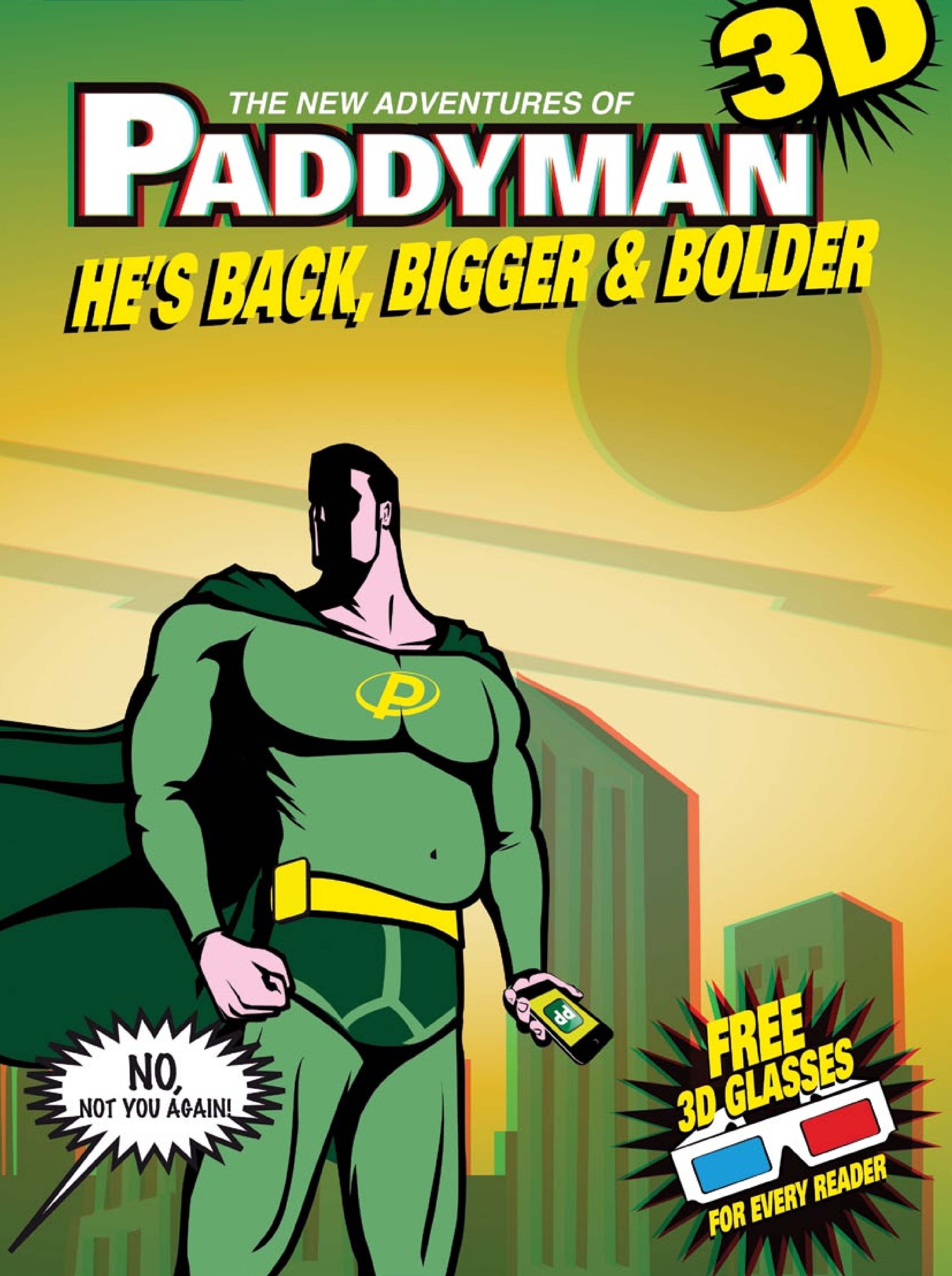
Paddy Power plc ANNUAL REPORT 2011



Directors
Nigel Northridge *Chairman*
Patrick Kennedy *Chief Executive*
Jack Massey *Finance Director*
Tom Grace *Non-executive Director*
Stewart Kenny *Non-executive Director*
Jane Lighting *Non-executive Director*
Cormac McCarthy *Non-executive Director*
Pádraig Ó Ríordáin *Non-executive Director*
David Power *Non-executive Director*
William Reeve *Non-executive Director*

Company Secretary and Registered Office
David Johnston – Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4.

Stockbrokers
Goodbody Stockbrokers – Ballsbridge Park, Ballsbridge, Dublin 4.
Credit Suisse Securities (Europe) Limited – One Cabot Square, London, E14 4QJ.

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.

Is it a bird? Is it a plane? No, it's the cheeseburger eating, social media obsessed, Paddyman, the punters' champion! Paddyman first leaped into action back in 2008 when, to the delight of his loyal punters and to the dread of those who stand against him, he launched Paddy's Price Promise. Paddy's Price Promise was then, and remains now, a massively generous concession where all horse and greyhound prices are guaranteed in favour of the punter. In 2011, as the dark clouds of recession worsened and punters needed more help than ever before, Paddyman answered their call with a year long schedule of unbeatable value, unbelievable products and unexpected pleasures. We hope you enjoy reliving his adventures, in amazing 3D!

FINANCIAL HIGHLIGHTS

AMOUNTS STAKED*
€4,555M +19%
2010: €3,834M

INCOME*
€499M +17%
2010: €427M

DIVIDENDS PER SHARE
100.0C +33%
2010: 75.0C

ADJUSTED DILUTED EARNINGS PER SHARE**
€2.12 +26%
2010: €1.69

* *Amounts staked by customers represent amounts received in respect of bets placed on sporting and other events that occurred during the year and net winnings, commission income and fee income earned on gaming and other activities. Income (or 'net revenue') represents the net gain on 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. The costs of customer promotions and bonuses are deducted from income.*

** *Adjusted earnings per share is calculated excluding net after-tax one-off gains of €18m in 2011 and €9m in 2010.*

THE GROUP DELIVERED RECORD OPERATING PROFIT OF €120 MILLION

Dear Shareholder,

I am pleased to report on another successful year for Paddy Power.

The Group delivered record turnover of €4.6 billion and operating profit of €120m, despite headwinds from the economic conditions, a return to a normal run of sports results and the absence of a football World Cup. Earnings per share grew by 26% and the Board's proposed final dividend makes for a total 2011 dividend of 100 cent per share, an increase of 33% versus 2010.

€m	2011	2010	% Change	% Change in Constant Currency ('CC')
Amounts staked	4,555	3,834	+19%	+17%
Sportsbook gross win %	*8.8%*	*9.3%*		
Net revenue	**499.3**	**426.7**	**+17%**	**+16%**
Gross profit	428.2	367.9	+16%	+16%
Operating costs	(308.6)	(264.2)	+17%	+16%
Operating profit	**119.5**	**103.8**	**+15%**	**+15%**
Profit before tax	**121.2**	**104.2**	**+16%**	**+16%**
EPS, adjusted diluted	212.3 cent	168.9 cent	+26%	
Dividends	100.0 cent	75.0 cent	+33%	
Net cash, at year end	**€136m**	**€159m**		

Note 1: For consistency with online industry practice, the Group now deducts free bets, promotions and bonuses from Gross Win and reports the resulting Net Revenue amount. Profit is not affected, just the classification of costs. 2010 is shown on the same basis.
Note 2: Results throughout this statement, the Chief Executive's Review and the Operating & Financial Review exclude net after-tax one-off gains of €18m in 2011 and €9m in 2010.

As well as strong growth in our bottom line, there has been an equally significant increase in our scale and in our operational capabilities. For example, we opened 41 shops in the UK last year, making us one of the fastest growing retailers on the UK high street, and added 224 staff across our Online and Technology teams. This investment is paying for itself in our existing markets, whilst also positioning us for future international opportunities, such as the deal that we announced in December to supply our sports risk management expertise to British Columbia Lottery Corporation ('BCLC') in Canada.

KPOW! NET CASH AT YEAR END €136 MILLION

Betting Taxation & Regulation

In line with various government announcements over recent years, we are likely to experience increased betting taxes in Ireland and the UK in the future (as further described within the Operating & Financial Review under Taxation). We urge governments when considering online taxation in particular to recognise the highly competitive nature of online betting, the challenges of enforcing taxes on rogue offshore operators and, therefore, the consumer, tax and employment protection risks such taxes can present. Examples from other parts of the world show that high-tax regimes drive consumers to non-compliant operators who are more price competitive, as they neither pay the betting tax nor observe player protection and other regulations, thereby frustrating the original public policy objectives.

Similar considerations arise where governments prohibit online betting activity. Rogue offshore operators inevitably fill the consumer demand without submitting to any local player protection regulations, paying local taxes or providing local employment. We are engaging with the Australian Government on this point as they review the legislation which precludes law-abiding operators from offering online betting-in-play and gaming.

Within the UK retail environment, we note that *"The Portas Review: An independent review into the future of our high streets"* recommended putting betting shops into a separate 'Use Class' of their own. We would be disappointed if job creation on the high street would be hampered by the introduction of anti-competitive policies without a proper body of evidence.

Paddy Power has a clear track record of operating responsibly, providing high quality jobs and making a major tax contribution to the countries in which it operates. In Ireland, the Group's total payments to the Irish Exchequer last year grew 36% to €57m and the expected extension of Irish betting tax would add some €6m to this amount in a full year based on 2011 turnover. Over the last ten years, Paddy Power has created 1,184 jobs in Ireland, taking its employees in the country to 2,023 today (with a further 1,193 people employed outside Ireland).

The Board

Fintan Drury, our former Chairman, and Brody Sweeney retired from the Board in the second half of 2011 after serving for nine and six years respectively. We would like to thank them both for their significant contribution to the development and success of Paddy Power.

Cormac McCarthy joined the Board as a non-executive director in September. Cormac brings a wealth of commercial and international experience to the Board.

Breon Corcoran resigned as a director and Chief Operating Officer in November having joined Paddy Power in 2001 and been a member of the Board since 2004. We greatly appreciate the very significant contribution that he made to the development of Paddy Power over his ten years with the Group.

BEEEEP!
JOBLESS PADDY NEEDS YOUR HELP!
SAVE ME FROM EMIGRATION
DON'T WORRY PADDY, I'M ON MY WAY!
MEANWHILE DOWNTOWN...
I DON'T WANT TO LEAVE!
AAAAGH!
NEVER FEAR PADDY! I AM HERE TO HELP YOU!
EEEH... WHO ARE YOU?
I'M PADDYMAN, AND I'M HERE TO OFFER YOU A JOB, PADDY. I WANT YOU TO BE MY SUPER SIDEKICK
OH MY GOD PADDYMAN, THAT'S BRILLIANT! NOW I WON'T HAVE TO LEAVE HOME!
FROM NOW ON YOU WILL BE KNOWN AS JP, MY TRUSTED ALLY
YES, MY FAITHFUL FRIEND?
BRILLIANT! JUST ONE QUESTION PADDYMAN...
ARE YOU GOING TO PAY FOR MY WINDOW?

JOBLESS PADDY

There's nothing Paddyman loves better than when people show initiative and, in June, a young out-of-work Galwayman caught the eye of our hero. Feilim Mac An Iomaire had just returned to his native Ireland after his Australian work visa expired to find that job opportunities were as scarce as hen's teeth. Despite countless applications the prospect of employment seemed further away than ever and the inevitability of emigration loomed large on the horizon. Having one last roll of the dice, Feilim emptied his bank account and purchased a billboard site on a busy Dublin thoroughfare with the message – "Save Jobless Paddy from Emigration". They say fortune favours the brave and job offers began rolling in faster than Feilim could open the envelopes they came in. In the end there was only one career path for the imaginative Galwayman and thanks to Paddyman, Jobless Paddy was jobless no more.

PROPOSED FINAL DIVIDEND UP 40%

Financial Position and Dividends

Profit growth at Paddy Power converts strongly into increased cash flow. Over the last five years underlying operating cashflow (after LTIP trust share purchases and estimated maintenance capex) has averaged 134% of earnings after tax and minority interests. This strong cash generation resulted in net cash at the end of 2011 of €136m, just €23m below the amount at the start of the year, despite significant investment (including over €100m in Australia) and a 27% increase in dividends paid to shareholders.

The Board is proposing an increase in the final dividend of 40% to 70.0 cent per share. This would bring the total dividend in respect of 2011 to €48.9m or 100.0 cent per share, an increase of 33% on 2010, and equivalent to a 47% payout ratio of underlying 2011 earnings.

While the Board is committed to capital discipline, as demonstrated by the upward trend in its payout ratio and share buybacks over recent years, it also continues to maintain flexibility for future growth. Such flexibility has increased in importance with the fast moving changes in the global betting industry and the turbulence in the financial markets.

Outlook

Trading in the first two months of the year has been satisfactory. Underlying momentum remains strong: net revenue is up by 16% (in constant currency versus the same period last year). We also continue to invest substantially for new opportunities. The Board remains confident of the Group's prospects and I look forward to updating you on progress at our AGM in May.

Nigel Northridge

Nigel Northridge
Chairman

2 March 2012

The Changing Industry Landscape

We are in the midst of game-changing developments in the betting industry.

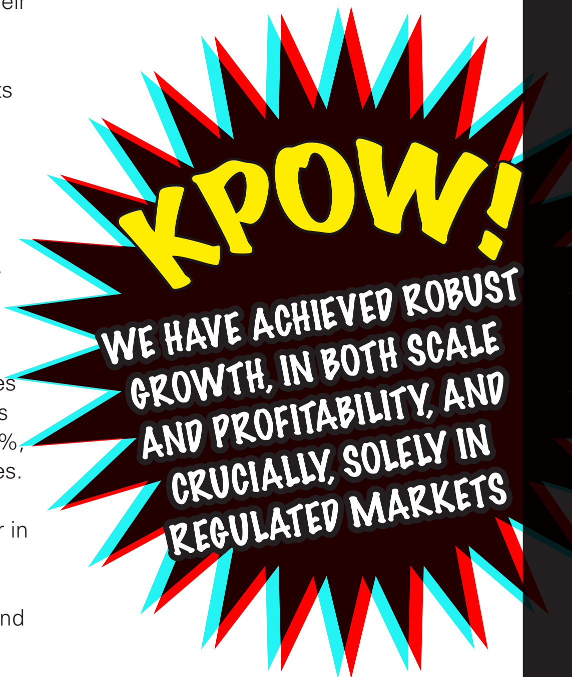
Online markets continue to grow strongly. Consumers' online migration has accelerated as a result of the advent of smartphones and tablet computers. Market research indicates that the online sports betting market in the UK last year held onto the 38% surge in bettors that was driven by the World Cup in 2010, whilst in Australia, online sports betting grew by 21% in the year to June 2011. In addition, an increasing number of countries are regulating their online markets. Italy has extended the betting products it allows online, while Spain, Germany, Greece and Denmark have all progressed draft regulations. With only 9% of the €285 billion global gambling market currently online, there is clearly significant scope for continued strong market growth.

Scale is a key ingredient required to exploit this dynamic market growth. Consumers naturally migrate to the strongest products, services and brands. This in turn generates stronger revenues at the best operators facilitating reinvestment to further enhance their leadership position.

In addition, fiscal pressure on governments and the regulation of online betting markets is leading to increased taxation. This impacts the profit margins of sub-scale operators disproportionately, impacting their ability to compete effectively.

Paddy Power Positioning & Track Record

Paddy Power is taking full advantage of the opportunities that this changing landscape presents. We have achieved robust growth, in both scale and profitability, and crucially, solely in regulated markets.



Online

In 2009 we laid important foundations for online growth by expanding our B2C activities into Australia via acquisition, and by launching B2B activities in France. In the two years since then, our online business has averaged annual growth in active customers of 40%, net revenues of 41% and operating profits of 33% versus pro forma 2009 comparatives. We calculate this has made us, by revenue, the number one online bookmaker in the British & Irish market and the number one online corporate (i.e. fixed odds) bookmaker in Australia.

This significant growth in scale has allowed us to invest aggressively in both existing and new capabilities in order to drive future performance.

CHAMPIONS LEAGUE

From time to time Paddyman loses the run of himself and that's exactly what happened when it came to the 2011 Champions League Final between Manchester United and Barcelona. Not content with pledging to refund losing bets on the match if odds-on shots Barcelona won (which in fact went on to cost a record-breaking £3m), our intrepid hero got none other than super-injunction magnet Imogen Thomas to promote the offer. Imogen was still sore from her acrimonious breakup from a certain Red Devil but few can resist Paddyman's powers of persuasion and the lovely Imogen even togged out in a Manchester United jersey for the occasion. Blow me Paddyman, you're good!


tweet
sigh
I CAN'T BELIEVE HE GAGGED YOU, THE FIEND!
OH PADDYMAN, I ONLY HAVE EYES FOR YOU!
ME TOO...
NEVER FEAR, I'LL GET YOU OUT OF HERE
HOW CAN I EVER REPAY YOU?
HMMM...
DAMN YOU PADDYMAN!
THE Sun
RYAN GIRL IN A MAN UTD STRIP
BLOW ME!
Paddy Power

Since 2009 our:

- Traditional strength in product has been boosted with almost three times as many betting events, nearly 200 new online Games and the leading market position that we have achieved in the key mobile betting segment;
- TV advertising has gone from zero in the UK pre 2009 to Paddy Power being the largest advertiser of any sector on Sky Sports and running TV campaigns for all our major online businesses in 2011;
- Online and technology headcount has increased from 338 to 651 with new teams focussing on social media, customer lifecycle analysis, mobile marketing and 24/7 network operations;
- Technology investment has grown significantly, with third party development days for *paddypower.com* having more than doubled.

The capabilities and assets created by this investment complement each other and aggregate to create an overall proposition that is more than the sum of its parts. For example, our class leading mobile product would not be as successful without the strength of our brand, underlying betting product or exceptional customer service.

UK RETAIL PROFIT UP EIGHT-FOLD OVER THE LAST TWO YEARS

We have a rich pipeline of developments planned to improve further our products and operations. For example, mobile betting and marketing are still in their infancy, offering plenty of scope for further development.

Retail

We have opened 72 units in the UK over the last two years, taking our estate to 165 shops. Operating profit has increased eight-fold from €1.3m in 2009 to €10.5m in 2011. Top-line momentum also remains strong, with like-for-like constant currency net revenue up 6% in the first half and 7% in the second half of last year despite worse sports results and a higher VAT rate versus 2010.

The potential of this business is clear. Average cost of new units opened was £282,000 and average EBITDA per shop was £140,000 in 2011. Given that our current estate accounts for less than 2% of a market of some 8,600 shops, there are attractive opportunities for further openings. Based on the current environment, we expect to add 35 to 40 shops annually in the UK.

In Irish Retail we have faced particularly challenging economic conditions since 2008. We have met these head-on with a clear strategy of compelling value for customers combined with tight cost management. This consistent approach is working. It has ensured that our units remain profitable and open, while closures by our competitors have reduced the overall supply of the shops in the market by 16% from its peak. As a result, our market share has increased substantially from 25%-26% prior to the downturn to approximately 34% in 2011, and we expect further closures amongst competitors.

New Geographies

Last year we expanded our activities into two further geographies, Bulgaria and Canada, which will yield returns in the short term and position us strongly for future opportunities. We have also invested in a range of other opportunities including our organic entry into the Italian market which we are announcing today.

In November we acquired Bulgarian based games developer Cayetano. This provides us with proprietary online and mobile gaming product and an internal source of development expertise. In the future we could deploy Cayetano's content within other Paddy Power channels. In addition, we have the opportunity to significantly increase our development capacity beyond the 39 staff currently in Bulgaria. Paddy Power has a strong history of innovation and early adoption of new technologies as illustrated with proprietary sports betting models, mobile betting and self-service betting terminals. Cayetano can assist us in extending that track record.

In December we contracted with the Canadian provincial lottery operator, BCLC, to supply sports risk management expertise to their online business, having also successfully gained local regulatory approval. B2B business of this kind increases the return on investments we have already made in our Risk function. In addition, the BCLC deal can pave the way for other agreements as it endorses our product and partnership capabilities, reinforces our ability to secure local regulatory approval, and raises our profile in North America and with lottery operators.

Later this year, we expect to expand into the Italian online market under the Paddy Power brand with a team based in Rome supported by our central resources. We have monitored this market since its regulation in 2006 and believe it is now attractive to enter given the extension in the products allowed and the growth in Italian e-commerce and m-commerce, combined with our significantly expanded capabilities.

Summary

Bigger……

Over the course of this key period in the development of the betting industry, we have achieved strong growth in our bottom-line, while significantly increasing our scale and operational capabilities. We are driving investment because the global online betting market will continue to grow in the coming years and scale will be a pre-requisite to take advantage of that growth. Put simply, we are determined that Paddy Power will be in the 'big-get-bigger' segment of operators.

….and bolder

Investing wisely has enabled us to grow profitably in the UK, in Australia and to enter the French and Canadian markets. A strong balance sheet gives us continued financial flexibility should the right opportunities emerge, and the Group continues to monitor developments in regulated and newly regulating markets, as evidenced by today's announcement in relation to Italy.

Despite this significant expansion, we are determined to protect what has made Paddy Power successful to date: an unrelenting focus on product, value and brand. So while some changes come with growth, we won't compromise our fast response times, daring Money-Back Specials and unrelenting emphasis on entertainment, including the occasional bit of our own distinctive brand of mischief!

Conclusion

Paddy Power is strongly positioned for the substantial opportunities that exist in our markets. We have the scale, brand, operational capabilities, people and balance sheet to continue to deliver significant long-term growth and value for our shareholders.

Patrick Kennedy
Chief Executive

2 March 2012

PADDY POWER IS STRONGLY POSITIONED FOR THE SUBSTANTIAL OPPORTUNITIES THAT EXIST IN OUR MARKETS

79% OF OPERATING PROFIT FROM THE FAST GROWING ONLINE SEGMENT

Introduction

Paddy Power is an international betting and gaming group. 79% of operating profit came from the fast growing online segment last year. In addition, the Group benefits from being a multi-channel operator in both the UK and Ireland, with its shops boosting brand recognition, trust and scale, as well as directly contributing 18% of operating profit in 2011.

In recent years the Group has become increasingly diversified geographically with online betting services now provided to consumers in Australia and to business-to-business clients globally. Customers outside Ireland accounted for 74% of total operating profit last year, up from 64% in 2010.

Operating Profit by Division (€m)	2011	% of Group	2010	% of Group
Online (ex Australia)	74.3	62%	57.5	55%
Online Australia	22.8	19%	19.5	19%
Irish Retail	10.9	9%	17.6	17%
UK Retail	10.5	9%	7.4	7%
Telephone (ex Australia)	1.1	1%	1.8	2%
Group Operating Profit	**119.5**	**100%**	**103.8**	**100%**

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

Operating Profit by Geography (€m)	2011	% of Group	2010	% of Group
UK	64.1	54%	45.7	44%
Australia	22.8	19%	19.5	19%
Ireland and Rest of World	32.6	27%	38.6	37%
Group Operating Profit	**119.5**	**100%**	**103.8**	**100%**

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

Sporting Results and Trading

The Group's sportsbook gross win percentage was in line with our normal expectations in 2011, with sporting results going customers' way in the first half of the year but swinging back to the bookie later. The Lord giveth and the Lord taketh away.

But Paddy Power giveth and then giveth some more. We gave back millions to customers last year by offering extra places on each-way bets on the Grand National, the golf majors and numerous other events. We refunded over €3m in losing bets, our largest ever Money-Back special, when Barca beat Man U in the Champions League Final. It was a remarkable run of refunds and had us sweating more than Harry Redknapp at Southwark Crown Court!

The Rugby World Cup summed up the Paddy Power approach with a 'justice payout' for backers of Wales in the semi-final after that controversial sending off, an 'early payout' on New Zealand following their sublime progress to the final, and a free tipping service for all serious punters, from Kevin the sheep.

As last year's ups and downs illustrate, Paddy Power's short term financial performance can be impacted by the run of sporting results, despite the benefits of an increasing diversity of betting events and geographies. More importantly for our long term success though, 2011 demonstrates how giving value to punters and being customer-led is at the core of Paddy Power's DNA. It is an approach that has served us well for nearly 25 years, and in 2011 it contributed to a 45% increase in new customer acquisition at paddypower.com (off a bigger base and without a football World Cup boost).

ONLINE

€m	2011	2010	% Change	% Change in CC
Sportsbook net revenue	210.3	169.0	+24%	+21%
Gaming & other net revenue	85.0	66.0	+29%	+31%
Total net revenue	**295.3**	**235.0**	**+26%**	**+24%**
Operating profit	**94.8**	**75.0**	**+26%**	**+26%**
% of Group operating profit	79%	72%		
Active customers	**1,130,912**	**838,043**	**+35%**	

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

Online activities generated €95m of operating profit last year. Online net revenue of €295m included €43m from mobile, an increase of 299% compared to 2010.

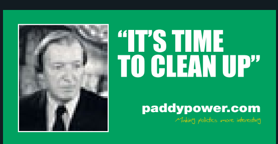
ONLINE DIVISION (Excluding Australia) - *paddypower.com*

€m	2011	2010	% Change	% Change in CC
Amounts staked	1,561	1,126	+39%	+40%
Sportsbook net revenue	114.2	87.6	+30%	+31%
Sportsbook gross win %	*8.2%*	*8.6%*		
Gaming & other net revenue	85.0	66.0	+29%	+31%
Total net revenue	**199.2**	**153.6**	**+30%**	**+31%**
Gross profit	175.1	134.4	+30%	+32%
Operating costs	(100.8)	(76.9)	+31%	+31%
Operating profit	**74.3**	**57.5**	**+29%**	**+32%**

Our UK and Irish online business, paddypower.com, had a stand-out year in 2011. Operating profits increased 29% to €74.3m, despite ongoing investment and less favourable sporting results.

Active customers were up 41%, amounts staked up 39% and revenues up 30%. Operating cost growth of 31% was, as expected, in line with this top line growth. Operating profit as a percentage of net revenue was therefore maintained at 37%.

Growth in UK active customers was particularly strong, at 50% (versus 56% in 2010), from a substantially higher base and without a World Cup boost. On top of year-on-year growth in new customers acquired of 45%, increased customer retention contributed significantly to this performance. For example, there has been a 31% increase over the last two years in the percentage of customers still active a year after their acquisition.



ELECTION BETTING

With both a general election and a presidential election in 2011, Irish political punters could hardly believe their luck. Coming to the aid of both punters and parties alike, Paddyman partnered with leading polling company RED C to publish numerous opinion polls around both elections. Paddyman's now customary party leader charity bets were well received with Taoiseach-in-waiting, Enda Kenny, proving his punting skills to great effect (€1,000 winning bet at odds of 4/1!). On the day that the Irish general election was announced, Paddyman was first up with his election betting posters in Dublin and, despite words of praise from the Fine Gael leader, he still managed to invoke the wrath of Dublin City Council litter division in spectacular style. Even Paddyman has his enemies!

paddypower.com
FINE GAEL TO WIN OVER 70 SEATS
€1,000 @ 4/1
addy Power
MEAN WHILE, IN A BETTING SHOP DOWNTOWN...
IT'S A WINNER I TELL YOU GILMORE. IT'S A SURE THING, PUT YOUR HOUSE ON IT!
BUT ENDA, I STILL WANT TO BE TAOISEACH
paddypower.com
oi!
HIGHER JP, HIGHER!
LEG IT JP! IT'S DUBLIN CITY COUNCIL. IF HE CATCHES US, WE'RE IN FOR IT!

This strong customer acquisition and retention was helped by the quality of our customer service. During the year we won two Contact Centre Management Association awards, including 'best use of technology' in a contact centre, and three Egaming Review awards, including 'best customer relations operator'.

Online (Ex Aus) Active Customers	2011	2010	% Change
UK	710,043	474,617	+50%
Ireland and Rest of World	196,680	167,672	+17%
Total	**906,723**	**642,289**	**+41%**

Online (Ex Aus) Customers Product Usage	2011	2010	% Change
Sportsbook only	513,201	355,842	+44%
Gaming only	118,404	85,613	+38%
Multi-product customers	275,118	200,834	+37%
Total	**906,723**	**642,289**	**+41%**

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

(A) Online Sportsbook

The amounts staked on the online sportsbook increased by 40% in constant currency to €1.5 billion. Within this, bet volumes grew 51% to 96.1m, while the average stake per bet decreased by 7% in constant currency to €15.26. The reduction in average stake per bet is due to a combination of factors, including the significant growth in active customers and the continued challenging economic conditions. Net revenue increased by 31% in constant currency, while the gross win percentage fell 0.4% to 8.2% but remained above the upper end of our normal expected range of 7.0% to 8.0%. This represented another strong performance, notwithstanding the outstanding value we continue to offer, highlighting the quality of our operations and an attractive business mix.

MOBILE TURNOVER INCREASED 225% TO €366M

Mobile continued to be a key driver of our growth as we benefited from our leadership position in this rapidly growing market, further mobile product releases every 4-5 weeks and continued mobile focussed brand advertising. Mobile turnover increased 225% to €366m, or 25% of total sportsbook stakes. In February 2012, 49% of our online sportsbook customers transacted with us via mobile. Our mobile offer is now, uniquely in the market, optimised for the four major smartphone operating systems covering some 96% of UK smartphone handsets. We have also added new features to our product such as live picture streaming, extra payment methods, customer help pages and virtual racing. In addition, we upgraded the existing functionality for free bets, live-betting, football coupons and registration.

Other product enhancement also continued unabated. We completed a major revamp of our horse-racing pages, simplifying the customer journey and adding *Racing Post* content. For football betting-in-play, we now cover 119 leagues across the world or 3,000 matches per month, more than trebling the matches offered between the start of 2010 and the end of 2011 – thereby taking full advantage of the fact that there isn't a minute of any given day where someone somewhere in the world isn't throwing themselves on the ground and theatrically grabbing a limb.

Paddy Power's leading range of novelty bets has entertained punters and interested the media for years and, via social media, the protagonists are now able to get involved too. For instance, Piers Morgan tweeted his 1.7 million followers with our betting market on the number of viewers who would tune into his first *Tonight Show* on CNN, with a re-tweet by Lord Sugar then reaching his 1.5 million followers.

> GAMING AND OTHER REVENUE UP 31% TO €85M

(B) Online Gaming & B2B

Gaming and other revenue increased by 31% in constant currency to €85m driven by growth in Games, Casino, Bingo and B2B. After laying the groundwork with product development and the testing of Games TV advertising in 2010, we ran TV campaigns for each of Casino, Games and Bingo last year, driving 37% year-on-year growth in gaming customers.

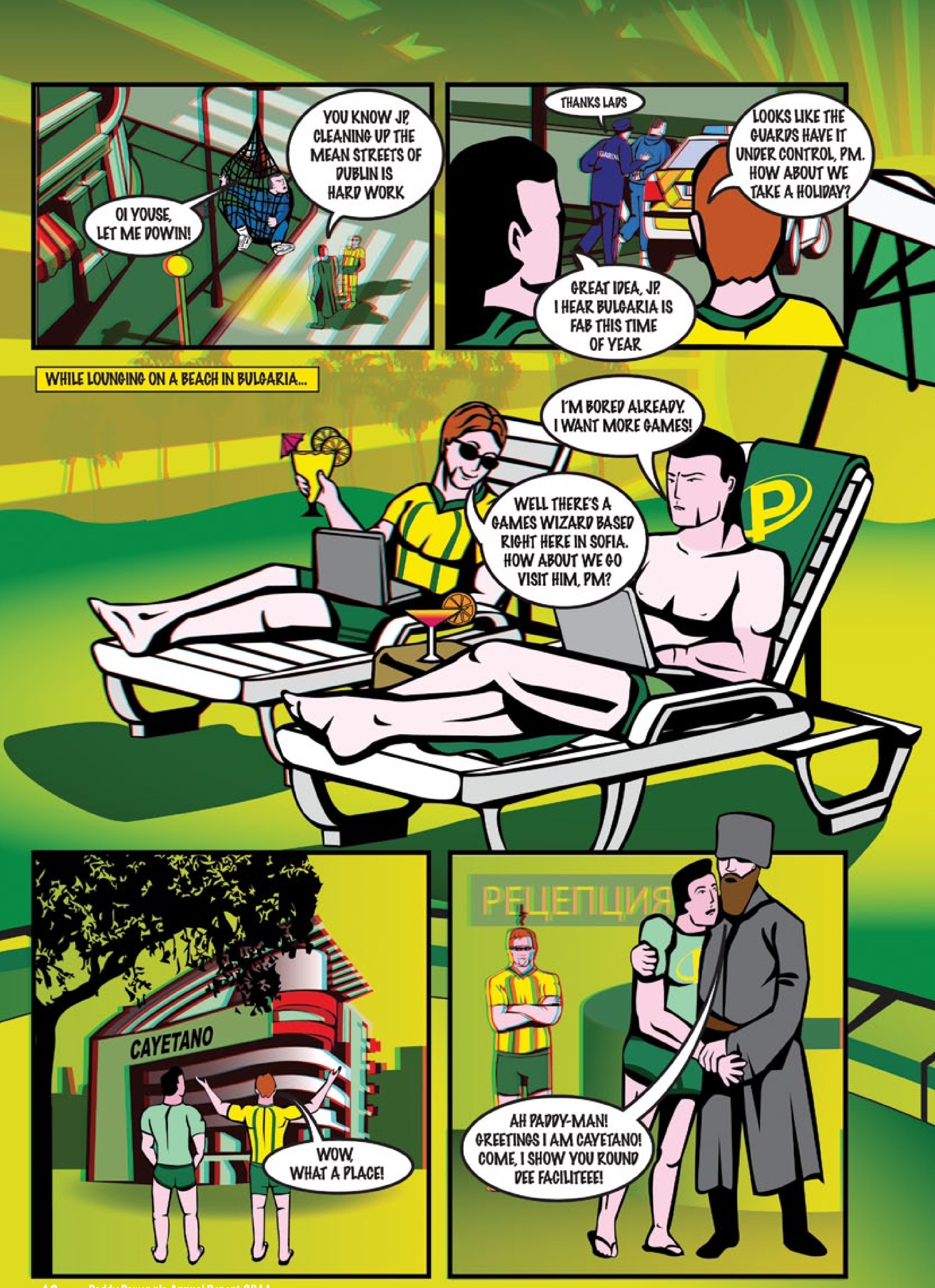
Expansion of our Games product continues apace, and we launched 73 new games last year, taking our total selection to over 300. These new launches included 20 games for both iPhone and Android handsets, which helped increase mobile Games revenue as a proportion of total Games revenue from less than 1% in January to over 10% by December. We work with some 20 different Games suppliers to ensure we can deliver the best and freshest choice of content at attractive terms to Paddy Power. In November, we acquired Bulgarian games developer Cayetano, which gives us further flexibility and opportunity for games development – particularly for mobile.

Last year also saw significant Casino product development. In the last quarter of 2011 we changed our download and flash casino to Playtech's product after a detailed evaluation of various suppliers' products and terms. Within our Live Casino, we launched a number of new features, including the industry first of mini-live roulette alongside sports bets.

Bingo was, once again, the fastest growing part of our gaming revenues – another illustration of Paddy Power's ability to adapt its core customer, marketing and e-commerce skills to different markets. We are driving strong results across all our online businesses by applying consistent rigorous analysis and testing, at each stage of the customer lifecycle, in order to identify the optimal offers and communications. In Bingo last year, this approach increased customer acquisition and retention through improved cross selling response rates, tailored early-life customer communications and a major new loyalty programme, *Paddy's Star Rewards*.

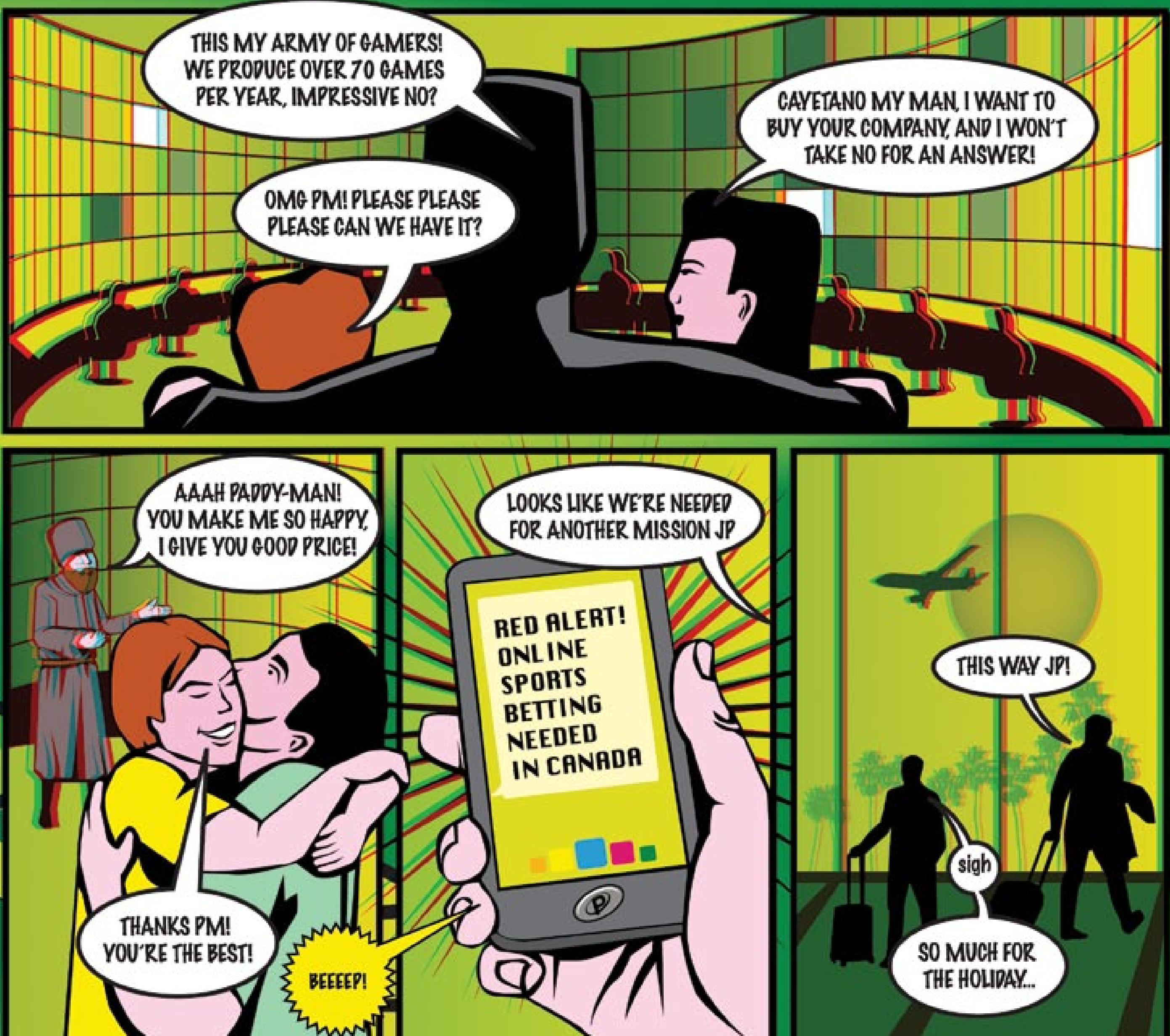
The Poker market continues to be challenging but we maintained our gross win overall last year and grew it in the second half. Performance was boosted by new marketing initiatives, the continued popularity of our *Irish Open Poker Tournament and Irish Winter Festival*, and to some extent by the enforcement of the US online gambling prohibition against certain competitors.

In January 2012, PMU reported that its share of the French online sports betting market is increasing progressively and last year it doubled to its current level of nearly 20%. We added to this successful B2B relationship by concluding a partnership with BCLC. Services under the three year agreement will go-live this summer.


YOU KNOW JP, CLEANING UP THE MEAN STREETS OF DUBLIN IS HARD WORK
OI YOUSE, LET ME DOWN!
THANKS LADS
LOOKS LIKE THE GUARDS HAVE IT UNDER CONTROL, PM. HOW ABOUT WE TAKE A HOLIDAY?
GREAT IDEA, JP. I HEAR BULGARIA IS FAB THIS TIME OF YEAR
WHILE LOUNGING ON A BEACH IN BULGARIA...
I'M BORED ALREADY. I WANT MORE GAMES!
WELL THERE'S A GAMES WIZARD BASED RIGHT HERE IN SOFIA. HOW ABOUT WE GO VISIT HIM, PM?
CAYETANO
WOW, WHAT A PLACE!
РЕЦЕПЦИЯ
AH PADDY-MAN! GREETINGS I AM CAYETANO! COME, I SHOW YOU ROUND DEE FACILITEEE!

NEW OPERATING BASE

Paddyman is passionate about technology and while exploring Eastern Europe last year he couldn't resist the opportunity to drop into Bulgarian based games developer, Cayetano. Paddyman was so impressed with what he saw in Sofia that he did what any self-respecting superhero would do...he bought the company! The acquisition of Cayetano and its 39 staff will turbocharge Paddyman's already beefy development powers that delivered 73 new games last year, taking the total selection on the paddypower.com Games channel to over 300. From Eastern Europe to North America, Paddyman next came to the rescue of Canadian provincial lottery operator, the British Columbia Lottery Corporation, who were in need of someone to supply sports risk management expertise to their online business. No stranger to risk, Paddyman pledged his support to bring online sports betting to the good people of British Columbia for the next three years.



ONLINE AUSTRALIA DIVISION

€m	2011	2010	% Change	% Change in CC
Amounts staked	1,370	1,230	+11%	+4%
Net revenue	**107.4**	**92.6**	**+16%**	**+9%**
Sportsbook gross win %	*8.1%*	*7.9%*		
Gross profit	81.1	70.8	+14%	+8%
Operating costs	(58.3)	(51.3)	+14%	+7%
Operating profit	**22.8**	**19.5**	**+17%**	**+8%**
Active customers	226,513	198,132	+14%	

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

The Australian Division increased profits by 17% (or 8% in constant currency) to €22.8m and completed a range of major investments that significantly accelerated growth in the second half of last year.

The Group acquired the 39.2% minority shareholding in Sportsbet on 1 March 2011 for an initial consideration of €98.2m (AUD132.6m). Subsequent investments included the migration of Sportsbet and IAS to the same technology platform as paddypower.com, increased recruitment, additional marketing deals and the rollout of mobile product.

In constant currency, online turnover grew by 15% (7% in the first half and 23% in the second half) and online net revenue by 11%. Online active customers grew by 15% year-on-year. The percentage of online customers transacting via mobile increased from 5% in May 2011 to 40% in February 2012. We continue to leverage our scale and experience to make appropriate investments. In January 2012, for example, we added differentiating live streamed pictures for over 3,000 events per annum to *sportsbet.com.au*.

The overall sportsbook gross win percentage increased by 0.2% to 8.1%, helped by legacy telephone operations comprising a smaller proportion of the business mix. In constant currency, overall net revenue increased by 9% and operating costs by 7%.

Deductions between net revenue and gross profit continue to benefit from agreements reached in 2010 with certain Australian racing bodies to calculate their product fees as a percentage of gross win (rather than turnover) until at least June 2012. This issue is the subject of litigation with other Australian racing bodies, including Racing New South Wales ('RNSW'). A final decision in the RNSW case from the High Court is expected during the first half of this year, which could lead to a reduction or material increase in the product fees we pay going forward.

In January 2012, the Australian Government stated that it would release its review of the 2001 Interactive Gambling Act ('IGA') by June 2012 and introduce legislation to amend the Act by the end of 2012. The IGA currently precludes online betting-in-running and gaming. The Government also set out planned measures to reduce problem gambling. Sportsbet continues to engage with the Government to emphasise our views – based on examples from around the world – that (a) prohibition doesn't work and (b) the most effective way to achieve responsible gambling online is to have a well regulated industry within Australia that provides the products consumers demand, thereby reducing the use of unregulated offshore websites.

> RETAIL BUSINESSES ARE UNIQUELY WELL POSITIONED IN THEIR RESPECTIVE MARKETS

The Group obtained a once-off gain of €27.6m before tax from the Australia Tax Office which is included as an exceptional item. In addition, the Group has recorded a €5.4m exceptional non-cash write down of the IAS brand. While IAS continues to perform satisfactorily, the successful move of IAS customers to the same 'front-end' platform as Sportsbet facilitates their planned migration to the Sportsbet brand at a future date, and the Group has therefore ceased investing in the IAS brand.

RETAIL

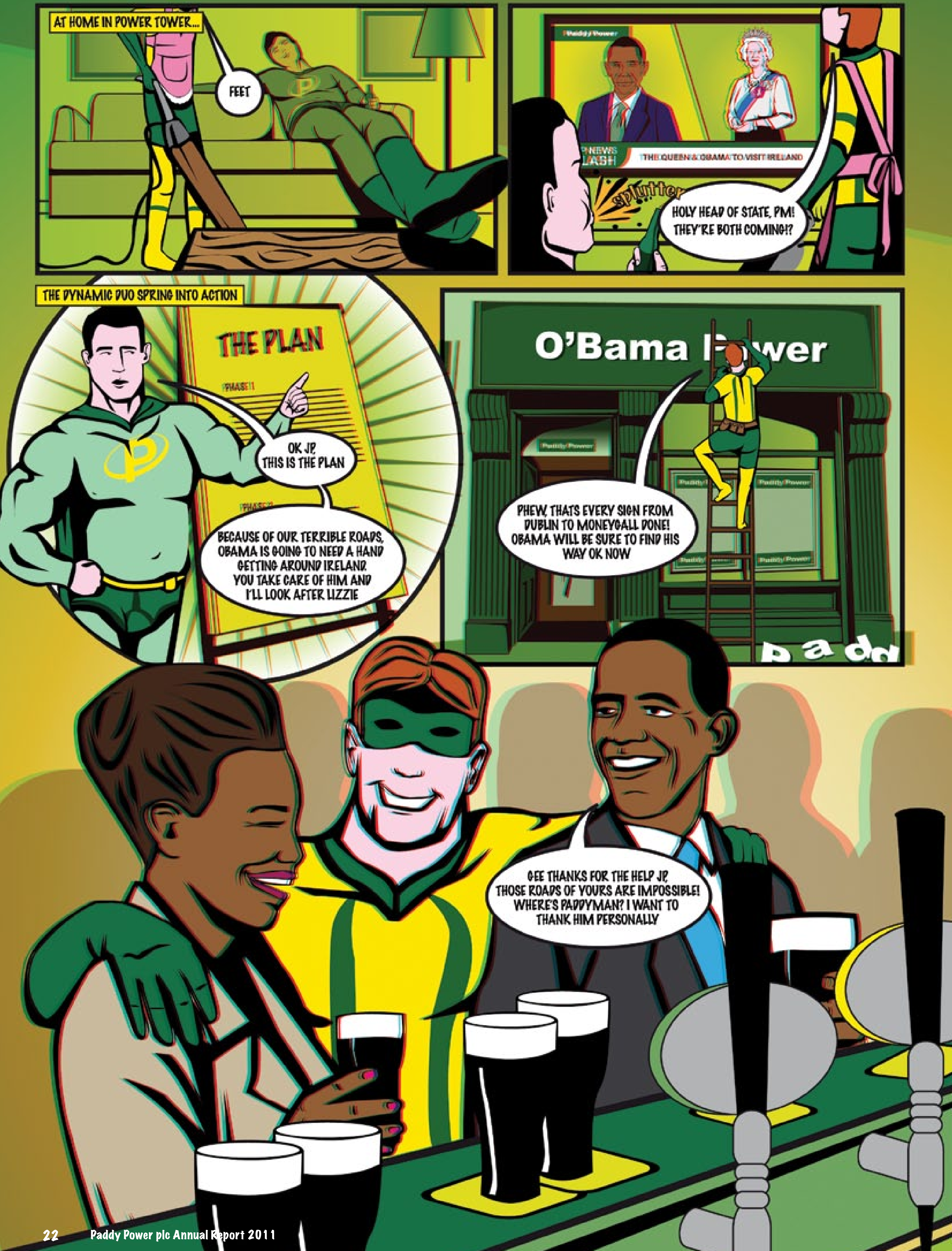
Our retail businesses are uniquely well positioned in their respective markets and delivered a strong underlying performance last year in the context of headwinds from economic conditions, an adverse run of sports results and competition from online.

Retail betting has well established attractions for many customers as a way to take time-out and enjoy betting in a social environment, in and amongst all the action and odds, with the added convenience of betting in cash. And no one does retail like Paddy Power: we use the scale provided by our significantly higher turnover per shop and almost 400 units to ensure that our customers get better value and service, the best invested shops and the greatest range of product. For example, we are the only major bookmaking chain which offers our customers the same odds in our shops as we offer online.

While new technologies may pose challenges for smaller retail operators, they are a driver of growth and differentiation for Paddy Power. In July, we were the first operator to offer Self Service Betting Terminals ('SSBTs') in all our shops in Great Britain. The terminals allow customers more time to browse and see potential returns on bets, and can also instantly generate multi-legged accumulators that are tailored to a customer's preferences. For example, these multiples can comprise bets settling in the next 15 minutes, short priced favourites or bets to give desired winnings from a given stake. Other new technology rolled out in 2011 included better screen gantries, expanded virtual racing product and more gaming machine content. We now have the largest selection of games on our machines of all the major bookmakers.

Notwithstanding the strengths of our retail offer, we manage our costs tightly and choose our locations very carefully. In 2011 we achieved a further 4% reduction in direct operating costs per shop in Ireland, taking the cumulative reduction to 20% since 2007. We focus our openings on competitive prime high street locations that we are confident will remain attractive sites for the best operators, and we have also taken advantage of increased flexibility on lease terms since the economic downturn. Even with this selective attitude to new openings, there is significant scope for further expansion in the UK.

This approach has delivered market leading profitability per shop which enables our shops to withstand challenges better than competitors' units: since August 2008 our competitors have closed some 280 shops in Ireland, while we have opened 22 units and closed none.


AT HOME IN POWER TOWER...
FEET
THE QUEEN & OBAMA TO VISIT IRELAND
splutter
HOLY HEAD OF STATE, PM! THEY'RE BOTH COMING!?
THE DYNAMIC DUO SPRING INTO ACTION
THE PLAN
OK JP, THIS IS THE PLAN
BECAUSE OF OUR TERRIBLE ROADS, OBAMA IS GOING TO NEED A HAND GETTING AROUND IRELAND. YOU TAKE CARE OF HIM AND I'LL LOOK AFTER LIZZIE
O'Bama Power
PHEW, THATS EVERY SIGN FROM DUBLIN TO MONEYGALL DONE! OBAMA WILL BE SURE TO FIND HIS WAY OK NOW
GEE THANKS FOR THE HELP JP, THOSE ROADS OF YOURS ARE IMPOSSIBLE! WHERE'S PADDYMAN? I WANT TO THANK HIM PERSONALLY

OBAMA & QUEEN VISIT

It's not every day you get the Queen paying a visit to Ireland, but if that wasn't enough the US President decides to drop by the following week just for good measure! Even for Paddyman, that was serious pressure! President Obama was on a mission to trace his Irish ancestry which apparently could be tracked to the sleepy rural town of Moneygall in County Offaly. To help the President find his way Paddyman changed all his shop fronts on the Presidential route from "Paddy Power" to "O'Bama Power". For the Queen's visit, Paddyman commissioned a special street theatre routine in which performers dressed as Beefeaters danced the Riverdance in College Green.

IRISH RETAIL AMOUNTS STAKED UP 3% TO €935M

IRISH RETAIL DIVISION

€m	2011	2010	% Change
Amounts staked	935	908	+3%
Net revenue	**102.8**	**109.2**	**(6%)**
Gross win %	*11.0%*	*12.1%*	
Gross profit	93.2	99.8	(7%)
Operating costs	(82.3)	(82.2)	+0%
Operating profit	**10.9**	**17.6**	**(38%)**
Shops at year end	210	207	+1%

The amounts staked within Irish Retail increased by 3% to €935m, although net revenue decreased by 6% to €103m driven by a lower gross win percentage. We opened three new shops last year. Excluding the impact of new units, like-for-like amounts staked were up 1%, net revenue was down 8% and operating costs (including central costs) were reduced by 2%. The increase in like-for-like stakes was driven by a 9% increase in like-for-like bet volumes with a fall in average stake per slip of 7% to €16.79.

UK RETAIL DIVISION

€m	2011	2010	% Change	% Change in CC
Amounts staked	377	276	+36%	+38%
Sportsbook net revenue	37.5	30.0	+25%	+27%
Sportsbook gross win %	*11.0%*	*11.9%*		
Machine gaming net revenue	34.6	24.0	+44%	+46%
Total net revenue	**72.2**	**54.0**	**+34%**	**+36%**
Gross profit	61.1	45.6	+34%	+36%
Operating costs	(50.6)	(38.2)	+32%	+34%
Operating profit	**10.5**	**7.4**	**+43%**	**+49%**
Shops at year end	165	124	+33%	

(Machine net revenue above and throughout this statement is after the deduction of VAT at 20.0% in 2011 and 17.5% in 2010)
(Sportsbook activity includes sportsbetting over-the-counter and via Self Service Betting Terminals)

UK Retail operating profit increased by 43% from €7.4m to €10.5m. The new shops we opened in 2011 and a full year impact from openings in 2010 were important drivers of this growth, but our existing shops also significantly increased their profitability despite adverse sports results.

In constant currency, turnover grew 38% to €377m while net revenue increased by 36% to €72m. Like-for-like net revenue grew 6% in constant currency, which comprised machine gaming net revenue growth of 10% and sportsbook net revenue growth of 3% on like-for-like sportsbook turnover up 10%. The average sportsbook stake per bet was flat in constant currency at €15.47, with like-for-like bets up 10%.

We opened 41 new shops last year, including five which we acquired, at an average capital cost per unit of €322,000 (£282,000) including lease premia and acquisition costs. EBITDA per shop pre central costs averaged €160,000 (£140,000).

The average gross win per gaming machine per week including VAT was £1,210, an increase of 13% compared to last year. There were 655 gaming machines installed at 31 December 2011, an increase of 163 compared to the previous year as a result of new shops.

Operating costs grew 34% in constant currency driven by a 33% increase in average shop numbers. Like-for-like costs (including central costs) were up 5% in constant currency reflecting in part the 2.5% increase in UK VAT last year.

HM Treasury has stated that Machine Gaming Duty ('MGD') on gross win will be implemented in February 2013 to replace the existing VAT and AMLD regime for machine taxation. While the Treasury has stated that it intends for the change to be tax neutral, it could adversely impact efficient and expanding operators such as Paddy Power.

TELEPHONE DIVISION (Excluding Australia)

€m	2011	2010	% Change	% Change in CC
Amounts staked	312	293	+6%	+7%
Net revenue	**17.8**	**17.3**	**+3%**	**+3%**
Gross win %	*6.2%*	*6.5%*		
Gross profit	17.7	17.3	+2%	+3%
Operating costs	(16.6)	(15.5)	+7%	+8%
Operating profit	**1.1**	**1.8**	**(40%)**	**(36%)**

Our telephone channel continues to defy the challenges of competition from online and the downturn in Ireland by successfully growing its UK market share amongst both regular and higher staking customers. In constant currency, amounts staked increased by 7% last year, with a 17% increase from UK customers more than offsetting a decline of 6% from Irish customers. The average stake per bet fell 6% to €51.73. Since 2007, turnover from Irish customers is down 35%, driven by reductions in average stake per bet.

SUCCESSFULLY GROWING UK MARKET SHARE

Operating costs increased by 7%, driven by the 14% growth in bet volumes and selective investments including expenditure on UK customer acquisition and a new SMS text betting service.

The gross win percentage fell by 0.3% in comparison with 2010, which was the key factor behind the €0.7m reduction in operating profit to €1.1m. In addition to this operating profit contribution, the division adds to the Group via the online spending of customers acquired by the telephone channel, enabling a 'full-service' to be offered to other customers, and its contribution towards central costs.

Telephone Channel Active Customers	2011	2010	% Change
UK	52,026	49,223	+6%
Ireland and Rest Of World	24,280	23,902	+2%
Total	**76,306**	**73,125**	**+4%**

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

RUGBY WORLD CUP

Rugby is a sport close to Paddyman's heart so when it came to the 2011 Rugby World Cup, our hero turned his attention to helping punters navigate their way through this notoriously difficult-to-predict competition. Enter Kevin the Tipster, the woolly sheep soothsayer! With a bit of 'encouragement' from Paddyman, Kevin the Tipster made his selection for the outcome of individual matches by walking into one of two pens featuring the flag of the national team he predicted to win. Seven straight winners in a row and word of the psychic sheep blazes a trail across the globe. Sadly for Kevin however, his powers of prediction left him high and dry in the middle of the tournament and not even Paddyman could save him from hordes of irate punters with lamb kebabs on their mind.


WELL DONE KEV!
I KNEW YOU COULD DO IT!
AUSTRALIA IT IS!
I THINK I'M FALLING FOR KEVIN
ON THE DAY OF THE GAME...
@%&*!
AUSTRALIA 6 15 IRELAND
BAAAH?
OH THIS IS TOTALLY AWKWARD
KEBAB HOUSE
KEBABS CHIPS CHICKEN
SO KEV, SORRY THINGS DIDN'T WORK OUT
BUT DON'T WORRY, I'VE A FRIEND IN HERE WHO HAS A JOB FOR YOU
BAH...

Brand & Marketing

Betting with Paddy Power has always been – and always will be – about entertainment. Last year we aimed to brighten the public's day and the media's content, by changing our shop fronts to O'Bama Power along the route of the US President's visit to Ireland, offering 'scientific' analysis and new odds on alien life being proven (from 40/1 to 20/1) and releasing an Irish style 'Changing of the Guard' video for the Queen's Irish visit – think Riverdancing Redcoats (see this and other Paddy Power videos at http://video.paddypower.com/blog/index.php). Tasteful promotion of our massive Champions League Final Money-Back Special, using Imogen Thomas of Ryan Giggs super-injunction fame, generated the most watched UK video on YouTube the day before the game and featured on the front page of The Sun. The fact that tight `80s style football shorts looked a lot better on her than Mickey Quinn helped no end.

Such activities saw us voted Britain's Most Admired Company for the quality of our marketing in a Management Today / Accenture poll last year, and we are successfully applying the same approach in Australia: in a survey of Australian regular online bettors, Sportsbet was ranked number one for 'making betting fun', 'offering the best value for money', 'offering new and exciting products', 'really caring about their customers' and being 'a cool brand' (as was Paddy Power in the equivalent independent market research of UK bettors).

While the brand marketing of Paddy Power is highly visible, what perhaps isn't so obvious is the online marketing that is critical to leveraging the strength of that brand. Today we have over 40 staff within Online who are dedicated to applying highly analytical, technical and rigorous techniques in order to optimise the conversion of brand aware consumers to active Paddy Power customers. Their activities encompass a wide and complex range of areas through acquisition-retention-reactivation, over various customer recruitment channels and across different customer segments, using a number of different technologies and analytical techniques. (In short, it's not as easy as dressing up for a funny photo – something that Paddy still insists on doing with a model at every opportunity). Such complexity also provides plenty of opportunity for continuous improvement, as well as aggregating with our other capabilities to produce more than the sum of the parts, making it harder for others to replicate.

The efficiency of this overall approach is evident in paddypower.com's class leading 37% operating profit margin.

Taxation

Excluding the impact of once-off items, the underlying effective tax rate was 13.5%, compared to an underlying rate of 15.7% in 2010. The reduced rate reflects the early achievement of the savings expected following the early buy-out of the minority shareholders in Australia and, assuming no other changes, the Group would expect a similar effective tax rate this year.

Following on from proposals first put forward in January 2010, HM Treasury is reviewing the introduction of a new betting tax regime on all remote gambling operators supplying UK consumers, irrespective of location. We continue to engage with the UK government to highlight the consumer, tax and employment protection risks these proposals present. Depending on the tax rate, this change could add significantly to our costs, although opportunities exist to mitigate the possible impact through potential market share gains from weaker operators forced to exit or compromise their offer, and by continued profitable growth in existing and new markets. We understand that any possible change is likely to be in 2014 at the earliest.

In January 2012, the Irish Minister for Finance confirmed that the Betting (Amendment) Bill 2011 was at an advanced stage of drafting and would facilitate the extension of the 1% tax on Irish retail stakes to online and telephone sportsbooks in respect of bets taken from customers in Ireland.

Cash Flow, Foreign Exchange and Cash Balances

Last year capital expenditure increased, as expected, to €41m comprising approximately €12m of maintenance capex and €29m of enhancement capex. The enhancement capex included approximately €10m related to one-off expenditure on substantial technology investments in Australia and Online, product enhancements in Retail, and the move to a new Head Office in Dublin. Operating cashflow (after LTIP trust share purchases and estimated maintenance capex) was €124m or 120% of earnings after tax and minority interests. As at 31 December 2011, the Group had net cash of €136m or €86m excluding cash balances held on behalf of customers (2010: €159m and €117m respectively).

Sterling and Australian Dollar denominated operating profits were approximately £92m and AUD35m respectively last year. 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. The impact on last year's operating profit from changes in the Sterling and Australian Dollar versus the Euro between 2010 and 2011 was immaterial with the impact of weaker Sterling offset by a stronger Australian Dollar.

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

2 March 2012

OUR PEOPLE ARE PIVOTAL TO EVERYTHING WE DO

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.

The Group continues to focus heavily on employee communication, development and retention. In 2011, the employee appraisal process continued to bring further focus to the aligning of employees' personal objectives with those of the business, thus improving employee engagement at all levels within the business. A key focus in 2011 was increased investment in learning and development to support the continual personal and professional development of our employees. We also want people to have a longer term stake in the Group's performance and as such 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 2011, we continued 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 2011, with the number of people working for the Group in the UK rising by 33% to 857. This has been driven by the aggressive expansion plans of our business in the UK, which will continue in 2012 and beyond.

The number of staff employed in the Group increased by 25% over the course of the year to 3,216 employees across Ireland, the UK, Australia, Italy, the Isle of Man and Bulgaria.

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 ongoing updates of 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

For most people, gambling is a harmless and fun leisure activity. For some, however, this is not the case and we strive to protect the small number of our customers who may have difficulties with gambling. It is also illegal for anyone under the age of 18 to gamble and we work hard to protect underage customers from gambling.

We take our responsibilities in these areas very seriously and operate some of the most responsible practices in the industry.

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 GREaT Foundation.

WE TAKE OUR RESPONSIBILITIES IN THESE AREAS VERY SERIOUSLY AND OPERATE SOME OF THE MOST RESPONSIBLE PRACTICES IN THE INDUSTRY

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. GamCare also audit our website and mobile application annually from a Responsible Gambling perspective, and in August 2011 provided certification that both are of a responsible standard. We also display information about GamCare in all of our shops.

We provide our customers with comprehensive information about problem gambling including self-assessment questionnaires, information on 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 now also work closely with Gambling Therapy who provide international support to customers seeking help or advice. Their support website provides customers with a range of options and contact methods in line with our own customer contact methods (live chat, phone, email, forums).

We empower our customers to stay in control of their own gambling activity by allowing them to set limits on the 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 offer any customer who closes their account the option to close it for responsible gaming reasons. Should the customer choose this option then we utilise bespoke technology to ensure that they do not re-open this account or create another account with us.

As part of our commitment to responsible gambling in 2011, we engaged a respected expert in the field of responsible gaming, Professor Mark Griffiths, to both review our existing responsible gaming practices and to compare them with other operators in the industry. Professor Griffiths is Professor of Gambling Studies and Director of the International Gaming Research Unit in Nottingham Trent University and concluded in his review that *"Paddy Power's social responsibility policies and initiatives constitute some of the most innovative and socially responsible practices that an online gambling operator can engage in. Paddy Power provides a comprehensive and integrated social responsibility infrastructure. Paddy Power can say that they have a very socially responsible gaming site."*


CUT!
OK THAT'S A WRAP! THANKS A MILLION GUYS, YOU WERE GREAT
WELL THATS ALL THE ADS DONE FOR SPORTSBET!
BRILLIANT PM! FANCY A SAUSAGE?
RING RING!
HELLO PADDYMAN? WE NEED YOU TO COME TO LONDON, WE'RE HAVING SOME TROUBLE ON THE SHOOT HERE
WHAT'S THE PROBLEM?
OH IT'S A RIGHT ROYAL PROBLEM
THE MODEL HAS GOTTEN A LITTLE - EH -DISTRACTED
FINALLY, ON THE WAY HOME TO IRELAND...
THAT WAS HARD WORK ,PM!
I KNOW JP, I CAN'T WAIT TO GET HOME AND GET BACK TO DOING WHAT I DO BEST!

MOBILE

Paddyman is quite simply mad about mobile. He kicked off the year with a trip Down Under to produce some madcap TV adverts for Sportsbet's recently launched mobile betting product. With hardly time to throw a shrimp on the barbie, Paddyman was back in the director's seat, this time in the UK, to oversee Paddy Power's new mobile betting TV campaign. The whacky campaign featured the stunning Florence Brudenell-Bruce, who afterwards went on catch the eye of a certain red-blooded Prince! (See Paddyman's latest mobile ads and much more at www.youtube.com/paddypowervideo). Paddyman also launched Web Apps for several new devices in 2011, including Blackberry and Nokia through the Ovi Store. Saving the best till last, Paddyman also made live streaming pictures from At The Races and Racing UK available to his mobile customers.

In Australia, Sportsbet also has numerous harm minimisation measures in place, including: voluntary pre-commitment, self-exclusion, display of contact details for counselling services on our site, and provision of the 'Gamblers Anonymous Self-Assessment 20 Questions Test' on site. All Sportsbet customer-facing employees undergo mandatory responsible gambling training, and Sportsbet is supportive of the establishment of a National Gambling Council in Australia to oversee a set of national standards covering responsible gambling, advertising, licensing requirements, probity standards and research.

It is illegal for anyone under the age of 18 to bet with us and we have a number of practices in place to prevent underage play. 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. Employees 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.

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 waste. Examples of environmental initiatives in place during 2011 included:

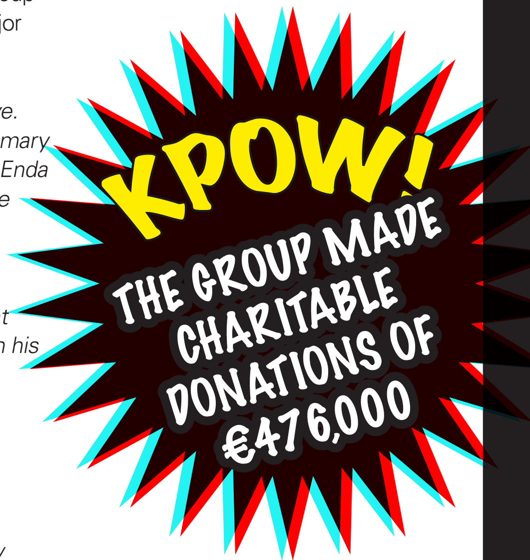
- use of long life energy efficient light bulbs in all shops;
- use of more efficient, and lower cost, combined heat and power ('CHP') generated electricity in our shops;
- replacement of night storage heating in shops with lower electricity consumption split heating and cooling systems;
- using only 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;
- running a charity-administered mobile phone and used inkjet cartridge re-cycling programme in our offices;
- our new Dublin head office is fitted with an environmentally friendly centrally controlled air conditioning system;
- all areas in our new Dublin head office building are fitted with low energy lighting, with light sensors fitted so if an area is unoccupied the lighting will switch off; and
- electricity and gas usage in our Dublin head office is minimised through the use of temperature stats and sensors; and water usage is reduced through the fitting of flow restrictors to taps, shower heads and toilet cisterns.

PADDY POWER PARTICIPATES IN THE CARBON DISCLOSURE PROJECT

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 made charitable donations of €476,000 (2010: €459,000) and was involved in a number of major charitable initiatives some of which are described further below by the Charity Committee.



In 2011, we partnered with the Irish Guide Dogs for the Blind for our Charity of the Year initiative. With hardly time to catch our breath, the Irish General Election was in full swing and our customary charity bets were offered to each party leader. First out of the traps was soon-to-be Taoiseach, Enda Kenny, who dropped into our Baggot Street shop in Dublin to place a bet of €1,000 on the Fine Gael party winning over 70 seats in the election at generously enhanced odds of 4/1.

Enda was joined by trainee guide dog 'Clive', the larger than life Labradoodle (that's a cross between a Labrador Retriever and a Poodle), for a photo opportunity that made it onto the front page of several of the following day's newspapers. True to form, Enda's bet romped home with his party winning a record 76 seats and generating €5,000 for the Irish Guide Dogs' kitty!

Irish radio personality, Hector Ó hEochagáin, teamed up with Paddy Power at the Cheltenham Festival where, despite several shockingly late nights, the dynamic duo managed to raise a staggering €10,000 for charity thanks to their razor sharp punting skills.

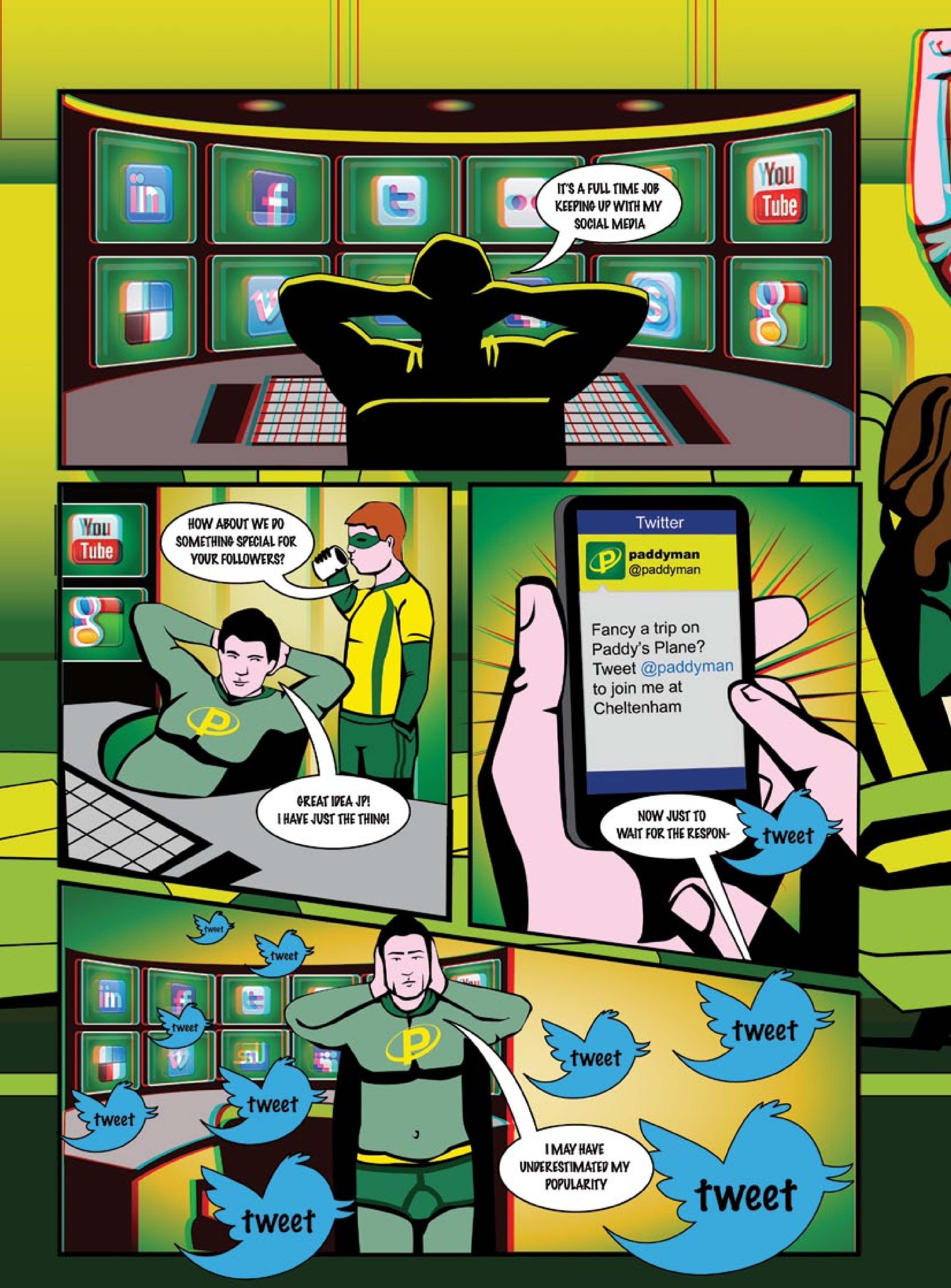
In April, we were honoured to sponsor Arsenal legend, Bob Wilson, in his 11 day cycle to every Premier League club in the UK, which managed to raise a colossal £300,000 for his charity, the Willow Foundation.

The following month, we joined forces with former Ireland and Manchester United legend, Roy Keane, for the Irish Guide Dogs 'Shades' campaign, which we were proud to sponsor. Roy took time out of his busy schedule to meet with Paddy Power staff and recount some interesting tales from his footballing days.

During the summer, we supported amputee Simon Baker's attempt to walk from Dublin to Limerick on two crutches and one leg to raise funds and awareness for the ISPCC. Simon managed to walk the 240km distance over five days, calling into every Paddy Power shop along the way for tea and biscuits.

Paddy Power employees not only gave of their time in fundraising for charity during the year, but also passed on their commercial expertise to charitable organisations. An example of this was in September, when leading Irish non-governmental organisation, GOAL, asked for our help in producing a television advert to create awareness and drive donations. We quickly circled the wagons and enlisted the help of Ireland rugby star, Jamie Heaslip, and Dublin football sensation, Alan Brogan. The 30 second advert, "It's Easy to Save Lives", was broadcast across Irish TV during October and November and helped generate significant revenue for the charity.

The year came to a close as it began with another election. This time around we offered each of the Irish Presidential candidates a charity bet on them becoming the next resident of Áras an Uachtaráin. The eventual winner, Michael D Higgins, placed his bet in the Paddy Power betting shop in his native Galway and, in doing so, brought the total amount raised for the Irish Guide Dogs during the year to a tail wagging €80,000!


IT'S A FULL TIME JOB KEEPING UP WITH MY SOCIAL MEDIA
HOW ABOUT WE DO SOMETHING SPECIAL FOR YOUR FOLLOWERS?
GREAT IDEA JP! I HAVE JUST THE THING!
Twitter
paddyman
@paddyman
Fancy a trip on Paddy's Plane? Tweet @paddyman to join me at Cheltenham
NOW JUST TO WAIT FOR THE RESPON-
tweet
I MAY HAVE UNDERESTIMATED MY POPULARITY
tweet

SOCIAL MEDIA

Paddyman is always on call with his social media channels. His Facebook fans and Twitter followers are a loyal bunch and Paddyman loves nothing more than to reward their loyalty. In his typical over-the-top style, Paddyman chartered a private plane to the 2011 Cheltenham Festival and tweeted an open invitation to his followers to join him on a trip to the Gold Cup. Over one hundred gobsmacked punters availed of his generous offer and jetted across to Cheltenham for a day to remember. In September Paddyman launched his Rugby World Cup Final special offer on Facebook with an exclusive photo-shoot featuring top model, Georgia Salpa. The lovely Georgia looked stunning in her tight fitting All Blacks outfit and her pictures ensured that Paddyman's Facebook page was a very popular destination. Even more popular than lovely Georgia was Paddyman's YouTube channel which notched up a blinding four million views in 2011!

BOARD OF DIRECTORS

Executive directors

Patrick Kennedy

(aged 42) 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.

Jack Massey

(aged 43) 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 56), Chairman, was appointed as a non-executive director in July 2003 and as Chairman from January 2009. He has extensive experience working with consumer products companies in international markets, in the roles of executive, non-executive director and Chairman. 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, where he also chairs the Remuneration Committee. 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 63) 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 has significant financial experience given his former role as a partner at PricewaterhouseCoopers, which is particularly relevant for his role as Chairman of the Audit Committee. 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.

Stewart Kenny

(aged 60) was a co-founder of Paddy Power in 1988. He has considerable experience in the betting industry and has established two successful bookmaking firms. He trained 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 55) was appointed as a non-executive director in September 2009 and as a member of the Audit and Remuneration Committees in October 2009. Jane has significant experience in the international media industry, in particular in the UK, one of the Group's largest markets. 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, where she also chairs the Remuneration Committee.

Secretary

Cormac McCarthy
(aged 49) was appointed as a non-executive director and as a member of the Nomination Committee in September 2011 and brings significant experience in both retail and financial businesses to the Group's Board. A Chartered Accountant, Cormac was Chief Executive of Ulster Bank from 2004 to 2011, where he also served as a member of the Royal Bank of Scotland ('RBS') Group Management Committee and as Deputy Chief Executive of RBS UK Retail. He was previously Chief Executive of the RBS Retail and Commercial Division in Europe and the Middle East and Chief Executive of the bank's European Consumer Finance Division. Prior to 2004, Cormac was Chief Executive of First Active plc. Cormac is a non-executive director of BWG Limited, the Irish-owned food retail and wholesale distribution business and a senior adviser to Oaktree Capital, the global investment management firm.

Pádraig ó Ríordáin
(aged 46) was appointed as a non-executive director in July 2008. Pádraig is an internationally recognised lawyer with extensive experience advising on regulated industries in Ireland and international markets. He is a Corporate Partner in Arthur Cox, the leading Irish law firm, where he served as managing partner from 2003 to 2011. In 2009, he was named European Managing Partner of the Year. He studied law in the National University of Ireland and Harvard Law School and has practiced in New York and Dublin. He is Chairman of Dublin Airport Authority and is a non-executive director of TVC Holdings plc, where he also chairs its Remuneration Committee. Pádraig has been Chairman of the Company's Remuneration Committee since August 2008 and a member of the Nomination and Risk Committees since August 2009 and December 2011, respectively.

David Power
(aged 65) co-founded Paddy Power in 1988 and has been a non-executive director since that date. He is an on-course bookmaker and has long-standing experience in the betting industry. He merged a significant proportion of the betting shops controlled by him and trading as Richard Power Bookmakers with Paddy Power in 1988. He has been Chairman of the Risk Committee since September 2003.

William Reeve
(aged 39) was appointed as a non-executive director in May 2010 and brings a wealth of experience in internet and e-commerce to the Board. 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 leading 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 serves as a non-executive director with a number of high growth internet companies, including Graze and Zoopla. He is a former strategy consultant with McKinsey & Company and a graduate of University College, Oxford. William has been a member of the Audit Committee since August 2011.

David Johnston
(aged 39) 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.

FINAL DIVIDEND 70 CENT PER SHARE

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2011.

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', 'paddypowergames.com', 'paddypowercasino.com', 'paddypowerpoker.com' and 'paddypowerbingo.com'. It provides these services principally in the United Kingdom, Ireland and Australia. The Group also supplies business to business services globally.

Results

The Group's profit for the year of €122.7m reflects an increase of 27% on the 2010 profit figure of €96.7m. Basic earnings per share amounted to €2.553 compared with €1.927 in the previous year, an increase of 32%. The financial results for the year are set out in the consolidated income statement on page 62. Total equity attributable to Company equity holders at 31 December 2011 amounted to €230.4m (2010: €228.4m).

Dividends

An interim dividend amounting to 30.0 cent per share was paid during 2011 (2010: 25.0 cent per share). The directors recommend that a final dividend of 70.0 cent per share (2010: 50.0 cent per share), amounting to €34.3m (2010: €24.3m), be paid on 25 May 2012 to shareholders registered at close of business on 16 March 2012. This would make a total distribution of profit to shareholders of €48.9m in respect of the year ended 31 December 2011 (2010: €36.4m).

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 12 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, including interpretations 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;
- 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; and
- the ability of the Group to successfully defend its intellectual property rights or claims alleging infringement of the intellectual property rights of others.

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 Audit Committee and Risk Committee are set out on pages 50 to 52. 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 80 to 84.

Research and development

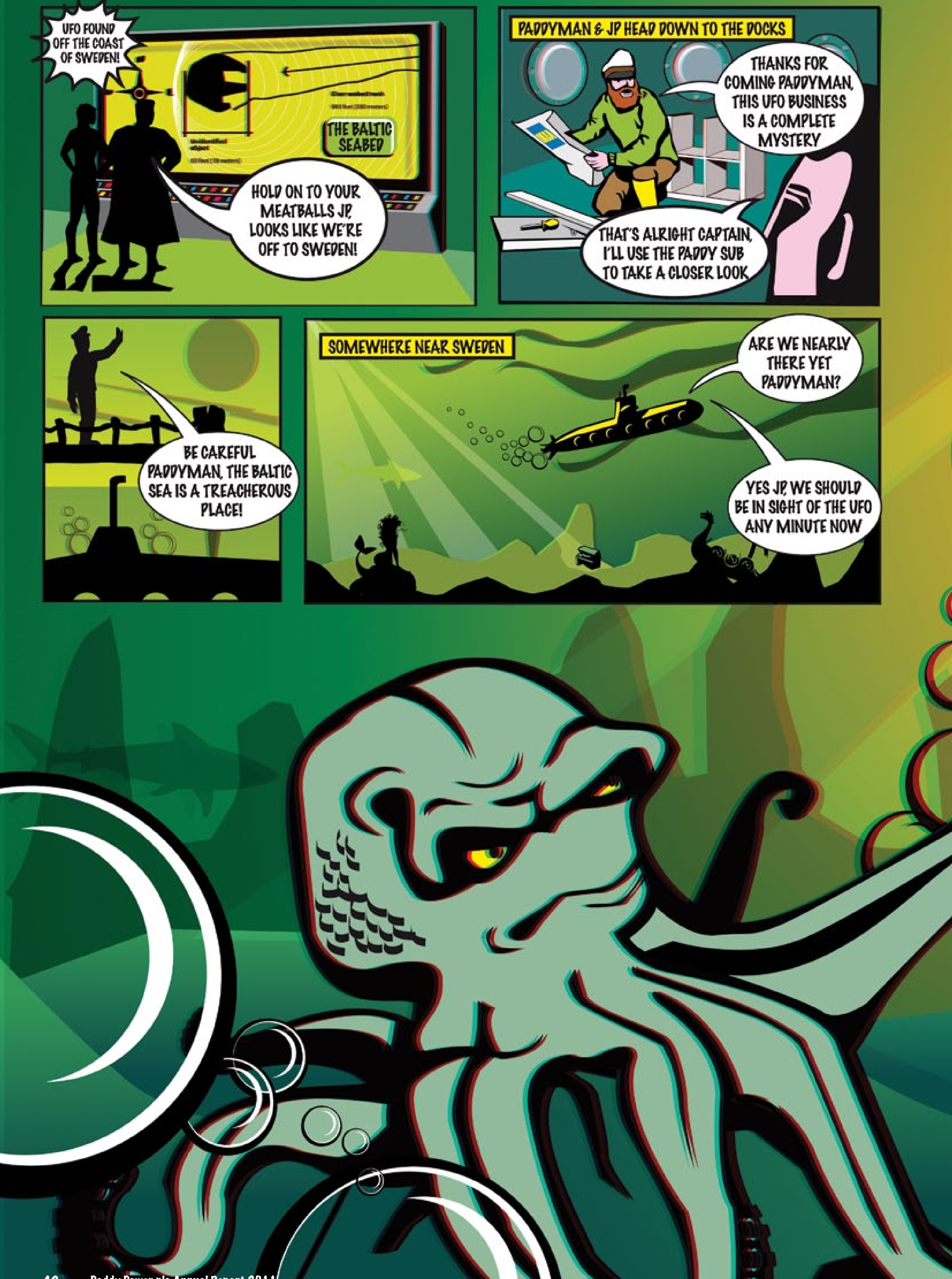
The Group performs research and development activities to ensure that it continues to be a recognised innovator in the betting and gaming industry. These activities support the introduction of new products, the creation of new betting markets, improved online customer experience and the development of better processes and systems. Continued research and development contributes to the Group's future growth and profitability. The Group incurred research and development expenditure (calculated by reference to the Irish and Australian research and development tax credit rules) in 2011 of €3.9m (2010: €0.4m).

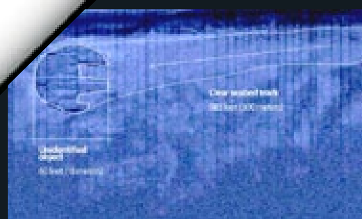
Market research

The Group undertakes market research across all business divisions in Ireland, the UK and Australia.

Events since the year end and future developments

The only significant event affecting the Group since the year end is the recommendation to pay dividends to shareholders as noted above. The directors do not anticipate any substantial changes in the nature of the business.


UFO FOUND OFF THE COAST OF SWEDEN!
THE BALTIC SEABED
HOLD ON TO YOUR MEATBALLS JP, LOOKS LIKE WE'RE OFF TO SWEDEN!
PADDYMAN & JP HEAD DOWN TO THE DOCKS
THANKS FOR COMING PADDYMAN, THIS UFO BUSINESS IS A COMPLETE MYSTERY
THAT'S ALRIGHT CAPTAIN, I'LL USE THE PADDY SUB TO TAKE A CLOSER LOOK
BE CAREFUL PADDYMAN, THE BALTIC SEA IS A TREACHEROUS PLACE!
SOMEWHERE NEAR SWEDEN
ARE WE NEARLY THERE YET PADDYMAN?
YES JP, WE SHOULD BE IN SIGHT OF THE UFO ANY MINUTE NOW



BALTIC SEA UFO

No stranger to defending the Planet Earth from intergalactic bad guys, Paddyman was intrigued to learn about a Swedish deep sea salvage crew who unveiled a sonar image of a bizarre space-ship like object at the bottom of the Baltic Sea. Reacting to the news faster than the speed of light, Paddyman slashed the odds on the discovery of alien life from 66/1 to 28/1 and set about making first contact with the deep sea explorers. Paddyman tracked down Peter Lindberg, skipper of the expedition team, and offered to join forces to throw some light on the discovery. However, the treacherous Baltic Sea was not willing to give up its secrets easily and the exploration was delayed until the summer of 2012. Stay tuned, the truth is out there.

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 1 March 2012, the Company had 50,727,132 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 20 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 managed 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 58. During the year ended 31 December 2011, the Trust purchased 240,587 (2010: 354,500) Paddy Power plc shares at a cost of €9.6m (2010: €9.0m). During 2011, the Trust transferred 518,925 (2010: 336,804) ordinary shares that had vested to beneficiaries of the Trust. At 31 December 2011, the Trust held 1,178,069 (2010: 1,456,407) ordinary shares in Paddy Power plc, representing 2.32% (2010: 2.92%) of the issued share capital. Further information is set out in Note 22 to the consolidated financial statements.

As of 31 December 2011 and 2010, the Company's ordinary shares held in treasury totalled 1,734,000 shares and represented 3.42% (2010: 3.47%) 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 20 to the consolidated financial statements.

Substantial holdings

As at 31 December 2011 and 1 March 2012, 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 31 December 2011	Holding 1 March 2012	% Holding 1 March 2012
Standard Life Investments Limited	4,010,667	4,010,667	8.19%
UBS Investment Bank	3,419,022	3,423,871	6.99%
FMR LLC	2,466,447	2,466,447	5.03%
Capital Research and Management Company (1)	2,579,726	2,314,226	4.72%
John Corcoran	1,500,000	1,500,000	3.06%

(1) SMALLCAP World Fund ('SWF') has notified the Company that it is interested in 3.07% of the Company's ordinary share capital carrying voting rights, and that SWF's voting rights have been delegated to Capital Research and Management Company. Accordingly, SWF's interest is included in the 4.72% interest notified by Capital Research and Management Company and disclosed above.

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

Cormac McCarthy was appointed to the Board on 1 September 2011 and is proposed for election by the shareholders at the AGM to be held on 17 May 2012. In line with best practice principles set out in the UK Corporate Governance Code 2010, the Group has adopted a policy of annual re-election for all board directors.

Brody Sweeney, Breon Corcoran and Fintan Drury stepped down from the Board on 1 September, 10 November and 14 December 2011, respectively.

Directors' remuneration

Details of directors' remuneration are given in the Remuneration Committee Report on page 57 and in Note 8 to the financial statements on page 89. 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 (including those of their spouses and minor children) who held office at 31 December 2011 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 2011	31 December 2010 (or date of appointment if later)
Patrick Kennedy	350,247	264,921
Jack Massey	61,047	59,058
Nigel Northridge	6,000	6,000
Tom Grace	-	-
Stewart Kenny	420,222	445,020
Jane Lighting	-	-
Cormac McCarthy	1,000	-
Pádraig Ó Ríordáin	8,000	2,000
David Power	3,858,692	3,928,692
William Reeve	1,680	1,680
David Johnston (Secretary)	189	-

There have been no changes in the above shareholdings between 31 December 2011 and the date the directors approved these financial statements.

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 58.

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 2011, had the following movements in share options during the year and held the following share options at 31 December 2011:

	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
Jack Massey	1,989	(1,989)	-	-	-	€9.45	4 December 2011 – 3 June 2012
	-	-	650	-	650	€27.79	4 December 2014 – 3 June 2015
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
	-	-	650	-	650	€27.79	4 December 2014 – 3 June 2015

(a) The options exercised during the year were under the terms of the Company's Sharesave Scheme (see Note 22).
(b) The market price of the Company's shares at 31 December 2011 was €44.51 and, for the year then ended, the Company's daily closing share price ranged between €28.25 and €44.51 (2010: ranged between €22.75 and €30.80 and was €30.70 at year end).

During the year ended 31 December 2011, 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	Dividend shares	Vested during year	Lapsed 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	290,000	-	3,541	(83,541)	-	210,000	2009 & 2010	€21.43	1,881
	-	110,000	-	-	-	110,000	7 March 2011 & 17 May 2011	€29.37	-
Breon Corcoran	215,000	-	1,920	(61,920)	(80,000)	75,000	2009 & 2010	€21.24	884
	-	80,000	-	-	(80,000)	-	7 March 2011	€29.31	-
Jack Massey	80,000	-	1,106	(26,106)	-	55,000	2009 & 2010	€21.02	588
	-	25,000	-	-	-	25,000	7 March 2011	€29.31	-
David Johnston (Secretary)	5,500	-	80	(2,580)	-	3,000	2009	€23.23	37

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 22 to the consolidated financial statements. Included in 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 22) to directors during the year.

The Company Secretary had also been conditionally granted 2,721 shares under the Managers' Deferred Share Award Scheme which, together with 126 shares relating to dividends, vested to him in March 2011. Further details of the scheme are outlined in Note 22 to the consolidated financial statements.

Transactions with directors and parties related to them have been disclosed in Note 8 to the consolidated financial statements on page 90. The directors and secretary have no beneficial 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 Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4.

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), pages 38 and 39 (Board of Directors), page 57 (Performance bonus), page 58 (Long Term Incentive Plan), page 58 (Share options), page 58 (directors' service contracts) and pages 107 to 113 (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 6, the Chief Executive's Review on pages 7 to 11 and the Operating & Financial Review on pages 12 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 48 to 55.
3. The Corporate Social Responsibility report on pages 30 to 35.
4. Details of earnings per share on page 94.
5. Details of shares purchased by the Company on page 106.
6. Details of derivative financial instruments on pages 123 to 125.

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 48 to 55 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 **Jack Massey**

2 March 2012

CORPORATE GOVERNANCE

The Board is committed to maintaining the highest standards of corporate governance. The following describes how the Group applies the UK Corporate Governance Code and the Irish Corporate Governance Annex which set out principles of good governance and a code of best practice.

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 day to day 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 for all non-executive directors are held with the executive directors and senior management on a regular basis. Throughout the year, directors are also provided with detailed briefing materials on the performance of the Group and with feedback from institutional shareholders and analysts on the performance of and prospects for the business. During 2011, the Group also put in place a number of workshops for directors to provide additional training and insight into the development of the Group's online business.

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.

External non-executive directorships

The Board believes that it is of benefit to the Group if executive directors accept non-executive directorships with other companies in order to broaden and deepen their skills, knowledge and experience. The Board has adopted a policy on external appointments. Under the Group's policy, executive directors should not normally take on more than two non-executive directorships of a public company or any chairmanship of such a company. Directors are permitted to retain any fees paid in respect of such appointments.

The Board also believes that a broadening of the skills, knowledge and experience of non-executive directors is also of benefit to the Group. The Group welcomes the participation of the non-executives on the boards of other companies. To avoid potential conflicts of interest, non-executive directors inform the Chairman before taking up any external appointments. Details of the non-executive positions held by each director in public companies are set out under individual biographies which are detailed on pages 38 and 39.

Board composition, refreshment and renewal

The Board comprises 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 expertise that has always been part of the fabric of the Board, both as a private and public company.

The Board is committed to a policy of ongoing Board refreshment and renewal and, through the Nomination Committee, continually reviews the composition and diversity, including gender diversity, of the Board and the skills and experience of each of the directors. The relevant skills and experience of each director are set out under individual biographies which are detailed on pages 38 and 39.

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

In line with best-practice principles set out in the UK Corporate Governance Code 2010, the Group has adopted a policy of annual re-election for all board directors. Directors seeking re-election have, in the past, been subject to a performance appraisal, which is overseen by the Nomination Committee. This becomes an annual process for all directors under the new policy of annual re-election. In addition, the Group has recently undertaken an external evaluation of the Board and its Committees, further detail on which is set out under 'Board performance evaluation' on page 50.

Consistent with a commitment to ongoing Board refreshment and renewal, Cormac McCarthy was appointed to the Board in September 2011. This follows the appointment of William Reeve to the Board in May 2010 and Jane Lighting to the Board in September 2009. The appointments of Cormac McCarthy, William Reeve and Jane Lighting to the Board as non-executive directors were all undertaken in conjunction with external recruitment consultants.

During the year, Breon Corcoran, Fintan Drury and Brody Sweeney stepped down from the Board.

David Power and Stewart Kenny, both founder members of the Company, have served on the Board for longer than nine years. In line with the principles of the UK Corporate Governance Code, and consistent with the Group's new policy on re-election, they are subject to annual re-election. The Board reviewed the appropriateness of these two long-standing directors continuing to serve on the Board. The Board 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.

Board size

The Board comprises two executive directors, two non-independent non-executive directors and six independent non-executive directors (including the Chairman). The Nomination Committee has reviewed the size and performance of the Board during the year and recognises the benefits that a smaller Board may bring. A Board size of ten directors is a size which functions effectively; is not so large as to be unwieldy; comprises the skills and expertise required by Paddy Power plc; and meets corporate governance best-practice guidelines on independence.

Directors' independence

The Corporate Governance 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, Jane Lighting, Pádraig Ó Ríordáin, Cormac McCarthy and William Reeve 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 two executives on the Board (Patrick Kennedy and Jack Massey).

Excluding the Chairman, the Board comprises five independent non-executive directors, two non-executive directors and two executive directors and is compliant with the Corporate Governance Code such that at least half the Board, excluding the Chairman, comprises directors determined by the Board to be independent.

As part of its annual review, the Board considered the independence of Mr Pádraig Ó Ríordáin, given his role as a 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 Corporate Governance 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 served as Independent Chairman. He also served as Managing Partner of Arthur Cox from 2003 to 2011 and was appointed 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 considered 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 advisors, 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. The level of directors' fees was recently reviewed by the Board who engaged an external advisor to perform a benchmarking study to compare the directors' fees with those of other Irish and UK comparable sized companies and the Company's peer group. Following this review, it was agreed that the standard non-executive and Committee chair fee would remain unchanged. It was however agreed that the Senior Independent Director would be paid a fee of €12,000 and that the fee for the Remuneration Committee chair would be increased to €20,000.

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, during 2011, I met with all the directors individually to discuss their performance. The senior independent director also 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 were discussed with me. Following this evaluation, the Group put in place a number of workshops for the directors to provide additional training and insight into the development of the Group's online business.

In addition to an internal review and evaluation which was completed during 2011, the Board also recently engaged an external advisor to complete an independent evaluation of the performance and effectiveness of the Board, the Chairman, the directors and each of the Committees. This evaluation is in line with the recommendations of the UK Corporate Governance Code which requires an external Board evaluation to be conducted at least once every three years. The company engaged to perform the evaluation has no business connection or relationship with the Group, its directors or senior management. The evaluation is expected to be completed shortly.

Board operations and committees

The Board holds at least eight full Board meetings each year. All Board members are available to me between meetings, if required. The number of meetings of Board committees each year varies by committee – details of which are set out on page 53.

The composition of the Board committees as at 1 March 2012 was as follows:

Audit
Tom Grace (Chair); Jane Lighting; William Reeve.

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

Nomination
Nigel Northridge (Chair); Cormac McCarthy; Pádraig Ó Ríordáin.

Risk
David Power (Chair); Patrick Kennedy; Stewart Kenny; Pádraig Ó Ríordáin.

Audit Committee

The primary role of the Group's Audit Committee is to ensure the integrity of the Group's financial statements and the Group's internal controls. To discharge its functions effectively, the Audit Committee has unrestricted access to the Group's external and internal auditors, with whom it meets at least twice a year, 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 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 UK Corporate Governance Code.

2011 review

The activities undertaken by the Audit Committee in 2011 included:

- 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;
- 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;
- 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 is responsible for ensuring that external auditor objectivity and independence is safeguarded where the auditor also provides non-audit services to the Group and 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 2011, the Committee reviewed the letter from the Group's external auditors confirming their independence and objectivity. The Committee 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.

During 2011, to ensure a rigorous, objective and independent external audit, the Committee undertook a tender process for the provision of audit services to the Group. The Committee 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. To ensure that auditor objectivity is not compromised, on re-appointment as the Group's external auditor, KPMG also changed the lead audit partner for the Paddy Power Group in accordance with KPMG's independence policy, which requires rotation of the lead audit partner after five years.

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. Prior to this change, tax advice had constituted the vast majority of non-audit fees paid by the Group to KPMG. 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.

An analysis of the non-audit fees provided by the Group's auditor in 2011 is set out on page 92. For 2011, non-audit fees, paid to KPMG, amounted to 87% of audit related fees paid to the firm. When one-off fees related to the acquisition of Sportsbet, which took place prior to the Audit Committee's decision to replace KPMG as the primary tax advisor for the Group, are excluded, the non-audit fees paid to KPMG amounted to only 31% of the audit related fees.

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 56 to 58.

The Remuneration Committee is comprised of three directors, each of whom has 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. On behalf of the Board, the Nomination Committee also continually reviews the composition and diversity of the Board and the skills and experience of each of the directors, to ensure that Paddy Power has a Board which is fit for purpose and capable of protecting and creating value for shareholders. The relevant skills and experience of each director are set out under individual biographies which are detailed on pages 38 and 39.

2011 review

During 2011, consistent with a commitment to ongoing Board refreshment and renewal, the Nomination Committee engaged external consultants to identify an independent director with the required skills and expertise to complement that of the existing Board directors and address the departure of both Fintan Drury and Brody Sweeney from the Board. Following a detailed search process, the Committee recommended the appointment of Cormac McCarthy to the Board. Cormac was subsequently appointed to the Board in September 2011. This follows the appointment of William Reeve to the Board in May 2010 and Jane Lighting to the Board in September 2009. The appointments of Cormac McCarthy, William Reeve and Jane Lighting to the Board as non-executive directors were all undertaken in conjunction with external recruitment consultants.

During the year, Breon Corcoran, an executive director, also stepped down from the Board.

David Power and Stewart Kenny, both founder members of the Company, have served on the Board for longer than nine years. In line with the principles of the UK Corporate Governance Code, and consistent with the Group's new policy on re-election, they are subject to annual re-election. The Board reviewed the appropriateness of these two long-standing directors continuing to serve on the Board. The Board 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.

During 2011, the Nomination Committee also met with a number of the Group's employees as part of a training and development programme for individuals in the Group's online division.

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 2011.

The attendance at Board and Committee meetings by the directors who held office in 2011 are set out below:

	Note	Board	Audit	Remuneration	Nomination	Risk
Number of meetings held in 2011		8	7	7	2	3
Attended by:						
N Northridge*		8		7	2	
T Grace*		7	7			
F Drury*	(1)	7			1	
S Kenny**		8				3
J Lighting*		8	7	7		
P Ó Ríordáin*	(2)	7		7	2	1
C McCarthy*	(3)	2			1	
D Power**		8				3
W Reeve*	(4)	8	2			
B Sweeney*	(5)	5	4		-	
P Kennedy***		8				3
B Corcoran***	(6)	7				2
J Massey***		8				

* Independent non-executive director
** Non-executive director
*** Executive director

(1) Fintan Drury retired from the Board and Nomination Committee on 14 December 2011. Prior to his retirement, there were eight Board meetings, of which he attended seven, and two Nomination Committee meetings, of which he attended one.
(2) Pádraig Ó Ríordáin was appointed to the Risk Committee on 14 December 2011. There was one Risk Committee meeting after his appointment, which he attended.
(3) Cormac McCarthy was appointed to the Board and the Nomination Committee on 1 September 2011. There were two Board and one Nomination Committee meetings after his appointment, all of which he attended.
(4) William Reeve was appointed to the Audit Committee on 16 August 2011. There were two Audit Committee meetings after his appointment, both of which he attended.
(5) Brody Sweeney retired from the Board and the Audit and Nomination Committees on 1 September 2011. Prior to his retirement, there were six Board meetings, five of which he attended, five Audit Committee meetings, of which he attended four, and one Nomination Committee meeting, which he was unable to attend.
(6) Breon Corcoran resigned as a director and as a member of the Risk Committee on 10 November 2011. There were seven Board and two Risk Committee meetings prior to his resignation, 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 2011 AGM on 17 May 2011.

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 UK Corporate Governance Code 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. 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 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 internal 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 control. This review has been performed in respect of the year ended 31 December 2011. The directors consider that the procedures necessary to implement the Turnbull guidelines on internal control in the UK Corporate Governance Code have been properly established.

Relations with shareholders

The Group is committed to ongoing and active communication with its shareholders. The Group maintains 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 that directors can monitor their views on the Group. The Group also hosted an institutional investor and analyst day in June 2011 to provide shareholders and analysts with additional detail and perspective on the Group's online operations. Six senior managers within the Group's online business made presentations and the Group's Chief Executive and Finance Director were also in attendance at the event.

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 UK Corporate Governance Code and the Irish Corporate Governance Annex.

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

2 March 2012

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. External 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 50.

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 and Review

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 high calibre executive directors and senior executives.

Salaries and other benefits are reviewed annually. As part of this process, the Remuneration Committee takes into account the performance of the individual, comparisons with peer group companies, institutional guidelines and reports from external independent 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 should comprise performance-related and non-performance-related remuneration, designed to motivate them, align interests with shareholders and comply with corporate governance best practice.

The Remuneration Committee also engaged an external advisor to complete a review of the remuneration of the executive directors relative to Irish and UK companies of comparable size and the Company's peer group.

The Remuneration Committee has also reviewed the Group's existing long term incentive arrangements and, in particular, the Group's 2004 Long Term Incentive Plan (the 'LTIP'), which is an important element of the Group policy on executive directors' and senior executives' remuneration. The LTIP aligns the interests of executives with shareholders; is a proven driver of long-term growth; and is central to the retention of key executives.

The LTIP, including its 're-testing' provision, has previously been approved by the Group's shareholders. The re-testing provision was included within the LTIP as the Group's business can be subject to short-term volatility due to the nature of the betting industry and, in particular, the dependency on the outcome of sports results. A re-testing provision allowed for the short-term impact such uncertain results could have on performance while ensuring executives remained focussed on delivering long-term value for shareholders.

Following this review and based on feedback from proxy advisors and institutional shareholders, the Committee has, with some hesitation deriving from the nature of the Group's business, now removed the provision from the LTIP which allowed the re-testing of awards under the Scheme. Consequently, no further LTIP awards will be made by the Group that include re-testing.

The Remuneration Committee also plans to put in place new long term incentive arrangements for the Group's senior executives and directors in 2013 to replace the current LTIP. In advance of putting forward any such new arrangements for shareholder approval, the Remuneration Committee will engage with institutional shareholders to solicit their input and feedback on any new incentive plan.

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.

The Remuneration Committee approved a 6.9% increase in salary for the Chief Executive and a 2.5% increase in salary for the Finance Director in 2011. The Chief Executive and Finance Director had not received any increase in salary since 2009. The increase in salary reflects the increase in responsibility and work load due to the growth of the business and, in particular, the international development of the Group (including the acquisition of Sportsbet in Australia). In addition, the Group's former Chief Operating Officer left the business during 2011 and is not being replaced. This places additional responsibility and demands on both the Chief Executive and Finance Director.

The increased salaries of the Chief Executive and Finance Director are consistent with those of other Irish and UK comparable sized companies and the Company's peer group. This was confirmed through a benchmarking study completed by an external advisor.

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 Remuneration Committee's assessment of each individual's performance and the overall performance of the Group against predetermined turnover and profitability targets for the year. Individual performance targets are weighted 70% towards the Group's financial performance and 30% towards personal performance. The Remuneration Committee reviews targets and the weighting of targets each year. These specific financial performance targets are not publicly disclosed for competitive reasons.

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.

The Committee has considered deferring a portion of the executive directors' annual variable compensation into shares in Paddy Power plc but didn't believe it was appropriate to do so as their interests are already sufficiently aligned with shareholders given that the Committee has put shareholding guidelines in place for the executive directors and they both already have significant shareholdings in the Company.

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	34%	66%
Jack Massey	29%	71%
Non-executive		
Nigel Northridge	-	100%
Tom Grace	-	100%
Stewart Kenny	-	100%
Jane Lighting	-	100%
Cormac McCarthy	-	100%
Pádraig Ó Ríordáin	-	100%
David Power	-	100%
William Reeve	-	100%

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, which is one of the most important elements of the Group policy on executive directors' and senior executives' remuneration and a key driver of long term growth for the Group, allows shares conditionally awarded to executives to be earned subject to the achievement of a testing growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) over a minimum vesting period of three years. 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. 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. Further details of this plan are given in Note 22 to the consolidated financial statements.

As described further on page 56, under the section headed 'Remuneration Policy and Review', the Remuneration Committee has reviewed the terms of the LTIP and, following this review, based on feedback from proxy advisors and institutional shareholders, has removed those provisions from the LTIP allowing the grant of awards under the Scheme that include provisions allowing for the 're-testing' of those awards. Consequently, no further LTIP awards will be made by the Group that include 're-testing'. The Remuneration Committee also plans to put in place new long term incentive arrangements for the Group's senior executives and directors in 2013 to replace the current LTIP.

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 one times salary for other executive directors.

Share options

Details of options granted to executive directors under the Sharesave Scheme are included with the directors' and secretary's interests in the Directors' Report on page 45. Options granted under these Revenue approved all-employee sharesave schemes are granted at a discount of 25% 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. Further details of this plan are given in Note 22 to the consolidated financial statements.

The market price of the Company's shares at 31 December 2011 was €44.51 and, for the year then ended, the Company's daily closing share price ranged between €28.25 and €44.51.

Executive directors' service contracts

The notice period for Patrick Kennedy is 12 months, and it is six months for Jack Massey. Both executive directors are employed on contracts with a normal retirement age of 65. Neither 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 8 to the consolidated financial statements on pages 89 and 90.

Pádraig Ó Ríordáin

Pádraig Ó Ríordáin
Chairman, Remuneration Committee

12 March 2012

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 pages 38 and 39, 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 2011 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 2011; and
- 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

Patrick Kennedy
Chief Executive

Jack Massey

Jack Massey
Finance Director

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 2011, which comprise the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Financial Position, the consolidated Statement of Cash Flows, the consolidated Statement of Changes in Equity, the Company Balance Sheet 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 59.

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 UK Corporate Governance Code and two provisions of the Irish Corporate Governance Annex 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, the Remuneration Committee Report and the Corporate Social Responsibility Statement. 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 2011 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 2011; and
- the Company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

Other matters

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 40 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 130, 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 2011 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.

David Meagher

David Meagher
For and on behalf of

KPMG

Chartered Accountants, Statutory Audit Firm

Dublin

12 March 2012

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2011

	Note	Before exceptional items 2011 €'000	Exceptional items (Note 6) 2011 €'000	Total 2011 €'000	Total *Restated (Note 2)* 2010 €'000
Amounts staked by customers		**4,554,919**	**-**	**4,554,919**	3,834,316
Continuing operations					
Income	4	**499,330**	**-**	**499,330**	426,698
Direct betting costs	5	**(71,170)**	**27,277**	**(43,893)**	(58,762)
Gross profit		**428,160**	**27,277**	**455,437**	367,936
Employee expenses	7	**(143,795)**	**-**	**(143,795)**	(129,883)
Property expenses		**(36,386)**	**-**	**(36,386)**	(30,432)
Marketing expenses		**(43,336)**	**-**	**(43,336)**	(35,023)
Technology and communications expenses		**(30,931)**	**-**	**(30,931)**	(22,259)
Depreciation, amortisation and impairment		**(27,125)**	**(5,423)**	**(32,548)**	(24,278)
Other expenses, net		**(27,041)**	**363**	**(26,678)**	(22,312)
Total operating expenses		**(308,614)**	**(5,060)**	**(313,674)**	(264,187)
Operating profit		**119,546**	**22,217**	**141,763**	103,749
Financial income – on financial assets at amortised cost	9	**2,187**	**-**	**2,187**	1,779
Financial income – derivative financial instruments at fair value through profit or loss (Sportsbet buyout call options)	9	**-**	**-**	**-**	7,116
Financial expense	9	**(571)**	**-**	**(571)**	(1,344)
Profit before tax		**121,162**	**22,217**	**143,379**	111,300
Income tax expense	11	**(16,400)**	**(4,242)**	**(20,642)**	(14,566)
Profit for the year		**104,762**	**17,975**	**122,737**	96,734
Attributable to:					
Equity holders of the Company		**103,513**	**17,975**	**121,488**	90,005
Non-controlling interest		**1,249**	**-**	**1,249**	6,729
		104,762	**17,975**	**122,737**	96,734
Earnings per share					
Basic	12			**€2.553**	€1.927
Diluted	12			**€2.492**	€1.874

Notes 1 to 36 on pages 68 to 129 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

2 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2011

	Note	2011 €'000	2010 €'000
Foreign exchange gain on translation of the net assets of foreign currency denominated subsidiaries	9	**2,829**	12,667
Deferred tax on share-based payments	23	**(409)**	264
Other comprehensive income recognised directly in equity		**2,420**	12,931
Profit for the year		**122,737**	96,734
Total comprehensive income for the year		**125,157**	109,665
Attributable to:			
Equity holders of the Company		**124,406**	100,718
Non-controlling interest		**751**	8,947
Total comprehensive income for the year		**125,157**	109,665

Notes 1 to 36 on pages 68 to 129 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

2 March 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

	Note	31 December 2011 €'000	31 December 2010 €'000
Assets			
Property, plant and equipment	13	**95,599**	77,798
Intangible assets	14	**51,000**	51,510
Goodwill	15	**93,607**	76,967
Financial assets	16	**6,409**	9,735
Deferred tax assets	23	**2,594**	2,591
Trade and other receivables	18	**6,735**	-
Total non current assets		**255,944**	218,601
Trade and other receivables	18	**31,165**	15,574
Financial assets – restricted cash	19	**18,149**	21,081
Cash and cash equivalents	19	**111,139**	139,581
Total current assets		**160,453**	176,236
Total assets		**416,397**	394,837
Equity			
Issued share capital		**5,072**	4,995
Share premium		**37,826**	20,876
Treasury shares		**(34,177)**	(34,177)
Shares held by long term incentive plan trust		**(33,397)**	(33,890)
Other reserves including foreign currency translation and share-based payment reserves		**36,976**	33,699
Retained earnings		**218,086**	236,936
Total equity – attributable to equity holders of the Company		**230,386**	228,439
Non-controlling interest		**-**	15,798
Total equity		**230,386**	244,237
Liabilities			
Trade and other payables	24	**136,925**	115,336
Derivative financial liabilities	24	**9,715**	8,586
Provisions	25	**593**	278
Borrowings	26	**-**	1,885
Current tax payable		**11,408**	6,862
Total current liabilities		**158,641**	132,947
Trade and other payables	24	**20,347**	7,354
Derivative financial liabilities	24	**194**	16
Provisions	25	**1,649**	1,876
Borrowings	26	**-**	2,633
Deferred tax liabilities	23	**5,180**	5,774
Total non current liabilities		**27,370**	17,653
Total liabilities		**186,011**	150,600
Total equity and liabilities		**416,397**	394,837

Notes 1 to 36 on pages 68 to 129 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

2 March 2012

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2011

	Note	Before exceptional items 2011 €'000	Exceptional items (Note 6) 2011 €'000	Total 2011 €'000	Total 2010 €'000
Cash flows from operating activities					
Profit before tax		**121,162**	**22,217**	**143,379**	111,300
Financial income		**(2,187)**	**-**	**(2,187)**	(8,895)
Financial expense		**571**	**-**	**571**	1,344
Depreciation, amortisation and impairment		**27,125**	**5,423**	**32,548**	24,278
Cost of employee equity settled share-based payments		**10,323**	**-**	**10,323**	13,427
Foreign currency exchange (gain) / loss		**(2,438)**	**-**	**(2,438)**	177
Loss / (gain) on disposal of property, plant and equipment and intangible assets		**94**	**-**	**94**	(12)
Other adjustments		**-**	**-**	**-**	123
Cash from operations before changes in working capital		**154,650**	**27,640**	**182,290**	141,742
(Increase) / decrease in trade and other receivables		**(10,109)**	**(11,025)**	**(21,134)**	1,886
Increase / (decrease) in trade and other payables and provisions		**17,813**	**(1,103)**	**16,710**	29,776
Cash generated from operations		**162,354**	**15,512**	**177,866**	173,404
Income taxes paid		**(16,588)**	**-**	**(16,588)**	(13,159)
Net cash from operating activities		**145,766**	**15,512**	**161,278**	160,245
Cash flows from investing activities					
Purchase of property, plant and equipment		**(33,532)**	**-**	**(33,532)**	(16,431)
Purchase of intangible assets		**(7,634)**	**-**	**(7,634)**	(7,278)
Purchase of businesses, net of cash acquired	17	**(7,779)**	**-**	**(7,779)**	(10,460)
Acquisition expenses paid	17	**-**	**-**	**-**	(212)
Proceeds from disposal of property, plant and equipment and intangible assets		**81**	**-**	**81**	208
Interest received		**2,120**	**-**	**2,120**	1,902
Net cash used in investing activities		**(46,744)**	**-**	**(46,744)**	(32,271)
Cash flows from financing activities					
Proceeds from the issue of new shares under option arrangements		**3,734**	**-**	**3,734**	3,186
Purchase of shares by long term incentive plan trust		**(9,623)**	**-**	**(9,623)**	(9,048)
Purchase of non-controlling interest	17	**(85,311)**	**-**	**(85,311)**	(8,561)
Dividends paid	21	**(38,944)**	**-**	**(38,944)**	(30,769)
Movements in current and non current restricted cash balances		**(518)**	**-**	**(518)**	(12,808)
Repayment of non-controlling shareholder loans		**(1,038)**	**-**	**(1,038)**	(3,067)
Payment of dividends to non-controlling shareholders	21	**(9,244)**	**-**	**(9,244)**	-
Secured bank loan repayments		**(2,197)**	**-**	**(2,197)**	(10,906)
Finance lease repayments		**(1,206)**	**-**	**(1,206)**	(961)
Interest paid		**(445)**	**-**	**(445)**	(1,229)
Net cash used in financing activities		**(144,792)**	**-**	**(144,792)**	(74,163)
Net (decrease) / increase in cash and cash equivalents		**(45,770)**	**15,512**	**(30,258)**	53,811
Cash and cash equivalents at start of year		**139,581**	**-**	**139,581**	80,576
Foreign currency exchange gain in cash and cash equivalents		**1,816**	**-**	**1,816**	5,194
Cash and cash equivalents at end of year	19	**95,627**	**15,512**	**111,139**	139,581

Notes 1 to 36 on pages 68 to 129 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

2 March 2012

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2011

		Attributable to equity holders of the Company (see Note 20)										
	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
Balance at 1 January 2011	49,954,114	4,995	20,876	10,572	1,217	(34,177)	(33,890)	21,910	236,936	228,439	15,798	244,237
Total comprehensive income for the year												
Profit	-	-	-	-	-	-	-	-	121,488	121,488	1,249	122,737
Foreign exchange translation	-	-	-	3,327	-	-	-	-	-	3,327	(498)	2,829
Deferred tax on share-based payments (Note 23)	-	-	-	-	-	-	-	-	(409)	(409)	-	(409)
Total comprehensive income for the year	-	-	-	3,327	-	-	-	-	121,079	124,406	751	125,157
Transactions with owners of the Company, recognised directly in equity												
Shares issued (Note 20)	770,907	77	16,950	-	-	-	-	-	-	17,027	-	17,027
Own shares acquired by the long term incentive plan trust – 240,587 ordinary shares (Note 22)	-	-	-	-	-	-	(9,623)	-	-	(9,623)	-	(9,623)
Purchase of non-controlling interest – Sportsbet (Note 17)	-	-	-	-	-	-	-	-	(101,451)	(101,451)	(7,271)	(108,722)
Discount on loans from non-controlling interest	-	-	-	(26)	21	-	-	-	5	-	-	-
Repayment of non-controlling interest loans	-	-	-	-	(53)	-	-	-	-	(53)	(34)	(87)
Other	-	-	-	-	-	-	-	-	(50)	(50)	-	(50)
Equity-settled transactions – expense recorded in income statement (Note 22)	-	-	-	-	-	-	-	10,323	-	10,323	-	10,323
Equity-settled transactions – vestings (Note 20)	-	-	-	-	-	-	10,116	(9,218)	(586)	312	-	312
Transfer to retained earnings on exercise of share options (Note 20)	-	-	-	-	-	-	-	(1,097)	1,097	-	-	-
Dividends to shareholders (Note 21)	-	-	-	-	-	-	-	-	(38,944)	(38,944)	(9,244)	(48,188)
Total contributions by and distributions to owners of the Company	770,907	77	16,950	(26)	(32)	-	493	8	(139,929)	(122,459)	(16,549)	(139,008)
Balance at 31 December 2011	50,725,021	5,072	37,826	13,873	1,185	(34,177)	(33,397)	21,918	218,086	230,386	-	230,386

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000	Non-controlling interest €'000	Total equity €'000
	Attributable to equity holders of the Company (see Note 20)											
Balance at 1 January 2010	49,767,339	4,977	18,009	75	1,392	(34,177)	(31,858)	14,968	184,177	157,563	8,947	166,510
Total comprehensive income for the year												
Profit	-	-	-	-	-	-	-	-	90,005	90,005	6,729	96,734
Foreign exchange translation	-	-	-	10,449	-	-	-	-	-	10,449	2,218	12,667
Deferred tax on share-based payments (Note 23)	-	-	-	-	-	-	-	-	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 20)	186,775	18	2,867	-	-	-	-	-	-	2,885	-	2,885
Own shares acquired by the long term incentive plan trust – 354,500 ordinary shares (Note 22)	-	-	-	-	-	-	(9,048)	-	-	(9,048)	-	(9,048)
Purchase of non-controlling interest – Sportsbet (Note 17)	-	-	-	-	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 22)	-	-	-	-	-	-	-	13,427	-	13,427	-	13,427
Equity-settled transactions – vestings (Note 20)	-	-	-	-	-	-	7,016	(5,934)	(741)	341	-	341
Transfer to retained earnings on exercise of share options (Note 20)	-	-	-	-	-	-	-	(551)	551	-	-	-
Dividends to shareholders (Note 21)	-	-	-	-	-	-	-	-	(30,769)	(30,769)	-	(30,769)
Total contributions by and distributions to owners of the Company	186,775	18	2,867	48	(175)	-	(2,032)	6,942	(37,510)	(29,842)	(2,096)	(31,938)
Balance at 31 December 2010	49,954,114	4,995	20,876	10,572	1,217	(34,177)	(33,890)	21,910	236,936	228,439	15,798	244,237

Notes 1 to 36 on pages 68 to 129 form an integral part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

2 March 2012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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', 'paddypowergames.com', 'paddypowercasino.com', 'paddypowerbingo.com' and 'paddypowerpoker.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 the first page of this Annual Report.

The consolidated financial statements of the Group for the year ended 31 December 2011 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 2 March 2012.

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), contingent deferred consideration 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 2011. 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' and except for the change in accounting policy highlighted in 'Changes in accounting policies and restatement of comparatives' below.

Recent accounting pronouncements

The IASB and the International Financial Reporting Interpretations Committee ('IFRIC') have issued the following standards and interpretations which were effective for the Group in the year ended 31 December 2011:

Revised IAS 24, 'Related Party Disclosures'

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

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:

- Amendments to IFRS 7, 'Financial Instruments: Disclosures – Transfers of Financial Assets', (effective for the Group's 2012 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.

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

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 36:

- Note 15 – measurement of the recoverable amounts of cash generating units containing goodwill and indefinite life licences and brand intangible assets.
- Note 17 – business combinations.
- Note 22 – measurement of share-based payments.
- Note 24 – contingent deferred consideration and sports betting open positions.
- Note 27 – credit risk arising from trade and other receivables.

Changes in accounting policies and restatement of comparatives

The Group has reviewed its revenue recognition policy and the treatment of customer bonus schemes and other promotions. The changes do not impact the Group's reported operating profit, amounts reported in the statement of financial position or cash flows. The treatment of these items has developed over the past few years and the Group has revised its presentation of these items in line with current industry practice for comparability purposes. The Group now recognises the costs of additional customer promotions and bonuses as deductions from income rather than as operating expenses, as the Group believes that this conveys the underlying nature of the transaction. As a result of these changes, a number of lines within the consolidated income statement have been restated. Where adjustments have been made to comparative information in respect of the year ended 31 December 2010 the relevant financial statement or note is headed up as *'Restated'*.

The revised accounting policy for income is as follows:

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 tax. The costs of customer promotions (including free bets) and bonuses are deducted from income.

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

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, and is stated net of the cost of customer promotions and bonuses incurred in the period.

Income from fixed odds games and the online casinos represents net winnings ('customer drop'), being amounts staked net of customer winnings, and is stated net of the cost of customer promotions and bonuses incurred in the period.

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, and is stated net of the cost of customer promotions and bonuses incurred in the period. 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.

The impact of the changes, by reporting segment, on the major components of operating profit (before exceptional items) in 2011 are as follows:

	Online (ex Australia) €'000	Australia €'000	Irish retail €'000	UK retail €'000	Telephone (ex Australia) €'000	Total Group €'000
Income						
As reported under previous accounting policies	**212,366**	**110,627**	**103,240**	**72,562**	**19,316**	**518,111**
Restatement – customer promotions and bonuses	**(13,204)**	**(3,226)**	**(449)**	**(370)**	**(1,532)**	**(18,781)**
As reported under new accounting policies	**199,162**	**107,401**	**102,791**	**72,192**	**17,784**	**499,330**
Direct betting costs (other direct betting costs)						
As reported under previous accounting policies	**(26,057)**	**(26,342)**	**(9,599)**	**(11,056)**	**(99)**	**(73,153)**
Restatement – customer promotions and bonuses	**1,983**	**-**	**-**	**-**	**-**	**1,983**
As reported under new accounting policies	**(24,074)**	**(26,342)**	**(9,599)**	**(11,056)**	**(99)**	**(71,170)**
Operating expenses (marketing expenses)						
As reported under previous accounting policies	**(112,007)**	**(61,527)**	**(82,754)**	**(50,968)**	**(18,156)**	**(325,412)**
Restatement – customer promotions and bonuses	**11,221**	**3,226**	**449**	**370**	**1,532**	**16,798**
As reported under new accounting policies	**(100,786)**	**(58,301)**	**(82,305)**	**(50,598)**	**(16,624)**	**(308,614)**
Impact on operating profit	**-**	**-**	**-**	**-**	**-**	**-**

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

The impact of the changes, by reporting segment, on the major components of operating profit in 2010 are as follows:

	Online (ex Australia) €'000	Australia €'000	Irish retail €'000	UK retail €'000	Telephone (ex Australia) €'000	Total Group €'000
Income						
As reported under previous accounting policies	163,662	97,037	109,637	54,220	18,971	443,527
Restatement – customer promotions and bonuses	(10,057)	(4,474)	(473)	(194)	(1,631)	(16,829)
As reported under new accounting policies	153,605	92,563	109,164	54,026	17,340	426,698
Direct betting costs (other direct betting costs)						
As reported under previous accounting policies	(20,666)	(21,762)	(9,315)	(8,443)	(70)	(60,256)
Restatement – customer promotions and bonuses	1,494	-	-	-	-	1,494
As reported under new accounting policies	(19,172)	(21,762)	(9,315)	(8,443)	(70)	(58,762)
Operating expenses (marketing expenses)						
As reported under previous accounting policies	(85,532)	(55,785)	(82,696)	(38,412)	(17,097)	(279,522)
Restatement – customer promotions and bonuses	8,563	4,474	473	194	1,631	15,335
As reported under new accounting policies	(76,969)	(51,311)	(82,223)	(38,218)	(15,466)	(264,187)
Impact on operating profit	-	-	-	-	-	-

As the above adjustments to comparative information had no impact on 1 January 2010 balances, the statement of financial position at the beginning of the earliest comparative period (1 January 2010) has not been included in these financial statements.

Amounts staked

Amounts staked does not represent the statutory revenue of the Group. It comprises gross takings received and receivable from sports betting and business to business activities and gross win received and receivable from gaming machine and online gaming activities in the period.

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

Research and development

Expenditure on research activities is recognised in the income statement as an expense in the period in which it is incurred. Expenditure on development activities is recognised as an internally generated intangible asset only when the necessary criteria are met; including demonstrating the technical feasibility of the product and having sufficient certainty over future revenue or cost savings that will be generated from the product. The qualifying expenditure capitalised represents costs directly attributable to the development of the asset. This expenditure is capitalised from the point at which the asset is available for use. If the criteria are not met the expenditure is recognised in the profit and loss as an expense in the period in which it is incurred. Capitalised development expenditure assets are amortised on a straight-line basis from the date they are available for use over their useful economic life.

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.

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.

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.

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 relevant 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 reporting date are translated to functional currencies at the foreign exchange rates 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.

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

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 reporting 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.

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. Costs related to the acquisition of non-controlling interests are transferred directly to retained earnings.

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.

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

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.

Intangible assets

Intangible assets, principally comprising computer software, licences and brands, are capitalised 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 and the fair value of software acquired in business combinations. 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 14.

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

Impairment

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

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

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

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

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.

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, restricted cash 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.

Derivative financial instruments
The Group holds certain derivative financial instruments which are initially recognised 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 in 2010 and 2011 had 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.

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

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 other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly 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 reporting date, and any adjustment to tax payable in respect of the previous year.

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

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

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 reporting 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.

Share-based payments

The Group operates or has operated 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.

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 has operated equity-settled share option schemes for employees under which employees acquired 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 certain cash-settled long term incentive plans for selected senior executives (other than directors) and other key management under which they are conditionally awarded notional Company shares which vest upon the achievement of predetermined earnings targets and future service periods. The estimated costs of the awards are spread over the period during which the employees become unconditionally entitled to the payment. The beneficiaries are paid in cash based on the Company's share price on the date of vesting and the liability is remeasured at each reporting date using the closing share price on that day.

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.

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

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 recognised directly in 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 reporting date are disclosed in Note 35.

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.

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.

Exceptional items

The Group has applied an income statement format which seeks to highlight exceptional items within Group profit or loss for the period. 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.

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 26 to 32.

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 risk' 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'). The Group does not accept business from residents of the United States of America and USD transactions arise primarily from USD-denominated poker customer play.

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 2011 and 2010, 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 2011 and 2010, it remained exposed to translation risk on its expected future foreign currency denominated income and expenses in its foreign operations. The average GBP exchange rate against the euro decreased by approximately 1% in 2011 versus 2010 (increased by 4% in 2010 versus 2009), while the AUD exchange rate increased by 7% (increased by 19% in 2010 versus 2009) and the USD exchange rate decreased by approximately 5% (increased by 5% in 2010 versus 2009). The change in the value of the euro against these currencies did not significantly impact the Group's profit for the year ended 31 December 2011 as the weakening in the value of the GBP and USD cancelled out the positive impact of a stronger AUD (2010: positive impact of approximately €2.9m, 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 exchange translation reserve in equity.

The gain on retranslation of cash and cash equivalent balances in the year ended 31 December 2011 was €1,816,000 (2010: gain of €5,194,000). Within the cash retranslation gains and losses are gains of €1,034,000 (2010: gains of €235,000) 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. Included within the gain on retranslation of non-cash assets and liabilities of €1,404,000 in 2011 (2010: loss of €412,000) is an amount of €1,047,000 relating to the retranslation of short term intercompany receivables from the Australia operating segment (2010: €nil). 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 9 and 10.

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). During 2011, the Group, following the acquisition of 100% of Sportsbet and having sufficient excess cash to do so, repaid all of the finance leases outstanding at the start of the year. At 31 December 2010, finance lease debt amounted to €1,260,000 and was subject to repayment at fixed rates of interest ranging from 8.7% to 16.0% and at a weighted average rate of interest of approximately 12.5%. The secured non-recourse bank debt, which amounted to €2,284,000 at 31 December 2010, was also repaid in full from surplus cash during the year and the relevant facility terminated. Prior to repayment, the loan was repayable on a quarterly basis up to 30 September 2012 and bore interest at the bank's base rate plus a margin (at 31 December 2010 the total interest rate was 9.27%). During 2010, the Group repaid €6,598,000 of bank debt over and above the scheduled repayment amounts from surplus cash. The non-interest bearing shareholder loans, which had a face value of €1,072,000 and a carrying value of €974,000 at 31 December 2010, were repaid to the former non-controlling shareholders as part of the acquisition of 39.2% of Sportsbet in March 2011. During 2010, an amount of €3,067,000 was repaid to non-controlling shareholders in respect of these loans. No derivative financial instruments were used to manage the interest rate risk inherent in the Group's borrowings.

3. Financial risk management (continued)

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.

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 and, accordingly, the Australian sports betting business model is one where credit is sometimes granted to customers. Trade receivables (after provisions for impairment) amounted to €7,294,000 at 31 December 2011 (2010: €5,508,000); included in this balance are receivables from credit betting customers (primarily in Australia) of €5,927,000 (2010: €3,986,000). 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 reporting date and the date of this report. There are also restrictions on the types of cash products that can be invested in.

During 2010 and 2011, 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 provide guarantees only 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 2011, there were no amounts outstanding in the consolidated financial statements under these guarantees (2010: €nil).

3. Financial risk management (continued)

The Group has put in place certain third party bank guarantees in favour of a number of regulatory bodies, primarily in the Isle of Man. These guarantees (which are more fully described in Note 32) are required by the terms of gambling licences and primarily 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 32 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 19).

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 2011, the total amount of relevant customer balances attributable to the Australia operating segment was €24,790,000 (AUD31,541,000) (2010: €23,562,000 (AUD30,951,000)) and total cash balances amounted to €43,939,000 (AUD55,904,000) at that date (2010: €31,001,000 (AUD40,723,000)).

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 three months and up to six months if approved by the Board. The overall maturity of deposits at 31 December 2011 and 2010 is set out in Note 19. 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:

- 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 (€7.8m). Interest is payable thereon at the bank's sterling base rate plus 3.5%. 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 2011, none of the bank overdraft facilities were being utilised. The National Australia Bank secured non-recourse loan facility (2010: loan facility of €8.9m (AUD11.7m) of which €2.3m (AUD3.0m) was drawn at 31 December 2010) was terminated in 2011 and the shareholder loans from the non-controlling shareholders in Sportsbet (2010: with a face value of €1.1m (AUD1.4m) and a carrying value of €1.0m (AUD1.3m)) were repaid on 1 March 2011 as part of the acquisition by the Group of the remaining 39.2% of Sportsbet that it did not already own.

Capital management

The Group has historically funded its operations through internally generated cash. Borrowings historically have not formed part of its capital structure, apart from the consolidation of debt within its majority-owned subsidiaries in Australia during 2009, 2010 and part of 2011. This debt has since been repaid. 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.

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 2011 or 2010. 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.

3. Financial risk management (continued)

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 2011.

At 31 December 2011, neither the Company nor any of its subsidiaries were subject to externally imposed capital requirements. At 31 December 2010, certain restrictions were placed on Sportsbet's ability to distribute profits under the terms of its secured loan agreement with National Australia Bank. These restrictions have now been lifted following repayment of the loan.

In the year ended 31 December 2011, the Group earned a return on capital of 53.0% or 47.0% when the exceptional items are excluded (2010: 46.6%). 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 (€121,488,000 or €103,513,000 pre-exceptional items (2010: €90,005,000)) 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 €228,439,000 and €230,386,000 respectively, being €229,413,000, or the average of €228,439,000 and €212,411,000 respectively, being €220,425,000, for the pre-exceptional rate of return calculation (2010: average of €157,563,000 and €228,439,000 respectively, being €193,001,000)).

4. Operating segments

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

Income

Income for the years ended 31 December 2011 and 2010 is analysed as follows:

	2011 €'000	2010 *Restated* €'000
Income in respect of sportsbook and gaming activities	**482,756**	411,822
Other commission and fee revenue (included in non retail income)	**16,574**	14,876
Total income	**499,330**	426,698

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).

4. Operating segments (continued)

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 from sports betting services provided to Australian customers using both the internet and the public telephony system.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies set out in Note 2 above. 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 2011:

	Online (ex Australia) €'000	Australia €'000	Irish retail €'000	UK retail €'000	Telephone (ex Australia) €'000	Total reportable segments €'000
Income from external customers	**199,162**	**107,401**	**102,791**	**72,153**	**17,823**	**499,330**
Inter-segment trading	**-**	**-**	**-**	**39**	**(39)**	**-**
Total income	**199,162**	**107,401**	**102,791**	**72,192**	**17,784**	**499,330**
Direct betting costs	**(24,074)**	**(26,342)**	**(9,599)**	**(11,056)**	**(99)**	**(71,170)**
Gross profit	**175,088**	**81,059**	**93,192**	**61,136**	**17,685**	**428,160**
Depreciation and amortisation	**(5,217)**	**(5,180)**	**(9,780)**	**(5,834)**	**(1,114)**	**(27,125)**
Other operating expenses	**(95,569)**	**(53,121)**	**(72,525)**	**(44,764)**	**(15,510)**	**(281,489)**
Reportable segment profit before exceptional items	**74,302**	**22,758**	**10,887**	**10,538**	**1,061**	**119,546**
Exceptional items	**-**	**22,217**	**-**	**-**	**-**	**22,217**
Reportable segment profit	**74,302**	**44,975**	**10,887**	**10,538**	**1,061**	**141,763**

4. Operating segments (continued)

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

	Online (ex Australia) *Restated* €'000	Australia *Restated* €'000	Irish retail *Restated* €'000	UK retail *Restated* €'000	Telephone (ex Australia) *Restated* €'000	Total reportable segments *Restated* €'000
Income from external customers, being total income	153,605	92,563	109,164	54,026	17,340	426,698
Direct betting costs	(19,172)	(21,762)	(9,315)	(8,443)	(70)	(58,762)
Gross profit	134,433	70,801	99,849	45,583	17,270	367,936
Depreciation and amortisation	(4,451)	(4,040)	(9,215)	(5,470)	(1,102)	(24,278)
Other operating expenses	(72,518)	(47,271)	(73,008)	(32,748)	(14,364)	(239,909)
Reportable segment profit before exceptional items	57,464	19,490	17,626	7,365	1,804	103,749
Exceptional items	-	-	-	-	-	-
Reportable segment profit	57,464	19,490	17,626	7,365	1,804	103,749

Reconciliation of reportable segments to Group totals:

	2011 €'000	2010 *Restated* €'000
Income		
Total income from reportable segments, being total Group income	**499,330**	426,698
Profit and loss		
Total profit and loss from reportable segments	**141,763**	103,749
Unallocated amounts:		
Financial income – non-Australia (1)	**555**	411
Financial income – Australia	**1,632**	1,368
Financial income – Australia – Sportsbet buyout call options (2)	**-**	7,116
Financial expense – non-Australia (1)	**(156)**	(235)
Financial expense – Australia	**(415)**	(1,109)
Profit before tax	**143,379**	111,300

(1) 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.

(2) Included in financial income in 2010 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 9 and 16.

(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.

4. Operating segments (continued)

Group revenues by geographical segment are as follows:

Income

	2011 €'000	2010 *Restated* €'000
UK	**220,140**	159,443
Australia	**107,401**	92,563
Ireland and rest of world	**171,789**	174,692
Total	**499,330**	426,698

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

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

Non current assets

	2011 €'000	2010 €'000
UK	**89,531**	64,491
Australia	**93,302**	86,829
Ireland and rest of world	**64,108**	54,955
Total	**246,941**	206,275

5. Direct betting costs

Direct betting costs comprise:

	Before exceptional items 2011 €'000	Exceptional items (Note 6) 2011 €'000	Total 2011 €'000	Total *Restated* 2010 €'000
Betting taxes	**25,492**	**(27,277)**	**(1,785)**	22,420
Software supplier costs	**16,553**	**-**	**16,553**	12,580
Other direct betting costs	**29,125**	**-**	**29,125**	23,762
Direct betting costs	**71,170**	**(27,277)**	**43,893**	58,762

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

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

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

6. Exceptional items

	2011 €'000	2010 €'000
Goods and Services Tax ('GST') refund	**27,277**	-
GST refund – related interest and legal costs	**363**	-
Provision against carrying value of IAS brand	**(5,423)**	-
Operating profit impact of exceptional items	**22,217**	-
Income tax expense on GST refund	**(8,180)**	-
Release of deferred tax liability – Sportsbet brand	**3,938**	-
Income tax expense impact of exceptional items	**(4,242)**	-
Total exceptional items	**17,975**	-

GST refund

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

Income of €27.6m (AUD35.9m) in respect of the GST refund, interest and related legal costs has been recognised as an exceptional item. This income is taxable at the standard Australian corporation tax rate of 30%, with a related income tax charge of €8.2m being recognised as part of the exceptional item. During 2011, Sportsbet and IAS received €16.4m (AUD21.3m) in the form of cash in respect of court-ordered GST repayments (plus associated interest) and revised GST returns for the period December 2009 to November 2010; after deduction of associated costs and expenses, the net cash receipt in 2011 amounted to €15.5m (AUD20.1m). The remainder of the exceptional item is composed of amounts expected to be received as credits against future GST payments over the next five years approximately and an estimate of interest and legal costs to be awarded.

Provision against value of IAS brand

The Group has decided to cease investing in and trading under the IAS brand. It is intended that existing customers of IAS will be migrated to the existing Sportsbet brand at a point in the future. Accordingly, full provision has been made against the carrying value of the IAS brand at 31 December 2011, which amounted to €5,423,000 (AUD6,900,000) at that date. There is no tax impact arising from this provision.

Release of deferred tax liability – Sportsbet brand

Following a restructuring of the Group's Australian operations after the acquisition by the Group in March 2011 of the non-controlling interest in Sportsbet (see Note 17), the deferred tax liability initially recognised on the acquisition of 51% of Sportsbet in July 2009 (€3,938,000 or AUD5,010,000) has been derecognised due to a change in the Australian tax base of the related Sportsbet assets.

7. Employee expenses and numbers

	2011 €'000	2010 €'000
Wages and salaries	**107,608**	92,977
Social security costs	**6,953**	11,801
Defined contribution pension and life assurance costs	**3,962**	3,338
Share-based payments costs	**15,347**	15,038
Other staff costs	**9,925**	6,729
	143,795	129,883

	2011	2010
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	**2,788**	2,350

8. 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 2011 €'000	Total 2010 €'000
Executive							
Patrick Kennedy (1)	**-**	**717**	**34**	**195**	**626**	**1,572**	1,417
Breon Corcoran (2)	**-**	**493**	**99**	**7**	**361**	**960**	785
Jack Massey	**-**	**306**	**62**	**30**	**205**	**603**	547
Non-executive							
Nigel Northridge (3)	**200**	**-**	**-**	**-**	**-**	**200**	200
Tom Grace (4)	**90**	**-**	**-**	**-**	**-**	**90**	90
Fintan Drury (5)	**67**	**-**	**-**	**-**	**-**	**67**	70
Stewart Kenny	**70**	**-**	**-**	**-**	**-**	**70**	70
Jane Lighting	**70**	**-**	**-**	**-**	**-**	**70**	70
Cormac McCarthy (6)	**23**	**-**	**-**	**-**	**-**	**23**	-
Pádraig Ó Ríordáin (7)	**82**	**-**	**-**	**-**	**-**	**82**	82
David Power (8)	**82**	**-**	**-**	**-**	**-**	**82**	82
William Reeve (9)	**70**	**-**	**-**	**-**	**-**	**70**	43
Brody Sweeney (10)	**47**	**-**	**-**	**-**	**-**	**47**	70
	801	**1,516**	**195**	**232**	**1,192**	**3,936**	3,526
Cost of shares vested from Long Term Incentive Plan						**3,353**	3,296
	801	**1,516**	**195**	**232**	**1,192**	**7,289**	6,822

(1) In 2011, following a change in Irish tax legislation that introduced a cap on the size of the pension fund that an individual can accumulate, the Company commenced paying the agreed annual pension contribution to Patrick Kennedy as a taxed cash allowance instead of as a pension contribution (and included in benefits above). This change has no incremental cost to the Company. Patrick Kennedy is also a non-executive director of Elan Corporation, plc for which he received fees of €53,695 in the year ended 31 December 2011 (2010: €56,794). He was also awarded 18,382 (2010: 23,855) Restricted Stock Units over Elan Corporation, plc shares. In July 2010, he was appointed as a non-executive director of Bank of Ireland and he received fees of €78,375 in 2011 (2010: €30,784) for his services.
(2) Breon Corcoran resigned from the Board on 10 November 2011.
(3) Nigel Northridge is Chairman of the Company.
(4) Tom Grace is Chairman of the Audit Committee.
(5) Fintan Drury resigned from the Board on 14 December 2011.
(6) Cormac McCarthy was appointed to the Board on 1 September 2011.
(7) Pádraig Ó Ríordáin is Chairman of the Remuneration Committee.
(8) David Power is Chairman of the Risk Committee.
(9) William Reeve was appointed to the Board on 19 May 2010.
(10) Brody Sweeney resigned from the Board on 1 September 2011.

Benefits provided to executive directors include provision of a company car or car allowance, life and medical insurance and, in the case of Patrick Kennedy, cash allowances in lieu of pension contributions. 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 22). 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.

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

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 pages 45 and 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 2011, directors were paid the following:

- Stewart Kenny received €80,000 (2010: €80,000) in respect of consulting fees;
- Pádraig Ó Ríordáin is a Partner in Arthur Cox (he was Managing Partner until November 2011). During the year ended 31 December 2011, the Group incurred fees of €690,308 (2010:€172,815) 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 €12,125 (2010: losing €33,422) with Richard Power On-Course Bookmakers and that firm placed bets with the Group winning €19,839 (2010: winning €24,444); and
- the Group paid rent of €38,727 (2010: €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:

	2011 €'000	2010 €'000
Wages and salaries	**8,043**	5,651
Social security costs	**1,572**	633
Defined contribution pension and life assurance costs	**504**	634
Provision for executive director long term incentive bonus plan (1)	**(1,389)**	597
Share-based payments costs	**9,969**	8,798
Non-executive directors' fees	**801**	777
Other staff costs	**364**	216
	19,864	17,306

	2011 €'000	2010 €'000
Executive directors (excluding share-based payments)	**3,135**	2,749
Non-executive directors	**801**	777
Other key management personnel (excluding share-based payments)	**5,776**	3,752
Provision for executive director long term incentive bonus plan (1)	**(1,389)**	597
Social security costs	**1,572**	633
Share-based payments costs	**9,969**	8,798
	19,864	17,306

(1) Breon Corcoran had a long term incentive bonus plan under which he was entitled to certain payments based 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. As a result of his resignation in November 2011, Breon no longer has any entitlement to receive any benefits under this plan. Accordingly a credit of €1,389,000 was recorded in 2011 in respect of costs that had been accrued for his bonus scheme up to 31 December 2010 (2010: charge of €597,000). These amounts have not been included in the table of directors' emoluments on page 89.

9. Financial income and expense

	2011 €'000	2010 €'000
Recognised in profit or loss:		
Financial income:		
On financial assets at amortised cost:		
Interest income on short term bank deposits	**2,187**	1,779
	2,187	1,779
On derivative financial instruments at fair value through profit or loss:		
Increase in fair value of Sportsbet buyout call options (Note 16)	**-**	7,116
	-	7,116
Financial income	**2,187**	8,895
Financial expense:		
On financial liabilities at amortised cost:		
Bank loans	**349**	783
Bank guarantees	**75**	132
Finance leases	**59**	198
Unwinding of the discount on provisions and other non current liabilities	**88**	231
Financial expense	**571**	1,344

	2011 €'000	2010 €'000
Recognised in other comprehensive income:		
Foreign exchange gain on translation of the net assets of foreign currency denominated subsidiaries	**2,829**	12,667
	2,829	12,667

10. Statutory and other information

	2011 €'000	2010 €'000
Directors' emoluments	**7,289**	6,822
Auditor's remuneration for audit services	**396**	396
Depreciation – owned assets	**19,433**	16,580
Depreciation – leased assets	**-**	1,146
Impairment charges – property, plant and equipment owned	**-**	662
Impairment reversals – property, plant and equipment owned	**-**	(566)
Amortisation of intangible assets	**7,692**	6,448
Impairment charges – intangible assets	**5,423**	28
Impairment reversals – intangible assets	**-**	(20)
Loss / (gain) on disposal of property, plant and equipment and intangible assets	**94**	(12)
Foreign currency exchange gain – cash and cash equivalents	**(1,034)**	(235)
Foreign currency exchange (gain) / loss – other monetary items	**(1,404)**	412
Operating lease rentals, principally premises	**19,677**	15,856
Research and development	**3,881**	405
Operating lease income (representing sub-lease income)	**(351)**	(278)

10. 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.

	2011 €'000	2010 €'000
Audit	**130**	130
Other assurance services – audit of subsidiaries	**35**	40
Other assurance services – miscellaneous	**115**	21
Tax advisory services	**92**	334
Tax related audit work	**42**	25
Total	**414**	550

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

	2011 €'000	2010 €'000
Audit of Group (KPMG Dublin)	**130**	130
Audit of other subsidiaries (KPMG Dublin)	**35**	40
Tax related audit work (KPMG Dublin)	**42**	25
Value added tax on audit fees – Group and other subsidiaries (KPMG Dublin)	**45**	41
Audit of other subsidiaries (other KPMG offices)	**138**	147
Other assurance services – miscellaneous	**6**	13
Total	**396**	396

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

	2011 €'000	2010 €'000
Tax advisory services (KPMG Dublin)	**92**	334
Value added tax on fees – tax advisory services (KPMG Dublin)	**19**	70
Tax advisory services (other KPMG offices)	**118**	28
Assurance services	**117**	18
Total	**346**	450
Tax advisory services – once-off Sportsbet acquisition (included above)	**(112)**	(55)
Assurance services – once off Sportsbet acquisition (included above)	**(110)**	-
Total – excluding once-off acquisition costs	**124**	395

11. Income tax expense

	2011 €'000	2010 €'000
Recognised in profit or loss:		
Current tax charge	**21,059**	16,969
Prior year under / (over) provision	**747**	(24)
	21,806	16,945
Deferred tax charge / (credit)	**827**	(1,573)
Prior year over provision	**(1,991)**	(806)
Decrease in net deferred tax liability (Note 23)	**(1,164)**	(2,379)
Total income tax expense in income statement	**20,642**	14,566

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:

		2011 €'000		2010 €'000
Profit before tax		**143,379**		111,300
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5%	12.5%	**17,922**	12.5%	13,912
Depreciation on non-qualifying property, plant and equipment	0.3%	**392**	0.8%	872
Effect of different statutory tax rates in overseas jurisdictions	2.3%	**3,327**	1.3%	1,417
UK tax loss deferred tax asset recognised	-	**-**	(1.6%)	(1,770)
UK tax loss deferred tax asset utilised in year	0.7%	**994**	0.7%	776
Brands and licences	(2.1%)	**(2,948)**	-	-
Other differences	1.5%	**2,143**	0.1%	154
Interest income taxable at higher rates	0.0%	**56**	0.0%	35
Over provision in prior year	(0.9%)	**(1,244)**	(0.7%)	(830)
Total income tax expense	14.4%	**20,642**	13.1%	14,566

Recognition of UK deferred tax asset in 2010

In 2010, given the improved profitability performance of the Great Britain retail ('GB retail') business in that year, the directors considered it appropriate to recognise the previously unrecognised deferred tax asset in respect of trading losses accumulated in prior years. Accordingly, a deferred tax amount of €1,770,000 was credited to the income statement in the year ended 31 December 2010. During 2011, €994,000 (2010: €776,000) of this asset was utilised against taxable GB retail profits arising in the year and the deferred tax asset amounted to €nil at 31 December 2011 (2010: €994,000).

Tax rates

No significant changes are expected to statutory tax rates in Ireland. The UK Budget in March 2011 announced that the UK corporation tax rate was to reduce to 23% over a period of four years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted in July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted in March 2011 and July 2011 respectively. This will reduce the group's future current tax charge accordingly. UK deferred tax balances have been calculated based on the rate of 25% substantively enacted at the balance sheet date. 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.

12. 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:

	2011	2010
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**121,488**	90,005
Numerator in respect of adjusted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**121,488**	90,005
Less: Exceptional items (Note 6)	**(17,975)**	-
Less: Sportsbet buyout call options value change (Note 9)	**-**	(7,116)
Less: UK tax losses deferred tax asset recognition (Note 11)	**-**	(1,770)
Profit for adjusted earnings per share calculation	**103,513**	81,119
Denominator in respect of basic earnings per share:		
Ordinary shares in issue at beginning of year	**49,954,114**	49,767,339
Adjustments for weighted average number of:		
– ordinary shares issued during year	**417,314**	64,992
– ordinary shares purchased and cancelled or held in treasury	**(1,734,000)**	(1,734,000)
– ordinary shares held by long term incentive plan trust	**(1,054,758)**	(1,387,159)
Weighted average number of ordinary shares	**47,582,670**	46,711,172
Basic earnings per share	**€2.553**	€1.927
Adjusted earnings per share	**€2.175**	€1.737
Denominator in respect of diluted earnings per share:		
Basic weighted average number of ordinary shares in issue during year	**47,582,670**	46,711,172
Adjustments for dilutive effect of the Share Option Scheme, Sharesave Scheme, share award schemes and shares held by long term incentive plan trust	**1,170,636**	1,329,728
Weighted average number of ordinary shares	**48,753,306**	48,040,900
Diluted earnings per share	**€2.492**	€1.874
Adjusted diluted earnings per share	**€2.123**	€1.689

13. 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 2010	56,995	84,639	26,998	1,263	169,895
Additions	3,350	7,935	6,754	139	18,178
Additions – business combinations (Note 17)	-	1,046	-	-	1,046
Disposals	(19)	(164)	(17)	(574)	(774)
Transfers (Note 14)	215	(178)	(1,398)	-	(1,361)
Foreign currency translation adjustment	636	132	1,062	8	1,838
Balance at 31 December 2010	61,177	93,410	33,399	836	188,822
Additions	**9,963**	**13,055**	**13,469**	**266**	**36,753**
Additions – business combinations (Note 17)	**-**	**647**	**6**	**-**	**653**
Disposals	**(177)**	**(388)**	**(165)**	**(209)**	**(939)**
Transfers (Note 14)	**(42)**	**881**	**(906)**	**-**	**(67)**
Foreign currency translation adjustment	**154**	**71**	**267**	**1**	**493**
Balance at 31 December 2011	**71,075**	**107,676**	**46,070**	**894**	**225,715**
Depreciation and impairment					
Balance at 1 January 2010	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 translation adjustment	211	51	390	3	655
Balance at 31 December 2010	22,283	64,582	23,724	435	111,024
Depreciation charges	**5,234**	**8,615**	**5,428**	**156**	**19,433**
Disposals	**(130)**	**(359)**	**(45)**	**(133)**	**(667)**
Foreign currency translation adjustment	**93**	**36**	**197**	**-**	**326**
Balance at 31 December 2011	**27,480**	**72,874**	**29,304**	**458**	**130,116**
Net book value					
At 31 December 2011	**43,595**	**34,802**	**16,766**	**436**	**95,599**
At 31 December 2010	38,894	28,828	9,675	401	77,798

The net book value of land, buildings and leasehold improvements at 31 December 2011 includes €39.7m (2010: €34.7m) in respect of leasehold improvements.

At 31 December 2011, included in leasehold improvements are assets held under finance leases with a cost value of €nil (2010: €2,685,000), accumulated depreciation of €nil (2010: €976,000) and net book value of €nil (2010: €1,709,000). At 31 December 2011, included in computer equipment are assets held under finance leases with a cost value of €nil (2010: €1,982,000), accumulated depreciation of €nil (2010: €1,228,000) and net book value of €nil (2010: €754,000). The Group repaid its finance lease obligations in full during 2011 (see Note 26).

The impairment charges in 2010 related to the Irish retail and UK retail operating segments and arose 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 were based on value in use. The pre-tax discount rate used to determine value in use was 10%. The impairment charge of €96,000 recorded in the year ended 31 December 2010 included €662,000 relating to new impairment charges and was stated net of impairment reversals of €566,000. Impairment credits and charges are included in 'depreciation, amortisation and impairment' 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.

14. 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 €'000	Licences €'000	Brands €'000	Total €'000
Cost				
Balance at 1 January 2010	22,774	24,912	14,742	62,428
Additions	6,594	119	-	6,713
Disposals	(24)	(12)	-	(36)
Transfers (Note 13)	1,463	(102)	-	1,361
Foreign currency translation adjustment	850	648	3,224	4,722
Balance at 31 December 2010	31,657	25,565	17,966	75,188
Additions	**9,921**	**86**	**-**	**10,007**
Additions – business combinations (Note 17)	**782**	**436**	**-**	**1,218**
Disposals	**(1,092)**	**-**	**-**	**(1,092)**
Transfers (Note 13)	**(3)**	**70**	**-**	**67**
Foreign currency translation adjustment	**515**	**638**	**583**	**1,736**
Balance at 31 December 2011	**41,780**	**26,795**	**18,549**	**87,124**
Amortisation and impairment				
Balance at 1 January 2010	14,815	2,163	-	16,978
Amortisation charges	5,796	652	-	6,448
Impairment (credits) / charges	(10)	18	-	8
Disposals	(12)	(2)	-	(14)
Foreign currency translation adjustment	258	-	-	258
Balance at 31 December 2010	20,847	2,831	-	23,678
Amortisation charges	**7,100**	**592**	**-**	**7,692**
Impairment charges	**-**	**-**	**5,423**	**5,423**
Disposals	**(847)**	**-**	**-**	**(847)**
Foreign currency translation adjustment	**175**	**3**	**-**	**178**
Balance at 31 December 2011	**27,275**	**3,426**	**5,423**	**36,124**
Net book value				
At 31 December 2011	**14,505**	**23,369**	**13,126**	**51,000**
At 31 December 2010	10,810	22,734	17,966	51,510

The value of betting shop licences of €21,674,000 (2010: €20,610,000) acquired as a result of the purchase of D McGranaghan Limited in 2008 and an additional betting shop in Northern Ireland in 2011 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 brand intangible assets recognised on application of fair value accounting to the purchase of Sportsbet and IAS in 2009 (amounting to €18,549,000 at 31 December 2011 (2010: €17,966,000)) 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 (with the exception of the IAS brand at 31 December 2011 – see Note 6 and below); 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.

14. Intangible assets (continued)

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). As disclosed in Note 6, the directors have reviewed the carrying value of the IAS brand of €5,423,000 and have determined, on the basis of future plans, that an impairment provision of €5,423,000 is required against the value of that brand at 31 December 2011.

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

15. 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**	**Online (ex Australia) €'000**	**Australia €'000**	**Total €'000**
Balance at 1 January 2010	7,067	8,248	-	48,196	63,511
Arising on acquisitions during the year (Note 17)	1,140	1,517	-	-	2,657
Foreign currency translation adjustment	-	231	-	10,568	10,799
Balance at 31 December 2010	8,207	9,996	-	58,764	76,967
Arising on acquisitions during the year (Note 17)	**-**	**1,201**	**13,303**	**-**	**14,504**
Foreign currency translation adjustment	**-**	**229**	**-**	**1,907**	**2,136**
Balance at 31 December 2011	**8,207**	**11,426**	**13,303**	**60,671**	**93,607**

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 2009 and 2010 (see Note 17).

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 and 2011 (see Note 17).

The online (ex Australia) segment goodwill amount arose from the acquisition by the Group in November 2011 of CT Networks Limited (Cayetano), a games developer based in the Isle of Man and Bulgaria. CT Networks develops games for the online and mobile gaming markets (see Note 17).

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

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 2011.

The Group's operating segments include 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 a shop acquisition in 2011, and brands acquired as part of the purchase of Sportsbet and IAS in 2009 – see Note 14).

15. Goodwill (continued)

The details of the impairment reviews in respect of the operating segments above as of 31 December 2011 are presented below:

	31 December 2011 €'000	31 December 2010 €'000
Irish retail – goodwill	**8,207**	8,207

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% (2010: 2%) per annum and is based on weighted average income growth rates of 1% to 2% (2010: 2% to 3%) and a gross win rate of 13% (2010: 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% (2010: 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.

	31 December 2011 €'000	31 December 2010 €'000
UK retail – goodwill and licences	**33,100**	30,606

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% (2010: 2%) per annum and is based on weighted average income growth rates of 1% to 2% (2010: 2% to 3%) and a gross win rate of 12% (2010: 11% 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% (2010: 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.

15. Goodwill (continued)

	31 December 2011 €'000	31 December 2010 €'000
Online (ex Australia) – goodwill	**13,303**	-

The recoverable amount of the online (ex 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 5% per annum and is based on a weighted average revenue growth rate of 5%, which is based on experience and is 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%, 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 online (ex Australia) segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2011 €'000	31 December 2010 €'000
Australia – goodwill and brands	**79,220**	76,730

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 4% (2010: 3%) per annum and is based on a weighted average income growth rate of 4% (2010: 3%) and a gross win of 9% (2010: 8%), 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 14% (2010: 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 (with the exception of the IAS brand amounting to €5,423,000 at 31 December 2011 – see Notes 6 and 14).

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, with the exception of the IAS brand impairment of €5,423,000 (see Notes 6 and 14), no impairment has arisen.

16. Financial assets (non current)

	31 December 2011 €'000	31 December 2010 €'000
Derivative financial assets		
Sportsbet buyout call options	**-**	6,978
	-	6,978
Other financial assets		
Restricted cash (see Note 19)	**6,409**	2,757
	6,409	2,757
Total	**6,409**	9,735

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

	Sportsbet buyout call options €'000	Restricted cash €'000	Total €'000
Balance at 1 January 2010	-	1,581	1,581
Change in value of Sportsbet buyout call options	6,978	-	6,978
Foreign currency translation adjustment	-	425	425
Other movements	-	751	751
Balance at 31 December 2010	6,978	2,757	9,735
Acquisition of 39.2% of Sportsbet	**(6,978)**	**-**	**(6,978)**
Foreign currency translation adjustment	**-**	**63**	**63**
Other movements	**-**	**3,589**	**3,589**
Balance at 31 December 2011	**-**	**6,409**	**6,409**

Sportsbet buyout call options

Under the terms of the agreement to purchase the initial 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. The net value ascribed to the embedded derivatives in these option contracts (which were designated on initial recognition as at fair value through profit or loss) was a net financial liability of €138,000 as at the date of acquisition, and was included in derivative financial liabilities. 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 was included in financial income in profit or loss in 2010 (see Note 9).

On 1 March 2011, the Group acquired the remaining 39.2% Sportsbet buyout call options and the value of the call options at that date was transferred to the cost of the acquisition (see Note 17). There was no material movement in the value of the options between 31 December 2010 and 1 March 2011.

17. Business combinations and purchase of non-controlling interest

Year ended 31 December 2011

Acquisition of additional 39.2% of Sportsbet Pty Limited

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

Additional consideration is payable to the extent that the EBITDA (post Group central cost allocations) of the Group's Australian operations for the year ended 31 December 2013 exceeds AUD65.0m (€51.1m). The maximum additional consideration of AUD25.0m (€19.6m) is payable in the event that 2013 EBITDA exceeds AUD80.0m (€62.9m). An amount of €3.2m has been provided in respect of this contingent deferred consideration as of 31 December 2011.

	€'000
Purchase consideration – cash	**84,749**
Purchase consideration – Paddy Power plc ordinary shares (Note 20)	**13,438**
Contingent deferred consideration	**2,989**
Sportsbet buyout call options (Note 16)	**6,978**
Acquisition expenses	**568**
Total purchase consideration	**108,722**
Net assets acquired from non-controlling interest	**(7,271)**
Decrease in retained earnings	**101,451**

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

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

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

Business combinations in 2011

In 2011, the Group, in the absence of available comparable sites for organic shop openings, acquired three retail licensed bookmaking businesses in Great Britain and one in Northern Ireland, comprising five shops in total. The Group also acquired CT Networks Limited (Cayetano), a games developer based in the Isle of Man and Bulgaria. CT Networks has developed a range of games for the online and mobile gaming markets.

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

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

	Book values on acquisition €'000	Provisional fair value adjustments €'000	Provisional fair values 31 December 2011 €'000
Identifiable net assets acquired:			
Property, plant and equipment	**653**	**-**	**653**
Intangible assets – computer software	**38**	**744**	**782**
Intangible assets – licences	**436**	**-**	**436**
Current assets (excluding cash and cash equivalents)	**30**	**-**	**30**
Current liabilities	**(43)**	**-**	**(43)**
Corporation tax payable	**(2)**	**-**	**(2)**
	1,112	**744**	**1,856**
Goodwill arising on acquisition – total			**14,504**
Consideration			**16,360**
The consideration is analysed as:			
Cash consideration			**7,729**
Contingent deferred consideration			**8,631**
			16,360

Net cash outflow from purchase of businesses for the purposes of the statement of cash flows	
Cash consideration before acquisition expenses	**7,729**
Acquisition expenses paid	**-**
	7,729

The principal factors contributing to the UK retail goodwill balance are the well established nature of the acquired businesses within the locations in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired businesses within the Paddy Power group. The principal factor contributing to the CT Networks goodwill balance is that the acquisition provides a new internal source of games development expertise which will allow the Group to expand its existing online and mobile gaming offerings and so grow revenues in the future.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired businesses in respect of the period from acquisition and for the year ended 31 December 2011 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the various acquired businesses' performance against agreed targets and Group performance over the next four years. The contingent deferred consideration amount of €8.8m at 31 December 2011 represents management's best estimate of the fair value of the amounts that will be payable (discounted as appropriate).

During 2011, the Group also paid €50,000 in respect of contingent deferred consideration for a 2010 Irish retail acquisition.

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

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
	8,561

Payments of contingent 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 contingent deferred consideration for the Company's initial 51% acquisition of Sportsbet on 1 July 2009. 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 contingent deferred consideration for the Irish retail 2009 bookmaking business acquisition.

Net cash outflow from contingent 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

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

Shop property acquisition

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

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

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

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

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

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

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

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

	2011 €'000	**2010 €'000**
Cash consideration	**92,522**	18,941
Acquisition expenses paid	**568**	292
Purchase of businesses and acquisition expenses paid	**93,090**	19,233
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses, net of cash acquired	**7,779**	10,460
Acquisition expenses paid	**-**	212
Purchase of non-controlling interest, including acquisition expenses paid	**85,311**	8,561
	93,090	19,233

18. Trade and other receivables

Current assets

	31 December 2011 €'000	31 December 2010 €'000
Trade receivables – credit betting customers	**5,927**	3,986
Trade receivables – other	**1,367**	1,522
Trade receivables	**7,294**	5,508
Other receivables	**3,565**	1,342
Prepayments and accrued income	**20,306**	8,724
	31,165	15,574

Trade and other receivables are non-interest bearing.

Included in other receivables and prepayments and accrued income at 31 December 2011 are amounts of €1,629,000 and €2,240,000, respectively, relating to costs receivable and accrued GST refunds arising from the Australian GST court case as more fully described in Note 6.

Non current assets

	31 December 2011 €'000	31 December 2010 €'000
Prepayments and accrued income	**6,735**	-

The amount in non-current prepayments and accrued income represents accrued GST refunds arising from the Australian GST court case as more fully described in Note 6.

19. Cash and cash equivalents

	31 December 2011 €'000	31 December 2010 €'000
Cash	**21,855**	18,054
Short term bank deposits	**113,842**	145,365
	135,697	163,419
Less: Financial assets – current restricted cash deposits (see below)	**(18,149)**	(21,081)
Less: Financial assets – non current restricted cash deposits (see below)	**(6,409)**	(2,757)
Cash and cash equivalents in the statement of cash flows	**111,139**	139,581

The effective interest rate on short term bank deposits was 2.35% (2010: 1.28%); these deposits have an average original maturity date of 42 days (2010: 48 days). The short term bank deposits also have an average maturity date of 26 days from 31 December 2011 (2010: 19 days).

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

Short term bank deposits are analysed by currency as follows:

	31 December 2011 €'000	31 December 2010 €'000
Euro	**40,837**	101,452
GBP	**27,786**	14,916
AUD	**42,896**	26,737
USD	**2,323**	2,260
	113,842	145,365

19. Cash and cash equivalents (continued)

Financial assets

Included in short term bank deposits at 31 December 2011 are amounts totalling €18,149,000 (2010: €21,081,000) which were restricted at that date and up to 3 January 2012 (2010: 14 January 2011) as they either (1) 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 or (2) represented client balances securing those player funds (see Note 32). 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 2011 are amounts totalling €2,409,000 (AUD3,064,000) (2010: €2,757,000 (AUD3,622,000)) which are restricted at that date and beyond 31 December 2012. 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 €157,000 (2010: €305,000), (2) are in respect of certain obligations entered into by the Group for office accommodation held under operating leases of €1,073,000 (2010: €1,310,000) and (3) are in respect of merchant facility guarantees of €1,179,000 (2010: €1,142,000). An additional €4,000,000 (2010: €nil) was restricted at that date and beyond 31 December 2012 as it formed part of guarantees issued in favour of certain gaming regulatory authorities to guarantee the payment of player funds, prizes and taxes due by the Group (see Note 32). These balances, totalling €6,409,000 at 31 December 2011 (2010: €2,757,000), have been shown as non current financial assets in the consolidated statement of financial position (see Notes 16 and Note 32).

20. Share capital and reserves

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

During the year, 315,372 ordinary shares of €0.10 each (2010: 186,775 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for a total consideration of €3,589,000 (2010: €2,885,000) and giving rise to a share premium of €3,557,000 (2010: €2,867,000). As part of the purchase of the remaining 39.2% of Sportsbet on 1 March 2011, 455,535 ordinary shares of €0.10 each, with a total value of €13,438,000 and giving rise to a share premium of €13,393,000, were issued to the vendors of Sportsbet on that date (see Note 17). All other ordinary shares issued during the years ended 31 December 2011 and 2010 were in respect of the exercise of share options granted to employees of the Group under the terms of the Share Option and Sharesave Schemes. The total number of ordinary shares issued at 31 December 2011 was 50,725,021 (2010: 49,954,114), those shares having a total nominal value of €5,072,000 (2010: €4,995,000).

The total number of shares held in treasury at 31 December 2011 was 1,734,000 shares (2010: 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 2011 (2010: €34,177,000). The value of treasury shares held by the Company at 31 December 2011 was €5,975,000 (2010: €5,975,000), with the remaining €28,202,000 of shares being held by Paddy Power Isle of Man Limited (2010: €28,202,000).

At 31 December 2011, the Company held a further 1,178,069 of its own shares (2010: 1,456,407), which were acquired at a total cost of €33,397,000 (2010: €33,890,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan and Managers' Deferred Share Award Scheme (see Note 22). The Company's distributable reserves at 31 December 2011 are further restricted by this cost amount. In the year ended 31 December 2011, 518,925 shares originally valued at €10,116,000 were transferred from the long term incentive plan trust ('the Trust') to beneficiaries of the Trust consequent to the vesting thereof (2010: 336,804 shares originally valued at €7,016,000).

The foreign exchange translation reserve at 31 December 2011 had a balance of €13,873,000 (2010: €10,572,000) 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 (2010: €876,000) relates to the nominal value of

20. Share capital and reserves (continued)

shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2010: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. The capital contribution reserve balance of €nil (2010: €32,000) arose on initial recognition of the Group's share of the discount on the non-controlling shareholder loans (which were non-interest bearing – see Note 26) and was eliminated when the loans were repaid in March 2011. The net wealth tax reserve had a balance of €49,000 at 31 December 2011 (2010: €49,000).

In 2011, an amount of €1,097,000 (2010: €551,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of €409,000 of deferred tax relating to the Group's share-based payments was charged against retained earnings in 2011 (2010: credit of €264,000) – see also Note 23.

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 €107.8m (2010: €64.1m), which includes €78.7m (2010: €54.0m) of dividends receivable from subsidiary companies.

21. Dividends paid on ordinary shares

	2011 €'000	2010 €'000
Ordinary shares:		
- final paid of 50.0 cent per share (2010: 38.9 cent)	**24,340**	18,750
- interim paid of 30.0 cent per share (2010: 25.0 cent)	**14,604**	12,019
	38,944	30,769
Proposed final dividend of 70.0 cent (2010: 50.0 cent) per share (see Note 35 to the consolidated financial statements)	**34,295**	24,340

Immediately prior to the acquisition by the Group of the remaining 39.2% of Sportsbet on 1 March 2011 (see Note 17), Sportsbet paid an interim dividend to its shareholders. The non-controlling shareholders' share of this dividend, which has been treated as a deduction from the non-controlling interest balance, was €9,244,000.

22. Share schemes

Summary of equity settled share-based payments expense

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

	2011 €'000	2010 €'000
Share Option Scheme	**(18)**	100
Sharesave Scheme	**709**	580
Long Term Incentive Plan ('LTIP')	**9,632**	12,614
Managers' Deferred Share Award Scheme	**-**	133
	10,323	13,427

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.

22. 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 2011 was 459,300 (2010: 702,522). These options had exercise prices ranging from €9.43 to €31.11 (2010: €9.43 to €24.17).

For the year ended 31 December 2011:

	Options outstanding at 1 January 2011	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2011
Share Option Scheme	**148,300**	**-**	**-**	**(50,800)**	**97,500**
Sharesave Scheme	**554,222**	**97,780**	**(25,630)**	**(264,572)**	**361,800**
Total	**702,522**	**97,780**	**(25,630)**	**(315,372)**	**459,300**

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

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 was open to directors, other than non-executive directors, and employees. Options could be granted within a period of ten years from 7 December 2000 at the higher of nominal and current market value. No further options can or have been granted under this scheme since 7 December 2010. 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.

A total of 1,600,472 options were granted over the life of the scheme. Since November 2000, options over 1,298,106 shares have been exercised and options over 204,866 shares have lapsed. Options over 97,500 shares were outstanding at 31 December 2011 (2010: 148,300), all of which were exercisable at 31 December 2011 (2010: 148,300).

22. Share schemes (continued)

Movements in the share options under this scheme during the year and prior year were as follows:

Year ended 31 December 2011

Options outstanding at 1 January 2011	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2011	Earliest exercise date	Exercise price	Market price at date of exercise
*Granted after 7 November 2002 **							
4,000	**-**	**-**	**(4,000)**	**-**	June 2007	€9.43	€36.01
27,000	**-**	**-**	**(15,000)**	**12,000**	October 2009	€14.40	€42.10
117,300	**-**	**-**	**(31,800)**	**85,500**	September 2010	€24.17	€28.90 – €42.10
148,300	**-**	**-**	**(50,800)**	**97,500**			

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	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.*

There were no options granted under this scheme in either of the years ended 31 December 2011 or 2010.

22. Share schemes (continued)

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.

Movements in the share options under this scheme during the year and prior year were as follows:

Year ended 31 December 2011

Options outstanding at 1 January 2011	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2011	Earliest exercise date	Exercise price	Market price at date of exercise
*Granted after 7 November 2002 **							
14,971	-	**393**	**(13,356)**	**2,008**	December 2009 & December 2011	€11.29	€40.05 – €42.10
7,897	-	**(941)**	**(1,571)**	**5,385**	December 2010 & December 2012	€19.26	€29.24 – €35.36
2,325	-	**(305)**	**(267)**	**1,753**	December 2010 & December 2012	£14.36	€29.82
351,200	-	**(3,771)**	**(235,635)**	**111,794**	December 2011 & December 2013	€9.45	€36.00 – €42.10
13,680	-	**645**	**(11,512)**	**2,813**	December 2011 & December 2013	£8.00	€30.35 – €42.10
91,714	-	**(10,748)**	**(1,615)**	**79,351**	December 2012 & December 2014	€14.90	€29.50 – €34.05
5,907	-	**(406)**	**(390)**	**5,111**	December 2012 & December 2014	£14.13	€37.75
58,456	-	**(9,876)**	**(226)**	**48,354**	December 2013 & December 2015	€19.87	€30.85
8,072	-	**(621)**	-	**7,451**	December 2013 & December 2015	£17.62	-
-	**89,803**	-	-	**89,803**	December 2014 & December 2016	€27.79	-
-	**7,977**	-	-	**7,977**	December 2014 & December 2016	£25.99	-
554,222	**97,780**	**(25,630)**	**(264,572)**	**361,800**			

22. Share schemes (continued)

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	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.*

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €685,000 (2010: €494,000). The significant inputs into the model were the share price of €37.05 (2010: €26.49) at the grant date, the exercise prices of €27.79 and £25.99 (2010: €19.87 and £17.62), the standard deviations of expected share price returns of 27% and 35% (2010: 36% and 34%), the option lives disclosed above and annual risk free rates of 0.84% and 1.34% (2010: 4.6% and 5.2%). 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 awards vest if the growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) is achieved over a minimum vesting period of three years. To the extent the award has not vested on or before the latest vest date, the award will automatically lapse in its entirety immediately following such date.

22. Share schemes (continued)

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. The relevant growth target in relation to these awards has been met and they are expected to vest in March 2012.

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. 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 213,500 shares, 26,500 shares, 158,000 shares and 40,000 shares (2010: 272,000 shares and 191,500 shares) were granted to senior management (including executive directors). The share prices at the dates of award were €29.31, €34.30, €36.25 and €39.80, respectively (2010: €23.76 and €27.40). The total cost of these awards (net of awards that subsequently lapsed) is €12,141,000 (2010: €11,305,000) 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 2011 is stated after an LTIP charge of €9,632,000 (2010: €12,614,000). During 2011, 186,903 share awards lapsed (2010: 60,000 share awards).

During 2011, a total of 437,778 shares (2010: 334,679 shares) in respect of 2008 LTIP awards (2010: 2007 LTIP awards) and related dividends were vested from the Trust to senior management.

As a result of the expected full vesting of 2008 awards as at 31 December 2010 as compared to the partial vesting expectation as at 31 December 2009, an additional cost was recognised to reflect the full vesting of 2008 awards in 2010 and resulted in a €5,338,000 charge to the income statement in respect of 2008 awards in that year.

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 was no further performance vesting condition under the scheme rules. Employees only became entitled to receive these shares if they remained employed by the Group until March 2011. Until the vesting of the award in accordance with the rules of the scheme, the award holder had no rights over or in respect of the shares subject to the award grant. The awards were not transferable.

During 2011, no ordinary shares (2010: nil) were conditionally awarded to employees, 81,147 ordinary shares (including 3,418 ordinary shares in respect of dividends) (2010: 2,125) were vested from the Trust to beneficiaries of the scheme and no share awards lapsed (2010: nil). At 31 December 2011, there were no share awards outstanding under the Share Award Scheme (2010: 77,729).

The total cost of the award was €1,919,000 (2010: €1,919,000). 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.

22. Share schemes (continued)

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 managed the Managers' Deferred Share Award Scheme. Purchases of Paddy Power plc ordinary shares from 1 January 2010 to 31 December 2011, 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 2010	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
Purchased 15 September 2011	32,000	1,133
Purchased 28 November 2011	50,000	2,037
Purchased 29 November 2011	50,000	2,024
Purchased 2 December 2011	47,500	1,887
Purchased 8 December 2011	28,953	1,202
Purchased 12 December 2011	32,134	1,340
	1,696,994	43,513
Vested from the Trust in 2011	(518,925)	(10,116)
Shares held by the Trust at 31 December 2011	1,178,069	33,397

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 20).

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.

Other

The Group also operates cash settled share-based bonus schemes for some senior managers (excluding directors) whereby they may earn a level of cash remuneration based on the Company's share price at a future date, subject to the achievement of stretching long term performance targets and continued employment with the Group.

23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2011 Assets €'000	31 December 2011 Liabilities €'000	31 December 2011 Total €'000	31 December 2010 Assets €'000	31 December 2010 Liabilities €'000	31 December 2010 Total €'000
Property, plant and equipment	**1,212**	**-**	**1,212**	1,094	-	1,094
Business combinations –						
licences and brands intangible assets	**-**	**(5,309)**	**(5,309)**	-	(9,585)	(9,585)
Lease premiums – income element	**-**	**(58)**	**(58)**	-	(50)	(50)
UK tax losses	**-**	**-**	**-**	994	-	994
Employee benefits	**2,083**	**-**	**2,083**	2,413	-	2,413
Other	**-**	**(514)**	**(514)**	1,951	-	1,951
Net assets / (liabilities)	**3,295**	**(5,881)**	**(2,586)**	6,452	(9,635)	(3,183)
Analysed by corporation tax jurisdiction:						
Irish corporation tax	**2,640**	**(46)**	**2,594**	2,641	(50)	2,591
UK corporation tax	**107**	**(5,244)**	**(5,137)**	1,139	(5,771)	(4,632)
Australian corporation tax	**548**	**(591)**	**(43)**	2,672	(3,814)	(1,142)
Net assets / (liabilities)	**3,295**	**(5,881)**	**(2,586)**	6,452	(9,635)	(3,183)

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 2011 and 2010 as there is a legally enforceable right to such set-off. The net balances as of 31 December 2011 comprised an Irish corporation tax net deferred tax asset of €2,594,000 (2010: €2,591,000), a UK corporation tax net deferred tax liability of €5,137,000 (2010: €4,632,000) and an Australian corporation tax net deferred tax liability of €43,000 (2010: €1,142,000). Included in the statement of financial position is a deferred tax asset of €2,594,000 (2010: €2,591,000) representing the Irish net deferred tax asset and a deferred tax liability of €5,180,000 (2010: €5,774,000) representing the UK and Australian net deferred tax liabilities.

Unrecognised deferred tax assets
There were no unrecognised deferred tax assets at 31 December 2011 or 2010.

Unrecognised deferred tax liabilities
At 31 December 2011, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is €5.2m (2010: €3.8m). This has been calculated based on the temporary differences arising between the group accounting base and tax base of each investment.

Movement in temporary differences during the year

	Balance at 1 January 2010 €'000	Recognised in income 2010 €'000	Recognised in other compre-hensive income 2010 €'000	Foreign currency translation adjustment 2010 €'000	Balance at 31 December 2010 €'000	Recognised in income 2011 €'000	Recognised in other compre-hensive income 2011 €'000	Foreign currency translation adjustment 2011 €'000	Balance at 31 December 2011 €'000
Property, plant and equipment	563	509	-	22	1,094	**126**	**-**	**(8)**	**1,212**
Business combinations –									
intangible assets	(8,721)	-	-	(864)	(9,585)	**4,575**	**-**	**(299)**	**(5,309)**
Lease premiums –									
income element	(114)	64	-	-	(50)	**(8)**	**-**	**-**	**(58)**
UK tax losses	-	994	-	-	994	**(994)**	**-**	**-**	**-**
Employee benefits	1,270	777	264	102	2,413	**52**	**(409)**	**27**	**2,083**
Other	1,581	35	-	335	1,951	**(2,587)**	**-**	**122**	**(514)**
	(5,421)	2,379	264	(405)	(3,183)	**1,164**	**(409)**	**(158)**	**(2,586)**

24. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2011 €'000	31 December 2010 €'000
Trade and other payables		
Trade payables	**13,004**	11,551
Customer balances	**49,430**	42,368
PAYE and social security	**4,697**	3,920
Value added tax and goods & services tax	**3,351**	1,697
Betting duty, data rights and product & racefield fees	**5,328**	6,764
Employee benefits	**15,734**	13,378
Contingent deferred consideration – business combinations	**1,023**	50
Accruals and other liabilities	**44,358**	35,608
	136,925	115,336
Derivative financial liabilities		
Sports betting open positions	**9,715**	8,586

Non current liabilities

	31 December 2011 €'000	31 December 2010 €'000
Trade and other payables		
PAYE and social security	**426**	1,961
Employee benefits	**8,472**	5,093
Contingent deferred consideration – business combinations	**11,449**	300
	20,347	7,354
Derivative financial liabilities		
Sports betting open positions	**194**	16

Contingent deferred consideration

The movements in contingent deferred consideration during 2011 and 2010 were as follows:

	31 December 2011 €'000	31 December 2010 €'000
Balance at 1 January	**350**	6,329
Arising on acquisition (Note 17)	**11,620**	350
Paid during the year (Note 17)	**(50)**	(7,107)
Charged to the income statement	**169**	22
Foreign currency translation adjustment	**383**	756
Balance at 31 December	**12,472**	350

Of the total contingent deferred consideration amount of €12,472,000 (2010: €350,000), €1,023,000 (2010: €50,000) is due within one year and €11,449,000 (2010: €300,000) is due within the following four years (2010: due within the following year).

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.

25. Provisions

Current liabilities

	31 December 2011 €'000	31 December 2010 €'000
Employee benefits (long service leave)	**221**	150
Accruals and other liabilities (lease reinstatement and onerous contracts)	**372**	128
	593	278

Non current liabilities

	31 December 2011 €'000	31 December 2010 €'000
Employee benefits (long service leave)	**183**	179
Accruals and other liabilities (lease reinstatement and onerous contracts)	**1,466**	1,697
	1,649	1,876

The movements in provisions during 2010 and 2011 were as follows:

Current liabilities

	Long service leave €'000	Lease reinstatement €'000	Onerous contracts €'000	Total €'000
Balance at 1 January 2010	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 translation adjustment	14	53	55	122
Balance at 31 December 2010	150	-	128	278
Transfers from non current liabilities	**-**	**288**	**60**	**348**
Charged / (credited) to the income statement:				
- Additional provisions recognised	**287**	**-**	**1**	**288**
- Unused amounts reversed	**(225)**	**-**	**(16)**	**(241)**
Amounts used during the year	**-**	**-**	**(89)**	**(89)**
Foreign currency translation adjustment	**9**	**-**	**-**	**9**
Balance at 31 December 2011	**221**	**288**	**84**	**593**

Non current liabilities

	Long service leave €'000	Lease reinstatement €'000	Onerous contracts €'000	Total €'000
Balance at 1 January 2010	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 translation adjustment	41	27	-	68
Balance at 31 December 2010	179	776	921	1,876
Transfers to current liabilities	**-**	**(288)**	**(60)**	**(348)**
Charged / (credited) to the income statement:				
- Additional provisions recognised	**50**	**155**	**-**	**205**
- Unused amounts reversed	**(52)**	**-**	**(53)**	**(105)**
Amounts used during the year	**-**	**-**	**-**	**-**
Foreign currency translation adjustment	**6**	**15**	**-**	**21**
Balance at 31 December 2011	**183**	**658**	**808**	**1,649**

25. Provisions (continued)

Long service leave

This provision represents the amounts provided in respect of the long service leave entitlements of Australian employees under the provisions of relevant Australian state legislation. The long service leave liability is measured as the present value of expected future payments to be made in respect 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 2011 and 31 December 2010, 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 year of the balance sheet date, with some cash flows expected to occur over the next 29 years as longer term leases are not renewed (2010: the bulk of the cash outflows were 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 were 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 14 year period (2010: 15 year period).

26. Borrowings

The Group had the following borrowings at 31 December:

Current liabilities

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

Non current liabilities

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

26. Borrowings (continued)

There were no borrowings at 31 December 2011. 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

Both the secured bank loan and the non-controlling shareholder loans were taken out by the Group to part fund the acquisition of IAS.

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

On 1 March 2011, an amount of €1,038,000 (AUD1,408,000), representing the face value of the non-controlling shareholder loans, was repaid by the Group to the 39.2% non-controlling shareholders of Sportsbet prior to the Group's acquisition of their equity interests in accordance with the terms of the buyout (see Note 17). The loans from the non-controlling shareholders in Sportsbet were non-interest bearing. At 31 December 2010, a discount of €98,000, representing the difference between the nominal value of the loans of €1,072,000 and their fair value, was 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.

Security and restrictions

The National Australia Bank bank loan facility was terminated in October 2011 and the non-controlling shareholder loans were fully paid off on 1 March 2011.

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

Finance lease liabilities

The finance lease liability obligations are analysed as follows:

	Future minimum lease payments 2011 €'000	Interest payable 2011 €'000	Present value of minimum lease payments 2011 €'000	Future minimum lease payments 2010 €'000	Interest payable 2010 €'000	Present value of minimum lease payments 2010 €'000
Payable						
Within one year	-	-	-	1,004	93	911
Between one and five years	-	-	-	373	24	349
	-	-	-	1,377	117	1,260

27. 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 2011 €'000	**31 December 2010 €'000**
Financial assets at fair value through profit or loss	**-**	6,978
Restricted cash	**24,558**	23,838
Trade receivables	**7,294**	5,508
Other receivables	**3,565**	1,342
Cash and cash equivalents	**111,139**	139,581
	146,556	177,247

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

	31 December 2011 €'000	**31 December 2010 €'000**
Ireland	**927**	404
United Kingdom	**381**	214
Australia	**9,118**	5,953
Other	**433**	279
	10,859	6,850

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

	31 December 2011 €'000	**31 December 2010 €'000**
Trade receivables – credit betting customers	**5,927**	3,986
Trade receivables – other sports betting counterparties	**1,367**	1,522
Other receivables	**3,565**	1,342
	10,859	6,850

Significant customers

There were no individual customers at 31 December 2011 or 2010 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 2011 €'000	**31 December 2010 €'000**
Not past due	**4,664**	3,338
Past due 0 days to 30 days	**1,135**	849
Past due 31 days to 120 days	**1,082**	1,304
Past due 121 days to 365 days	**405**	17
More than one year	**8**	-
	7,294	5,508

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

	2011 €'000	**2010 €'000**
Balance at 1 January	**2,294**	1,391
Impairment losses recognised	**2,359**	1,768
Impairment losses written off	**(685)**	(1,216)
Foreign currency translation adjustment	**172**	351
Balance at 31 December	**4,140**	2,294

28. Liquidity risk

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

31 December 2011	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	**144,800**	**144,800**	**135,811**	**91**	**5,819**	**3,079**	**-**
Contingent deferred consideration	**12,472**	**12,630**	**510**	**513**	**2,455**	**5,688**	**3,464**
	157,272	**157,430**	**136,321**	**604**	**8,274**	**8,767**	**3,464**
Derivative financial liabilities							
Sports betting open positions	**9,909**	**9,909**	**9,674**	**41**	**194**	**-**	**-**
	167,181	**167,339**	**145,995**	**645**	**8,468**	**8,767**	**3,464**

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
Contingent 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

The contingent deferred consideration payable represents management's best estimate of the fair value of the amounts that will be payable, discounted as appropriate, and may vary depending on the future performance of the acquired businesses and the Group as a whole.

29. Currency risk

Currency risk exposure

As of 31 December 2011 and 2010, the Group's foreign currency risk exposure, based on the functional currency of its operations, was as follows:

	31 December 2011					31 December 2010			
	EUR €'000	GBP €'000	AUD €'000	USD €'000	Other €'000	EUR €'000	GBP €'000	AUD €'000	USD €'000
Financial assets non current – Sportsbet buyout call options	**-**	**-**	**-**	**-**	**-**	-	-	6,978	-
Financial assets non current – restricted cash	**-**	**-**	**-**	**-**	**-**	-	-	-	-
Trade receivables	**-**	**181**	**-**	**40**	**-**	-	60	-	21
Other receivables	**-**	**59**	**3**	**-**	**-**	-	171	-	-
Intercompany receivables	**-**	**-**	**314,418**	**-**	**-**	-	-	1,663	-
Financial assets current – restricted cash	**-**	**18,149**	**-**	**-**	**-**	-	-	-	-
Cash and cash equivalents	**-**	**17,880**	**3,362**	**3,050**	**188**	-	19,122	224	2,523
Trade payables	**-**	**(6,848)**	**-**	**(87)**	**-**	-	(3,776)	(34)	(79)
Customer balances	**-**	**(15,381)**	**-**	**(2,699)**	**(248)**	-	(11,162)	-	(2,367)
Other payables (excluding accruals)	**-**	**(1,311)**	**-**	**-**	**-**	-	(2,312)	-	-
Intercompany payables	**(2,350)**	**(5,301)**	**-**	**-**	**-**	(916)	(3,129)	-	-
Contingent deferred consideration	**-**	**(8,584)**	**(3,198)**	**-**	**-**	-	-	-	-
Secured bank loan	**-**	**-**	**-**	**-**	**-**	-	-	-	-
Other loans	**-**	**-**	**-**	**-**	**-**	-	-	-	-
Finance leases	**-**	**-**	**-**	**-**	**-**	-	-	-	-
Gross statement of financial position exposure	**(2,350)**	**(1,156)**	**314,585**	**304**	**(60)**	(916)	(1,026)	8,831	98

The Group had no forward foreign currency contracts or derivatives that are cash flow hedges in place at either 31 December 2011 or 2010.

29. Currency risk (continued)

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

To 1 Euro:	Average rate 2011	Average rate 2010	31 December (mid-spot rate) 2011	31 December (mid-spot rate) 2010
GBP	**0.868**	0.858	**0.835**	0.861
AUD	**1.348**	1.444	**1.272**	1.314
USD	**1.392**	1.327	**1.294**	1.336

Sensitivity analysis

A ten percent strengthening and weakening of the euro against the following currencies at 31 December 2011 and 2010 would have increased / (decreased) profit and other equity by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	Profit 10% increase €'000	Profit 10% decrease €'000	Other equity 10% increase €'000	Other equity 10% decrease €'000
31 December 2011				
GBP	**(343)**	**419**	**(2,539)**	**3,103**
AUD	**(1,801)**	**2,201**	**(7,747)**	**9,469**
USD	**(28)**	**35**	**-**	**-**
31 December 2010				
GBP	(149)	183	(2,041)	2,494
AUD	(92)	113	(5,438)	6,647
USD	(1)	1	-	-

30. Interest rate risk

Profile

At 31 December 2011 and 31 December 2010, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount 31 December 2011 €'000	Carrying amount 31 December 2010 €'000
Variable rate instruments		
Financial assets – non current restricted cash	**6,409**	2,757
Financial assets – current restricted cash	**18,149**	21,081
Financial assets – cash	**21,855**	18,054
Financial assets – short term bank deposits	**89,284**	121,527
Financial liabilities – secured bank loan	**-**	(2,284)
	135,697	161,135

	Carrying amount 31 December 2011 €'000	Carrying amount 31 December 2010 €'000
Fixed rate instruments		
Financial liabilities – finance leases	**-**	(1,260)
	-	(1,260)

Cash flow sensitivity analysis for variable rate instruments

A change of 50 (increase) and 50 (decrease) (2010: 25 to 50 (decrease)) basis points ('bps') in interest rates at 31 December 2011 and at 31 December 2010 would have increased / (decreased) profit for a full year and other equity by the amounts set out in the table below. 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 reflects the low euro and GBP deposit interest rates then being earned.

30. Interest rate risk (continued)

	Profit		Other equity	
	50 bps increase €'000	50 bps decrease €'000	50 bps increase €'000	50 bps decrease €'000
31 December 2011				
Variable rate instruments	**464**	**(464)**	**-**	**-**

	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)	-	-

31. 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 2011		31 December 2010	
	Carrying amount €'000	Fair value €'000	Carrying amount €'000	Fair value €'000
Carried at fair value				
Assets				
Derivative financial assets – Sportsbet buyout call options	**-**	**-**	6,978	6,978
Liabilities				
Derivative financial liabilities – sports betting open positions	**(9,909)**	**(9,909)**	(8,602)	(8,602)
Non derivative financial liabilities – contingent deferred consideration	**(12,472)**	**(12,472)**	(350)	(350)
	(22,381)	**(22,381)**	(8,952)	(8,952)
Net	**(22,381)**	**(22,381)**	(1,974)	(1,974)
Carried at amortised cost				
Assets				
Restricted cash – non current	**6,409**	**6,409**	2,757	2,757
Trade receivables	**7,294**	**7,294**	5,508	5,508
Other receivables	**3,565**	**3,565**	1,342	1,342
Restricted cash – current	**18,149**	**18,149**	21,081	21,081
Cash and cash equivalents	**111,139**	**111,139**	139,581	139,581
	146,556	**146,556**	170,269	170,269
Liabilities				
Trade and other payables	**(144,800)**	**(144,800)**	(122,340)	(122,340)
Secured bank loan	**-**	**-**	(2,284)	(2,284)
Other loans	**-**	**-**	(974)	(974)
Finance leases	**-**	**-**	(1,260)	(1,260)
	(144,800)	**(144,800)**	(126,858)	(126,858)
Net	**1,756**	**1,756**	43,411	43,411
Total	**(20,625)**	**(20,625)**	41,437	41,437

31. 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 2011			
	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Derivative financial assets	-	-	-	-
	-	-	-	-
Derivative financial liabilities	-	-	**(9,909)**	**(9,909)**
Non-derivative financial liabilities	-	-	**(12,472)**	**(12,472)**
	-	-	**(22,381)**	**(22,381)**
Total	-	-	**(22,381)**	**(22,381)**

	31 December 2010			
	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Derivative financial assets	-	-	6,978	6,978
	-	-	6,978	6,978
Derivative financial liabilities	-	-	(8,602)	(8,602)
Non-derivative financial liabilities	-	-	(350)	(350)
	-	-	(8,952)	(8,952)
Total	-	-	(1,974)	(1,974)

Basis for determining fair values

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

Trade and other receivables

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

Cash and cash equivalents

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

Derivative financial instruments

Derivative financial instruments comprise sports betting open positions at 31 December 2011 and Sportsbet buyout call options and sports betting open positions at 31 December 2010.

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.

In 2010, the Sportsbet buyout call options were valued using a Black Scholes option pricing model. The key assumptions in the option pricing model were risk free rates of between 5.2% and 5.3%, share price volatility of 40% and expected option lives of 1.75 to 3.08 years.

31. Fair values (continued)

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.

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

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 2011 and 2010:

Sportsbet buyout call options

The fair value of the Sportsbet buyout call options was sensitive to both share price volatility assumptions and exercise price assumptions (which are a function of EBITDA in future years). As at 31 December 2010, 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 have increased by €5,850,000.

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 €743,000 decrease and increase, respectively, in the value of open sports bets at 31 December 2011 (2010: decrease and increase of €645,000, respectively).

Contingent deferred consideration

The fair value of contingent deferred consideration is primarily dependent on the future performance of both the acquired businesses and the Group against predetermined targets and on management's current expectations thereof. An increase and decrease of 10% in management's expectation as to the amounts that will be paid out would increase and decrease the value of contingent deferred consideration at 31 December 2011 by €2,898,000 and €2,967,000, respectively (2010: increase and decrease of €35,000).

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

The movements in respect of the financial assets and liabilities carried at fair value (excluding contingent deferred consideration – see Note 24) in the year to 31 December are as follows:

	2011 Sportsbet buyout call options €'000	2011 Sports betting open positions €'000	2011 Total €'000	2010 Sportsbet buyout call options €'000	2010 Sports betting open positions *Restated* €'000	2010 Total *Restated* €'000
Balance at 1 January	**6,978**	**(8,602)**	**(1,624)**	(138)	(5,464)	(5,602)
Recognised in the income statement	**-**	**(482,756)**	**(482,756)**	7,116	(411,822)	(404,706)
Acquisition of 39.2% of Sportsbet	**(6,978)**	**-**	**(6,978)**	-	-	-
Settlements	**-**	**481,449**	**481,449**	-	408,684	408,684
Balance at 31 December	**-**	**(9,909)**	**(9,909)**	6,978	(8,602)	(1,624)

The amounts recognised in the income statement represent the Group's net revenue 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 2011 and 2010.

32. Commitments and contingencies

(a) Guarantees

The Group has uncommitted working capital overdraft facilities of €15.3m (2010: €15.1m) with Allied Irish Banks plc. These facilities are secured by a Letter of Guarantee from Paddy Power plc.

The Group had a secure non-recourse bank loan facility from National Australia Bank with an undrawn balance of €6.6m (AUD8.7m) at 31 December 2010. The facility was fully repaid in June 2011 and was terminated early by the Group in October 2011, having had an original expiry date of September 2012. While the facility was in place, the Group could from time to time draw down amounts under the loan facility up to the amount of the then current facility limit.

The Group has a bank guarantee in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by certain of the Group's Isle of Man Companies to their customers. This guarantee is required as part of the Group's Online Gambling Licence. The maximum amount of the guarantee at 31 December 2011 was GBP18,000,000 (euro equivalent of €21,549,000) (2010: GBP17,000,000 and euro equivalent of €19,750,000). No claims had been made against the guarantee as of 31 December 2011 (2010: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and certain of its Isle of Man subsidiary companies, and, at 31 December 2011, was secured by a cash deposit of €9,288,000 (2010: €21,081,000) 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 further €8,861,000 (2010: €nil) in client accounts held for the benefit of the Isle of Man Gambling Supervision Commission as security for player funds owed by relevant Group companies.

The Group has bank guarantees in favour of certain gaming regulatory authorities to guarantee the payment of player funds, player prizes, and certain taxes and fees due by a number of Group companies. The maximum amount of the guarantees at 31 December 2011 was €4,475,000 (2010: €300,000). No claims had been made against the guarantees as of 31 December 2011 (2010: €nil). The guarantees are secured by counter indemnities from Paddy Power plc and certain of its subsidiary companies, and, at 31 December 2011, were also secured by a cash deposit of €4,000,000 (2010: €nil) over which the guaranteeing bank holds a floating charge. The fair value accounting impact of these guarantees 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 2011, the total value of relevant customer balances attributable to the Australia business segment was €24,790,000 (AUD31,541,000) (2010: €23,562,000 (AUD30,951,000)) and the combined cash and cash equivalent balances held by Sportsbet and IAS at that date totalled €43,939,000 (AUD55,904,000) (2010: €31,001,000 (AUD40,723,000)).

The Australia operating segment had €2,409,000 (AUD3,064,000) of cash-backed bank issued guarantees outstanding at 31 December 2011 (2010: €2,757,000 (AUD3,622,000)), comprised as follows:

- amounts of €157,000 (AUD200,000) (2010: €305,000 (AUD400,000)) guaranteed to the Northern Territory Racing and Gaming Authority; and
- guarantees of €1,073,000 (AUD1,364,000) (2010: €1,310,000 (AUD1,722,000)) outstanding in respect of rental and other property commitments and a merchant facility guarantee of €1,179,000 (AUD1,500,000) (2010: €1,142,000 (AUD1,500,000)).

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

32. Commitments and contingencies (continued)

(b) Capital commitments

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

	31 December 2011 €'000	31 December 2010 €'000
Property, plant and equipment	**1,213**	1,380
Intangible assets	**866**	5,149
	2,079	6,529

(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 2011 and 2010, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2011 €'000	31 December 2010 €'000
Within one year	**20,601**	16,942
Between two and five years	**73,870**	57,173
After five years	**132,874**	110,290
	227,345	184,405

The Group has a small number of shop properties that are sublet. Sublease payments of €254,000 (2010: €316,000) are expected to be received during the year ended 31 December 2012.

During 2011, an amount of €19,731,000 was recognised in profit or loss in respect of operating leases (2010: €16,181,000). Contingent rent expense in profit or loss amounted to a credit of €54,000 (2010: credit of €325,000). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to €351,000 in 2011 (2010: €278,000).

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 has determined that the leases are operating leases.

33. 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 8.

34. 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 2011:

Name	Equity interest at 31 December 2011	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	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.
Paddy Power Entertainment Limited	100%	Isle of Man	Marketing services	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.
D McGranaghan Limited	100%	Northern Ireland	Bookmaker	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU.
Sportsbet Pty Limited	100% (2010: 60.8%)	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820.
International All Sports Limited	100% (2010: 60.8%)	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820.
CT Networks Limited	100%	Isle of Man	Games developer	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.
Paddy Power Financials Limited	100%	Ireland	Marketing services	Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4.
Paddy Power Luxembourg s.à.r.l.	100%	Luxembourg	Treasury services	16 Avenue Pasteur, L - 2310, Luxembourg.
Paddy Power Australia Pty Limited	100%	Australia	Holding company	Level 3, 367 Collins Street, Melbourne, Victoria 3000.

The above subsidiary undertakings had the same year end date as the Company in 2011 and 2010 (with the exception of Sportsbet and IAS that both had 30 June year ends in 2010). All subsidiary undertakings have been included in the Group consolidated financial statements. Accounts were 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.

35. Events after the statement of financial position date

Dividend

In respect of the current year, the directors propose that a final dividend of 70.0 cent per share (2010: 50.0 cent per share) will be paid to shareholders on 25 May 2012. 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 16 March 2012. The total estimated dividend to be paid amounts to €34,295,000 (2010: €24,340,000).

36. Accounting estimates and judgements

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

Goodwill of €93,607,000 (2010: €76,967,000) 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. The acquisition of CT Networks Limited in November 2011 contributed goodwill of €13,303,000 to the online (ex Australia) operating segment. Retail shop acquisitions in Great Britain and Northern Ireland in 2011 contributed goodwill of €1,201,000 and licences of €436,000 to the UK retail operating segment. In 2010, retail shop acquisitions in Ireland and the UK 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 €60,671,000 (2010: €58,764,000) and brands intangible assets of €18,549,000 (2010: €17,966,000). Other acquisitions and amalgamations in 2009 and prior years contributed goodwill of €15,775,000 (2010: €15,546,000), including €5,309,000 (2010: €5,771,000) of deferred tax on the value of licences intangible assets recognised on the application of fair value accounting to the acquisitions, and €21,238,000 (2010: €20,610,000) of licences intangible assets. The directors believe that, with the exception of the IAS brand intangible of €5,423,000, this goodwill and the licences and brands intangible assets have not been impaired as of 31 December 2011. The key assumptions made in respect of goodwill and indefinite life intangible assets are set out in Note 15.

The share-based payment reserve, which includes amounts in relation to the share award schemes and various share option schemes, amounted to €21,918,000 at 31 December 2011 (2010: €21,910,000). The significant assumptions made in accounting for share-based payments are set out in Note 22.

The fair value of the Group's sports betting open positions amounted to €9,909,000 at 31 December 2011 (2010: €8,602,000) 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 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 2011 and 2010, all retail premises leases qualify as operating leases.

Included in trade receivables of €7,294,000 at 31 December 2011 (2010: €5,508,000) are gross receivable balances of €11,434,000 (2010: €7,802,000), stated net of an impairment provision for bad and doubtful accounts of €4,140,000 (2010: €2,294,000). Management believes that the impairment provision represents their best estimate of the value of receivable balances at 31 December 2011 that may not be recoverable from customers, and that the carrying value of trade receivables is their fair value.

Included in trade and other payables at 31 December 2011 are contingent deferred consideration amounts of €12,472,000 (2010: €350,000) relating to certain business combinations and the purchase of non-controlling interests. Contingent deferred consideration is payable to vendors by reference to the acquired businesses' performance against various agreed targets over the next four years. The contingent deferred consideration amount of €12,472,000 at 31 December 2011 represents management's best estimate of the fair value of the amounts that will be payable (discounted as appropriate).

COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2011

	Note	31 December 2011 €'000	31 December 2010 €'000
Fixed assets			
Intangible assets	3	**135**	201
Goodwill	4	**6,162**	6,648
Tangible assets	6	**35,461**	38,198
Financial assets	7	**36,919**	78,185
		78,677	123,232
Current assets			
Trade and other receivables	8	**501,425**	161,519
Cash at bank and on hand	9	**43,998**	80,718
		545,423	242,237
Creditors (amounts falling due within one year)	10	**(219,231)**	(171,768)
Net current assets		**326,192**	70,469
Total assets less current liabilities		**404,869**	193,701
Creditors (amounts falling due after more than one year)	11	**(4,029)**	(1,141)
Provision for liabilities	12	**-**	-
Net assets		**400,840**	192,560
Capital and reserves			
Issued share capital	13	**5,072**	4,995
Share premium	13	**37,826**	20,876
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	**(33,397)**	(33,890)
Share-based payment reserve	13	**21,918**	21,910
Profit and loss account	13	**374,260**	183,508
Shareholders' funds – all equity interests	13	**400,840**	192,560

Notes 1 to 18 on pages 131 to 144 form an integral part of these financial statements.

On behalf of the Board

Patrick Kennedy

Patrick Kennedy

Jack Massey

Jack Massey

2 March 2012

NOTES TO THE COMPANY FINANCIAL STATEMENTS

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 €107.8m (2010: €64.1m), which includes dividends receivable from subsidiary companies amounting to €78.7m (2010: €54.0m).

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 had certain Sportsbet buyout call options, which were 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 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.

1. Basis of preparation and accounting policies (continued)

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.

The Company operates an equity-settled share save scheme 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.

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 35 to the consolidated financial statements.

2. Employee expenses and numbers

	2011 €'000	2010 €'000
Wages and salaries	**25,668**	28,310
Social security costs	**1,484**	3,841
Defined contribution pension and life assurance costs	**455**	657
Share-based payments (see below)	**3,455**	3,891
Other staff costs	**1,349**	1,268
	32,411	37,967

	2011	2010
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	**921**	902

Details of transactions with directors are set out in Note 8 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:

	2011 €'000	2010 €'000
Share Option Scheme	**-**	3
Sharesave Scheme	**250**	284
Long Term Incentive Plan	**3,205**	3,596
Managers' Deferred Share Award Scheme	**-**	8
	3,455	3,891

Summary of options outstanding to employees of the Company

The total number of options outstanding at 31 December 2011 was 149,635 (2010: 260,179). These options had exercise prices ranging from €9.43 to €24.17 (2010: €9.43 to €24.17).

For the year ended 31 December 2011:

	Options outstanding at 1 January 2011	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2011
Share Option Scheme	**4,000**	**-**	**-**	**-**	**4,000**
Sharesave Scheme	**256,179**	**39,987**	**(14,202)**	**(136,329)**	**145,635**
Total	**260,179**	**39,987**	**(14,202)**	**(136,329)**	**149,635**

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

Further details of the Company's employee share schemes are set out in Note 22 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 2011	1,437	1,437
Additions	**11**	**11**
Disposals	**-**	**-**
Transfers to other Group companies	**61**	**61**
Balance at 31 December 2011	**1,509**	**1,509**
Amortisation		
Balance at 1 January 2011	1,236	1,236
Amortisation for year	**138**	**138**
Disposals	**-**	**-**
Balance at 31 December 2011	**1,374**	**1,374**
Net book value		
At 31 December 2010	201	201
At 31 December 2011	**135**	**135**

4. Goodwill

	€'000
Cost	
Balance at 1 January and 31 December 2011	**9,724**
Amortisation	
Balance at 1 January 2011	3,076
Amortisation for year	**486**
Balance at 31 December 2011	**3,562**
Net book value	
At 31 December 2010	6,648
At 31 December 2011	**6,162**

The goodwill balance as of 1 January 2011 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, the acquisition of one licensed bookmaking shop in 2009 and two licensed bookmaking shops in 2010.

5. Purchases and transfer of businesses

Year ended 31 December 2011

Acquisition of additional 39.2% of Sportsbet Pty Limited

On 1 March 2011, the Company acquired the remaining 39.2% non-controlling shareholdings in Sportsbet following the granting of approval by shareholders at an EGM held on 22 February 2011. The initial AUD128.6m (€95.0m) consideration payable for the acquisition was satisfied by: AUD110.6m (€81.6m) in cash from the Company's existing cash reserves and the issue of AUD18.0m (€13.4m) of new Paddy Power plc ordinary shares (totalling 455,535 ordinary shares and calculated by reference to a share price of €29.17 per share and the AUD-euro exchange rate shortly prior to acquisition completion).

Additional consideration is payable to the extent that the EBITDA (post Group central cost allocations) of Paddy Power's Australian operations for the year ended 31 December 2013 exceeds AUD65.0m (€51.1m). The maximum additional consideration of AUD25.0m (€19.6m) is payable in the event that 2013 EBITDA exceeds AUD80.0m (€62.9m). An amount of €3.2m has been provided in respect of this contingent deferred consideration as of 31 December 2011 (see Note 11).

	€'000
Purchase consideration – cash	**81,579**
Purchase consideration – Paddy Power plc ordinary shares (Note 13)	**13,438**
Contingent deferred consideration	**2,989**
Sportsbet buyout call options (Note 7)	**6,978**
Acquisition expenses paid	**561**
Total purchase consideration	**105,545**

Net cash outflow from purchase of non-controlling interest	
Purchase of non-controlling interest before acquisition expenses	**81,579**
Acquisition expenses paid	**561**
	82,140

5. Purchases and transfer of businesses (continued)

Transfer of shareholding in Sportsbet to Paddy Power Australia

On 3 May 2011, following the acquisition by the Group of the remaining share capital of Sportsbet that it did not already own, the Company transferred its 100% ownership of Sportsbet to Paddy Power Australia Pty Limited ('Paddy Power Australia'), a wholly owned Australian subsidiary of Paddy Power plc. The reorganisation was effected to make Paddy Power Australia the holding company for the Group's Australian interests. The consideration for the transaction was €268.2m (AUD363.5m) and reflected the market value of the Sportsbet business at the date of the transaction. The consideration was satisfied by the issue by Paddy Power Australia to the Company of €122.5m (AUD166.0m) of redeemable preference shares of AUD1 each and an interest free intercompany loan between the Company and Paddy Power Australia of €145.7m (AUD197.5m). The impact on the 2011 Company financial statements of the transaction is as follows:

	€'000
Transfer consideration – redeemable preference shares	**122,482**
Transfer consideration – interest free intercompany loan	**145,712**
Total transfer consideration	**268,194**
Less: carrying value of investment in Sportsbet at date of transaction (Note 7)	**146,796**
Gain on transfer – transferred directly to retained profits (Note 13)	**121,398**

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
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 contingent 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.

	€'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

5. Purchases and transfer of businesses (continued)

Shop property acquisitions

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	Fair value adjustments 31 December 2010 €'000	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
The consideration is analysed as:			
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.

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 2011	36,723	53,782	4,665	3,053	81	98,304
Additions	**807**	**1,367**	**1,522**	**430**	**-**	**4,126**
Transfers to other Group companies	**(145)**	**784**	**(670)**	**(361)**	**-**	**(392)**
Disposals	**(177)**	**(388)**	**(39)**	**(15)**	**-**	**(619)**
Balance at 31 December 2011	**37,208**	**55,545**	**5,478**	**3,107**	**81**	**101,419**
Depreciation						
Balance at 1 January 2011	14,838	38,260	4,360	2,567	81	60,106
Charge / (credit) for year	**2,354**	**4,455**	**(312)**	**(102)**	**-**	**6,395**
Disposals	**(130)**	**(359)**	**(39)**	**(15)**	**-**	**(543)**
Balance at 31 December 2011	**17,062**	**42,356**	**4,009**	**2,450**	**81**	**65,958**
Net book value						
At 31 December 2010	21,885	15,522	305	486	-	38,198
At 31 December 2011	**20,146**	**13,189**	**1,469**	**657**	**-**	**35,461**

The net book value of land, buildings and leasehold improvements at 31 December 2011 includes €16.2m (2010: €18.2m) in respect of leasehold improvements.

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 2011	44,440	6,978	26,767	78,185
Share-based payments	**-**	**-**	**6,850**	**6,850**
Movement during year – acquisition of additional 39.2% of Sportsbet (Note 5)	**105,545**	**(6,978)**	**-**	**98,567**
Transfer of Sportsbet to Paddy Power Australia (Note 5)	**(146,796)**	**-**	**-**	**(146,796)**
Other movements	**113**	**-**	**-**	**113**
Balance at 31 December 2011	**3,302**	**-**	**33,617**	**36,919**

In the opinion of the directors, the value to the Company of the unlisted investments in subsidiary companies at 31 December 2011 is not less than the carrying amount of €3,302,000 (2010: €44,440,000). The Company's principal subsidiaries are listed in Note 34 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 arose in respect of buyout call options granted by the vendors of Sportsbet to the Company and a call option granted by the Company to the vendors of Sportsbet. The value of the embedded derivatives financial asset was transferred to the cost of investment in Sportsbet on 1 March 2011 when the Company acquired the remaining 39.2% of Sportsbet that it did not already own (see Note 5).

8. Trade and other receivables

	31 December 2011 €'000	31 December 2010 €'000
Other debtors and prepayments	**7,676**	1,351
Amounts owed by fellow Group companies	**199,501**	158,034
Redeemable preference share capital in Paddy Power Australia	**130,472**	-
Accrued dividends on redeemable preference share capital in Paddy Power Australia	**6,248**	-
Loan receivable from Paddy Power Australia	**155,218**	-
Loan receivable from Sportsbet	**1,717**	1,663
Deferred tax (Note 12)	**593**	471
	501,425	161,519

All of the above debtors, with the exception of the redeemable preference share capital in Paddy Power Australia and the loan receivable from Paddy Power Australia, fall due within one year.

Amounts owed by fellow Group companies are unsecured, interest free and repayable on demand.

The redeemable preference share capital consists of 166,000,000 shares of AUD1 per share. Each share is entitled to cumulative payment of dividends at an annual rate of 9.5%. The redeemable preference share capital matures on 31 March 2021 but may be redeemed before that date.

The loan receivable from Sportsbet is repayable by Sportsbet on or before 25 September 2016. The loan is non-interest bearing.

9. Cash at bank and on hand

Included in cash at bank and on hand at 31 December 2011 is an amount of €9,288,000 (2010: €21,081,000) which was restricted at that date and up to 3 January 2012 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 certain Isle of Man subsidiaries of the Company (see Note 16).

10. Creditors (amounts falling due within one year)

	31 December 2011 €'000	31 December 2010 €'000
Trade creditors	**2,623**	922
Accruals	**11,755**	10,780
Corporation tax	**250**	126
PAYE and social welfare	**1,247**	1,754
Betting duty	**2,232**	2,026
Sports betting open positions	**1,020**	1,409
Value added tax	**1,260**	157
Contingent deferred consideration for business combinations	**450**	50
Amounts owed to fellow Group companies	**198,394**	154,544
	219,231	171,768

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 2011 €'000	31 December 2010 €'000
Accruals	**831**	841
Contingent deferred consideration for business combinations	**3,198**	300
	4,029	1,141

12. Provision for liabilities

Deferred tax

	2011 €'000	2010 €'000
Cost		
Balance at 1 January	**(471)**	444
Credited to the profit and loss account for year	**(88)**	(789)
Credited to retained earnings in respect of share-based payments	**(34)**	(126)
Balance at 31 December	**(593)**	(471)

Deferred tax at 31 December 2011 and 2010 is analysed by category as follows:

	31 December 2011 €'000	31 December 2010 €'000
Capital allowances	**42**	122
Employee benefits	**(4)**	(35)
Share schemes	**(612)**	(479)
Capitalised rents	**13**	31
Other	**(32)**	(110)
Deferred tax asset	**(593)**	(471)

All of the above deferred tax balances are in respect of Irish corporation tax.

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 2011	49,954,114	4,995	20,876	876	260	(5,975)	(33,890)	21,910	183,508	192,560
Shares issued on exercise of share options	**315,372**	**32**	**3,557**	-	-	-	-	-	-	**3,589**
Shares issued for Sportsbet buyout	**455,535**	**45**	**13,393**	-	-	-	-	-	-	**13,438**
Own shares acquired:										
By the long term incentive plan trust – 240,587 ordinary shares	-	-	-	-	-	-	**(9,623)**	-	-	**(9,623)**
Profit for the year	-	-	-	-	-	-	-	-	**107,753**	**107,753**
Gain on transfer of shareholding in Sportsbet to Paddy Power Australia (Note 5)	-	-	-	-	-	-	-	-	**121,398**	**121,398**
Equity-settled transactions – profit and loss account and financial assets	-	-	-	-	-	-	-	**10,323**	**34**	**10,357**
Equity-settled transactions – vestings	-	-	-	-	-	-	**10,116**	**(9,218)**	**(586)**	**312**
Transfer to profit and loss account on exercise of share options	-	-	-	-	-	-	-	**(1,097)**	**1,097**	-
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	-	**(38,944)**	**(38,944)**
Balance at 31 December 2011	**50,725,021**	**5,072**	**37,826**	**876**	**260**	**(5,975)**	**(33,397)**	**21,918**	**374,260**	**400,840**

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

During 2011, 315,372 ordinary shares of €0.10 each (2010: 186,755 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for a total consideration of €3,589,000 (2010: €2,885,000), giving rise to a share premium of €3,557,000 (2010: €2,867,000). Also in 2011, as part of the consideration for the purchase of the remaining 39.2% of Sportsbet (see Note 5), the Company issued 455,535 ordinary shares to the vendors of Sportsbet on 1 March 2011. The total value of these shares on the date of issue amounted to €13,438,000, of which €13,393,000 represented the share premium on issue.

The total number of shares held in treasury at 31 December 2011 was 250,000 shares (2010: 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 2011 (2010: €5,975,000).

13. Capital and reserves (continued)

At 31 December 2011, the Company held a further 1,178,069 of its own shares (2010: 1,456,407), which were acquired at a total cost of €33,397,000 (2010: €33,890,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan and, in 2010, the Managers' Deferred Share Award Scheme (see Note 22 to the consolidated financial statements). The Company's distributable reserves at 31 December 2011 are further restricted by this cost amount. In the year ended 31 December 2011, 518,925 shares originally valued at €10,116,000 were transferred from the long term incentive plan trust ('the Trust') to beneficiaries of the Trust consequent to the vesting thereof (2010: 336,804 shares originally valued at €7,016,000).

The capital redemption reserve fund of €876,000 (2010: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2010: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In 2011, an amount of €1,097,000 (2010: €551,000) 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 €34,000 of deferred tax relating to the Company's share-based payments was credited to retained earnings in 2011 (2010: credit of €126,000) – see also Note 12.

As explained in Note 5, a gain of €121,398,000 was realised on the transfer of Sportsbet to Paddy Power Australia in May 2011. This gain has been dealt with as a credit to retained profits in 2011.

14. Dividends paid on equity shares

	2011 €'000	2010 €'000
Ordinary shares:		
- final paid of 50.0 cent per share (2010: 38.9 cent)	**24,340**	18,750
- interim paid of 30.0 cent per share (2010: 25.0 cent)	**14,604**	12,019
	38,944	30,769
Proposed final dividend of 70.0 cent (2010: 50.0 cent) per share (see Note 35 to the consolidated financial statements)	**34,295**	24,340

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 €392,000 (2010: €572,000) and the amount due to the schemes at 31 December 2011 amounted to €24,000 (2010: €nil).

16. Commitments and contingencies

(a) Guarantees

The Company has uncommitted working capital overdraft facilities of €5.4m (2010: €5.3m) 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 €9.9m (2010: €9.8m) 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 certain of the Company's Isle of Man subsidiaries to their customers. This guarantee is required as part of the Group's Online Gambling Licence. The maximum amount of the guarantee at 31 December 2011 was GBP18,000,000 (euro equivalent of €21,549,000) (2010: GBP17,000,000 (euro equivalent of €19,750,000)). No claims had been made against the guarantee as of 31 December 2011 (2010: €nil). The guarantee is secured by counter indemnities from the Company and certain of its Isle of Man subsidiaries, and is partly secured by a cash deposit of €9,288,000 (2010: €21,081,000) over which the guaranteeing bank holds a floating charge (see also Note 9).

The Paddy Power plc group has bank guarantees in favour of certain gaming regulatory authorities to guarantee the payment of player funds, player prizes, and certain taxes and fees due by a number of Group companies. The maximum amount of the guarantees at 31 December 2011 was €4,475,000 (2010: €300,000). No claims had been made against the guarantees as of 31 December 2011 (2010: €nil). The guarantees are secured by counter indemnities from the Company and certain of its subsidiary companies.

(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 2011 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

At 31 December 2011, the Company had not entered into any commitments for capital expenditure (2010: had entered into commitments totalling €230,000) that were not provided for in the financial statements.

(d) Operating lease commitments

The Company has annual commitments of €11,309,000 (2010: €9,308,000) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2011 €'000	31 December 2010 €'000
Within one year	**879**	1,491
Between two and five years	**1,318**	801
After five years	**9,112**	7,016
	11,309	9,308

17. Statutory information

	2011 €'000	2010 €'000
Directors' remuneration	**7,289**	6,822
Auditor's remuneration	**172**	165

The auditor's remuneration of €172,000 (2010: €165,000) comprises €20,000 (2010: €20,000) for the audit of the Company, €130,000 (2010: €130,000) in respect of fees incurred by the Company in relation to the Group financial statements audit and €22,000 (2010: €15,000) in respect of audit related tax 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.

	2011 €'000	2010 €'000
Audit	**20**	20
Other assurance services	**260**	171
Tax advisory services	**92**	334
Tax related audit work	**42**	25
Total	**414**	550

Other assurance services includes €130,000 (2010: €130,000) in respect of fees incurred by the Company for the audit of the Group financial statements, €15,000 (2010: €20,000) in respect of fees relating to the audit of subsidiary companies which have been borne by the Company, €110,000 (2010: €nil) in relation to assurance work carried out in relation to the acquisition of the remaining 39.2% of Sportsbet and fees for other miscellaneous assurance work of €5,000 (2010: €21,000).

18. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2011 were approved for issue by the Board of Directors on 2 March 2012.

FIVE YEAR FINANCIAL SUMMARY

Financial information for the Group reported under IFRS for the five years ended 31 December 2011 is set out below in euro and pounds sterling.

	2011	**2010** *Restated*	**2009**	**2008**	**2007**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Amounts staked by customers	**4,554,919**	3,834,316	2,751,537	2,100,926	2,027,777
Income	**499,330**	426,698	295,928	283,657	278,952
Operating profit (before exceptional items)	**119,546**	103,749	66,694	75,695	72,106
Profit before tax	**143,379**	111,300	67,192	81,727	75,828
Profit for the year – attributable to equity holders of the Company	**121,488**	90,005	56,946	68,817	62,778
Net cash inflow from operating activities	**161,278**	160,245	85,420	95,287	98,828
Total equity – attributable to equity holders of the Company	**230,386**	228,439	157,563	127,240	117,362

Set out below is the above financial information translated into pounds sterling at the exchange rates shown, for illustrative purposes only.

	2011	**2010** *Restated*	**2009**	**2008**	**2007**
	GBP'000	**GBP'000**	**GBP'000**	**GBP'000**	**GBP'000**
Amounts staked by customers	**3,953,123**	3,289,846	2,451,757	1,672,978	1,387,653
Income	**433,359**	366,107	263,687	225,878	190,893
Operating profit (before exceptional items)	**103,752**	89,017	59,428	60,276	49,344
Profit before tax	**124,436**	95,495	59,871	65,080	51,891
Profit for the year – attributable to equity holders of the Company	**105,437**	77,224	50,742	54,799	42,960
Net cash inflow from operating activities	**139,970**	137,490	76,113	75,878	67,630
Total equity – attributable to equity holders of the Company	**199,953**	196,001	140,393	101,322	80,313
Average annual exchange rates used are	**1.1522**	1.1655	1.1223	1.2558	1.4613

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: +353-1-447 5105
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 146. 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 146, 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 146. 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 146.

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, where relevant:
- 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 declares that the claimant company is beneficially entitled to the distribution and must state the name and address of the relevant company and the name of the relevant territory in which the company is resident.
- Category (d): The declaration declares that the claimant company is beneficially entitled to the distribution and must state the name and address of the relevant company, the name of the relevant territory in which the company is resident and the name of the relevant territory or names of the relevant territories in which the person or persons who control the company is or are resident.
- Category (e): The declaration declares that the claimant company is beneficially entitled to the distribution and must state the name and address of the relevant company, the name of the relevant territory in which the company is resident and the name and address of the recognised stock exchange on which 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.

Each of the declarations mentioned above remain current from their date of issue until 31 December in the fifth year following the year of issue.

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 147.

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 2011	5 March 2012
Ex-dividend date	14 March 2012
Record date for dividend	16 March 2012
Annual General Meeting	17 May 2012
Dividend payment date	25 May 2012

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 Aviva Stadium, Lansdowne Road, Dublin 4 at 11.00 am on Thursday, 17 May 2012. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the appointment and reappointment of directors, the Auditors' remuneration, and allowing for the convening of an Extraordinary General Meeting on 14 days' notice, there are various items of special business which are described further below.

Resolution 3 is to receive and consider the Remuneration Committee Report on directors' remuneration as set out on pages 56 to 58 of the 2011 annual report. There is no legal obligation on the Company to put such a resolution to shareholders, so it is an advisory resolution and is not binding on the Company.

Resolutions 4 and 5 of the ordinary business propose the appointment of Cormac McCarthy and the reappointment of the remaining members of the Board who, in accordance with the recommendation of the UK Corporate Governance Code, offer themselves for re-election. Cormac McCarthy 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. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the appointment/ reappointment of each of the directors. Biographical information on the directors is given on pages 38 and 39 of the Annual Report.

Shareholders are being asked in resolution 7 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.

Shareholders are being asked in resolution 8 to renew the directors' authority to allot shares, up to an aggregate nominal value of €1,691,113, representing approximately one third of the issued capital of the Company as at 30 March 2012. If renewed, this authority will expire on the date of the next AGM of the Company or 16 November 2013, whichever is earlier. The Board has no immediate intention to exercise this authority.

Shareholders are being asked in resolution 9 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 2.54m shares). If renewed, this authority will expire on the date of the next AGM of the Company or 16 November 2013, whichever is earlier.

Shareholders are being asked in resolution 10 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 30 March 2012 is 450,936 and represents 0.92% of the total voting rights of the Company (excluding treasury shares) on that date. This percentage would increase to 1.03% 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 2013, 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 11 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 2013, 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 30 March 2012 is 1,734,000, which represents 3.54% of the total ordinary share capital of the Company (excluding treasury shares) in issue on that date.

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 11.00am on 15 May 2012. 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

30 March 2012

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 Aviva Stadium, Lansdowne Road, Dublin 4 at 11.00 am on Thursday, 17 May 2012 for the following purposes:

1. **To receive and consider the financial statements for the year ended 31 December 2011 and the reports of the Directors and Auditors thereon.**

2. **To declare a final dividend of 70.0 cent per share for the year ended 31 December 2011.**

3. **To receive and consider the Remuneration Committee Report on directors' remuneration for the year ended 31 December 2011.**

4. **To elect Cormac McCarthy as a director who is recommended by the Board for election.**

5. **To re-elect by separate resolution:**
   Resolution 5(a) Nigel Northridge
   Resolution 5(b) Patrick Kennedy
   Resolution 5(c) Tom Grace
   Resolution 5(d) Stewart Kenny
   Resolution 5(e) Jane Lighting
   Resolution 5(f) Jack Massey
   Resolution 5(g) Pádraig Ó Ríordáin
   Resolution 5(h) David Power
   Resolution 5(i) William Reeve

6. **To authorise the directors to fix the remuneration of the Auditors for the year ending 31 December 2012.**

7. **To consider and, if thought fit, pass the following 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."

As Special Business

8. **To consider and, if thought fit, pass the following 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 of €1,691,113, representing approximately one third of the issued share capital of the Company at the date of the notice containing 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 2013 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 conferred had not expired."

9. **To consider and, if thought fit, pass the following 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 2013 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 as if the authority hereby conferred had not expired."

10. **To consider and, if thought fit, pass the following as a special resolution:**
"That the Company and/ or any subsidiary (including a body corporate) of the Company be generally authorised to make market purchases or overseas 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 2013 unless, in any such case, previously renewed, varied or revoked by the Company in general meeting."

11. **To consider and, if thought fit, pass the following 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 2013 unless, in any such case, previously renewed, varied or revoked in accordance with the provisions of Section 209 of the Companies Act 1990."

By Order of the Board

David Johnston
Company Secretary

30 March 2012

Registered Office:
Power Tower
Belfield Office Park
Beech Hill Road
Clonskeagh
Dublin 4

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 2012. 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 2010 UK Corporate Governance 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, Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, Ireland or by email to info@paddypowerplc.com no later than 5 April 2012 (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, Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, Ireland or by email to info@paddypowerplc.com by no later than 5 April 2012 (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.

NOTES

www.sourcedesign.ie

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