977
Total	**443,527**	295,928

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

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

Non current assets

	2010 €'000	2009 Restated €'000
UK	**64,491**	60,450
Australia	**96,564**	71,843
Ireland and rest of world	**54,955**	54,976
Total	**216,010**	187,269

5. Direct betting costs

Direct betting costs comprise:

	2010 €'000	2009 €'000
Betting taxes	**22,420**	16,903
Software supplier costs	**12,580**	9,178
Other direct betting costs	**25,256**	11,873
Direct betting costs	**60,256**	37,954

Betting taxes comprise betting taxes levied on gross win, betting taxes levied on Irish retail and Australia segment amounts staked and general sales tax ('GST') on Australia segment gross win.

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

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

6. Employee expenses and numbers

	2010 €'000	2009 €'000
Wages and salaries	**94,588**	70,949
Social security costs	**11,801**	6,995
Defined contribution pension and life assurance costs	**3,338**	2,338
Share-based payments (Note 21)	**13,427**	5,841
Other staff costs	**6,729**	4,023
	129,883	90,146

	2010	2009
The average number of persons employed by the Group (including executive directors), all of whom were involved in the provision of sports betting and gaming services, during the year was	**2,350**	2,109

7. Directors' emoluments and transactions with key management personnel

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

	Fees €'000	Salary €'000	Pension costs €'000	Benefits €'000	Annual bonus €'000	Total 2010 €'000	Total 2009 €'000
Executive							
Patrick Kennedy (1)		**678**	**203**	**45**	**491**	**1,417**	1,422
Breon Corcoran		**460**	**69**	**12**	**244**	**785**	827
Jack Massey		**300**	**60**	**28**	**159**	**547**	555
Non-executive							
Nigel Northridge (2)	**200**					**200**	200
Tom Grace (3)	**90**					**90**	90
Fintan Drury	**70**					**70**	70
Stewart Kenny	**70**					**70**	70
Jane Lighting (4)	**70**					**70**	23
Pádraig Ó Ríordáin (5)	**82**					**82**	82
David Power (6)	**82**					**82**	82
William Reeve (7)	**43**					**43**	-
Brody Sweeney	**70**					**70**	70
	777	**1,438**	**332**	**85**	**894**	**3,526**	3,491
Cost of shares vested from Long Term Incentive Plan						**3,296**	2,768
	777	**1,438**	**332**	**85**	**894**	**6,822**	6,259

1. Patrick Kennedy is a non-executive director of Elan Corporation, plc for which he received fees of €56,794 in the year ended 31 December 2010 (2009: €53,338). He was also awarded 23,855 (2009: 7,500) Restricted Stock Units over Elan Corporation, plc shares. In July 2010, he was appointed as non-executive director of Bank of Ireland for which he received fees of €30,784 in the year.
2. Nigel Northridge was appointed Chairman of the Company on 1 January 2009.
3. Tom Grace is Chairman of the Audit Committee.
4. Jane Lighting was appointed to the Board on 1 September 2009.
5. Pádraig Ó Ríordáin is Chairman of the Remuneration Committee.
6. David Power is Chairman of the Risk Committee.
7. William Reeve was appointed to the Board on 19 May 2010.

7. Directors' emoluments and transactions with key management personnel *(continued)*

Benefits provided to executive directors include provision of a company car or car allowance, life and medical insurance. Not included in the above table are accruals made in respect of the long term incentive bonus plan and share-based payment costs in respect of unvested shares in the Group's Long Term Incentive Plan (see Note 21). Details of the number and value of shares vested to executive directors from the Long Term Incentive Plan during the year are set out in the Directors' Report on page 46.

Other transactions with directors

There were no loans outstanding to any director at any time during the year. Details of directors' interests in share awards and share options are set out on page 46. Other related party transactions between the Group and the directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

In addition to the directors' emoluments disclosed above, in the year ended 31 December 2010 directors were paid the following:

Stewart Kenny received €80,000 (2009: €80,000) in respect of consulting fees.

Pádraig Ó Ríordáin is Managing Partner of Arthur Cox. During the year ended 31 December 2010, the Group incurred fees of €172,815 (2009: €148,285) relating to legal and taxation advice received from Arthur Cox.

The Group engages in transactions with David Power in his capacity as an on-course bookmaker. In aggregate, the Group placed bets losing €33,422 (2009: winning €18,023) with Richard Power On-Course Bookmakers and that firm placed bets with the Group winning €24,444 (2009: winning €25,135).

The Group paid rent of €38,727 (2009: €38,727) during the year for retail properties owned by David Power and occupied by the Group under long term leases.

Transactions with key management personnel comprising executive and other senior management

Key management personnel compensation is as follows:

	2010 €'000	2009 €'000
Wages and salaries	**5,651**	4,434
Social security costs	**633**	569
Defined contribution pension and life assurance costs	**634**	562
Provision for executive director long term incentive bonus plan (1)	**597**	792
Share-based payments	**8,798**	3,015
Non-executive directors' fees	**777**	687
Other staff costs	**216**	205
	17,306	10,264

	2010 €'000	2009 €'000
Executive directors (excluding share-based payments)	**2,805**	2,805
Non-executive directors	**777**	687
Other key management personnel	**3,752**	2,396
Provision for executive director long term incentive bonus plan (1)	**597**	792
Social security costs	**633**	569
Share-based payments	**8,798**	3,015
	17,306	10,264

(1) An amount of €597,000, accrued by the Group in respect of Breon Corcoran's long term incentive bonus plan for the year ended 31 December 2010 (2009: €792,000), has not been included in the table of directors' emoluments on page 88. As set out in the Remuneration Committee Report on pages 59 and 60, no payment obligation has crystallised under the plan at this point and payment is dependent on the online (ex Australia) and telephone (ex Australia) divisions, and the Australia division, achieving very challenging operating profit targets in the year ended 31 December 2012 and year ended 30 June 2012, respectively. However, the provision represents the Group's best estimate of the most likely amount payable.

8. Financial income and expense

	2010 €'000	2009 €'000
Recognised in profit or loss:		
Financial income:		
On financial assets at amortised cost:		
Interest income on short term bank deposits	**1,779**	900
	1,779	900
On derivative financial instruments at fair value through profit or loss:		
Increase in fair value of Sportsbet buyout call options (Note 15)	**7,116**	-
	7,116	-
Financial income	**8,895**	900
Financial expense:		
On financial liabilities at amortised cost:		
Bank loans	**783**	247
Bank guarantees	**132**	113
Finance leases	**198**	29
Unwinding of the discount on provisions and other non current liabilities	**231**	13
Financial expense	**1,344**	402

	2010 €'000	2009 Restated €'000
Recognised in other comprehensive income:		
Foreign exchange gain on revaluation of the net assets of foreign currency denominated subsidiaries	**12,667**	1,037
	12,667	1,037

9. Statutory and other information

	2010 €'000	2009 €'000
Directors' emoluments	**6,822**	6,259
Auditor's remuneration for audit services	**396**	240
Depreciation – owned assets	**16,580**	14,201
Depreciation – leased assets	**1,146**	254
Impairment charges – property, plant and equipment owned	**662**	384
Impairment reversals – property, plant and equipment owned	**(566)**	(694)
Amortisation of intangible assets	**6,448**	3,165
Impairment charges – intangible assets	**28**	803
Impairment reversals – intangible assets	**(20)**	-
(Gain) / loss on disposal of property, plant and equipment and intangible assets	**(12)**	75
Foreign currency exchange (gain) / loss – cash and cash equivalents	**(235)**	3,605
Foreign currency exchange loss / (gain) – other monetary items	**412**	(3,377)
Operating lease rentals, principally premises	**15,856**	13,269
Research and development	**405**	200
Operating lease income (representing sub-lease income)	**(278)**	(141)

9. Statutory and other information *(continued)*

Remuneration to Group external auditors (KPMG Dublin)

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

	2010 €'000	2009 €'000
Audit	**145**	105
Other assurance services – audit of subsidiaries	**50**	55
Other assurance services – miscellaneous	**21**	10
Tax advisory services	**334**	305
Other non-audit services	**-**	-
Total	**550**	475

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

Analysis of total auditor's remuneration for audit services

	2010 €'000	2009 €'000
Audit of Group (KPMG Dublin)	**145**	105
Audit of other subsidiaries (KPMG Dublin)	**50**	55
Value added tax on audit fees – Group and other subsidiaries (KPMG Dublin)	**41**	34
Audit of other subsidiaries (other KPMG offices)	**147**	43
Other assurance services – miscellaneous	**13**	3
Total	**396**	240

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

	2010 €'000	2009 €'000
Tax advisory services (KPMG Dublin)	**334**	305
Value added tax on fees – tax advisory services (KPMG Dublin)	**70**	64
Tax advisory services (other KPMG offices)	**28**	6
Assurance services	**18**	7
Total	**450**	382
Tax advisory – once-off acquisition (included above)	**(55)**	(78)
Total – excluding once-off acquisition costs	**395**	304

10. Income tax expense

	2010 €'000	2009 €'000
Recognised in profit or loss:		
Current tax charge	**16,969**	9,120
Prior year over provision	**(24)**	(449)
	16,945	8,671
Deferred tax (credit) / charge	**(1,573)**	451
Prior year over provision	**(806)**	(405)
(Decrease) / increase in net deferred tax liability (Note 22)	**(2,379)**	46
Total income tax expense in income statement	**14,566**	8,717

10. Income tax expense *(continued)*

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

		2010 €'000		2009 €'000
Profit before tax		**111,300**		67,192
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5% (2009: 12.5%)	12.5%	**13,912**	12.5%	8,399
Depreciation on non-qualifying property, plant and equipment	0.8%	**872**	1.3%	834
Effect of different statutory tax rates in overseas jurisdictions	1.3%	**1,417**	0.1%	59
UK tax loss deferred tax asset recognised	(1.6%)	**(1,770)**	0.0%	-
UK tax loss deferred tax asset utilised in year	0.7%	**776**	0.0%	-
Other differences	0.1%	**154**	0.3%	199
Interest income taxable at higher rates	0.0%	**35**	0.1%	80
Over provision in prior year	(0.7%)	**(830)**	(1.3%)	(854)
Total income tax expense	13.1%	**14,566**	13.0%	8,717

Unrecognised deferred tax assets

In previous reporting periods, a deferred tax asset was not recognised in respect of tax losses related to the Group's retail operations in Great Britain ('GB retail') as it was not certain whether taxable profits would be generated against which to offset these losses. The value of this unrecognised deferred tax asset at 31 December 2009 was €1,770,000. Given the improved profitability performance of the GB retail business in 2010, the directors believe that it is now appropriate to recognise this deferred tax asset. Accordingly, the €1,770,000 has been credited to the income statement in the year ended 31 December 2010. During 2010, an amount of €776,000 of this asset was utilised against taxable GB retail profits arising in the year.

No significant changes are expected to statutory tax rates in Ireland. As announced on 23 March 2011, UK statutory tax rates are expected to reduce from 28% to 26% in April 2011 and by a further 1% per annum up to April 2014 when the tax rate will be 23%. Statutory tax rates in Australia are expected to be reduced from the current 30% to 29% for the year ended 30 June 2014 and to 28% for the year ending 30 June 2015 and thereafter.

11. Earnings per share

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

	2010	2009
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**90,005**	56,946
Numerator in respect of adjusted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**90,005**	56,946
Less: Sportsbet buyout call options value change (Note 8)	**(7,116)**	-
Less: UK tax losses deferred tax asset recognition (Note 10)	**(1,770)**	-
Profit for adjusted earnings per share calculation	**81,119**	56,946
Denominator in respect of basic earnings per share:		
Ordinary shares in issue at beginning of year	**49,767,339**	49,270,742
Adjustments for weighted average number of:		
- ordinary shares issued during year	**64,992**	173,731
- ordinary shares purchased and cancelled or held in treasury	**(1,734,000)**	(1,734,000)
- ordinary shares held by long term incentive plan trust	**(1,387,159)**	(978,296)
Weighted average number of ordinary shares	**46,711,172**	46,732,177
Basic earnings per share	**€1.927**	€1.219
Adjusted earnings per share	**€1.737**	€1.219
Denominator in respect of diluted earnings per share:		
Basic weighted average number of ordinary shares in issue during year	**46,711,172**	46,732,177
Adjustments for dilutive effect of share option schemes, sharesave scheme, share award schemes and shares held by long term incentive plan trust	**1,329,728**	429,425
Weighted average number of ordinary shares	**48,040,900**	47,161,602
Diluted earnings per share	**€1.874**	€1.207
Adjusted diluted earnings per share	**€1.689**	€1.207

12. Property, plant and equipment

	Land, buildings & leasehold improvements €'000	Fixtures & fittings €'000	Computer equipment €'000	Motor vehicles €'000	Total €'000
Cost					
Balance at 1 January 2009	50,782	76,100	19,001	1,163	147,046
Additions	5,207	8,343	4,624	69	18,243
Additions – business combinations (Note 16)	887	248	3,333	38	4,506
Disposals	(90)	(211)	(215)	(10)	(526)
Foreign currency retranslation adjustment	209	159	255	3	626
Balance at 31 December 2009	56,995	84,639	26,998	1,263	169,895
Additions	3,350	7,935	6,754	139	18,178
Additions – business combinations (Note 16)	-	1,046	-	-	1,046
Disposals	(19)	(164)	(17)	(574)	(774)
Transfers (Note 13)	215	(178)	(1,398)	-	(1,361)
Foreign currency retranslation adjustment	636	132	1,062	8	1,838
Balance at 31 December 2010	**61,177**	**93,410**	**33,399**	**836**	**188,822**
Depreciation and impairment					
Balance at 1 January 2009	16,240	46,291	16,031	443	79,005
Depreciation charges	2,514	9,069	2,686	186	14,455
Impairment reversals	(82)	(215)	(13)	-	(310)
Disposals	(22)	(134)	(20)	-	(176)
Foreign currency retranslation adjustment	55	42	95	2	194
Balance at 31 December 2009	18,705	55,053	18,779	631	93,168
Depreciation charges	3,294	9,594	4,565	273	17,726
Impairment charges	86	4	6	-	96
Disposals	(13)	(120)	(16)	(472)	(621)
Foreign currency retranslation adjustment	211	51	390	3	655
Balance at 31 December 2010	**22,283**	**64,582**	**23,724**	**435**	**111,024**
Net book value					
At 31 December 2010	**38,894**	**28,828**	**9,675**	**401**	**77,798**
At 31 December 2009	38,290	29,586	8,219	632	76,727

The net book value of land, buildings and leasehold improvements at 31 December 2010 includes €34.7m (2009: €33.8m) in respect of leasehold improvements.

At 31 December 2010, included in leasehold improvements are assets held under finance leases with a cost value of €2,685,000 (2009: €2,097,000), accumulated depreciation of €976,000 (2009: €367,000) and net book value of €1,709,000 (2009: €1,730,000). At 31 December 2010, included in computer equipment are assets held under finance leases with a cost value of €1,982,000 (2009: €1,457,000), accumulated depreciation of €1,228,000 (2009: €452,000) and net book value of €754,000 (2009: €1,005,000).

The impairment credits and charges relate to the Irish retail and UK retail operating segments and have arisen from a review of the carrying value of shop properties. The recoverable amounts used in the calculation of Irish retail and UK retail operating segment impairment credits and charges are based on value in use. The pre-tax discount rate used to determine value in use was 10% (2009: 10%). The impairment charge of €96,000 (2009: credit of €310,000) recorded in the year ended 31 December 2010 includes €662,000 relating to new impairment charges and is stated net of impairment reversals of €566,000 (2009: €384,000 relating to new impairment charges and is stated net of impairment reversals of €694,000). The impairment credits and charges are included in 'depreciation and amortisation' in the consolidated income statement.

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

13. Intangible assets

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

	Computer software Restated €'000	Licences €'000	Brands €'000	Total Restated €'000
Cost				
Balance at 1 January 2009	18,005	26,596	-	44,601
Additions	2,725	596	-	3,321
Additions – business combinations (Note 16)	1,965	-	13,743	15,708
Disposals	(20)	-	-	(20)
Foreign currency retranslation adjustment	99	(2,280)	999	(1,182)
Balance at 31 December 2009	22,774	24,912	14,742	62,428
Additions	6,594	119	-	6,713
Disposals	(24)	(12)	-	(36)
Transfers (Note 12)	1,463	(102)	-	1,361
Foreign currency retranslation adjustment	850	648	3,224	4,722
Balance at 31 December 2010	**31,657**	**25,565**	**17,966**	**75,188**
Amortisation and impairment				
Balance at 1 January 2009	11,322	1,667	-	12,989
Amortisation charges	2,669	496	-	3,165
Impairment charges	803	-	-	803
Disposals	-	-	-	-
Foreign currency retranslation adjustment	21	-	-	21
Balance at 31 December 2009	14,815	2,163	-	16,978
Amortisation charges	5,796	652	-	6,448
Impairment charges / (reversals)	(10)	18	-	8
Disposals	(12)	(2)	-	(14)
Foreign currency retranslation adjustment	258	-	-	258
Balance at 31 December 2010	**20,847**	**2,831**	**-**	**23,678**
Net book value				
At 31 December 2010	**10,810**	**22,734**	**17,966**	**51,510**
At 31 December 2009	7,959	22,749	14,742	45,450

The value of betting shop licences of €20,610,000 (2009: €19,975,000) acquired as a result of the purchase of D McGranaghan Limited in 2008 are not being amortised as the directors consider these licences to have an indefinite life because:

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

The value of brands intangible assets recognised on application of fair value accounting to the purchase of Sportsbet and IAS in 2009 (amounting to €17,966,000 at 31 December 2010 (2009: €14,742,000) – see Note 16) are not being amortised as the directors consider that the relevant brands have indefinite lives because:

- the directors intend to utilise the brands in the businesses for the foreseeable future; and
- substantial sums are invested annually in the form of marketing expenditure expensed through profit or loss to maintain and to enhance the value of these brands.

The Group reviews the carrying value of licences and brands for impairment annually (or more frequently if there are indications that the value of the licences and brands may be impaired) by comparing the carrying values of these assets with their recoverable amounts (being the higher of value in use and fair value less costs to sell).

13. Intangible assets *(continued)*

In 2010, a net impairment charge of €8,000 was recorded relating to the Irish retail and UK retail operating segments and was comprised of new impairment charges of €28,000 and the reversal of previously recorded charges of €20,000. The impairment charges and credits arose from a review of the carrying values of shop properties. The recoverable amounts used in the calculation of Irish retail and UK retail operating segment impairment charges were based on value in use. The pre-tax discount rate used to determine value in use was 10%. The impairment charge in respect of the year ended 31 December 2009 of €803,000 related to certain computer software costs recognised on the acquisition of Sportsbet. The directors believed that the computer software would not be used on a long term basis by the Australia operating segment and that the recognition of an impairment charge for the full value of the computer software at 31 December 2009 was appropriate.

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

14. Goodwill

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

	Irish retail €'000	**UK retail €'000**	**Australia Restated €'000**	**Total Restated €'000**
Balance at 1 January 2009	5,923	9,080	-	15,003
Arising on acquisitions during the year (Note 16)	1,144	-	45,703	46,847
Foreign currency retranslation adjustment	-	(832)	2,493	1,661
Balance at 31 December 2009	7,067	8,248	48,196	63,511
Arising on acquisitions during the year (Note 16)	1,140	1,517	-	2,657
Foreign currency retranslation adjustment	-	231	10,568	10,799
Balance at 31 December 2010	**8,207**	**9,996**	**58,764**	**76,967**

Goodwill on Irish retail properties arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, the acquisition of three retail bookmaking businesses in 2007 and the acquisition of a number of retail bookmaking shop properties in both 2009 and 2010 (see Note 16).

Goodwill on UK retail properties arose from the acquisition of two London bookmaking businesses in 2004, the acquisition of a retail bookmaking company in Northern Ireland in 2008 and the acquisition of a number of retail bookmaking shop properties in 2010 (see Note 16).

The Australia segment goodwill amount arose from the acquisition by the Group of a 51% interest in Sportsbet Pty Limited ('Sportsbet') on 1 July 2009 and the acquisition of International All Sports Limited ('IAS') by Sportsbet on 1 October 2009 (see Note 16).

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets
In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2010.

14. Goodwill *(continued)*

The Group's operating segments include the following amounts in respect of goodwill and indefinite life intangible assets (comprising licences acquired as part of the purchase of the D McGranaghan Limited business in 2008 and brands acquired as part of the purchase of Sportsbet and IAS in 2009 – see Notes 13 and 16):

		31 December 2010 Total €'000	31 December 2009 Total Restated €'000
Irish retail – amalgamation of three bookmaking businesses in 1988	Goodwill	**904**	904
Irish retail – acquisition of three bookmakers in 2007	Goodwill	**5,019**	5,019
Irish retail – acquisition of bookmaking business in 2009	Goodwill	**1,144**	1,144
Irish retail – acquisition of bookmaking businesses in 2010	Goodwill	**1,140**	-
UK retail – 2004 acquisitions	Goodwill	**976**	976
UK retail – Northern Ireland acquisition 2008	Goodwill	**7,503**	7,272
UK retail – acquisition of bookmaking businesses in 2010	Goodwill	**1,517**	-
Australia – Sportsbet acquisition 2009	Goodwill	**36,157**	29,645
Australia – IAS acquisition 2009	Goodwill	**22,607**	18,551
Total	**Goodwill**	**76,967**	63,511
UK retail – Northern Ireland acquisition 2008	Intangible assets – licences	**20,610**	19,975
Australia – Sportsbet acquisition 2009	Intangible assets – brands	**12,713**	10,432
Australia – IAS acquisition 2009	Intangible assets – brands	**5,253**	4,310
Total	**Goodwill, licences and brands**	**115,543**	98,228

The details of the impairment reviews in respect of the operating segments above as of 31 December 2010 are presented below:

	31 December 2010 €'000	31 December 2009 €'000
Irish retail – goodwill	**8,207**	7,067

The recoverable amount of the Irish retail operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2009: 2%) per annum and is based on weighted average income growth rates of 2% to 3% (2009: 2% to 3%) and gross win rates of 13% to 14% (2009: 13% to 14%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2009: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish retail operating segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

14. Goodwill *(continued)*

	31 December 2010 €'000	31 December 2009 €'000
UK retail – goodwill and licences	**30,606**	28,223

The recoverable amount of the UK retail operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2009: 2%) per annum and is based on weighted average income growth rates of 2% to 3% (2009: 2% to 3%) and gross win rates of 11% to 13% (2009: 12% to 13%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2009: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the UK retail operating segment goodwill and licences recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

	31 December 2010 €'000	31 December 2009 Restated €'000
Australia – goodwill and brands	**76,730**	62,938

The recoverable amount of the Australia operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 3% (2009: 3%) per annum and is based on a weighted average income growth rate of 3% (2009: 3%) and a gross win of 8% (2009: 7%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. A pre-tax discount rate of 13% (2009: 13%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Australia operating segment goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

The primary assumptions used by management in assessing the recoverable amounts of the relevant cash generating units during the initial five year review period are as follows:

	Irish retail	UK retail	Australia
Growth in number of bets per annum (on compound annual growth rate basis)	+2%	+1% to +2%	n/a
Growth in average stake per bet per annum (on compound annual growth rate basis)	0%	0% to +1%	n/a
Growth in amounts staked (on compound annual growth rate basis)	n/a	n/a	+7%
Gross win % (average and as percentage of amounts staked)	13%	12% to 13%	8%
Cost of sales % (of amounts staked)	1%	2% to 3%	2%
Cost inflation per annum	+2%	+2%	+7%

14. Goodwill *(continued)*

The assumptions above are based on past experience of the Group's businesses, management's expectations for market development, growth in market share, gross win margin percentages and cost inflation for the five year period.

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

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

15. Financial assets (non current)

	31 December 2010 €'000	31 December 2009 Restated €'000
Derivative financial assets		
Sportsbet buyout call options	**6,978**	-
	6,978	-
Other financial assets		
Restricted cash (see Note 18)	**2,757**	1,581
Available-for-sale investments	**-**	-
	2,757	1,581
Total	**9,735**	1,581

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

	Sportsbet buyout call options Restated €'000	Restricted cash €'000	Available-for-sale investments €'000	Total Restated €'000
Balance at 1 January 2009	-	-	-	-
Business combinations – acquisition of Sportsbet	-	862	4,339	5,201
Movements in fair value of available-for-sale investments	-	-	241	241
Foreign currency retranslation adjustment	-	101	238	339
Business combinations – acquisition of IAS	-	618	(4,818)	(4,200)
Balance at 31 December 2009	-	1,581	-	1,581
Change in fair value of Sportsbet buyout call options	6,978	-	-	6,978
Foreign currency retranslation adjustment	-	425	-	425
Other movements	-	751	-	751
Balance at 31 December 2010	**6,978**	**2,757**	**-**	**9,735**

15. Financial assets (non current) *(continued)*

Sportsbet buyout call options

Under the terms of the agreement to purchase 51% of Sportsbet on 1 July 2009, the Company was granted certain options to purchase the equity interests of the non-controlling interest in Sportsbet. In the event that the combined Sportsbet and IAS earnings before interest, taxation, depreciation and amortisation ('EBITDA') for either of the years ending 30 June 2011 or 2012 is less than AUD22.0m (€16.7m), the Company has the right to claw equity from Sportsbet's existing shareholders on a proportionate basis to the shortfall in profitability. In addition, the Company had a call option, exercisable in either 2012 or 2013, to acquire all of the outstanding shares in Sportsbet that it does not own, with the exercise price to be determined based on an EBITDA multiple of 4 to 7 times, depending on the level of EBITDA, and subject to a maximum payment of AUD196m (€149.2m). In the event that the Company elects not to exercise the 2013 call option, the non-controlling shareholders in Sportsbet will have the option to acquire the Company's shareholding. The exercise price for this option is to be determined on the same basis as the call option that the Company holds. The net value ascribed to the embedded derivatives in these option contracts (which have been designated on initial recognition as at fair value through profit or loss) was a net financial liability of €138,000 (as restated) as at the date of acquisition, and was included in derivative financial liabilities (see Note 23). In accordance with the requirements of accounting standards, a valuation exercise was performed in respect of the options as of 31 December 2010 which indicated a total net financial asset of €6,978,000. The change in the valuation between 31 December 2009 and 31 December 2010 of €7,116,000 has been included in financial income in profit or loss (see Note 8).

Available-for-sale investments

Sportsbet held a 19.98% interest in IAS on the date of its acquisition by the Company, valued at €4,339,000. This investment was classified as an available-for-sale investment. The fair value of this investment increased by €479,000 to €4,818,000 in the period from 1 July 2009 to the date of acquisition by Sportsbet of the remaining 80.02% of IAS that it did not already own, at which time the value of the investment was transferred to the cost of investment in IAS (see Note 16).

16. Business combinations and purchase of non-controlling interest

Year ended 31 December 2010

Acquisition of additional 9.8% of Sportsbet Pty Limited

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

	€'000
Purchase consideration – cash	8,481
Net assets acquired from non-controlling interest	(1,952)
Change in Group share of discount on loans from non-controlling shareholders	39
Cost of purchase of non-controlling interest transferred to retained earnings	6,568
Net cash outflow from purchase of non-controlling interest for the purposes of the statement of cash flows	
Purchase of non-controlling interest before acquisition expenses	8,481
Acquisition expenses paid	80
Purchase of non-controlling interest	8,561

Payments of deferred consideration for 51% of Sportsbet Pty Limited and for Irish retail 2009 bookmaking business acquisition

On 18 August 2010, the Company paid the non-controlling shareholders of Sportsbet an amount of €7,007,000 (AUD10,000,000) in respect of deferred consideration for the Company's initial 51% acquisition of Sportsbet. The payment followed confirmation that the relevant profitability target set for the financial year ended 30 June 2010 had been achieved by Sportsbet. An amount of €100,000 was paid during 2010 in respect of deferred consideration for the Irish retail 2009 bookmaking business acquisition.

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

	€'000
Purchase of businesses, net of cash acquired	7,107
Acquisition expenses paid	-
	7,107

16. Business combinations and purchase of non-controlling interest *(continued)*

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

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

	Total provisional fair values 31 December 2010 €'000
Identifiable net assets acquired:	
Property, plant and equipment	1,046
	1,046
Goodwill arising on acquisition – Irish retail	1,140
Goodwill arising on acquisition – UK retail	1,517
Goodwill arising on acquisition – total	2,657
Consideration	3,703
Satisfied by:	
Cash consideration	3,353
Deferred purchase consideration	350
	3,703
Net cash outflow from purchase of businesses for the purposes of the statement of cash flows	
Purchase of businesses, net of cash acquired	3,353
Acquisition expenses paid	43
	3,396

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

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

Year ended 31 December 2009

Australia acquisitions

Acquisition of Sportsbet Pty Limited
On 1 July 2009, the Group completed the purchase of a 51% shareholding in Sportsbet, a provider of internet and telephone sports betting services in Australia. The initial purchase consideration for this acquisition amounted to €26.3m, comprised of a cash payment of €24.6m and the granting of 100,000 ordinary shares of the Company valued at €1.7m. An additional payment of AUD10.0m (€6.2m) is payable in 2010 if certain profitability targets are achieved by Sportsbet in respect of the financial year ended 30 June 2010. Under the terms of the acquisition, certain call options were granted to the Company and to the non-controlling interest in Sportsbet (see Note 15). The net fair value of these options was added to the purchase consideration in the calculation of the goodwill arising on acquisition of Sportsbet.

16. Business combinations and purchase of non-controlling interest *(continued)*

Details of the net assets acquired and the goodwill arising on this acquisition under IFRS are as follows (restated – see Note 2):

Finalisation of provisional accounting:

	Book values on acquisition €'000	Provisional fair value adjustments €'000	Final fair value adjustments €'000	Final fair values 31 December 2009 Restated €'000
Identifiable net assets acquired:				
Property, plant and equipment	1,753	-	-	1,753
Intangible assets	272	10,374	-	10,646
Financial assets	5,201	-	-	5,201
Deferred tax asset (net)	365	-	-	365
Current assets (excluding cash and cash equivalents)	6,134	-	-	6,134
Cash and cash equivalents	6,846	-	-	6,846
Customer balances	(5,412)	-	-	(5,412)
Current liabilities	(5,594)	-	-	(5,594)
Sports betting open positions – current	(1,311)	-	-	(1,311)
Corporation tax payable	(694)	-	-	(694)
Non current liabilities	(594)	-	-	(594)
Provisions – non current	(140)	-	-	(140)
Deferred tax liabilities	-	(241)	(2,871)	(3,112)
	6,826	10,133	(2,871)	14,088
Less: non-controlling interest arising on acquisition				(6,903)
Goodwill arising on acquisition				27,748
Consideration (including associated purchase costs)				34,933
The consideration is analysed as:				
Cash consideration (including associated purchase costs paid and accrued)				26,931
Ordinary shares issued to vendors (Note 19)				1,648
Deferred purchase consideration				6,216
Embedded derivative – Sportsbet buyout call options (Note 23 and restated per Note 2)				138
				34,933
The net cash consideration is analysed as:				
Cash consideration before acquisition expenses				24,627
Acquisition expenses paid				2,172
Cash consideration				26,799
Cash acquired				(6,846)
Net cash consideration for acquisition of Sportsbet				19,953

The intangible assets recognised on application of fair value accounting to the acquisition were increased by brands totalling €9,571,000 and computer software totalling €803,000. The valuations were performed by an independent advisor and used the relief of royalty method for the valuation of brands and the replacement cost method for the valuation of computer software.

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

16. Business combinations and purchase of non-controlling interest *(continued)*

Acquisition of International All Sports Limited

On 1 October 2009, Sportsbet completed the acquisition of a 100% shareholding in another Australian internet and telephone sports betting company, IAS. At 1 July 2009, and upon acquisition by the Company, Sportsbet owned a 19.98% interest in IAS (see Note 15). IAS was a publicly quoted company whose shares were listed on the Australian Stock Exchange and the acquisition was implemented via a Scheme of Arrangement. The acquisition valued the entire issued share capital of IAS at AUD40.0m (€24.2m). The Company and Sportsbet's non-controlling shareholders provided shareholder loans to Sportsbet to part fund the acquisition, with the Company providing a loan of €3,833,000 (AUD6,135,000) and the 49% non-controlling shareholders in Sportsbet providing a loan of €3,682,000 (AUD5,895,000) (see Note 25). A secured bank loan of €12,494,000 (AUD20,000,000) was also taken out by Sportsbet to part fund the acquisition (see Note 25).

Details of the net assets acquired and the goodwill arising on this acquisition under IFRS are as follows (restated – see Note 2):

Finalisation of provisional accounting:

	Book values on acquisition Restated €'000	Step acquisition adjustments Restated €'000	Fair value adjustments €'000	Final fair values 31 December 2009 Restated €'000
Identifiable net assets acquired:				
Property, plant and equipment	2,733	(128)	-	2,605
Intangible assets	1,359	152	3,703	5,214
Financial assets	618	(124)	-	494
Deferred tax asset (net)	1,417	-	-	1,417
Current assets (excluding cash and cash equivalents)	2,335	(159)	-	2,176
Cash and cash equivalents	10,164	276	-	10,440
Customer balances	(7,433)	172	-	(7,261)
Current liabilities	(4,897)	163	-	(4,734)
Sports betting open positions – current	(269)	18	-	(251)
Provisions – current	(1,092)	(268)	-	(1,360)
Corporation tax payable	(2,208)	259	-	(1,949)
Non current liabilities	(785)	(32)	-	(817)
Provisions – non current	(242)	32	-	(210)
	1,700	361	3,703	5,764
Goodwill arising on acquisition				17,955
Consideration (including associated purchase costs)				23,719
The consideration is analysed as:				
Cash consideration (including associated purchase costs paid and accrued)				19,604
Fair value of existing 19.98% holding in IAS at date of acquisition (Note 15)	4,818	(241)		4,577
Deferred tax on movements in fair value of existing 19.98% holding in IAS at date of acquisition (Note 22)	(530)	68		(462)
	4,288	(173)		23,719
The net cash consideration is analysed as:				
Cash consideration before acquisition expenses				19,367
Acquisition expenses paid				201
Cash consideration				19,568
Cash acquired				(10,164)
Net cash consideration for acquisition of IAS				9,404

The intangible assets recognised on application of fair value accounting to the acquisition were increased by brands totalling €4,172,000 net of a fair valuation reduction in the value of computer software acquired of €469,000. The valuations were performed by an independent advisor and used the relief of royalty method for the valuation of brands and the replacement cost method for the valuation of computer software.

16. Business combinations and purchase of non-controlling interest *(continued)*

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

Since the dates of acquisition to 31 December 2009, the acquired Australia businesses contributed €450.3m, €31.8m and €6.8m to amounts staked, income and operating profit (excluding sale and integration costs), respectively.

Since the date of acquisition to 31 December 2009, the acquired Australia businesses contributed a cash inflow of €5.3m to net cash from operating activities, a cash outflow of €11.4m to net cash used in investing activities (including the purchase of IAS) and a cash inflow of €13.5m to net cash used in financing activities (including debt taken on to part fund the acquisition of IAS).

If the Australia acquisitions had occurred on 1 January 2009, then their contribution to income for the year ended 31 December 2009 would have been €62.8m (including the €31.8m actually contributed) (AUD112m) and their contribution to operating profit (excluding sale and integration costs) for the year ended 31 December 2009 would have been approximately €12.3m (including the €6.8m actually contributed) (AUD22m).

Shop property acquisition

In January 2009, the Group, in the absence of available comparable sites for an organic shop opening, acquired a retail licensed bookmaking business in Ireland.

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

	Book values on acquisition €'000	**Fair value adjustments €'000**	**Fair values 31 December 2009 €'000**
Identifiable net assets acquired:			
Property, plant and equipment	100	(80)	20
	100	(80)	20
Goodwill arising on acquisition			1,144
Consideration (including associated purchase costs)			1,164
The consideration is analysed as:			
Cash consideration (including associated purchase costs)			1,064
Deferred purchase consideration			100
			1,164

The net cash consideration is analysed as:	
Cash consideration	1,000
Acquisition expenses paid	64
Net cash consideration for acquisition	1,064

The principal factors contributing to the goodwill balance above are the well established nature of the acquired business within the location in which it operates, the quality of its customer base and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired business within the Paddy Power group.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired shop in respect of the period from acquisition and for the year ended 31 December 2009 has not been presented on the basis of immateriality.

16. Business combinations and purchase of non-controlling interest *(continued)*

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

	2010 €'000	2009 €'000
Cash consideration	**18,941**	44,994
Acquisition expenses paid	**292**	2,437
Less: cash and cash equivalents acquired	**-**	(17,010)
Purchase of businesses and acquisition expenses paid	**19,233**	30,421
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses, net of cash acquired	**10,460**	27,984
Acquisition expenses paid	**212**	2,437
Purchase of non-controlling interest, including acquisition expenses paid	**8,561**	-
	19,233	30,421

17. Trade and other receivables

	31 December 2010 €'000	31 December 2009 Restated €'000
Trade receivables – credit betting customers	**3,986**	4,230
Trade receivables – other	**1,522**	2,161
Trade receivables	**5,508**	6,391
Other receivables	**1,342**	3,179
Prepayments and accrued income	**8,724**	6,550
	15,574	16,120

Trade and other receivables are non-interest bearing.

18. Cash and cash equivalents

	31 December 2010 €'000	31 December 2009 €'000
Cash	**18,054**	13,772
Short term bank deposits	**145,365**	77,410
	163,419	91,182
Less: Financial asset – current restricted cash deposit (see below)	**(21,081)**	(9,025)
Less: Financial asset – non current restricted cash deposits (see below)	**(2,757)**	(1,581)
Cash and cash equivalents in the statement of cash flows	**139,581**	80,576

The effective interest rate on short term bank deposits was 1.28% (2009: 1.06%); these deposits have an average original maturity date of 48 days (2009: 51 days). The short term bank deposits also have an average maturity date of 19 days from 31 December 2010 (2009: 26 days).

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

18. Cash and cash equivalents *(continued)*

Short term bank deposits are analysed by currency as follows:

	31 December 2010 €'000	31 December 2009 €'000
Euro	**101,452**	53,836
GBP	**14,916**	10,137
AUD	**26,737**	12,610
USD	**2,260**	827
	145,365	77,410

Financial assets

Included in short term bank deposits at 31 December 2010 is an amount of €21,081,000 (2009: €9,025,000 (GBP8,015,000)) which was restricted at that date and up to 14 January 2011 (2009: 5 January 2010) as it formed part of a guarantee issued in favour of the Isle of Man Gambling Supervision Commission in respect of player funds held by the Group (see Note 31). This balance has been shown as a current financial asset in the consolidated statement of financial position.

Included in short term bank deposits at 31 December 2010 are amounts totalling €2,757,000 (AUD3,622,000) (2009: €1,581,000 (AUD2,531,000)) which are restricted at that date and beyond 31 December 2011. The bank deposits (1) form part of a number of guarantees issued in favour of Australian state racing authorities as required by gambling licences totalling €305,000 (2009: €531,000), (2) are in respect of certain obligations entered into by the Group for office accommodation held under operating leases of €1,310,000 (2009: €925,000) and (3) are in respect of merchant facility and other certain other services provided to the Group of €1,142,000 (2009: €125,000). The balance has been shown as a non current financial asset in the consolidated statement of financial position (see Note 15). See also Note 31.

19. Share capital and reserves

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2009: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

During the year, 186,775 ordinary shares of €0.10 each (2009: 396,597 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for a total consideration of €2,885,000 (2009: €5,093,000) and giving rise to a share premium of €2,867,000 (2009: €5,053,000). In 2009, as part of the consideration for the purchase of Sportsbet (see Note 16), the Company issued 100,000 ordinary shares to the vendors of Sportsbet on 1 July 2009. The total value of these shares on the date of issue amounted to €1,648,000, of which €1,638,000 represented the share premium on issue. The total number of ordinary shares issued at 31 December 2010 was 49,954,114 (2009: 49,767,339), those shares having a total nominal value of €4,995,000 (2009: €4,977,000).

The total number of shares held in treasury at 31 December 2010 was 1,734,000 shares (2009: 1,734,000 shares). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to €34,177,000 as of 31 December 2010 (2009: €34,177,000). The value of treasury shares held by the Company at 31 December 2010 was €5,975,000 (2009: €5,975,000), with the remaining €28,202,000 of shares being held by Paddy Power Isle of Man Limited (2009: €28,202,000).

At 31 December 2010, the Company held a further 1,456,407 of its own shares (2009: 1,438,711), which were acquired at a total cost of €33,890,000 (2009: €31,858,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan and Managers' Deferred Share Award Scheme (see Note 21). The Company's distributable reserves at 31 December 2010 are further restricted by this cost amount. In the year ended 31 December 2010, 336,804 shares originally valued at €7,016,000 were transferred from the long term incentive plan trust ('the Trust') to beneficiaries of the Trust consequent to the vesting thereof (2009: 268,144 shares originally valued at €3,735,000).

19. Share capital and reserves *(continued)*

The foreign exchange translation reserve at 31 December 2010 was a balance of €10,572,000 (2009: restated balance of €75,000) which arose from the retranslation of the Group's net investment in AUD and GBP functional currency subsidiary companies. Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund, a capital contribution reserve and a net wealth tax reserve. The capital redemption reserve fund of €876,000 (2009: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2009: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. The capital contribution reserve balance of €32,000 (2009: €256,000) arose on initial recognition of the Group's share of the discount on the non-controlling shareholder loans (which are non-interest bearing – see Note 25). During 2010, an amount of €49,000 was transferred to a net wealth tax reserve in accordance with Luxembourg law (2009: €nil).

During 2009, an unrealised after-tax gain of €165,000 arose on revaluation of the Group's 19.98% available-for-sale investment in IAS between the date the Group acquired its 51% interest in Sportsbet (1 July 2009) and the date that Sportsbet acquired the remaining 80.02% interest in IAS (1 October 2009). The Group's share of this gain was €84,000. This gain was transferred from the fair value reserve to retained earnings upon Sportsbet acquiring a 100% interest in IAS.

In 2010, an amount of €551,000 (2009: €1,372,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of €264,000 of deferred tax relating to the Group's share-based payments was credited to retained earnings in 2010 (2009: €nil) – see also Note 22.

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year (measured in accordance with Irish GAAP) of €64.1m (2009: €67.8m), which includes €54.0m (2009: €50.0m) of dividends receivable from subsidiary companies.

20. Dividends paid on equity shares

	2010 €'000	2009 €'000
Ordinary shares:		
- final paid of 38.90 cent per share (2009: 35.40 cent)	**18,750**	16,864
- interim paid of 25.00 cent per share (2009: 19.50 cent)	**12,019**	9,294
	30,769	26,158
Proposed final dividend of 50.00 cent (2009: 38.90 cent) per share (see Note 34)	**24,340**	18,686

21. Share schemes

Summary of share-based payments expense

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

	2010 €'000	2009 €'000
Share option scheme	**100**	358
Sharesave scheme	**580**	435
Long Term Incentive Plan ('LTIP')	**12,614**	4,930
Managers' Deferred Share Award Scheme	**133**	118
	13,427	5,841

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

21. Share schemes *(continued)*

General

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

Summary of options outstanding

The total number of options outstanding at 31 December 2010 was 702,522 (2009: 859,512). These options had exercise prices ranging from €9.43 to €24.17 (2009: €8.15 to €24.17).

For the year ended 31 December 2010:	**Options outstanding at 1 January 2010**	**Options granted during year**	**Options lapsed during year**	**Options exercised during year**	**Options outstanding at 31 December 2010**
Share option scheme	**316,800**	**-**	**-**	**(168,500)**	**148,300**
Sharesave scheme	**542,712**	**66,528**	**(36,743)**	**(18,275)**	**554,222**
Total	**859,512**	**66,528**	**(36,743)**	**(186,775)**	**702,522**

For the year ended 31 December 2009:	**Options outstanding at 1 January 2009**	**Options granted during year**	**Options lapsed during year**	**Options exercised during year**	**Options outstanding at 31 December 2009**
Share option scheme	636,935	-	(13,500)	(306,635)	316,800
Sharesave scheme	685,752	110,939	(164,017)	(89,962)	542,712
Total	1,322,687	110,939	(177,517)	(396,597)	859,512

The Group has the following employee share schemes:

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

The Share Option Scheme was adopted by shareholders on 21 November 2000 and modified by the shareholders on 22 June 2004. The Share Option Scheme is open to directors, other than non-executive directors, and employees. Options may be granted within a period of ten years from 7 December 2000 at the higher of nominal and current market value. Options may not be exercised earlier than three years from the date of grant and may only be exercised if the Group meets certain targets and any further condition on exercise which the Board determines to be appropriate. These targets require real growth (Consumer Price Index ('CPI') plus five percent compounded annually) in earnings per share of the Group over a period of not less than three years following the grant of an option. Since November 2000, 1,600,472 options have been granted under the scheme. Options granted before 7 November 2002 do not fall within the scope of IFRS 2 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

Since November 2000, options over 1,247,306 shares have been exercised and options over 204,866 shares have lapsed. Options over 148,300 shares were outstanding at 31 December 2010 (2009: 316,800), of which 148,300 were exercisable at 31 December 2010 (2009: 164,000). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 1 January 2010	**Options granted during year**	**Options lapsed during year**	**Options exercised during year**	**Options outstanding at 31 December 2010**	**Earliest exercise date**	**Exercise price**	**Market price at date of exercise**
*Granted after 7 November 2002 **							
20,000	-	-	(20,000)	-	February 2007	€8.15	€26.66
10,000	-	-	(6,000)	4,000	June 2007	€9.43	€25.10 – €27.55
30,000	-	-	(30,000)	-	September 2008	€14.80	€25.10 – €29.20
3,000	-	-	(3,000)	-	March 2009	€12.55	€28.28
101,000	-	-	(74,000)	27,000	October 2009	€14.40	€23.32 – €30.27
152,800	-	-	(35,500)	117,300	September 2010	€24.17	€25.42 – €29.33
316,800	**-**	**-**	**(168,500)**	**148,300**			

* Share options lapse ten years after date of grant.

21. Share schemes *(continued)*

There were no options granted under this scheme in either of the years ended 31 December 2010 or 2009.

In 2009, options over 25,951 shares were exercised at an exercise price of €8.15 when the market price per share ranged from €17.40 to €21.37, options over 27,000 shares were exercised at an exercise price of €9.43 when the market price per share ranged from €16.55 to €21.85, options over 13,684 shares were exercised at an exercise price of €9.80 when the market price per share was €17.40, options over 99,000 shares were exercised at an exercise price of €14.80 when the market price per share ranged from €20.33 to €24.75, options over 12,000 shares were exercised at an exercise price of €12.55 when the market price per share ranged from €18.62 to €18.85 and options over 129,000 shares were exercised at an exercise price of €14.40 when the market price per share ranged from €17.00 to €25.49. During 2009, options in respect of 13,500 shares at an exercise price of €24.17 per share lapsed.

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

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

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

Options granted before 7 November 2002 do not fall within the scope of IFRS 2 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

Options outstanding at 1 January 2010	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2010	Earliest exercise date	Exercise price	Market price at date of exercise
*Granted after 7 November 2002 **							
25,019	-	(2,276)	(7,772)	14,971	December 2009 & December 2011	€11.29	€22.97 – €26.82
1,724	-	(80)	(1,644)	-	December 2009 & December 2011	£8.15	€22.97 – €25.00
14,913	-	(584)	(6,432)	7,897	December 2010 & December 2012	€19.26	€29.68 – €30.70
3,686	-	-	(1,361)	2,325	December 2010 & December 2012	£14.36	€29.68 – €30.19
370,728	-	(18,462)	(1,066)	351,200	December 2011 & December 2013	€9.45	€27.00
16,392	-	(2,712)	-	13,680	December 2011 & December 2013	£8.00	-
103,701	-	(11,987)	-	91,714	December 2012 & December 2014	€14.90	-
6,549	-	(642)	-	5,907	December 2012 & December 2014	£14.13	-
-	58,456	-	-	58,456	December 2013 & December 2015	€19.87	-
-	8,072	-	-	8,072	December 2013 & December 2015	£17.62	-
542,712	**66,528**	**(36,743)**	**(18,275)**	**554,222**			

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

21. Share schemes *(continued)*

In 2009, options over 104,390 shares at an exercise price of €14.90 and options over 6,549 shares at an exercise price of £14.13 were granted. During 2009, options over 61,512 shares at an exercise price of €11.60 were exercised when the market price ranged from €11.25 to €20.95, options over 26,682 shares at an exercise price of €11.29 were exercised when the market price ranged from €25.00 to €25.75, options over 1,156 shares at an exercise price of £8.15 were exercised when the market price ranged from €25.00 to €25.75 and options over 612 shares at an exercise price of €9.45 were exercised when the market price ranged from €17.00 to €22.30. During 2009, options in respect of 83,463 shares at an exercise price of €11.60 per share, options in respect of 12,419 shares at an exercise price of €11.29 per share, options in respect of 694 shares at an exercise price of £8.15 per share, options in respect of 3,874 shares at an exercise price of €19.26 per share, options in respect of 801 shares at an exercise price of £14.36 per share, options in respect of 59,197 shares at an exercise price of €9.45 per share, options in respect of 2,880 shares at an exercise price of £8.00 per share and options in respect of 689 shares at an exercise price of €14.90 per share lapsed.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €494,029 (2009: €538,257). The significant inputs into the model were the share price of €26.49 (2009: €17.66) at the grant date, the exercise prices of €19.87 and £17.62 (2009: €14.90 and £14.13), the standard deviations of expected share price returns of 36% and 34% (2009: 36% and 41%), the option lives disclosed above and annual risk free rates of 4.6% and 5.2% (2009: 2.4% and 3.3%). The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's daily share price over the last three years.

Long Term Incentive Plan

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

In respect of the 2009 awards only, shareholders approved the adjustment of the growth target for the first year to the estimated consensus EPS for 2009 as at 6 April 2009 ('Consensus EPS'), of 106 cent, rather than an EPS determined off 2008 performance. For the full number of 2009 awards to vest, Consensus EPS must then be grown by not less than the compound growth in CPI plus 15% per annum in 2010 and 2011. These awards may vest after a three or four year period from award date only.

Until the vesting of the award in accordance with the rules of the scheme, the award holder will have no rights over or in respect of the shares subject to the award and on vesting, the award holder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the scheme. The awards are not transferable. In relation to the awards of shares granted in 2008, the relevant growth target has been met and eligible awards are expected to vest. Upon the vesting of a share award, as part of the award holders' rights they also receive a small number of additional shares in respect of dividends on those shares between the award and vesting dates, regarded as a de facto part of the original share award.

During the year, awards of 272,000 shares and 191,500 shares (2009: 250,000 shares, 276,000 shares and 15,000 shares) were granted to senior management (including executive directors). The share prices at the dates of award were €23.76 and €27.40, respectively (2009: €17.84, €23.23 and €24.74). The total cost of these awards (net of awards that lapsed) is €11,305,000 (2009: €11,243,000) if the testing performance targets are achieved along with the other conditions for vesting. The cost is being expensed in the Group income statement over the expected vesting period of the award. The operating profit for the year ended 31 December 2010 is stated after an LTIP charge of €12,614,000 (2009: €4,930,000). During 2010, 60,000 share awards lapsed (including 17,000 relating to 2010 awards) (2009: 10,000 share awards).

During 2010, a total of 334,679 shares (2009: 268,144 shares) in respect of 2007 awards (2009: 2006 awards) and related dividends were vested from the Trust to senior management.

21. Share schemes *(continued)*

A credit of €779,000 was recorded in 2009 in respect of the 2008 awards, which primarily reflected management's revised estimate of the likelihood of the awards vesting given the very challenging 2010 EPS target required for these awards to vest in the context of the then prevailing economic conditions. As noted above, the relevant growth target in respect of 2008 awards has been met and the eligible awards are expected to vest. Accordingly, it is appropriate to recognise the full cost of vesting at 31 December 2010, which has resulted in a €5,338,000 charge to the income statement in respect of 2008 awards in 2010.

Managers' Deferred Share Award Scheme

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

During 2010, no ordinary shares (2009: nil) were conditionally awarded to employees, 2,125 ordinary shares (2009: nil) were vested from the Trust to beneficiaries of the scheme and no share awards lapsed (2009: 5,274). At 31 December 2010, there were 77,729 share awards outstanding under the Share Award Scheme (2009: 79,854).

The total cost of the award is estimated at €1,919,000 (2009: €1,909,000). Of this amount, the estimated performance bonus element of the award cost of €1,460,000 was expensed in the year ended 31 December 2007 and a further €208,000, €118,000 and €133,000 of the award cost was expensed in the years ended 31 December 2008, 2009 and 2010 respectively.

Paddy Power plc Employee Benefit Trust

The Paddy Power plc Employee Benefit Trust (the 'Trust') was established to manage the Long Term Incentive Plan and also manages the Managers' Deferred Share Award Scheme. Purchases of Paddy Power plc ordinary shares from 1 January 2009 to 31 December 2010, and shares vested from the Trust during that period, are shown below:

	Number of Paddy Power plc ordinary shares	Cost of purchase €'000
Shares held by the Trust at 1 January 2009	1,166,855	21,526
Purchased 8 December 2009	540,000	14,067
	1,706,855	35,593
Vested from the Trust in 2009	(268,144)	(3,735)
Shares held by the Trust at 31 December 2009	1,438,711	31,858
Purchased 8 March 2010	272,000	6,585
Purchased 7 December 2010	82,500	2,463
	1,793,211	40,906
Vested from the Trust in 2010	(336,804)	(7,016)
Shares held by the Trust at 31 December 2010	1,456,407	33,890

The results of the Trust are included in the Paddy Power plc Company financial statements. The shares held by the Trust at the statement of financial position date are shown as a deduction from equity in the consolidated statement of financial position in accordance with the Group's accounting policy (see Note 19).

Paddy Power 2004 Second Tier Option Scheme

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

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

22. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2010			31 December 2009 Restated		
	Assets €'000	Liabilities €'000	Total €'000	Assets €'000	Liabilities €'000	Total €'000
Property, plant and equipment	**1,094**	**-**	**1,094**	563	-	563
Business combinations – licences and brands intangible assets	**-**	**(9,585)**	**(9,585)**	-	(8,721)	(8,721)
Lease premiums – income element	**-**	**(50)**	**(50)**	-	(114)	(114)
UK tax losses	**994**	**-**	**994**	-	-	-
Employee benefits	**2,413**	**-**	**2,413**	1,270	-	1,270
Other	**1,951**	**-**	**1,951**	1,581	-	1,581
Net assets / (liabilities)	**6,452**	**(9,635)**	**(3,183)**	3,414	(8,835)	(5,421)
Analysed by Irish, UK and Australian corporation tax:						
Irish corporation tax	**2,641**	**(50)**	**2,591**	1,405	(114)	1,291
UK corporation tax	**1,139**	**(5,771)**	**(4,632)**	16	(5,593)	(5,577)
Australian corporation tax	**2,672**	**(3,814)**	**(1,142)**	1,993	(3,128)	(1,135)
Net assets / (liabilities)	**6,452**	**(9,635)**	**(3,183)**	3,414	(8,835)	(5,421)

The above deferred tax balances are in respect of Irish, UK and Australian corporation tax. The deferred tax assets and liabilities have been offset at 31 December 2010 and 2009 as there is a legally enforceable right to such set-off. The net balances as of 31 December 2010 comprised an Irish corporation tax net deferred tax asset of €2,591,000 (2009: €1,291,000), a UK corporation tax net deferred tax liability of €4,632,000 (2009: €5,577,000) and an Australian corporation tax net deferred tax liability of €1,142,000 (2009: €1,135,000). Included in the statement of financial position is a deferred tax asset of €2,591,000 (2009: €1,291,000) representing the Irish net deferred tax asset and a deferred tax liability of €5,774,000 (2009: €6,712,000) representing the UK and Australian net deferred tax liabilities.

Unrecognised deferred tax assets

The previously unrecognised deferred tax asset in respect of the tax losses related to the Group's retail operations in Great Britain was recognised in 2010 as it is expected that taxable profits will be generated against which to offset these losses.

Deferred tax assets have not been recognised in respect of the following item:

	31 December 2010 €'000	31 December 2009 €'000
UK tax losses	**-**	1,770

22. Deferred tax assets and liabilities *(continued)*

Movement in temporary differences during the year

	Balance at 1 January 2009 €'000	Recognised in income 2009 €'000	Recognised in other compre-hensive income 2009 Restated €'000	Transfer to retained earnings 2009 Restated €'000	Purchase of businesses 2009 Restated €'000	Foreign currency retrans-lation adjustment 2009 Restated €'000	Balance at 31 December 2009 Restated €'000	**Recognised in income 2010 €'000**	**Recognised in other compre-hensive income 2010 €'000**	**Foreign currency retrans-lation adjustment 2010 €'000**	**Balance at 31 December 2010 €'000**
Property, plant and equipment	332	208	-	-	22	1	563	**509**	**-**	**22**	**1,094**
Business combinations – intangible assets (Note 16)	(6,232)	241	-	-	(3,112)	382	(8,721)	**-**	**-**	**(864)**	**(9,585)**
Lease premiums – income element	(114)	-	-	-	-	-	(114)	**64**	**-**	**-**	**(50)**
Available-for-sale investments	-	-	(76)	530	(438)	(16)	-	**-**	**-**	**-**	**-**
UK tax losses	-	-	-	-	-	-	-	**994**	**-**	**-**	**994**
Employee benefits	1,048	(637)	-	-	816	43	1,270	**777**	**264**	**102**	**2,413**
Other	12	142	-	-	1,382	45	1,581	**35**	**-**	**335**	**1,951**
	(4,954)	(46)	(76)	530	(1,330)	455	(5,421)	**2,379**	**264**	**(405)**	**(3,183)**

23. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2010 €'000	31 December 2009 Restated €'000
Trade and other payables		
Trade payables	**11,551**	9,712
Customer balances	**42,368**	33,231
PAYE and social security	**3,920**	2,268
Value added tax and general sales tax	**1,697**	848
Betting duty, data rights and product & racefield fees	**6,764**	7,296
Employee benefits	**13,378**	9,142
Deferred consideration – business combinations	**50**	6,329
Accruals and other liabilities	**35,608**	21,727
	115,336	90,553
Derivative financial liabilities		
Sports betting open positions	**8,586**	5,448

23. Trade and other payables and derivative financial liabilities *(continued)*

Non current liabilities

	31 December 2010 €'000	31 December 2009 Restated €'000
Trade and other payables		
PAYE and social security	**1,961**	90
Employee benefits	**5,093**	2,913
Deferred consideration – business combinations	**300**	-
	7,354	3,003
Derivative financial liabilities		
Sports betting open positions	**16**	16
Sportsbet buyout call options (Note 15)	**-**	138
	16	154

Sports betting open positions

Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Group on initial recognition as financial liabilities at fair value through profit or loss.

The carrying amount of the liabilities is not significantly different from the amount that the Group is expected to pay out at maturity of the financial instruments.

Sports bets are non-interest bearing. There is no interest rate or credit risk associated with open sports bets. A currency risk may arise where such bets are denominated in a currency other than the euro. This currency risk is not considered significant as any payout on such bets is made in the same currency as that in which the bet was originally staked.

24. Provisions

Current liabilities

	31 December 2010 €'000	31 December 2009 Restated €'000
Employee benefits (long service leave)	**150**	102
Accruals and other liabilities (lease reinstatement and onerous contracts)	**128**	1,170
	278	1,272

Non current liabilities

	31 December 2010 €'000	31 December 2009 Restated €'000
Employee benefits (long service leave)	**179**	132
Accruals and other liabilities (lease reinstatement and onerous contracts)	**1,697**	1,479
	1,876	1,611

24. Provisions *(continued)*

The movements in provisions during 2009 and 2010 were as follows:

Current liabilities

	Long service leave Restated €'000	Lease reinstatement Restated €'000	Onerous contracts Restated €'000	Total Restated €'000
Balance at 1 January 2009	-	-	-	-
Other additions	-	-	113	113
Business combinations (Note 16)	99	516	477	1,092
Charged / (credited) to the income statement:				
- Additional provisions recognised	-	-	5	5
- Unused amounts reversed	-	(16)	-	(16)
Amounts used during the year	-	-	-	-
Foreign currency retranslation adjustment	3	19	56	78
Balance at 31 December 2009	102	519	651	1,272
Transfers from non current liabilities	**31**	**-**	**-**	**31**
Charged / (credited) to the income statement:				
- Additional provisions recognised	**103**	**192**	**10**	**305**
- Unused amounts reversed	**(100)**	**(380)**	**(136)**	**(616)**
Amounts used during the year	**-**	**(384)**	**(452)**	**(836)**
Foreign currency retranslation adjustment	**14**	**53**	**55**	**122**
Balance at 31 December 2010	**150**	**-**	**128**	**278**

Non current liabilities

	Long service leave Restated €'000	Lease reinstatement Restated €'000	Onerous contracts Restated €'000	Total Restated €'000
Balance at 1 January 2009	-	-	-	-
Other additions	-	388	1,054	1,442
Business combinations (Note 16)	382	-	-	382
Charged / (credited) to the income statement:				
- Additional provisions recognised	29	53	76	158
- Unused amounts reversed	(132)	(60)	-	(192)
Amounts used during the year	(167)	-	(92)	(259)
Foreign currency retranslation adjustment	20	60	-	80
Balance at 31 December 2009	132	441	1,038	1,611
Transfers to current liabilities	**(31)**	**-**	**-**	**(31)**
Charged / (credited) to the income statement:				
- Additional provisions recognised	**37**	**308**	**-**	**345**
- Unused amounts reversed	**-**	**-**	**(117)**	**(117)**
Amounts used during the year	**-**	**-**	**-**	**-**
Foreign currency retranslation adjustment	**41**	**27**	**-**	**68**
Balance at 31 December 2010	**179**	**776**	**921**	**1,876**

24. Provisions *(continued)*

Long service leave

This provision represents the amounts provided in respect of the long service leave entitlements of Australia employees under the provisions of relevant Australian state legislation. The long service leave liability is measured as the present value of expected future payments to be made in respect of services rendered up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The timing and amount of long service leave cash outflows are primarily dependent on when staff employed at the balance sheet date avail of their entitlement to leave and their expected salaries at that time. As of 31 December 2010 and 31 December 2009, it was expected that cash outflows would occur primarily within the following three years.

Lease reinstatement

Included in this category are amounts provided by the Group for the reinstatement of properties held under operating leases to their original condition when the leases were taken out. These costs are generally provided for over the period of the relevant leases. The timing and amount of lease reinstatement cash outflows is dependent on the expected dates on which leased premises will be exited and the existence of provisions in the lease contracts requiring reinstatement. The bulk of the cash outflows are expected to occur within one to two years of the balance sheet date, with some cash flows expected to occur over the next 30 years as longer term leases are not renewed (2009: approximately half of the lease reinstatement cash flows are expected to occur within one year and the bulk of the remaining cash outflows over the following year, with some cash flows expected to occur over the next 30 years as longer term leases are not renewed).

Onerous contracts

The onerous contracts provision primarily relates to operating leases where the Group is not occupying properties for which it still has a present and future obligation to make lease payments. The provision represents the future expected net cash outflows under these leases discounted at an interest rate appropriate to the timing of the expected net cash outflows. Future cash outflows in respect of onerous contracts are dependent on the relevant lease expiry dates and the timing of break provisions in the lease contracts. It is expected that the provisions will unwind over a 24 year period (2009: 25 year period).

25. Borrowings

The Group had the following borrowings at 31 December:

Current liabilities

	31 December 2010 €'000	31 December 2009 €'000
Secured non-recourse bank loan	**-**	4,165
Loans from Sportsbet non-controlling shareholders	**974**	-
Finance leases	**911**	858
	1,885	5,023

Non current liabilities

	31 December 2010 €'000	31 December 2009 €'000
Secured non-recourse bank loan	**2,284**	7,288
Loans from Sportsbet non-controlling shareholders	**-**	3,181
Finance leases	**349**	1,029
	2,633	11,498

25. Borrowings *(continued)*

The borrowings at 31 December 2010 are further analysed as follows:

	Currency	Nominal interest rate (including facility fee)	Counterparty	Year taken out	Year of maturity	Face value €'000	Carrying amount €'000
Secured non-recourse bank loan	AUD	9.27%	National Australia Bank	2009	2012	2,284	2,284
Loans from Sportsbet non-controlling shareholders	AUD	Nil	Non-controlling shareholders holding 39.2% of the share capital of Sportsbet	2009	2011	1,072	974
						3,356	**3,258**

The borrowings at 31 December 2009 are further analysed as follows:

	Currency	Nominal interest rate (including facility fee)	Counterparty	Year taken out	Year of maturity	Face value €'000	Carrying amount €'000
Secured non-recourse bank loan	AUD	7.89%	National Australia Bank	2009	2012	11,453	11,453
Loans from Sportsbet non-controlling shareholders	AUD	Nil	Non-controlling shareholders holding 49% of the share capital of Sportsbet	2009	2016	3,682	3,181
						15,135	14,634

Both the secured bank loan and the non-controlling shareholder loans were taken out by the Group to part fund the acquisition of IAS. The loans from the 39.2% (2009: 49%) non-controlling shareholders in Sportsbet are non-interest bearing. A discount of €98,000 (2009: €501,000), representing the difference between the nominal value of the loans of €1,072,000 (2009: €3,682,000) and their fair value, has been included in the capital contribution reserve and in non-controlling interest. A discount rate of 5.0% was used in the calculation of the fair value. Under the terms of the buyout of the 39.2% non-controlling shareholders in Sportsbet, the loans from those shareholders will be repaid upon completion of the buyout transaction on 1 March 2011 (see Note 34).

Security and restrictions

The National Australia Bank bank loan is non-recourse to shareholders and is secured by a first ranking fixed and floating charge over all the assets of Sportsbet.

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

Under the terms of the Shareholder Loan Deed relating to the non-controlling shareholder loans, Sportsbet, in lieu of making dividend payments, must first make loan repayments in an amount equal to the dividend payment that each individual shareholder would have been entitled to.

25. Borrowings *(continued)*

Finance lease liabilities

The finance lease liability obligations are analysed as follows:

Payable	Future minimum lease payments 2010 €'000	Interest payable 2010 €'000	Present value of minimum lease payments 2010 €'000	Future minimum lease payments 2009 €'000	Interest payable 2009 €'000	Present value of minimum lease payments 2009 €'000
Within one year	**1,004**	**93**	**911**	1,032	174	858
Between one and five years	**373**	**24**	**349**	1,125	96	1,029
	1,377	**117**	**1,260**	2,157	270	1,887

26. Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

	Carrying amount 31 December 2010 €'000	Carrying amount 31 December 2009 Restated €'000
Financial assets at fair value through profit or loss	**6,978**	-
Restricted cash	**23,838**	10,606
Trade receivables	**5,508**	6,391
Other receivables	**1,342**	3,179
Cash and cash equivalents	**139,581**	80,576
	177,247	100,752

The maximum exposure to credit risk for trade and other receivables by geographic region at 31 December was:

	31 December 2010 €'000	31 December 2009 Restated €'000
Ireland	**404**	973
United Kingdom	**214**	237
Australia	**5,953**	6,366
Other	**279**	1,994
	6,850	9,570

The maximum exposure to credit risk for trade and other receivables by type of counterparty at 31 December was:

	31 December 2010 €'000	31 December 2009 Restated €'000
Trade receivables – credit betting customers	**3,986**	4,230
Trade receivables – other sports betting counterparties	**1,522**	2,161
Other receivables	**1,342**	3,179
	6,850	9,570

26. Credit risk *(continued)*

Significant customers

There were no individual customers at 31 December 2010 or 2009 that represented over ten per cent of trade receivables.

Impairment losses

The ageing of trade receivables (stated net of impairment provisions) at 31 December was as follows:

	31 December 2010 €'000	31 December 2009 €'000
Not past due	**3,338**	2,722
Past due 0 days to 30 days	**849**	1,867
Past due 31 days to 120 days	**1,304**	1,802
Past due 121 days to 365 days	**17**	-
More than one year	**-**	-
	5,508	6,391

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

	2010 €'000	2009 €'000
Balance at 1 January	**1,391**	-
Business combinations	**-**	1,470
Impairment losses recognised	**1,768**	621
Impaired losses written off	**(1,216)**	(806)
Foreign currency retranslation adjustment	**351**	106
Balance at 31 December	**2,294**	1,391

27. Liquidity risk

The following are the contractual maturities of financial liabilities as at 31 December:

				31 December 2010			
	Carrying amount €'000	Contractual cash flows €'000	6 months or less €'000	6 to 12 months €'000	1 to 2 years €'000	2 to 3 years €'000	4 years and over €'000
Non-derivative financial liabilities							
Trade and other payables	**122,340**	**122,340**	**115,287**	**-**	**1,956**	**4,138**	**959**
Deferred consideration	**350**	**350**	**-**	**50**	**300**	**-**	**-**
Secured bank loan	**2,284**	**2,525**	**70**	**69**	**2,386**	**-**	**-**
Other loans	**974**	**1,072**	**1,072**	**-**	**-**	**-**	**-**
Finance leases	**1,260**	**1,377**	**502**	**502**	**326**	**47**	**-**
	127,208	**127,664**	**116,931**	**621**	**4,968**	**4,185**	**959**
Derivative financial liabilities							
Sports betting open positions	**8,602**	**8,602**	**8,507**	**79**	**16**	**-**	**-**
	135,810	**136,266**	**125,438**	**700**	**4,984**	**4,185**	**959**

27. Liquidity risk *(continued)*

	Carrying amount €'000	Contractual cash flows €'000	6 months or less €'000	31 December 2009 Restated 6 to 12 months €'000	1 to 2 years €'000	2 to 3 years €'000	4 years and over €'000
Non-derivative financial liabilities							
Trade and other payables	87,227	87,227	84,223	-	172	2,223	609
Deferred consideration	6,329	6,347	100	6,247	-	-	-
Secured bank loan	11,453	12,538	2,448	2,370	4,533	3,187	-
Other loans	3,181	3,682	-	-	-	-	3,682
Finance leases	1,887	2,157	516	516	1,028	97	-
	110,077	111,951	87,287	9,133	5,733	5,507	4,291
Derivative financial liabilities							
Sports betting open positions	5,464	5,464	5,112	336	15	1	-
Sportsbet buyout call options	138	138	-	-	-	138	-
	115,679	117,553	92,399	9,469	5,748	5,646	4,291

28. Currency risk

Currency risk exposure

As of 31 December 2010 and 2009, the Group's foreign currency risk exposure in respect of the principal foreign currencies in which the Group operates was as follows:

	31 December 2010 GBP €'000	AUD €'000	USD €'000	31 December 2009 Restated GBP €'000	AUD €'000	USD €'000
Financial assets non current – Sportsbet buyout call options	**-**	**6,978**	**-**	-	-	-
Financial assets non current – restricted cash	**-**	**2,757**	**-**	-	1,581	-
Trade receivables	**60**	**5,378**	**21**	53	6,244	1
Other receivables	**171**	**536**	**-**	187	1,400	699
Financial assets current – restricted cash	**-**	**-**	**-**	9,025	-	-
Cash and cash equivalents	**19,345**	**31,711**	**2,523**	3,117	18,489	1,194
Trade payables	**(4,218)**	**(2,682)**	**(79)**	(4,008)	(947)	(39)
Customer balances	**(11,162)**	**(21,412)**	**(2,367)**	(9,328)	(14,424)	(1,757)
Other payables (excluding accruals)	**(2,312)**	**(4,567)**	**-**	(715)	(5,474)	-
Financial liabilities non current – Sportsbet buyout call options	**-**	**-**	**-**	-	(138)	-
Deferred consideration	**-**	**-**	**-**	-	(6,229)	-
Secured bank loan	**-**	**(2,284)**	**-**	-	(11,453)	-
Other loans	**-**	**(974)**	**-**	-	(3,181)	-
Finance leases	**-**	**(1,260)**	**-**	-	(1,887)	-
Gross statement of financial position exposure	**1,884**	**14,181**	**98**	(1,669)	(16,019)	98

The Australian dollar exposure primarily relates to the Australia operating segment whose functional currency is the AUD. The above analysis excludes certain assets and liabilities that comprise the Group's net investment in Sportsbet and IAS.

The Group had no forward foreign currency contracts or derivatives that are cash flow hedges in place at either 31 December 2010 or 2009.

28. Currency risk *(continued)*

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

To 1 Euro:	Average rate		31 December (mid-spot rate)	
	2010	2009	2010	2009
GBP	0.858	0.891	0.861	0.888
AUD	1.444	1.775	1.314	1.601
USD	1.327	1.393	1.336	1.441

Sensitivity analysis

A ten percent strengthening and weakening of the euro against the following currencies at 31 December 2010 and 2009 would have increased / (decreased) profit and other equity by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	Profit		Other equity	
	10% increase €'000	10% decrease €'000	10% increase €'000	10% decrease €'000
31 December 2010				
GBP	**(149)**	**183**	**(2,041)**	**2,494**
AUD	**(92)**	**113**	**(5,438)**	**6,647**
USD	**(1)**	**1**	**-**	**-**
31 December 2009				
GBP	116	(142)	(2,203)	2,692
AUD	(76)	93	(3,124)	3,819
USD	-	1	-	-

29. Interest rate risk

Profile

At 31 December 2010 and 31 December 2009, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2010 €'000	31 December 2009 €'000
Variable rate instruments		
Financial assets – non current restricted cash	**2,757**	1,581
Financial assets – current restricted cash	**21,081**	9,025
Financial assets – cash	**18,054**	13,772
Financial assets – short term bank deposits	**121,527**	66,804
Financial liabilities – secured bank loan	**(2,284)**	(11,453)
	161,135	79,729

	Carrying amount	
	31 December 2010 €'000	31 December 2009 €'000
Fixed rate instruments		
Financial liabilities – finance leases	**(1,260)**	(1,887)
	(1,260)	(1,887)

29. Interest rate risk *(continued)*

Cash flow sensitivity analysis for variable rate instruments

A change of 50 (increase) and 25 to 50 (decrease) basis points ('bps') in interest rates at 31 December 2010 and at 31 December 2009 would have increased / (decreased) profit for a full year and other equity by the amounts set out in the table below. The 25 bps decrease in interest rates has been applied to the Group's non-Australian variable rate instruments and the 50 bps decrease to its Australian segment variable rate instruments. It is assumed that all other variables, including foreign currency exchange rates, remain constant. The selection of the lower 25 bps for the interest rate decrease assumptions at 31 December 2010 and 31 December 2009 reflects the low euro and GBP deposit interest rates currently being earned.

	Profit		Other equity	
	50 bps increase €'000	**25 – 50 bps decrease €'000**	**50 bps increase €'000**	**25 – 50 bps decrease €'000**
31 December 2010				
Variable rate instruments	**599**	**(356)**	**-**	**-**
	50 bps increase €'000	**25 bps decrease €'000**	**50 bps increase €'000**	**25 bps decrease €'000**
31 December 2009				
Variable rate instruments	320	(160)	-	-

30. Fair values

Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities in the statement of financial position:

	31 December 2010		31 December 2009 Restated	
	Carrying amount €'000	**Fair value €'000**	**Carrying amount €'000**	**Fair value €'000**
Available-for-sale				
Assets				
19.98% investment in IAS	**-**	**-**	-	-
	-	**-**	-	-
Carried at fair value				
Assets				
Derivative financial assets – Sportsbet buyout call options	**6,978**	**6,978**	-	-
Liabilities				
Derivative financial liabilities – Sportsbet buyout call options	**-**	**-**	(138)	(138)
Derivative financial liabilities – sports betting open positions	**(8,602)**	**(8,602)**	(5,464)	(5,464)
Net	**(1,624)**	**(1,624)**	(5,602)	(5,602)
Carried at amortised cost				
Assets				
Restricted cash – non current	**2,757**	**2,757**	1,581	1,581
Trade receivables	**5,508**	**5,508**	6,391	6,391
Other receivables	**1,342**	**1,342**	3,179	3,179
Restricted cash – current	**21,081**	**21,081**	9,025	9,025
Cash and cash equivalents	**139,581**	**139,581**	80,576	80,576
	170,269	**170,269**	100,752	100,752
Liabilities				
Trade and other payables	**(122,690)**	**(122,690)**	(93,556)	(93,556)
Secured bank loan	**(2,284)**	**(2,284)**	(11,453)	(11,453)
Other loans	**(974)**	**(974)**	(3,181)	(3,181)
Finance leases	**(1,260)**	**(1,260)**	(1,887)	(1,887)
	(127,208)	**(127,208)**	(110,077)	(110,077)
Net	**43,061**	**43,061**	(9,325)	(9,325)
Total	**41,437**	**41,437**	(14,927)	(14,927)

30. Fair values *(continued)*

Fair value hierarchy

Financial instruments at 31 December which are carried at fair value are analysed by valuation method below. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2010			
	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Available-for-sale financial assets	**-**	**-**	**-**	**-**
Derivative financial assets	**-**	**-**	**6,978**	**6,978**
	-	**-**	**6,978**	**6,978**
Derivative financial liabilities	**-**	**-**	**(8,602)**	**(8,602)**
	-	**-**	**(1,624)**	**(1,624)**

	31 December 2009 Restated			
	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Available-for-sale financial assets	-	-	-	-
Derivative financial assets	-	-	-	-
	-	-	-	-
Derivative financial liabilities	-	-	(5,602)	(5,602)
	-	-	(5,602)	(5,602)

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 are estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Cash and cash equivalents

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

Derivative financial instruments

Derivative financial instruments comprise the Sportsbet buyout call options and sports betting open positions.

The Sportsbet buyout call options have been valued using a Black Scholes option pricing model. The key assumptions in the option pricing model are risk free rates of between 5.2% and 5.3% (2009: 4.7% to 5.2%), share price volatility of 40% (2009: 40%) and expected option lives of 1.75 to 3.08 years (2009: 3.25 to 4.59 years).

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

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

30. Fair values *(continued)*

Sensitivity analysis in respect of financial instruments carried at fair value

The following sensitivity analysis has been performed for the financial assets and liabilities carried at fair value at 31 December 2010 and 2009:

Sportsbet buyout call options

The fair value of the Sportsbet buyout call options is sensitive to both share price volatility assumptions and exercise price assumptions (which are a function of EBITDA in future years). If the share price volatility assumption increased by 20% to 60% and the expectation of achievement of the EBITDA projections used in the valuation model decreased from 100% to 90%, the fair value of the options would increase by €5,850,000 (2009: €545,000).

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 €645,000 decrease and increase, respectively, in the value of open sports bets at 31 December 2010 (2009: decrease and increase of €410,000, respectively).

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

The movements in respect of the financial assets and liabilities carried at fair value in the year to 31 December are as follows:

	2010 Sportsbet buyout call options €'000	2010 Sports betting open positions €'000	2010 Total €'000	2009 Sportsbet buyout call options Restated €'000	2009 Sports betting open positions Restated €'000	2009 Total Restated €'000
Balance at 1 January	**(138)**	**(5,464)**	**(5,602)**	-	(3,669)	(3,669)
Business combinations	**-**	**-**	**-**	(138)	(1,580)	(1,718)
Recognised in the income statement	**7,116**	**(428,651)**	**(421,535)**	-	(282,972)	(282,972)
Settlements	**-**	**425,513**	**425,513**	-	282,757	282,757
Balance at 31 December	**6,978**	**(8,602)**	**(1,624)**	(138)	(5,464)	(5,602)

The amounts recognised for business combinations in 2009 represent (1) the fair value of the Sportsbet buyout call options granted when Sportsbet was purchased on 1 July 2009 (liability of €138,000) and (2) the fair value of the sports betting open positions acquired as a result of the purchase of Sportsbet and IAS (liability of €1,580,000).

The amounts recognised in the income statement represent the Group's gross win in respect of sports betting positions and other derivatives included in income in the year (see Note 4). The settlements in the year are the net amounts received and receivable from customers in respect of those sports betting positions.

All gains and losses have been recognised in the income statement in 2010 and 2009.

31. Commitments and contingencies

(a) Guarantees

The Group has uncommitted working capital overdraft facilities of €15.1m (2009: €14.8m) with Allied Irish Banks plc. These facilities are secured by a Letter of Guarantee from Paddy Power plc.

The Group has a bank guarantee in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by Paddy Power Isle of Man Limited to its customers. This guarantee is required as part of Paddy Power Isle of Man Limited's Online Gambling Licence. The maximum amount of the guarantee at 31 December 2010 was GBP17,000,000 (euro equivalent of €19,750,000) (2009: GBP16,000,000 and euro equivalent of €18,016,000). No claims had been made against the guarantee as of 31 December 2010 (2009: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Isle of Man Limited, and, at 31 December 2010, was secured by a cash deposit of €21,081,000 (2009: GBP8,015,000 (euro equivalent €9,025,000)) over which the guaranteeing bank holds a floating charge. The fair value accounting impact of this guarantee is deemed to be immaterial.

The Group has a bank guarantee in favour of the Lotteries & Gaming Authority – Malta as security for player funds owed by Paddy Power Bookmakers (Malta) Limited to its customers. This guarantee is required as part of Paddy Power Bookmakers (Malta) Limited's Remote Gaming Licence. The maximum amount of the guarantee at 31 December 2010 was €300,000 (2009: €300,000). No claims had been made against the guarantee as of 31 December 2010 (2009: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Bookmakers (Malta) Limited. The fair value accounting impact of this guarantee is deemed to be immaterial.

The Australian corporate sports bookmaking licences issued to Sportsbet and IAS require those companies to hold sufficient cash funds to cover monies owed to customers. At 31 December 2010, the total value of relevant customer balances attributable to the Australia business segment was €23,562,000 (AUD30,951,000) (2009: €15,943,000 (AUD25,522,000)) and the combined cash and cash equivalent balances held by Sportsbet and IAS at that date totalled €31,001,000 (AUD40,723,000) (2009: €19,114,000 (AUD30,598,000)).

The Australia operating segment had €2,757,000 (AUD3,622,000) of cash-backed bank issued guarantees outstanding at 31 December 2010 (2009: €1,581,000 (AUD2,531,000)), comprised as follows:

- amounts of €305,000 (AUD400,000) (2009: €500,000 (AUD800,000)) guaranteed to the Northern Territory Racing and Gaming Authority; and
- guarantees of €1,310,000 (AUD1,722,000) (2009: €925,000 (AUD1,481,000)) outstanding in respect of rental and other property commitments and a merchant facility guarantee of €1,142,000 (AUD1,500,000) (2009: €nil). At 31 December 2009, there were other guarantees of €156,000 (AUD250,000) primarily relating to Sportsbet's outsourced payroll services provider.

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:

	31 December 2010 €'000	31 December 2009 €'000
Property, plant and equipment	**1,380**	3,055
Intangible assets	**5,149**	121
	6,529	3,176

31. Commitments and contingencies *(continued)*

(c) Operating leases

The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases typically run for a period of ten years, with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December 2010 and 2009, the Group had the following rent commitments in respect of non-cancellable operating leases on properties where the lease terms expire as follows:

	31 December 2010		31 December 2009	
	Annual commitment €'000	Total commitment €'000	Annual commitment €'000	Total commitment €'000
Within 1 year	**2,644**	**2,644**	2,402	2,402
Between 2 and 5 years	**2,022**	**7,890**	1,487	4,758
After 5 years	**12,895**	**173,871**	11,236	158,432
	17,561	**184,405**	15,125	165,592

The Group has a small number of shop properties that are sublet. Sublease payments of €316,000 are expected to be received during the year ended 31 December 2011.

During 2010, an amount of €16,181,000 was recognised in profit or loss in respect of operating leases (2009: €13,525,000). Contingent rent expense in profit or loss amounted to a credit of €325,000 (2009: credit of €256,000). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to €278,000 in 2010 (2009: €141,000).

Operating leases for licensed betting and other offices are entered into as combined leases of land and buildings. Since the title to the land does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the offices are with the landlord. As such, the Group determined that the leases are operating leases.

32. Related parties

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

There were no other related party transactions save those disclosed in Note 7.

33. Group entities

The Company had the following subsidiary undertakings carrying on businesses which principally affect the profits and assets of the Group at 31 December 2010:

Name	Equity interest at 31 December 2010	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited	100%	England	Bookmaker	5th Floor, Crowne House, 56-58 Southwark Street, London, SE1 1UN
Paddy Power Isle of Man Limited	100%	Isle of Man	Bookmaker	14 Athol Street, Douglas, Isle of Man, IM1 1JA
Paddy Power Entertainment Limited	100%	Isle of Man	Gaming	14 Athol Street, Douglas, Isle of Man, IM1 1JA
D McGranaghan Limited	100%	Northern Ireland	Bookmaker	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU
Sportsbet Pty Limited	60.8% (2009: 51%)	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820, Australia
International All Sports Limited	60.8% (2009: 51%)	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820, Australia
Paddy Power Financials Limited	100%	Ireland	Marketing services	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Paddy Power Bookmakers (Malta) Limited	100%	Malta	Gaming	'Abacus', Suite 2, Psaila Street, St Venera, SVR 9017, Malta
Paddy Power Luxembourg s.à.r.l.	100%	Luxembourg	Treasury services	16 Avenue Pasteur, L-2310, Luxembourg

With the exception of Sportsbet and IAS that both have 30 June year ends, the above subsidiary undertakings have the same year end date as the Company. All subsidiary undertakings have been included in the Group consolidated financial statements. Accounts have been drawn up to 31 December 2010 in respect of both Sportsbet and IAS.

In addition to the above subsidiary undertakings, the Group utilises an employee trust, Paddy Power plc Employee Benefit Trust, with a registered address at PO Box 76, Wests Centre, St Helier, Jersey, JE4 8PQ, and which holds the shares under the share award schemes.

34. Events after the statement of financial position date

Dividend

In respect of the current year, the directors propose that a final dividend of 50.00 cent per share (2009: 38.90 cent per share) will be paid to shareholders on 20 May 2011. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 18 March 2011. The total estimated dividend to be paid amounts to €24,340,000 (2009: €18,686,000).

Buyout of non-controlling interest in Sportsbet

On 1 March 2011, the Company acquired the remaining 39.2% non-controlling shareholdings in Sportsbet following the granting of approval by shareholders at an EGM held on 22 February 2011. The initial AUD132.6m (€98.0m) consideration payable for the acquisition was satisfied by: AUD110.6m (€81.6m) in cash from Paddy Power's existing cash reserves; the issue of AUD18.0m (€13.4m) of new Paddy Power plc ordinary shares (totalling 455,535 ordinary shares and calculated by reference to a share price of €29.17 per share and the AUD exchange rate shortly prior to acquisition completion); and the assumption of an AUD4.0m (€3.0m) obligation to certain Sportsbet employees. This obligation relates to a long term incentive plan put in place for the benefit of those employees by the non-controlling shareholders at the time of the original acquisition by the Company of 51% of Sportsbet. The non-controlling shareholder loans with a face value of €1.1m (AUD1.4m) were also repaid as part of the transaction.

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

Additional consideration is payable to the extent the EBITDA (post Group central cost allocations) of Paddy Power's Australian operations for the year ended 31 December 2013 exceeds AUD65.0m (€48.0m). The maximum additional consideration of AUD25.0m (€18.4m) is payable in the event that 2013 EBITDA exceeds AUD80.0m (€59.0m). As part of the discussions surrounding the acquisition it was agreed that a special dividend, in excess of that payable pursuant to Sportsbet's ongoing dividend policy, be paid to all Sportsbet shareholders out of available fully franked dividend capacity prior to completion of the acquisition. The element of the special dividend payable to the non-controlling shareholders amounted to AUD8.5m (€6.3m) and was paid on 1 March 2011. The total maximum potential consideration for the acquisition totals AUD166.1m (€122.7m) which comprises the initial consideration (including the cash and shares elements and the assumption of the liability to Sportsbet employees), the special dividend and the maximum additional consideration.

35. Accounting estimates and judgements

Key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies
Goodwill of €76,967,000 (2009: restated balance of €63,511,000) continues to be carried in the Group statement of financial position as the directors believe that there has been no impairment in the fair value of the net identifiable assets of the acquired businesses. Retail shop acquisitions in Ireland and the UK in 2010 contributed additional goodwill of €1,140,000 and €1,517,000 to the Irish retail and UK retail operating segments, respectively. During the year ended 31 December 2009, the acquisition by the Group of 51% of Sportsbet and Sportsbet's subsequent acquisition of IAS contributed goodwill of €58,764,000 (2009: €48,196,000), including €3,814,000 (2009: €3,128,000) of deferred tax on the value of brands intangible assets recognised on the application of fair value accounting to the acquisitions, and brands intangible assets of €17,966,000 (2009: €14,742,000). Other acquisitions and amalgamations in 2009 and prior years contributed goodwill of €15,546,000 (2009: €15,315,000), including €5,771,000 (2009: €5,593,000) of deferred tax on the value of licences intangible assets recognised on the application of fair value accounting to the acquisitions, and €20,610,000 (2009: €19,975,000) of licences intangible assets. The directors believe that this goodwill and the licences and brands intangible assets have not been impaired as of 31 December 2010. The key assumptions made in respect of goodwill and indefinite life intangible assets are set out in Note 14.

The share-based payment reserve, which includes amounts in relation to the share award schemes and various share option schemes, amounted to €21,910,000 at 31 December 2010 (2009: €14,968,000). The significant assumptions made in accounting for share-based payments are set out in Note 21.

The fair value of the Group's sports betting open positions amounted to €8,602,000 at 31 December 2010 (2009: €5,464,000) and the Group considers such arrangements to be derivatives. The Group performs a revaluation of sports betting open positions at each statement of financial position date. The revaluation takes into account the expected probability of such open positions resulting in a gain or loss to the Group in the future, and is dependent on factors that cannot always be reliably predicted.

The fair value of the Group's Sportsbet buyout call options at 31 December 2010 was an asset of €6,978,000 (2009: liability of €138,000 as restated). The valuation of these embedded derivative financial instruments has been performed by an independent advisor. The valuation is sensitive to a number of assumptions, including the future expected profitability of Sportsbet, the estimated current market value of Sportsbet, risk free rates, volatility rates, future dividend yields and probabilities of individual options being exercised. The directors believe that the value attributed to the Sportsbet buyout call options at 31 December 2010 is reasonable and appropriate.

The majority of the Group's retail premises are held under operating leases. Under accounting standards there is a requirement for management to examine the buildings element within such operating leases to determine if the lease meets the definition of a finance lease and, if so, it should be accounted for as such. This review involves determining the fair value of each property at the inception of the lease and analysing the minimum lease payments between their 'land' and 'buildings' elements. Based on management's review of operating leases for the years ended 31 December 2010 and 2009, all retail premises leases qualify as operating leases.

Included in trade receivables at 31 December 2010 of €5,508,000 (2009: €6,391,000) are gross receivable balances of €7,802,000 (2009: €7,782,000), stated net of an impairment provision for bad and doubtful accounts of €2,294,000 (2009: €1,391,000). Management believes that the impairment provision represents their best estimate of the value of receivable balances at 31 December 2010 that may not be recoverable from customers, and that the carrying value of trade receivables is their fair value.

Company Balance Sheet
As at 31 December 2010

	Note	31 December 2010 €'000	31 December 2009 €'000
Fixed assets			
Intangible assets	3	**201**	535
Goodwill	4	**6,648**	5,955
Tangible assets	6	**38,198**	41,492
Financial assets	7	**78,185**	52,245
		123,232	100,227
Current assets			
Trade and other receivables	8	**161,519**	104,207
Cash at bank and on hand	9	**80,718**	29,085
		242,237	133,292
Creditors (amounts falling due within one year)	10	**(171,768)**	(80,649)
Net current assets		**70,469**	52,643
Total assets less current liabilities		**193,701**	152,870
Creditors (amounts falling due after more than one year)	11	**(1,141)**	(885)
Provision for liabilities	12	**-**	(444)
Net assets		**192,560**	151,541
Capital and reserves			
Called-up share capital	13	**4,995**	4,977
Share premium	13	**20,876**	18,009
Capital redemption reserve fund	13	**876**	876
Capital conversion reserve fund	13	**260**	260
Treasury shares	13	**(5,975)**	(5,975)
Shares held by long term incentive plan trust	13	**(33,890)**	(31,858)
Share-based payment reserve	13	**21,910**	14,968
Profit and loss account	13	**183,508**	150,284
Shareholders' funds – all equity interests	13	**192,560**	151,541

Notes 1 to 18 on pages 130 to 142 form an integral part of these financial statements.

On behalf of the Board

Patrick Kennedy

Jack Massey

4 March 2011

1. Basis of preparation and accounting policies

The financial statements have been prepared in euro in accordance with generally accepted accountancy principles under the historical cost convention and comply with the financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland. The accounting policies have been applied consistently throughout the year and the preceding year.

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €64.1m (2009: €67.8m), which includes dividends receivable from a number of subsidiary companies amounting to €54.0m (2009: €50.0m).

Financial assets
Interests in subsidiary undertakings are stated in the Company balance sheet as financial fixed assets, at cost less, where necessary, provisions for impairment.

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

Included within financial fixed assets are capital contributions representing share-based payment awards made to employees of certain of the Company's subsidiaries.

Tangible assets and depreciation
Tangible assets are stated at historical cost less accumulated depreciation. Depreciation is calculated so as to write off the cost less estimated residual value of tangible assets on a straight line basis over their estimated useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 7 years
Computer equipment	3 years
Computer software	3 – 5 years
Motor vehicles	5 years

The residual value, if not insignificant, is reassessed annually.

Goodwill
Goodwill arising on the acquisition of a subsidiary or business, representing the excess of cost over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised by equal annual instalments against profit over its expected useful life, currently 20 years. Provision is made for any impairment in the value of goodwill held.

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

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business and licences for electronic point of sale ('EPOS') system software.

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

Licences – shop licences and EPOS software licences	5 years

1. Basis of preparation and accounting policies *(continued)*

Leases

Assets held under finance leases are included in the balance sheet at their capital value and are depreciated over the term of the lease. The corresponding liabilities are recorded as a creditor and the interest element of the finance lease rentals is charged to the profit and loss account over the term of the lease to produce a constant rate of charge on the balance of capital repayment outstanding. Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Pensions

The Company operates a number of defined contribution pension schemes for certain employees and executive directors. Contributions are charged to the profit and loss account as incurred.

Foreign currency

Transactions denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date. The resulting profits and losses are dealt with in the profit and loss account.

Taxation

Current tax, including Irish corporation tax and foreign tax, is provided on the Company's taxable profits at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Cash flow statement

Under the provisions of FRS 1, 'Cash Flow Statements', a cash flow statement has not been prepared as the Company itself publishes consolidated financial statements that include a cash flow statement in the required format.

Related party transactions

Under the exemption granted by FRS 8, 'Related Party Disclosures', the Company, as a member of a group which publishes consolidated financial statements in which the Company is included, is not required to and does not disclose transactions with fellow members, associated undertakings and joint ventures of that group.

Financial assets and liabilities

Under the provisions of FRS 29, 'Financial Instruments: Disclosures' (paragraph 2D), the Company is exempt from disclosing financial instruments in its single entity financial statements.

Share-based payments

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

1. Basis of preparation and accounting policies *(continued)*

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

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

Own shares held

Purchases of the Company's shares by the long term incentive plan trust, which have been conditionally awarded to Group executives under the terms of the share award schemes, and purchases of the Company's own shares held as treasury shares are shown separately as deductions from equity in the balance sheet. Transaction costs relating to the purchase by the Company of its own shares are written off directly to retained earnings.

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

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in Note 34 to the consolidated financial statements.

2. Employee expenses and numbers

	2010 €'000	2009 €'000
Wages and salaries	**28,310**	31,054
Social security costs	**3,841**	2,962
Defined contribution pension and life assurance costs	**657**	680
Share-based payments (see below)	**3,891**	1,594
Other staff costs	**1,268**	1,310
	37,967	37,600

	2010	2009
The average number of persons employed by the Company (including executive directors), all of whom were involved in the provision of betting services, during the year was	**902**	912

Details of transactions with directors are set out in Note 7 to the consolidated financial statements.

2. Employee expenses and numbers *(continued)*

Summary of share-based payments expense

The share-based payments expense in the profit and loss account in respect of the Company's share schemes is comprised as follows:

	2010 €'000	2009 €'000
Share option scheme	**3**	5
Sharesave scheme	**284**	195
Long Term Incentive Plan	**3,596**	1,390
Managers' Deferred Share Award Scheme	**8**	4
	3,891	1,594

Summary of options outstanding to employees of the Company

The total number of options outstanding at 31 December 2010 was 260,179 (2009: 286,413). These options had exercise prices ranging from €9.43 to €24.17 (2009: €8.15 to €24.17).

For the year ended 31 December 2010:

	Options outstanding at 1 January 2010	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2010
Share option scheme	**31,000**	**-**	**-**	**(27,000)**	**4,000**
Sharesave scheme	**255,413**	**18,718**	**(11,268)**	**(6,684)**	**256,179**
Total	**286,413**	**18,718**	**(11,268)**	**(33,684)**	**260,179**

For the year ended 31 December 2009:

	Options outstanding at 1 January 2009	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2009
Share option scheme	41,000	-	(10,000)	-	31,000
Sharesave scheme	365,271	49,294	(121,286)	(37,866)	255,413
Total	406,271	49,294	(131,286)	(37,866)	286,413

Further details of the Company's employee share schemes are set out in Note 21 to the consolidated financial statements.

3. Intangible assets

The movements during the year in respect of intangible assets, which comprise licences, were as follows:

	Licences €'000	Total €'000
Cost		
Balance at 1 January 2010	1,539	1,539
Additions	-	-
Disposals	-	-
Reclassifications (Note 6)	(102)	(102)
Balance at 31 December 2010	**1,437**	**1,437**
Amortisation		
Balance at 1 January 2010	1,004	1,004
Amortisation for year	232	232
Disposals	-	-
Balance at 31 December 2010	**1,236**	**1,236**
Net book value		
At 31 December 2009	535	535
At 31 December 2010	**201**	**201**

4. Goodwill

	€'000
Cost	
Balance at 1 January 2010	8,584
Acquisitions in year (Note 5)	1,140
Balance at 31 December 2010	**9,724**
Amortisation	
Balance at 1 January 2010	2,629
Amortisation for year	447
Balance at 31 December 2010	**3,076**
Net book value	
At 31 December 2009	5,955
At 31 December 2010	**6,648**

The goodwill balance as of 1 January 2010 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, the acquisition of eight licensed bookmaking shops (through three separate acquisitions) in Ireland in 2007 and the acquisition of one licensed bookmaking shop in 2009.

5. Purchase of businesses

Year ended 31 December 2010

Acquisition of additional 9.8% of Sportsbet Pty Limited

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

	2010 €'000
Cash consideration	8,481
Acquisition expenses paid	80
	8,561

Payment of deferred consideration for 51% of Sportsbet Pty Limited

On 18 August 2010, the Company paid the non-controlling shareholders of Sportsbet an amount of €7.0m (AUD10.0m) in respect of deferred consideration for the Company's initial 51% acquisition of Sportsbet. The payment followed confirmation that the relevant profitability target set for the financial year ended 30 June 2010 had been achieved by Sportsbet. At 31 December 2009, an amount of €6.2m had been accrued for this liability.

	2010 €'000
Deferred consideration paid	7,007
Deferred consideration payment accrued as of 31 December 2009	(6,216)
Change in deferred consideration amount in year (foreign exchange movements)	791

Shop property acquisition

In 2010, the Company, in the absence of available comparable sites for organic shop openings, acquired two retail licensed bookmaking businesses in Ireland.

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

	Book value on acquisition €'000	Provisional fair value adjustments 31 December 2010 €'000	Provisional fair values 31 December 2010 €'000
Identifiable net assets acquired:			
Tangible fixed assets	69	-	69
	69	-	69
Goodwill arising on acquisition			1,140
Consideration (including associated purchase costs)			1,209
Satisfied by:			
Cash consideration (including associated purchase costs)			859
Contingent consideration accrued			350
			1,209

Net cash outflow from purchase of businesses

Purchase of businesses, net of cash acquired	859
Acquisition expenses paid	-
	859

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

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

5. Purchase of businesses *(continued)*

Year ended 31 December 2009

Sportsbet Pty Limited

On 1 July 2009, the company purchased a 51% shareholding in Sportsbet Pty Limited ('Sportsbet'), a provider of internet and telephone sports betting services in Australia. The initial purchase consideration for this investment amounted to €26.3m, comprising a cash payment of €24.6m and the granting of 100,000 ordinary shares of the Company valued at €1.7m (see Note 13). An additional payment of AUD10.0m (€6.2m) is payable in 2010 if certain profitability targets are achieved by Sportsbet in respect of the financial year ended 30 June 2010. Acquisition costs incurred by the Company in relation to the purchase totalled €2.3m. See also Note 16 to the consolidated financial statements for further information. Under the terms of the acquisition, certain call options were granted to the Company and to the non-controlling interest in Sportsbet (see Note 7 below and Note 15 to the consolidated financial statements for further information). The net fair value of these options has been deducted from the overall purchase consideration in the calculation of the cost of the investment in Sportsbet. The cost of the investment in Sportsbet is analysed as follows:

	31 December 2009 €'000
Cash consideration (including associated purchase costs)	24,627
Shares issued	1,648
Deferred consideration	6,216
Acquisition expenses paid	2,172
Accrued acquisition expenses	154
	34,817
Financial asset – Sportsbet buyout call options (Note 7)	(917)
	33,900

Shop property acquisition

In January 2009, the Group, in the absence of available comparable sites for an organic shop opening, acquired a retail licensed bookmaking business in Ireland.

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

	Book value on acquisition €'000	Fair value adjustments 31 December 2009 €'000	Fair values 31 December 2009 €'000
Identifiable net assets acquired:			
Tangible fixed assets	100	(80)	20
	100	(80)	20
Goodwill arising on acquisition			1,144
Consideration (including associated purchase costs)			1,164
Satisfied by:			
Cash consideration (including associated purchase costs)			1,064
Contingent consideration accrued			100
			1,164

Net cash outflow from purchase of businesses

Purchase of businesses, net of cash acquired	1,000
Acquisition expenses paid	64
	1,064

5. Purchase of businesses *(continued)*

The principal factors contributing to the goodwill balance above are the well established nature of the acquired business within the location in which it operates, the quality of its customer base and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired business within the Paddy Power plc group.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired shop in respect of the period from acquisition and for the year ended 31 December 2009 has not been presented on the basis of immateriality.

6. Tangible assets

	Land, buildings & leasehold improvements €'000	Fixtures, fittings & equipment €'000	Computer equipment €'000	Computer software €'000	Motor vehicles €'000	Total €'000
Cost						
Balance at 1 January 2010	35,985	50,399	3,759	2,989	148	93,280
Additions	539	2,985	396	79	-	3,999
Purchase of businesses (Note 5)	-	69	-	-	-	69
Reclassifications (Note 3)	214	(173)	61	-	-	102
Transfers to other Group companies	-	665	466	-	44	1,175
Disposals	(15)	(163)	(17)	(15)	(111)	(321)
Balance at 31 December 2010	**36,723**	**53,782**	**4,665**	**3,053**	**81**	**98,304**
Depreciation						
Balance at 1 January 2010	13,157	32,936	3,644	1,940	111	51,788
Charge for year	1,785	5,685	732	650	11	8,863
Transfers to other Group companies	-	-	-	-	70	70
Impairment credits	(102)	(241)	(1)	(11)	-	(355)
Disposals	(2)	(120)	(15)	(12)	(111)	(260)
Balance at 31 December 2010	**14,838**	**38,260**	**4,360**	**2,567**	**81**	**60,106**
Net book value						
At 31 December 2009	22,828	17,463	115	1,049	37	41,492
At 31 December 2010	**21,885**	**15,522**	**305**	**486**	**-**	**38,198**

The net book value of land, buildings and leasehold improvements at 31 December 2010 includes €18.2m (2009: €18.5m) in respect of leasehold improvements.

The impairment credits relate to the retail business segment and have arisen from a review of the carrying value of shop properties. The recoverable amounts used in the calculation of the impairment credits are based on value in use. The pre-tax discount rate used to determine value in use was 10% (2009: 10%). The impairment credit of €355,000 (2009: credit of €252,000) recorded in the year ended 31 December 2010 includes €226,000 (2009: €386,000) relating to new impairment charges and is stated net of impairment reversals of €581,000 (2009: €638,000).

The directors do not consider the remaining useful lives of tangible fixed assets to be materially different from the period over which the assets are being depreciated.

7. Financial assets

	Unlisted investments in subsidiary companies €'000	Embedded derivatives €'000	Capital contributions €'000	Total €'000
Balance at 1 January 2010	34,097	917	17,231	52,245
Share-based payments	-	-	9,536	9,536
Movement during year – acquisition of additional 9.8% of Sportsbet (Note 5)	8,561	-	-	8,561
Change in fair value of Sportsbet buyout call options	1,055	6,061	-	7,116
Deferred consideration payment – 51% acquisition of Sportsbet (Note 5)	791	-	-	791
Other movements	(64)	-	-	(64)
Balance at 31 December 2010	**44,440**	**6,978**	**26,767**	**78,185**

In the opinion of the directors, the value to the Company of the unlisted investments in subsidiary companies is not less than the carrying amount of €44,440,000 (2009: €34,097,000). The Company's principal subsidiaries are listed in Note 33 to the consolidated financial statements.

Capital contributions represent amounts included in the Company's share-based payment reserve relating to share-based payment awards made to employees of certain of the Company's subsidiary undertakings.

The embedded derivatives financial asset arises in respect of call options granted by the vendors of Sportsbet to the Company and a call option granted by the Company to the vendors of Sportsbet. These call options relate to the acquisition of the Company's and the non-controlling interest's shareholdings in Sportsbet (see Note 15 to the consolidated financial statements for further information). The movement in the fair value of the call options in the year of €7,116,000 has been credited to financial income in the profit and loss account.

8. Trade and other receivables

	31 December 2010 €'000	31 December 2009 €'000
Other debtors and prepayments	**1,351**	1,564
Amounts owed by fellow Group companies	**158,034**	98,810
Loan receivable from Sportsbet	**1,663**	3,833
Deferred tax (Note 12)	**471**	-
	161,519	104,207

All of the above debtors, with the exception of the loan receivable from Sportsbet, fall due within one year.

The loan receivable from Sportsbet is repayable by Sportsbet on or before 25 September 2016. The loan is non-interest bearing.

Amounts owed by fellow Group companies are unsecured, interest free and repayable on demand.

9. Cash at bank and on hand

Included in cash at bank and on hand at 31 December 2010 is an amount of €21,081,000 (2009: €9,025,000 (GBP8,015,000)) which was restricted at that date and up to 14 January 2011 as it formed part of a guarantee issued in favour of the Isle of Man Gambling Supervision Commission in respect of player funds held by a subsidiary of the Company, Paddy Power Isle of Man Limited (see Note 16).

10. Creditors (amounts falling due within one year)

	31 December 2010 €'000	31 December 2009 €'000
Trade creditors	**922**	1,469
Accruals	**10,780**	6,664
Corporation tax	**126**	710
PAYE and social welfare	**1,754**	799
Betting duty	**2,026**	2,360
Sports betting open positions	**1,409**	894
Value added tax	**157**	158
Deferred consideration for business combinations	**50**	6,329
Amounts owed to fellow Group companies	**154,544**	61,266
	171,768	80,649

Amounts owed to fellow Group companies are unsecured, interest free and repayable on demand.

11. Creditors (amounts falling due after more than one year)

	31 December 2010 €'000	31 December 2009 €'000
Accruals	**841**	885
Deferred consideration for business combinations	**300**	-
	1,141	885

12. Provision for liabilities

Deferred tax

	2010 €'000	2009 €'000
Cost		
Balance at 1 January	**444**	(692)
(Credited) / charged to the profit and loss account for year	**(789)**	1,136
Credited to retained earnings in respect of share-based payments	**(126)**	-
Balance at 31 December	**(471)**	444

Deferred tax at 31 December 2010 and 2009 is analysed by category as follows:

	31 December 2010 €'000	31 December 2009 €'000
Capital allowances	**122**	553
Employee benefits	**(35)**	(6)
Share schemes	**(479)**	(154)
Capitalised rents	**31**	59
Other	**(110)**	(8)
Deferred tax (asset) / liability	**(471)**	444

All of the above deferred tax balances are in respect of Irish corporation tax.

Notes to the Company Financial Statements *(continued)*

13. Capital and reserves

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Capital redemption reserve fund €'000	Capital conversion reserve fund €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2010	**49,767,339**	**4,977**	**18,009**	**876**	**260**	**(5,975)**	**(31,858)**	**14,968**	**150,284**	**151,541**
Shares issued on exercise of share options	**186,775**	**18**	**2,867**	**-**	**-**	**-**	**-**	**-**	**-**	**2,885**
Own shares acquired:										
By the long term incentive plan trust – 354,500 ordinary shares	**-**	**-**	**-**	**-**	**-**	**-**	**(9,048)**	**-**	**-**	**(9,048)**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**64,057**	**64,057**
Equity-settled transactions – profit and loss account and financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13,427**	**126**	**13,553**
Equity-settled transactions – vestings	**-**	**-**	**-**	**-**	**-**	**-**	**7,016**	**(5,934)**	**(741)**	**341**
Transfer to profit and loss account on exercise of share options	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(551)**	**551**	**-**
Dividends to shareholders (Note 14)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(30,769)**	**(30,769)**
Balance at 31 December 2010	**49,954,114**	**4,995**	**20,876**	**876**	**260**	**(5,975)**	**(33,890)**	**21,910**	**183,508**	**192,560**

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2009: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

During 2010, 186,755 ordinary shares of €0.10 each (2009: 396,597 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for a total consideration of €2,885,000 (2009: €5,093,000), giving rise to a share premium of €2,867,000 (2009: €5,053,000). In 2009, as part of the consideration for the purchase of Sportsbet (see Note 5), the Company issued 100,000 ordinary shares to the vendors of Sportsbet on 1 July 2009. The total value of these shares on the date of issue amounted to €1,648,000, of which €1,638,000 represented the share premium on issue.

The total number of shares held in treasury at 31 December 2010 was 250,000 shares (2009: 250,000 shares). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Company's distributable reserves are restricted by the value of the treasury shares, which amounted to €5,975,000 as of 31 December 2010 (2009: €5,975,000).

At 31 December 2010, the Company held a further 1,456,407 of its own shares (2009: 1,438,711), which were acquired at a total cost of €33,890,000 (2009: €31,858,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan and Managers' Deferred Share Award Scheme (see Note 21 to the consolidated financial statements). The Company's distributable reserves at 31 December 2010 are further restricted by this cost amount. In the year ended 31 December 2010, 336,804 shares originally valued at €7,016,000 were transferred from the long term incentive plan trust ('the Trust') to beneficiaries of the Trust consequent to the vesting thereof (2009: 268,144 shares originally valued at €3,735,000).

The capital redemption reserve fund of €876,000 (2009: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2009: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In 2010, an amount of €551,000 (2009: €1,372,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to the profit and loss account. An amount of €126,000 of deferred tax relating to the Company's share-based payments was credited to retained earnings in 2010 (2009: €nil) – see also Note 12.

14. Dividends paid on equity shares

	2010 €'000	2009 €'000
Ordinary shares:		
- final paid of 38.90 cent per share (2009: 35.40 cent)	**18,750**	16,864
- interim paid of 25.00 cent per share (2009: 19.50 cent)	**12,019**	9,294
	30,769	26,158
Proposed final dividend of 50.00 cent (2009: 38.90 cent) per share (see Note 34 to the consolidated financial statements)	**24,340**	18,686

15. Pension arrangements

The Company operates defined contribution pension schemes for certain employees and executive directors. The assets of the schemes are held separately from those of the Company in independently administered funds.

Pension costs for the year were €572,000 (2009: €605,000) and the amount due to the schemes at 31 December 2010 amounted to €nil (2009: €46,000).

16. Commitments and contingencies

(a) Guarantees

The Company has uncommitted working capital overdraft facilities of €5.3m (2009: €5.2m) with Allied Irish Banks plc. These facilities are unsecured.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company has issued a letter of guarantee totalling €9.8m (2009: €9.6m) in favour of Allied Irish Banks plc in respect of working capital overdraft facilities provided to certain of the Company's subsidiaries.

A bank guarantee has been issued in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by the Company's subsidiary, Paddy Power Isle of Man Limited, to its customers. This guarantee is required as part of Paddy Power Isle of Man Limited's Online Gambling Licence. The maximum amount of the guarantee at 31 December 2010 was GBP17,000,000 (euro equivalent of €19,750,000) (2009: GBP16,000,000 (euro equivalent of €18,016,000)). No claims had been made against the guarantee as of 31 December 2010 (2009: €nil). The guarantee is secured by counter indemnities from the Company and Paddy Power Isle of Man Limited, and is partly secured by a cash deposit of €21,081,000 (2009: GBP8,015,000 (euro equivalent €9,025,000)) over which the guaranteeing bank holds a floating charge (see also Note 9).

A bank guarantee has also been issued in favour of the Lotteries & Gaming Authority – Malta as security for player funds owed by a subsidiary of the Company, Paddy Power Bookmakers (Malta) Limited, to its customers. This guarantee is required as part of Paddy Power Bookmakers (Malta) Limited's Remote Gaming Licence. The maximum amount of the guarantee at 31 December 2010 was €300,000 (2009: €300,000). No claims had been made against the guarantee as of 31 December 2010 (2009: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Bookmakers (Malta) Limited.

(b) Section 17 guarantees

Pursuant to the provisions of Section 17 of the Companies (Amendment) Act 1986, the Company has guaranteed the liabilities of its wholly-owned subsidiary undertakings in the Republic of Ireland for the financial year ended 31 December 2010 and, as a result, such subsidiary undertakings have been exempted from the filing provisions of Section 7 of the Companies (Amendment) Act 1986.

(c) Capital commitments

The Company has entered into commitments for capital expenditure not provided for in the financial statements amounting to €230,000 (2009: €636,000).

16. Commitments and contingencies *(continued)*

(d) Operating lease commitments

The Company has annual commitments of €9,308,000 (2009: €8,918,000) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2010 €'000	31 December 2009 €'000
Within 1 year	**1,491**	1,088
Between 2 and 5 years	**801**	907
After 5 years	**7,016**	6,923
	9,308	8,918

17. Statutory information

	2010 €'000	2009 €'000
Directors' remuneration	**6,822**	6,259
Auditor's remuneration	**165**	125

The auditor's remuneration of €165,000 (2009: €125,000) comprises €20,000 (2009: €20,000) for the audit of the Company and €145,000 (2009: €105,000) in respect of fees incurred by the Company in relation to the Group financial statements audit.

Auditor remuneration to Company external auditors (KPMG Dublin)

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

	2010 €'000	2009 €'000
Audit	**20**	20
Other assurance services	**196**	150
Tax advisory services	**334**	305
Other non-audit services	**-**	-
Total	**550**	475

Other assurance services includes €145,000 (2009: €105,000) in respect of fees incurred by the Company for the audit of the Group financial statements, €30,000 (2009: €35,000) in respect of fees relating to the audit of subsidiary companies which have been borne by the Company and fees for other miscellaneous assurance work of €21,000 (2009: €10,000).

18. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2010 were approved for issue by the Board of Directors on 4 March 2011.

Five Year Financial Summary

Financial information for the Group reported under IFRS for the five years ended 31 December 2010 is set out below in euro and pounds sterling.

	2010 €'000	2009 Restated €'000	2008 €'000	2007 €'000	2006 €'000
Amounts staked by customers	**3,834,316**	2,751,537	2,100,926	2,027,777	1,795,090
Income	**443,527**	295,928	283,657	278,952	218,706
Operating profit (before exceptional item)	**103,749**	66,694	75,695	72,106	45,462
Profit before tax	**111,300**	67,192	81,727	75,828	49,699
Profit for the year – attributable to equity holders of the Company	**90,005**	56,946	68,817	62,778	41,245
Net cash inflow from operating activities	**160,245**	85,420	95,287	98,828	67,743
Total equity – attributable to equity holders of the Company	**228,439**	157,563	127,240	117,362	128,131

Set out below is the above financial information translated into pounds sterling at the exchange rates shown, for illustrative purposes only.

	2010 GBP'000	2009 Restated GBP'000	2008 GBP'000	2007 GBP'000	2006 GBP'000
Amounts staked by customers	**3,289,846**	2,451,757	1,672,978	1,387,653	1,223,730
Income	**380,547**	263,687	225,878	190,893	149,094
Operating profit (before exceptional item)	**89,017**	59,428	60,276	49,344	30,992
Profit before tax	**95,495**	59,871	65,080	51,891	33,880
Profit for the year – attributable to equity holders of the Company	**77,224**	50,742	54,799	42,960	28,117
Net cash inflow from operating activities	**137,490**	76,113	75,878	67,630	46,181
Total equity – attributable to equity holders of the Company	**196,001**	140,393	101,322	80,313	87,348
Average annual exchange rates used are	**1.1655**	1.1223	1.2558	1.4613	1.4669

Additional Information for Shareholders

Listings
Paddy Power plc is an Irish registered company. Its ordinary shares are quoted on the Irish Stock Exchange and the London Stock Exchange.

Registrar
Enquiries concerning shareholdings should be addressed to the Company's Registrar:
Computershare Investor Services (Ireland) Limited,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
Telephone: +353-1-216 3100
Facsimile: +353-1-216 3151
Website: www.computershare.com

Payment of dividends direct to a bank account
Dividends are paid by cheque; however shareholders resident in Ireland or in the UK may have their dividends paid by electronic transfer direct to a designated bank account. Shareholders who wish to avail of this facility should contact the Company's Registrar (see above).

Payment of dividends in euro
Dividend payments are made in euro by default. However, shareholders wishing to opt for payments in pounds sterling either by cheque or direct to their bank account may do so by contacting the Registrar (see details above).

Crest
Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

Dividend Withholding Tax ('DWT')
Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from:
DWT Unit, Collector General's Division, Government Offices,
Nenagh, Co. Tipperary, Ireland.
Telephone: +353-67-63400
Facsimile: +353-67-33822
E-mail: infodwt@revenue.ie
Website: www.revenue.ie/en/tax/dwt/

General
With certain exceptions, dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, which is currently 20%. DWT, where applicable, is deducted by the Company from all dividends. The following summarises the position in respect of different categories of shareholder:

A. Irish resident shareholders

Individuals
Individuals resident in the Republic of Ireland for tax purposes are liable to DWT in respect of dividends received. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT may be available for offset against their income tax liability; where the DWT exceeds such liability, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the excess.

Shareholders not liable for DWT

Shareholders who receive a dividend in a beneficial capacity can, in certain circumstances, be exempted from DWT. Provided the shareholder furnishes a properly completed declaration on a standard form to the Company's Registrar, and not less than three working days prior to the relevant dividend payment record date, the following classes of shareholders may receive their dividends gross:

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Collective Investment Undertakings;
- Qualifying unit trusts;
- Charities exempt from income tax on their income;
- Athletic/ amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ('SPIA');
- Qualifying fund managers of Approved Retirement Funds or an Approved Minimum Retirement Fund;
- Qualifying savings managers of Special Savings Incentive Accounts;
- A PRSA administrator; and
- Persons exempt from tax on income from personal injury claims.

Copies of the relevant declaration form may be obtained from the Company's Registrar or from the Revenue Commissioners at their addresses shown on page 144. Once lodged with the Company's Registrar, the declaration form remains valid until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to shareholders not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown on page 144, for a refund of the DWT so deducted.

Qualifying intermediaries

Dividends received by qualifying intermediaries on behalf of a shareholder who is exempt from DWT may be received without deduction of DWT. A 'qualifying intermediary' is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory*, and:

- holds a licence under the Central Bank Act 1971, or a similar authorisation under the law of a relevant territory, or is owned by a company which holds such a licence; or
- is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
- otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary;

and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

* A 'relevant territory' means:

(i) a member state of the European Communities (other than the Republic of Ireland); or
(ii) a country with which the Republic of Ireland has concluded a double taxation agreement which is currently in force; or
(iii) a country with which the Republic of Ireland has concluded a double taxation agreement where that agreement has yet to come into force.

Information concerning conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown on page 144. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company's Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT. A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown on page 144.

B. Non Irish-resident shareholders

Persons not resident in the Republic of Ireland are liable to DWT in respect of dividends received. The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:

(a) an individual who is neither resident nor ordinarily resident for the purpose of tax in the Republic of Ireland and who is resident for tax purposes in a relevant territory;
(b) an unincorporated entity which is not resident in the Republic of Ireland and is resident for tax purposes in a relevant territory;
(c) a company which is not resident in the Republic of Ireland and is resident in a relevant territory (by virtue of the law of that relevant territory) and which is not under the control, whether directly or indirectly, of a person or persons who is/ are resident for the purpose of tax in Ireland;

(d) a company which is not resident in the Republic of Ireland and is under the control, whether directly or indirectly, of a person or persons who is/ are resident for the purposes of tax in a relevant territory and who are not under the control, whether directly or indirectly, of a person or persons who is/ are not so resident; or

(e) a company not resident in the Republic of Ireland, the principal class of the shares of which,
   (i) where the company is a 75 per cent subsidiary of another company, of that other company, or
   (ii) where the company is wholly-owned by two or more companies, of each of those companies,
   is substantially and regularly traded on one or more than one recognised stock exchange in a relevant territory or on such other stock exchange as may be approved of by the Minister for Finance.

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form available from the Irish Revenue Commissioners and from the Company's Registrar, to the Company's Registrar not less than three working days in advance of the relevant dividend payment record date, accompanied by:

- Categories (a) and (b): The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary and a notice in writing from the Irish Revenue Commissioners stating that the Irish Revenue Commissioners have noted the contents of the certificate. However, it is important to note where trusts are concerned that only non-resident discretionary trusts, which are resident in a relevant territory, can obtain an exemption from DWT. In that circumstance, the trustee of the discretionary trust may make the declaration. The individual beneficiaries of a non-resident bare trust, where the beneficiaries are resident in a relevant territory, may obtain an exemption from DWT where:
  - the trustees of the trust have been authorised by the Revenue Commissioners to act as a Qualifying Intermediary, and
  - where an exemption declaration has been made to the Qualifying Intermediary by the beneficiaries.
- Category (c): The declaration must be accompanied by a certificate issued by the tax authority of the relevant territory certifying that the company is resident in that territory for tax purposes. It must also be accompanied by a certificate from the company's auditors confirming that it is not under the control, directly or indirectly, of persons resident in Ireland.
- Category (d): The declaration must be accompanied by a declaration from the auditors of the company confirming that the company is not resident in Ireland and is under the control, whether directly or indirectly, of persons who are resident for tax purposes in a relevant territory by virtue of the law of that territory and is not under the control of persons who are not so resident.
- Category (e): The declaration must be accompanied by a certificate from the company's auditors certifying that the principal class of shares in the company (or (i) where the company is a 75 percent subsidiary of another company, of that other company, or (ii) where the company is wholly-owned by two or more companies, of each of those companies), is substantially and regularly traded on one or more than one recognised stock exchange in a relevant territory or on such other stock exchange as may be approved of by the Minister for Finance.

Each of the certificates mentioned above remains current from its date of issue until 31 December in the fifth year following the year of issue.

In relation to categories (c), (d) and (e) above, the requirements for an auditor's certificate and a certificate from the foreign tax authority are not required for dividends made and new declarations provided on or after 3 April 2010.

Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without declaration of DWT - see 'Qualifying intermediaries' under 'A. Irish resident shareholders' on page 145.

C. Dividend statements
Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

Financial calendar

Announcement of final results for 2010	7 March 2011
Ex-dividend date	16 March 2011
Record date for dividend	18 March 2011
Annual General Meeting	17 May 2011
Dividend payment date	20 May 2011

Letter to Shareholders

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser being, in the case of shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations (Nos. 1 to 3) 2007 or the Investment Intermediaries Act 1995 (as amended), or, in the case of shareholders in the United Kingdom, a firm authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your registered holding of ordinary shares in the Company, please forward this document and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through or by whom the sale or transfer was effected, for delivery to the purchaser or transferee.

To all shareholders

I am writing to you to outline the background to the resolutions to be proposed at the forthcoming Annual General Meeting ('AGM') of Paddy Power plc (the 'Company'), all of which are recommended by the Board for approval. Your attention is drawn to the notice of the AGM of the Company, to be held at The Burlington Hotel, Upper Leeson Street, Dublin 4 at 11.00 am on Tuesday, 17 May 2011. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the appointment and reappointment of directors and the Auditors' remuneration, there are various items of special business which are described further below.

Resolutions 3, 4(a), (b), (c) and (d) of the ordinary business propose the appointment of William Reeve and the reappointment of four directors. William Reeve was appointed by the directors since the last Annual General Meeting and, in accordance with the Articles of Association of the Company, retires at the AGM and puts himself forward for election by the shareholders. Messrs Brody Sweeney and Breon Corcoran, having served on the Board for three years, retire in accordance with Regulation 85 of the Articles of Association and, being eligible, offer themselves for reappointment. Messrs Stewart Kenny and David Power, having served on the Board for more than nine years, offer themselves for annual re-election in accordance with the provisions of the Combined Code. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the appointment/ reappointment of each of these directors. Biographical information on these directors is given on page 36 of the Annual Report.

Shareholders are being asked in resolution 6 to renew the directors' authority to allot relevant securities, within the meaning of Section 20 of the Companies (Amendment) Act 1983, up to the unissued authorised share capital of the Company (excluding treasury shares). If renewed, this authority will expire on the date of the next AGM of the Company or 16 November 2012, whichever is earlier. The Board has no immediate intention to exercise this authority.

Shareholders are being asked in resolution 7 to renew the directors' authority to allot shares for cash without being required to offer them first to shareholders. In line with best practice, this authority is limited to an allotment of shares up to five percent of the issued ordinary share capital of the Company at the date of the resolution (currently equal to 2.52m shares). If renewed, this authority will expire on the date of the next AGM of the Company or 16 November 2012, whichever is earlier.

Shareholders are being asked in resolution 8 to renew the authority to empower the Company, or any subsidiary, to make market purchases of the Company's shares. No more than ten percent of the issued share capital of the Company may be acquired under this authority. The price range at which shares may be acquired cannot be less than the nominal value of the Company's shares and cannot be greater than 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or re-issue.

The total number of options to subscribe for shares in the Company on 1 April 2011 is 697,292 and represents 1.4% of the total voting rights of the Company (excluding treasury shares) on that date. This percentage would increase to 1.6% if the full authority to buy shares is used. The authority sought will expire on the date of the next AGM of the Company or 16 November 2012, whichever is earlier. The Board will only exercise the power to purchase shares in the future at price levels at which it considers purchases to be in the best interests of the shareholders generally after taking account of the Group's overall financial position.

Shareholders are also being asked in resolution 9 to pass a resolution authorising the Company to re-issue shares purchased by it and not cancelled as treasury shares off market within a price range, which shall not be less than 95% nor more than 120% of the average price of the Company's shares over the ten dealing days prior to the date of re-issue by the Company. The authority sought will expire on the date of the next AGM of the Company or 16 November 2012, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990. The total number of treasury shares held by the Company on 1 April 2011 is 1,734,000, which represents 3.6% of the total ordinary share capital of the Company (excluding treasury shares in issue on that date).

Shareholders are being asked in resolution 10 to maintain the existing authority in the Articles of Association which permits the Company to convene an Extraordinary General Meeting on 14 days notice in writing where the purpose of the meeting is to consider an ordinary resolution. As a matter of policy, the 14 day notice will only be utilised where the directors believe that it is merited by the business of the meeting and the circumstances surrounding the business.

Action to be taken

A Form of Proxy for use at the AGM is enclosed with this Annual Report. The Form of Proxy will be valid if lodged at the registered office of the Company or with the Company's Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, by no later than 11am on 15 May 2011. Alternatively you may wish to submit your votes via the internet and instructions on how to do so are shown on the form. All proxy forms must be lodged no later than 48 hours before the time appointed for the meeting. The completion and lodging of the Form of Proxy will not prevent you from attending and voting in person at the meeting should you so wish.

Recommendation

The directors believe that the resolutions proposed are in the best interests of the Company and its shareholders, and so they recommend that you vote in favour of these resolutions at the AGM, as they intend to themselves in respect of their shares.

Yours sincerely

Nigel Northridge
Chairman

1 April 2011

Notice of Annual General Meeting
of Paddy Power plc

NOTICE is hereby given that the Annual General Meeting of Paddy Power plc (the 'Company') will be held at The Burlington Hotel, Upper Leeson Street, Dublin 4 at 11.00 am on Tuesday, 17 May 2011 for the following purposes:

To consider and if thought fit, to pass the following resolutions, which will be proposed as ordinary resolutions:

1. **To receive and consider the financial statements for the year ended 31 December 2010 and the reports of the Directors and Auditors thereon.**

2. **To declare a final dividend of 50.00 cent per share for the year ended 31 December 2010.**

3. **To elect William Reeve as a director who is recommended by the Board for election.**

4. **To re-elect by separate resolution:**
   Resolution 4(a) Brody Sweeney
   Resolution 4(b) Breon Corcoran
   Resolution 4(c) Stewart Kenny
   Resolution 4(d) David Power

   who retire in accordance with Regulation 85 of the Articles of Association and, being eligible, offer themselves for re-election.

5. **To authorise the directors to fix the remuneration of the Auditors for the year ending 31 December 2011.**

As Special Business
As special business to consider and, if thought fit, pass the following resolutions:

6. **As an ordinary resolution**
   "That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 20 of the Companies (Amendment) Act 1983) up to an aggregate nominal amount not exceeding the authorised unissued capital of the Company as at the time of passing this resolution; provided that this authority shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 16 November 2012 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby confirmed had not expired."

7. **As a special resolution**
   "That for the purposes of Regulation 8(d) of the Articles of the Association of the Company, the directors are hereby empowered to allot equity securities (as defined in Section 23 of the Companies (Amendment) Act 1983) for cash pursuant to and in accordance with the provisions of their authority pursuant to Section 20 of the Companies (Amendment) Act 1983 as if sub-section (1) of Section 23 of the Companies (Amendment) Act 1983 did not apply to any such allotment provided that, pursuant to Regulation 8(d)(ii), the maximum aggregate nominal value of shares to which this authority relates shall be an aggregate nominal value of €240,383 or five percent of the Company's issued ordinary share capital at the close of business on the date on which this resolution shall be passed; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 16 November 2012 unless previously renewed, varied or revoked by the Company in general meeting provided that the Company may make before such expiry an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement notwithstanding that the power hereby conferred has expired."

8. As a special resolution

"That the Company and/ or any subsidiary (being a body corporate referred to in the European Communities (Public Limited Companies Subsidiaries) Regulations 1997) of the Company be generally authorised to make market purchases (as defined by Section 212 of the Companies Act 1990) of shares of any class of the Company on such terms and conditions and in such manner as the directors may from time to time determine in accordance with and subject to the provisions of the Companies Act 1990 and to the restrictions and provisions set out in Regulation 46(a) of the Articles of Association of the Company and that the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 16 November 2012 unless, in any such case, previously renewed, varied or revoked by the Company in general meeting."

9. As a special resolution

"That the re-issue price range at which any treasury share (as defined in Section 209 of the Companies Act 1990) for the time being held by the Company, may be re-issued off market, shall be the price range set out in Article 46(b) of the Articles of Association of the Company; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 16 November 2012 unless, in any such case, previously renewed, varied or revoked in accordance with the provisions of Section 209 of the Companies Act 1990."

10. As a special resolution

"That it is hereby resolved that the provision in Article 53(a) allowing for the convening of an Extraordinary General Meeting by at least fourteen Clear Days' notice (where such meetings are not convened for the passing of a special resolution) shall continue to be effective."

By Order of the Board

David Johnston
Company Secretary

1 April 2011

Registered Office:
Airton House
Airton Road
Tallaght
Dublin 24

Notes

1. Any member entitled to attend, speak and vote at the meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak and vote in his/ her place. Completion of a Form of Proxy will not affect the right of a member to attend, speak and vote at the meeting in person. A shareholder may appoint more than one proxy to attend and vote at the meeting provided each proxy is appointed to exercise rights attached to different shares held by that shareholder. Should you wish to appoint more than one proxy, please read carefully the explanatory notes accompanying the Form of Proxy. A member may appoint a proxy or proxies electronically by logging on to the website of the Registrars, Computershare Services (Ireland) Limited: www.computershare.com/ie/voting/paddypower. Shareholders will be asked to enter the Shareholder Reference Number, PIN Number and Control Number as printed on your Form of Proxy and agree to certain conditions.

2. As a shareholder, you have several ways to exercise your right to vote:
   (a) By attending the Annual General Meeting in person; or
   (b) By appointing (either electronically or by returning a completed Form of Proxy) the Chairman or another person as a proxy to vote on your behalf; or
   (c) By appointing a proxy via the CREST System if you hold your shares in CREST.

3. If you are appointing someone other than the Chairman as your proxy, then you must fill in the details of your representative at the meeting in the box located underneath the wording "I/We hereby appoint the Chairman of the AGM OR the following person" on the Form of Proxy. If you appoint the Chairman or another person as a proxy to vote on your behalf, please make sure to indicate how you wish your votes to be cast by ticking the relevant boxes on the Form of Proxy.

   In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other registered holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members. Completing and returning a Form of Proxy will not preclude you from attending and voting at the meeting should you so wish.

   Alternatively, you may appoint a proxy electronically, by visiting the website of the Company's Registrars at www.computershare.com/ie/voting/paddypower. You will need your Shareholder Reference Number, PIN number and Control Number which can be found on the lower section of your Form of Proxy.

4. To be valid, Forms of Proxy duly signed together with the power of attorney or such other authority (if any) under which they are signed (or a certified copy of such power or authority) must be lodged with the Company's Registrar, Computershare Services (Ireland) Limited, P.O. Box 954, Sandyford, Dublin 18 not less than 48 hours before the time appointed for the holding of the meeting.

5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with Euroclear (UK and Ireland) Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Computershare Services (Ireland) Limited (ID 3RA50) by 11.00 a.m. on 15 May 2011. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Computershare Investor Services PLC is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear (UK and Ireland) Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s)), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the CREST Regulations.

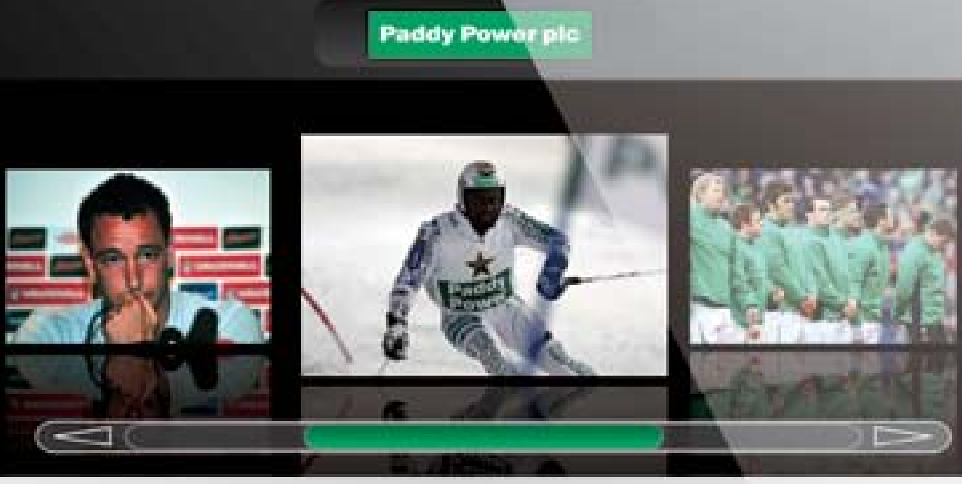
6. Each of the directors has been subject to the evaluation process recommended by the 2008 FRC Combined Code. On this basis, the Chairman and Board are pleased to recommend the re-election of those directors.

7. If you or a group of shareholders hold at least three per cent of the issued share capital of the Company, you or the group of shareholders acting together have the right to put an item on the agenda of the AGM. In order to exercise this right, written details of the item you wish to have included in the AGM agenda together with a written explanation why you wish to have the item included in the agenda and evidence of your shareholding must be received by the Company Secretary at Paddy Power plc, Airton House, Airton Road, Tallaght, Dublin 24, Ireland or by email to info@paddypowerplc.com no later than 5 April 2011 (i.e. 42 days before the AGM meeting). An item cannot be included in the AGM agenda unless it is accompanied by the written explanation and received at either of these addresses by this deadline.

8. If you or a group of shareholders hold at least three per cent of the issued share capital of the Company, you or the group of shareholders acting together have the right to table a draft resolution for inclusion in the agenda of the AGM subject to any contrary provision in company law. In order to exercise this right, the text of the draft resolution and evidence of your shareholding must be received by post by the Company Secretary at Paddy Power plc, Airton House, Airton Road, Tallaght, Dublin 24, Ireland or by email to info@paddypowerplc.com by no later than 5 April 2011 (i.e. 42 days before the AGM meeting). A resolution cannot be included in the AGM agenda unless it is received at either of these addresses by this deadline. Furthermore, shareholders are reminded that there are provisions in company law which impose other conditions on the right of shareholders to propose resolutions at the general meeting of a company.

9. Pursuant to section 134C of the Companies Act 1963, shareholders have a right to ask questions related to items on the AGM agenda and to have such questions answered by the Company subject to any reasonable measures the Company may take to ensure the identification of shareholders. An answer is not required if (a) an answer has already been given on the Company's website in the form of a 'Q&A' or (b) it would interfere unduly with preparation for the meeting or the confidentiality or business interests of the Company or (c) it appears to the Chairman that it is undesirable in the interests of good order of the meeting that the question be answered.

10. This AGM notice, details of the total number of shares and voting rights at the date of giving this notice, the documents to be submitted to the meeting, copies of any draft resolutions and copies of the forms to be used to vote by proxy are available on the Company's website at www.paddypowerplc.com. Should you not receive a Form of Proxy, or should you wish to be sent copies of documents relating to the meeting, you may request this by telephoning the Company's Registrars on 00 353 1 447 5105 or by writing to the Company Secretary at the address set out above.



JAN

The year started in very icy fashion. In fact so much so that we were forced to slash the odds on it being the coldest January on record from 12/1 to 7/1 and then even further to 5/1 and ultimately 4/6. We paid out just ten days into the month as it was clear that the only thing hotting up was the betting on the plummeting temperatures.

That kept the wolf from the door while racing was falling foul of the weather. But when we did get play on the pitch, there was no lack of heat. Carlos Tevez managed to incense Gary Neville to such a degree in the 1st Leg of the Manchester Derby Carling Cup Semi that the United man was spotted on camera giving Tevez the finger, or maybe he was just pointing up in the air with his middle finger while looking angrily at Tevez – we'll never know. But United were still favourites to go through despite being a goal behind with the home leg to come.

They did go through. Surely this would be their year.

The early birds were in for a hung parliament in the upcoming UK Election, backing it down to just 9/4, much to the disdain of some political dinosaurs who were at pains to explain that hung parliaments just don't happen.

We also invited Barack Obama to play in the paddypowerpoker.com Irish Open over the Easter weekend when it emerged that he was a bit of a punter and a poker fan. You'll have to wait until April to find out if he showed up!

John Terry managed to get himself caught with his pants down and sparked a massive gamble on him to lose the England captaincy, he was backed from 4/1 to 11/8 to be stripped of the honour. Not that stripping was allegedly that alien to him.

On the racing front Solwhit justified odds on favouritism in the Irish Champion Hurdle and made sure that Ireland would dominate the market for the English version come March.

FEB

We'll remember February very fondly thanks to Kwame Nkrumah-Acheampong. Most people will remember him as the Snow Leopard. He is the Ghanaian skier we sponsored at the Winter Olympics in Canada. He didn't quite win Gold but he won plenty of fans.

The outsiders, the New Orleans Saints, won their first Superbowl, but were very well backed and we only got out by the skin of our teeth.

Ireland went into the Six Nations as Grand Slam Champions and rightly full of confidence. Ireland got off the mark with a nice easy win over Italy, just about covering the handicap and losing us a fortune in the process.

Then reality bit – hard. We went to Paris and that was that. We were stuffed 33-10. The only good thing about the rugby season for Irish fans also happened in February. We beat England in Twickenham. Enough said about the game.

Conclusion

2010 Betting Review *(continued)*

FEB

Continued
In round ball games, Beckham's Milan was up against Man Utd. United went to Italy and cost us a right few quid by coming from a goal down to win 3-2 at pretty rewarding odds. Thankfully neither of Rooney's two goals were the first of the match.

MAR

Rooney was a name we dreaded during March. And Messi wasn't much better come to think of it.

Believe it or not Wayne Rooney scored first in every single game he played in March except for the game against Liverpool where it was none other than Fernando Torres who stepped up to the plate!

At the same time Messi went on a run of scoring ten goals in four games. Probably not the best time ever for us to offer a promotion of doubling the odds on first goalscorer bets if your player scores twice!

There were plenty of plots in March's Champions League matches and we saw United finish off Milan with a 4-0 drubbing in Old Trafford, while Chelsea were schooled and sent packing by Jose Mourinho's Inter Milan.

March is always all about Cheltenham though, and so it was this year. The one word that springs to mind when remembering Cheltenham is BIG.

Cheltenham is often compared to the movie business with scripts that 'you just couldn't write' and 'starring roles' and oodles of drama. The one thing they were always missing was their very own Hollywood sign.

We brought Hollywood to Cheltenham, and boy was it big! Standing at over 50 feet high (that's higher than three double decker buses) the Paddy Power sign in the Cheltenham hills was actually bigger than the sign in the Hollywood hills. A BIG sign for a big festival.

We kicked off the week with a big offer too. Dunguib was the unbeatable Irish banker of the week and went off at 4/5 favourite for the Supreme Novices Hurdle. We were offering money back on all losing bets in the race if and when Dunguib won.

Unfortunately for his tens of thousands of backers he could only manage third behind Menorah and second favourite Get Me Out Of Here. If Get Me Out Of Here had won, we'd still be paying out. We didn't win much on the race but we dodged a £4.5m bullet.

The highlight of the meeting was the Gold Cup on Friday which didn't go exactly to plan with Kauto Star upending himself at the fourth last. It left the race at the mercy of Denman, but it was the imperious 7/1 third favourite Imperial Commander who landed the spoils. Seemingly the end of an era of short priced Gold Cup winners – thankfully!

Paddy Power plc

MAR

Continued

We were in the mood for thinking big so we went after the biggest fish of them all – Tiger Woods. The poor fellow was being dropped left, right and centre by sponsors after scandals in his personal life, which looked like a great opportunity for us to step in and help him out. We offered him a sponsorship deal, but unfortunately he finally managed to say no.

APR

Phil Mickelson won the Masters, Chelsea and Bayern Munich both beat United, Lionel Messi beat Arsenal but April belongs to Tony McCoy.

He finally won the Grand National and pretty much broke the bookies in the process. It's only fitting though that he does it on a horse that everyone is on. Don't Push It was subject of one of the biggest ever Grand National gambles and was comfortably our worst National result ever.

To make matters worse we agreed to buy everyone in Liverpool a pint if McCoy broke his duck, a long night in Aldo's bar for Paddy!

By the way Obama didn't show up for the Poker tournament either.

Eyjafjallajökull is a name we all remember fondly from April 2010. It's not a Ukrainian supermodel but the Icelandic Volcano that caused an awful lot of bother across Europe.

It did inspire us to launch volcanobetting.com which allowed would be holiday makers bet on their airport being closed on the day they were going on holidays. It was immensely popular and had real potential as a business channel, now if only that volcano would erupt again…

MAY

May kicked off with Gordon Brown kicked out. We paid out early on a Tory win in the UK election after Cameron's performance in the last TV debate where he wiped the floor with Brown. As the results tumbled in, it was never in doubt.

The Premier League title race was still alive to the last day of the season, although Chelsea were very much in the driving seat and justified their final morning odds of 1/12 to keep United at bay. It was also the last chance for some of the fringe players to impress Fabio Capello and break into the World Cup squad. I bet some of them wished they hadn't played so well!

Didier Drogba's 59th minute goal in the FA Cup final saw Chelsea complete their double with victory over unlikely final opponents Portsmouth.

MAY

Continued

In the non sporting world, BP were in somewhat hot water with the oil leak in the Gulf. Their CEO, Tony Hayward, wasn't the most popular man on the planet and there was a big betting plunge on him losing his job, BP denied there was any truth in the rumour…right before they announced he was gone!

JUN

The whole year was all about June and the kick off of the World Cup. This was to be England's time. Themselves and Spain were the two best backed teams and they went into their first game with the USA with the weight of a nation on their shoulders.

Stephen Gerrard scored on four minutes to get the World Cup off to a dream start but then Robert Green the England goalie has a complete shocker and spills an easy catch into his own net. It ends 1-1, and who would have thought that was about as good as it was going to get.

The mighty Algeria held England to a scoreless draw in their second game and while the fans booed, Rooney berated them to a TV camera on his way off the pitch – not good Wayne!

I hate to say it to any of our English cousins who may be reading this but these two results were two of the best we've ever had in football from a betting perspective.

Finally the fans get a victory when Jermaine Defoe beats Slovenia and they land the juiciest of ties against Germany in the last sixteen. Klose, Podolski and a brace from Müller sent England home.

Spain stuttered to begin with but soon began giving public lessons on how to play the beautiful game. At the same time the Dutch were getting down and very dirty, but proving that it doesn't have to be pretty to be effective.

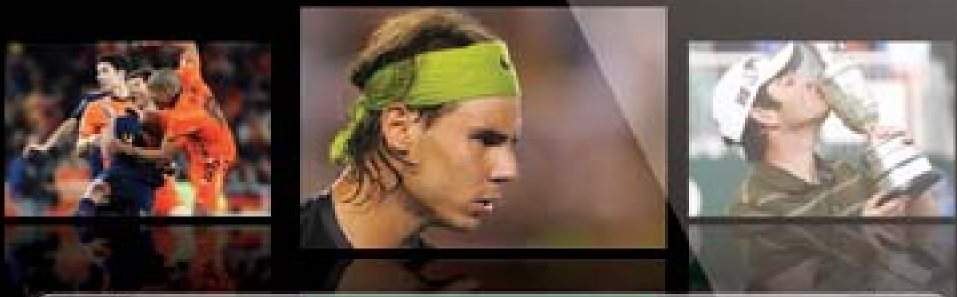
The racing world was taken by storm by Workforce who upset Aidan O'Brien's hotpot Jan Vermeer when running away with the Derby at Epsom.

June 2011 will never be forgotten by backers of Graeme McDowell, nor by the great man himself, who won the US Open at odds of 60/1. In a pretty dramatic final round Dustin Johnson lost the plot and McDowell showed nerves of steel to go on and win his first major. He's exactly the type of ice cool player we could do with at the Ryder Cup in October.

JUL

The World Cup was coming to its climax and with the quarters and semis being more dramatic than a Shakespearian festival, the purists willed on Spain to prove that good could prevail over evil, while Dutch fans were probably the only ones to cheer on Holland – and not all of them admitted to it! Both were big losers for us in the World Cup winner market, so we just wanted a draw to get something back.

Paddy Power plc



JUL

Continued

Spain played football in the World Cup Final, Nigel De Jong played some sort of weird martial arts where you drop kick someone in the chest. The ref thought it was OK though, so game on!

Everyone's a winner! The bookies get their draw and Iniesta's extra time winner gives Spain their trophy – I suppose Holland weren't winners so only nearly everyone's a winner!

If the US Open was anything to go by, the British Open was going to be a cracker…and it looked like it might be when Rory McIlroy shot a first round 63, but after his second round 80, Who – ey? Oosthuizen led from then to the end. It was a good result as he was any treble figure price you want before the start but not exactly the exciting Sunday finish we were looking for.

The Wimbledon men's final was a bit of a damp squib with Rafa Nadal hammering Tomas Berdych in straight sets. John Isner's earlier victory over Nicolas Mahut was a little bit closer and will be the outstanding memory from Wimbledon 2010. The match went on for over 11 hours with Isner eventually winning the final set 70 games to 68 – you would have got pretty big odds on that.

AUG

Chelsea were pre season favourites to win the Premier League at 13/8 and after winning both of their first two 6-0 it looked like a pretty decent bet. They scored 14 goals in their first three games and conceded none. Not bad for the goal difference!

In Golf, Dustin Johnson reared his head again in the USPGA. It looked like justice was going to be done when he stood on the 18th tee with a one shot lead.

He hit his ball onto a bit of scrub and then proceeded to play his way to a bogey on the hole which left him in a playoff, or so he thought. Everything that's wrong with golf came to the fore and he was penalised two shots for grounding his club in a bunker. It seemed strange as the spectators had been walking through where he played from – usually spectators can't walk through bunkers.

So, Dustin loses out on about a squillion dollars and punters look likely to lose their dough too, but of course we couldn't let that happen and refund all losing bets on Johnson to win and pay him out as an each way winner.

By the way Martin Kaymer beat Bubba Watson in the playoff.

In racing, red hot favourite Starspangledbanner could only manage second place in the Nunthorpe at York. He would have been a stinker of a result but even more importantly the winner, Sole Power, was 100/1 and owned by Paddy's mum!

Conclusion

2010 Betting Review *(continued)*



SEP

Hurling fans will remember 2010 as the year that Tipperary came of age. Lar Corbett's hat-trick in the All Ireland Final put paid to Kilkenny and stamped the Premier County as the ones to beat in the fastest game in the world.

Cork beat Down by just a point in a nailbiter of an All Ireland Football Final.

Giovanni Trappatoni's Ireland managed two huge wins in September, putting the mighty Andorra and Armenia to the sword in our bid to qualify for Euro 2012. And before you English readers start to snigger, don't forget you could only draw with the mighty Montenegro!

We did pay out early on Europe winning the Cup though as it seemed very unlikely to be America's weekend – especially when their rain gear turned out not to be waterproof!

OCT

The Ryder Cup finally began, albeit a day late thanks to the lashings of rain, and the script didn't exactly go to plan for Europe with the USA showing that apparently they actually did know how to play golf in the rain.

It was a shock to us all that the weather was so bad – imagine, rain in Wales in October. Who could possibly have predicted that!

It was nip and tuck all the way and on the final day (Monday) it looked like it was going to be one of those moments for Graeme McDowell – and so it was. What a little legend he his, holding his nerve and winning the Cup! He'll have some job topping 2010!

Workforce had flopped after his Derby win but came back and just got up for Prix De l'Arc glory in France. Not the worst result in the world as Behkabad and Fame And Glory had both been heavily backed in the build up. 6/1 must be Workforce's favourite price!

Chelsea had lost to Man City but were still rolling along nicely and looking very solid in their bid to retain their title.

Meanwhile, Spurs were struggling a little when 4-0 down to Inter in the first 35 minutes before Gareth Bale decided that if nobody else was going to do it, he was. He picked a pretty good time to score his first hat-trick, and even though they lost 4-3, Spurs were moral victors and Bale was worth a few zeros more.

Paddy Power plc

NOV

Two football matches deserve a mention in November, probably of slightly differing standards. Barcelona destroyed Real Madrid 5-0 in a masterclass of football, and in a far tighter affair Sligo Rovers and Shamrock Rovers clashed in the FAI Cup Final.

The Cup Final went to penalties which should have been advantage to double-seeking Shamrock Rovers, as Sligo were without their first choice keeper. Super sub Ciaran Kelly was in nets and managed to save no less than four penalties in the shootout to give a famous victory to Sligo Rovers.

Long Run was the hot favourite for the first big race of the jumps season, The Paddy Power Gold Cup, at Cheltenham. He should have hacked up on the form book but didn't. That settled it, he just doesn't like Cheltenham. Little Josh went off in front and pinged every single fence, they didn't get near him.

Diamond Harry won the Hennessy and was made work for it by the never say die Denman who carried a mammoth weight to finish third. He's never been out of the first four when completing – I probably should have been backing him.

DEC

The weather closed in in December and played havoc with the racing calendar in particular.

Leopardstown somehow managed to race, albeit a bit late, and whetted our appetite for the jumps season ahead. Dermot Weld had won the Ascot Gold Cup, half of the races at Galway and now popped up to win the Paddy Power Chase with Majestic Concorde – does this man never tire of winning things? What about all the other lads? You'd think he'd give them a chance!

Chelsea were starting to stutter and when Arsenal stuffed them 3-1 they no longer looked so invincible. Game on!

It was a mixed time for Arsenal. They beat Chelsea, one of their biggest fans jockey AP McCoy won sports personality of the year, but they drew Barcelona in the Champions League – the elusive four timer wasn't looking as healthy now.

Another year over, plenty of ups and downs, and with no World Cup (except for rugby, cricket, beach volleyball and tiddlywinks) 2011 is bound to be a quiet one….

Notes

www.sourcedesign.ie

PRINT IRISH
CLÓBHUAIL IN ÉIRINN

The paper used in this publication comes from a well managed forest.

Paddy Power plc

Airton House, Airton Road,
Tallaght, Dublin 24

Tel: +353 1 404 5900
Fax: +353 1 404 5901
E-mail: info@paddypowerplc.com
Website: www.paddypowerplc.com

PPad

Paddy Power plc
Airton House, Airton Road, Tallaght, Dublin 24
Tel: +353 1 404 5900 Fax: +353 1 404 5901
E-mail: info@paddypowerplc.com
Website: www.paddypowerplc.com