28 August 2014

Paddy Power plc

2014 Interim Results Announcement

Accelerated stakes growth; mid-teen percentage growth in 2014 EPS expected

Paddy Power plc ('the Group') today announces interim results for the six months ended 30 June 2014 ('the period').

Group Highlights:

- Strong and accelerated growth with sportsbook stakes up 17%[1], online active customers up 25% and online customer acquisition up 35% (versus growth in the prior six months of 13%, 11% and 7% respectively);
- Net revenue[2] growth of 7% and operating profit reduction of 14% to €60.1m, reflecting adverse sports results with a gross impact of €34m;
- Successful World Cup with very strong brand exposure, 148,000 online customers acquired and total group stakes of €198m (up 130% versus the 2010 tournament);
- Diluted EPS down 19% to 110.6 cent, including a 6% headwind from a stronger euro;
- Interim dividend increased by 11% to 50.0 cent per share;
- Strong balance sheet with net cash of €244m at 30 June (including customer balances of €69m).

Online Highlights:

- Record new customer acquisition of 795,000 (up 35%), with no increase in marketing costs per new customer. Sportsbook amounts staked up 22%. Net revenue growth of 5% and operating profit reduction of 18% to €43.0m, reflecting adverse sports results:
    - Online (ex Australia): sportsbook amounts staked up 22%, active customers up 21% and 33% more new customers. *Paddypower.com* sportsbook acquired more customers in the period than in all of 2013. Operating profit decreased 44% to €22.0m (or 37% to €30.9m ex Italy);
    - Online Australia: online amounts staked up 23%, active customers up 44% and 51% more new customers. Operating profit increased 57% to €21.8m;
- Mobile net revenue accounted for 52% of online revenue, with 73% of active sportsbook customers and 43% of active eGaming customers transacting via mobile in June;
- Good progress in Italy with net revenue up 126% (despite sluggish market growth). Online sportsbook market share of 13% in the last two months, making us the leading and fastest growing brand.

Retail Highlights:

- Strong topline and profit growth and a record number of new shop openings;
- UK Retail operating profit up 26% to €9.5m. Like-for-like net revenue up 5%. Estate now 305 shops with 33 units opened in the period;
- Irish Retail operating profit up 13% to €8.6m. Like-for-like stakes up 5% and net revenue up 2%. Estate now 243 shops with a record 16 units opened in the period.

Outlook:

- Strong start to the second half of the year with Group net revenue up 45%;
- The Board expects mid-teen percentage growth in earnings per share for the full year;
- The Board intends to recommence share buybacks.

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

"*The punter friendly results in football and racing which impacted the gross win percentage in the initial six months of 2014 failed to put a halt to our gallop with strong underlying performance and accelerating top line momentum delivered in the period. For example, we acquired more new sportsbook customers on paddypower.com in these six months than in all of 2013. We had a cracking World Cup which generated stakes of almost €200m, 130% ahead of the previous tournament. Australia continues to power ahead and Italy has made significant progress.*

The second half has started well with good stakes growth and a rebound in sports results. At this juncture, we expect mid-teen percentage growth in EPS for the full year, despite an €11m headwind from product fees, new taxes and currency translation."

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[1] *Growth percentages (other than for EPS) throughout this narrative are in constant currency, as compared to the equivalent period in the prior year, unless otherwise stated. The financial tables include both nominal and constant currency growth percentages.*
[2] *2013 UK Retail machine net revenue has been expressed on a consistent basis of taxation with 2014 in UK Retail and Group comparisons throughout this commentary.*

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Analyst Briefing:

The Company will host an analyst presentation at **8:30am** this morning at Paddy Power plc, Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4. A conference call facility will also be available. To participate in the conference call please dial 01296 480 104 from the UK, (01) 242 1075 from Ireland, +1 718 3541 176 from the USA and +44 1296 480 104 from elsewhere. The passcode is 261 805#.

A presentation replay facility will be available for 21 days. To listen to the replay, callers from the UK should dial 0207 136 9233 or 0800 032 9687, and all other callers should dial +44 207 136 9233. The passcode is 7557 0274.

GROUP

€m	H1 2014	H1 2013	% Change	% Change in CC
Sportsbook amounts staked	3,422	2,999	+14%	+17%
Sportsbook gross win %	*9.1%*	*10.1%*		
Net revenue	**396.5**	**380.6**	**+4%**	**+7%**
Gross profit	320.6	317.2	+1%	+4%
Operating costs	(260.5)	(241.8)	+8%	+9%
Operating profit	**60.1**	**75.4**	**(20%)**	**(14%)**
Profit before tax	**61.6**	**77.0**	**(20%)**	**(13%)**
EPS, diluted	110.6 cent	137.1 cent	(19%)	(13%)
Interim dividend	50.0 cent	45.0 cent	+11%	
Net cash at period end	**€244m**	**€214m**		

Sports Results, Trading and Brand

Football punters, and particularly accumulator bettors, had dream weekends in January and March when 16, and then 17, out of the 21 most backed teams won their matches (including 9 from 10 favourites in the Premier League). This proved costlier than John Cleese's divorce payments, particularly for Online (ex Australia), given it has the highest proportion of football within its business mix of all our channels. Favourites in the Premier League won 64% of matches in the period, as compared with an average of 53% during 2010 to 2013. Racing customers got in on the act in June, with particularly punter friendly results at the Epsom Derby and Royal Ascot festivals. Overall, favourites in UK and Irish racing won 37% of races in the period, versus an average of 35% during 2010 to 2013.

This slew of punter friendly results impacted across the sector and resulted in a Group gross win percentage of 9.1%, some 1.0% lower than the rate we normally expect (and achieved in the first half of 2013). The gross impact of this was approximately €34m. This gross impact is before any customer recycling of winnings and related reductions in costs (which moderated operating cost growth in the period by some €5m). The Group remains confident in its long run expected average gross win percentage of approximately 10%. In the second half to date, favourable sports results have had a positive gross impact of €11m.

With the start of the World Cup came a dreadful sense of deja-vu as the favourites sailed through their opening fixtures. From there on in though, results got progressively better culminating in us hitting the jackpot in the final (draw over 90 minutes, decided in extra time, with the initially un-fancied Germany emerging victorious).

The match results were good but events like the World Cup are all about showcasing Paddy Power and on that front the results were stunning. To analyse England's chances of success in Brazil scientifically, we commissioned everyone's favourite physicist, Professor Stephen Hawking. The media reaction was nuclear, including coverage in every UK and Irish national newspaper. We then caused outrage by appearing to have carved 'C'MON ENGLAND, PP' into the Amazon rainforest – later revealing it to be a hoax image to promote awareness of deforestation with a carving in the same style of 'WE DIDN'T GIVE THE AMAZON A BRAZILIAN!'. The story trended on Twitter with 35 million impressions and was the most read story on Reddit with almost a million views (displacing thousands of cat videos!). While England's performances disappointed, fans betting on them with Paddy Power will at least have got some refunds as our blockbuster Money-Back Specials clicked in all three of their group matches.

Paul Scholes wrote exclusively for the Paddy Power Blog throughout the tournament, generating our highest ever number of blog views (255,000), headlines in all the media, and direct responses from Rooney and Gerrard at England press conferences. eGaming also got in on our 'Go Brazil Nuts' theme with a '501k Giveaway' promotion. Down Under, we flew a 14 storey high 'Christ the Redeemer' balloon over Melbourne, Sydney and Adelaide, asking Socceroo fans to #Keepthefaith which made the TV news on every national station. There was also reactionary brand activity including billboards on Suarez's shoulder-munching, England's early exit and 'justice payouts' for Italy fans, following their tournament ending loss to Uruguay.

The effectiveness of this approach is clear in results. Our combined Facebook Fans and Twitter Followers leaped again in June to 2.4 million (growing 17% during the period), and engagements and interactions with our content on Twitter and Facebook was three times the level of our six nearest competitors combined. We also grew strongly on new social platforms, including Instagram, Snapchat and Vine (where our beer drinking toy squirrel, Barry O'Rio, developed a cult following). Our total stakes on the World Cup were €198m[3], a 130% increase versus the 2010 tournament. Most important are new customers coming to Paddy Power for the first time and these increased by 35% to 795,000 in the period, with no increase in marketing costs per new customer.

[3] Stakes on the World Cup were €198m (€130m to 30 June), gross win was €34.2m (€15.3m to 30 June) and online new customer acquisition was 148,000

ONLINE

€m	H1 2014	H1 2013[4]	% Change	% Change in CC
Sportsbook amounts staked	2,236	1,905	+17%	+22%
Sportsbook net revenue	176.1	185.1	(5%)	+1%
Sportsbook gross win %	*8.8%*	*10.2%*		
Gaming & other net revenue	66.2	58.2	+14%	+15%
Total net revenue	**242.3**	**243.3**	**(0%)**	**+5%**
Gross profit	193.7	202.5	(4%)	+0%
Operating costs	(150.8)	(145.0)	+4%	+8%
Operating profit	**43.0**	**57.5**	**(25%)**	**(18%)**
% of Group operating profit	72%	76%		
Active customers[5]	**1,792,150**	**1,437,397**	**+25%**	

The scale of our online operation continues to increase significantly, all via organic growth from legal, regulated markets. Active customers grew by 25% to 1.8 million, stakes by 22% and eGaming net revenue by 15%. Sportsbook net revenue growth of only 1% and an operating profit reduction of 18% to €43.0m reflected adverse sports results.

Mobile net revenue accounted for 52% of our online revenue (compared to some 40% at our major quoted UK peers), putting us in a strong position to continue to exploit mobile's exceptional growth potential.

ONLINE (Excluding Australia)

€m	H1 2014	H1 2013	% Change	% Change in CC
Sportsbook amounts staked	1,399	1,121	+25%	+22%
Sportsbook net revenue	81.7	103.2	(21%)	(20%)
Sportsbook gross win %	*7.0%*	*9.8%*		
Gaming & other net revenue	66.2	58.2	+14%	+15%
Total net revenue	**147.9**	**161.4**	**(8%)**	**(8%)**
Gross profit	121.6	140.6	(14%)	(13%)
Operating costs	(99.6)	(98.6)	+1%	+0%
Operating profit - total	**22.0**	**42.0**	**(48%)**	**(44%)**
Operating loss – paddypower.it	*(8.9)*	*(9.6)*		
Operating profit – ex Aus, ex Italy	*30.9*	*51.6*	*(40%)*	*(37%)*

The Online (excluding Australia) division comprises the B2C businesses, *paddypower.com* and *paddypower.it*, and smaller B2B activities. Underlying growth was strong with new customers acquired up 33%, active customers up 21% and sportsbook amounts staked up 22%. Very poor sports results, as compared with favourable results last year, had a gross impact of approximately €35m year-on-year, resulting in an 8% decrease in net revenue and a 44% decrease in operating profit.

Online (Ex Aus) Active Customers	H1 2014	H1 2013	% Change
UK	1,126,653	918,390	+23%
Ireland and Rest of World	319,779	279,751	+14%
Total	**1,446,432**	**1,198,141**	**+21%**

Online (Ex Aus) Customers Product Usage	H1 2014	H1 2013	% Change
Sportsbook only	1,041,154	796,528	+31%
Gaming only	104,328	116,634	(11%)
Multi product customers	300,950	284,979	+6%
Total	**1,446,432**	**1,198,141**	**+21%**

paddypower.com

In our UK and Irish online business, *paddypower.com*, we are very pleased with the impact of our increased investment in TV advertising share of voice, coupled with our continued strengths in online marketing, product innovation and value for customers. This drove strong and accelerated sportsbook growth of 44% in new customer acquisition, 24% in active customers and 20% in stakes (versus growth in the prior six months of 6%, 13% and 10%

[4] *Some Online activity has been reclassified in 2014 from Gaming to Sportsbook to better reflect the nature of the bets; All 2013 amounts (revenue €3.2m) have been restated on a consistent basis. The impact on year-on-year growth rates is immaterial.*
[5] *Active customers throughout this statement are defined as those who have deposited real money and have bet in the reporting period, excluding indirect B2B customers*

respectively). We acquired more new sportsbook customers in the period than in all of 2013. eGaming and other net revenue increased by 12% (as compared to 10% growth in the prior six months) driven by mobile product, proprietary content and improved conversion rates. Marketing and acquisition free bet costs (including World Cup activity) were up substantially in the period, but were consistent with the growth in customer acquisition – a strong performance given intense competition and industry TV/print spending up some 40% in advance of the new UK point of consumption tax ('POCT') regime from December 2014.

paddypower.it

Our Italian online business, *paddypower.it,* made good progress in the period. Net revenue increased by 126% or €4.6m, with cost of sales as a percentage of net revenue falling 26% and operating cost growth slowing to 20%. This performance has been driven by strong execution, with growth in the market slower than expected. For example, despite the World Cup, the estimated volume of new online bettors in the market in June was not materially ahead of other months.

In the last two months, we had an online sports betting market share of 13% (as compared to 10% in January to May) making us the leading and fastest growing online sportsbook brand in Italy[6]. We have the widest sports product offering in the market with 30% more events than the next operator. In the last three months, we have further strengthened our eGaming offer with the launch of poker and 'PP Vegas', our mobile-led casino. We lead on mobile sports betting with an estimated market share of some 18% and also have a disproportionately large mobile casino market share.

We are well positioned to continue to grow strongly. The majority of the legal online market continues to be held by indigenous retail operators, whose share has been steadily migrating to online/mobile led operators. Our lead in betting markets has further increased this month with another extension of the Palinsesto Supplementare. Within eGaming, our Italian product range will be completed later this year with the addition of bingo and virtuals, alongside further enhancements to our casino and games offer. Together with the addition of poker, this gaming product increases the size of the Italian online market accessible by us by some 60% and will enable us to increase eGaming yield from our sportsbook players.

Continued substantial growth in net revenue, improved conversion at a gross profit level and flattish operating cost growth will drive ongoing improvements in the bottom line, with the business now expected to move into profitability during 2016, based on the recent slower than expected market growth.

(A) Online Sportsbook

The amounts staked on the sportsbook increased by 22% to €1.4 billion. Within this, bet volumes grew by 27% to 103m, while the average stake per bet decreased by 4% to €13.56. Mobile turnover increased by 45% to €811m, with 73% of sportsbook customers transacting with us via mobile in June, generating 60% of sportsbook stakes.

We significantly increased our TV advertising share of voice (14% in the period versus 9% in the comparative period), whilst continuing to compete hard in terms of value and product. These adjustments were particularly targeted at football and started in late 2013 in light of some operators employing extreme measures to gain scale and momentum ahead of POCT. As a result, *paddypower.com*'s football performance improved significantly, even before the benefit of the World Cup, with customer acquisition in January to May up 39% (with branded acquisition particularly strong) and turnover up 22%, relative to 1% and 3% growth respectively in the second half of 2013. This strong growth also reflects our relative under-penetration in football, and this remains a substantial opportunity for us. In addition, racing turnover has also benefitted with growth of 19% in the period.

Operationally, we continue to apply deep analytical rigour to improve returns. We increased the effectiveness of our investment in the period by applying leading new insights on our choice of marketing media, timing and content; enhancing the experience of new customers achieving increased retention rates; and developing the targeting, format and communication of the value we give customers. We also continue to use the unique personality of the Paddy Power brand and our leading capability in social and other digital marketing, alongside product innovation, to achieve 39% lower marketing cost per customer acquired than our quoted UK multi-channel peers.

Product innovation remains at the heart of Paddy Power. Key developments in the period included enhancements to our proprietary iPad app (the highest rated tablet betting app in the UK app store), horse racing streaming pictures directly with the betting racecard for mobile devices and 'Pick Your Own Money Back Special' and 'Power Play Plus' (where we can target specials and enhanced price offers to specific customers groups for retention and re-activation, maximising the return on promotional spend). For the new football season, we are adding new betting-in-running pages with in game stats, commentaries and 'visualisation'.

[6] *Source: www.agimeg.it*

And finally, we never forget it is all about entertainment. Unlike Man United fans, we got immense enjoyment from David Moyes tenure as manager. We put an ‘In case of emergency break glass’ encased Alex Ferguson wax model outside Old Trafford, positioned a ‘grim reaper’ in the crowd behind Moyes at Goodison Park (for what proved indeed to be his last match in charge), and erected a giant bronze statue of Moyes for services rendered - outside Anfield before the Liverpool versus Chelsea showdown.

(B) Online Gaming & B2B

Gaming and other revenue increased by 15% to €66m driven by growth in Casino, Games, Bingo and B2B, offsetting a reduction in Poker. eGaming active customer growth of 1% was lower than net revenue growth, as the Group optimised both its cross-sell and direct acquisition strategies.

Central to the strong revenue performance has been our early and on-going investment in mobile. Mobile net revenue increased by 49% to represent an industry-leading 34% of total online gaming in the period. In June, 43% of eGaming customers transacted via mobile devices. Mobile product releases in the period included a new in-house developed Casino mobile web app, our first mobile Poker app and new Bingo tablet and mobile apps. Product is a strong differentiator and we used our proprietary Casino iPad app to showcase Paddy Power Casino on TV for the first time since 2011. We have been targeting and achieving above-market growth in eGaming for a number of years. Nonetheless, awareness of the Paddy Power eGaming offer amongst sports bettors remains lower for us than other sports betting brands, representing an excellent opportunity as we further develop and promote our proposition, particularly in the context of a currently very fragmented market.

The contribution of our games development centre in Bulgaria was also pivotal to our performance. This in-house team supplied over 40% of new Games product in the period, driving the contribution of exclusive proprietary content to over 25% of total Games revenue by June. Standard new releases now go live simultaneously optimised for desktop, smartphone and tablet, improving the customer experience, particularly for the higher value multi-device customer. A proprietary team facilitates exclusive innovation such as our recently launched world-first of ‘Cash-out Black Jack’. The team has also evolved to supply marketing tools (such as ‘free-spins’), more complex Progressive Jackpot slots, as well as continuing to provide content tailored to Paddy Power marketing campaign themes with slots like ‘PP Gold’, World Cup ‘PP Fan-atics’ and Bingo ‘Lucky Pigeon’.

Our B2B relationships with PMU in France and BCLC in Canada continue to perform strongly, highlighting our product, betting risk management, operations and partnership capabilities. Our B2B agreement with Niké in Slovakia has also started well with the initial six month trial period of the three year deal now successfully completed.

ONLINE AUSTRALIA – *sportsbet.com.au*

€m	**H1 2014**	**H1 2013**	**% Change**	**% Change in CC**
Sportsbook amounts staked	925	935	(1%)	+14%
Net revenue	**98.6**	**86.5**	**+14%**	**+32%**
Sportsbook gross win %	*11.1%*	*9.5%*		
Gross profit	75.5	65.2	+16%	+33%
Operating costs	(53.7)	(48.7)	+10%	+26%
Operating profit	**21.8**	**16.5**	**+32%**	**+57%**
Online active customers	345,718	239,256	+44%	

Our Australian business continues to perform as spectacularly as a Tim Cahill volley, growing its net revenue by 32% and its operating profit by 57%, notwithstanding increased competitive intensity. In online, we took further market share with stakes up 23%, net revenue up 33% and active customers up 44%. Mobile turnover increased by 72% to €411m or 49% of online stakes, with 75% of our online customers transacting with us via mobile in June. Whilst betting-in-running continues to be prohibited online and therefore to grow strongly on telephone, a reduction in other lower margin phone turnover resulted in overall telephone stakes being down 33%, although net revenue was up 8%.

Our approach to driving growth in Australia is the same as in all our markets: differentiation based on considered and substantial investment in people, product, value and brand. During the period, we released new in-house developed smartphone apps for iPhone and Android, plus ipad native and tablet web apps. We are the highest rated brand for mobile betting in Australia. In marketing, we are addressing our previous relative under-penetration in New South Wales and Queensland. Independent market research showed our spontaneous brand awareness at a record high of 61% in June up from an average of 49% during 2013, further extending our lead versus other corporate bookmakers. Over a third of our customers Down Under benefitted from our Money-Back Specials in June, cementing our position as the brand Australian online bettors rank number one for value for money. The overall results of this approach included 51% growth in customer acquisition in the period, with no increase in marketing and free bet costs per customer acquired.

In the last few months, racing bodies in Victoria, Queensland and South Australia have announced that they will levy increased product fees on bookmakers from July with a full year gross impact at current levels of business of approximately AUD9m (€6m).

RETAIL

Our retail businesses in Ireland and the UK grew their profits by 21%, driven by new shops and ongoing revenue growth across the existing estate (up 4% on a like-for-like basis, despite adverse sports results). We expect continued revenue growth as we meet resilient core retail customer demand, use our leading position to enhance our offer and take further market share, while also benefiting from improved economic conditions. In addition, we will continue to use our estate to complement our online business, including targeting the substantial online spend of retail bettors with a leading multi-channel offer.

We are uniquely well placed to invest in our retail offer given our shops turnover more than double the average of competitors' units. This translates into higher profitability per unit, which can support a better proposition for customers, creating a virtuous cycle. We are also currently developing, testing and rolling out new shop formats, next generation TV displays and multi-channel product propositions.

The strength of our retail offer, alongside our under-represented position in the UK market, also gives us a substantial opportunity and attractive returns from opening new units. The 186 shops we opened across Ireland and the UK in 2008 to 2012, generated average EBITDA of €80,000 in the half year, as compared to an average capital cost of €329,000, a 49% annualised return. Since then we have opened a further 126 units, including 49 shops in the period, which will drive further profit growth as they mature.

Further to the increased tax and machine regulation changes announced in the UK in March, we have increased the required activity levels for new shops and withdrawn from some planned openings. Nonetheless, given the strength of customer demand for our leading retail offer and our healthy pipeline, we expect to open up to 40 shops next year in the UK, assuming the implementation of proposed new planning laws is not more limiting than currently expected.

UK RETAIL

€m	**H1 2014**	**H1 2013**	**% Change**	**% Change in CC**
Sportsbook amounts staked	349	271	+29%	+24%
Sportsbook net revenue	36.8	32.5	+13%	+10%
Sportsbook gross win %	*10.7%*	*12.1%*		
Machine gaming net revenue	42.9	29.9	+43%	+40%
Total net revenue	**79.6**	**62.4**	**+28%**	**+24%**
Gross profit	59.4	46.8	+27%	+24%
Operating costs	(49.9)	(39.0)	+28%	+24%
Operating profit	**9.5**	**7.8**	**+22%**	**+26%**
Shops at period end	299	228	+31%	

UK Retail operating profit increased by 26% driven by both higher profits in the existing estate and increased shop openings.

Sportsbook stakes and total net revenue both grew by 24%. Excluding the impact of new openings, like-for-like net revenue grew by 5% and costs by 4%. This net revenue growth comprised a decline of 5% in sportsbook, offset by growth of 15% in machine gaming. Machine gaming performance benefitted from the impact of our new Eclipse terminals, optimisation of our loyalty programme and new gaming content, as well as soft comparables. Like-for-like average gross win per machine per week increased by 12% to £1,319.

Like-for-like sportsbook turnover was up 8%, comprised of bet volume growth of 3% and an average stake per bet up 5% to €16.53.

We opened 33 new shops in the period, including seven which we acquired, at an average capital cost per unit of €381,000 (£310,000) including lease premia and the costs of acquisition and refit for the acquired units. The average cost per unit for organic openings was €335,000 (£272,000). EBITDA per shop pre central costs for the mature shops opened pre 2013 averaged €89,000 (£73,000).

IRISH RETAIL

€m	H1 2014	H1 2013	% Change
Sportsbook amounts staked	548	493	+11%
Net revenue	**62.4**	**58.0**	**+8%**
Sportsbook gross win %	*11.5%*	*11.8%*	
Gross profit	56.2	52.5	+7%
Operating costs	(47.6)	(44.9)	+6%
Operating profit	**8.6**	**7.6**	**+13%**
Shops at period end	239	220	+9%

Irish Retail operating profits increased by 13% to €8.6m, with the impact of weak sports results more than offset by strong stakes growth, tight cost control and the benefit of new shop openings.

The second half of 2013 was the first period with both like-for-like stakes and revenue growth since 2007, and this positive trend continued in the period with like-for-like amounts staked up 5% (our highest growth rate since 2007) and net revenue up 2%. Average stake per bet was down 3% at €13.91. Alongside improving economic conditions, growth was driven by numerous enhancements for customers, including a four-fold increase in the number of Self Service Betting Terminals (‘SSBTs’), the roll-out of contactless debit card terminals, additional morning opening hours and a much expanded range of football coupons.

Following on from the ten new shops opened last year, we opened a record 16 new shops in the period including 14 acquired. The average capital cost per unit of these 26 units was €496,000 (including the costs of acquisition and refit for acquired units) and they generated average EBITDA of €54,000 in the six month period, a 22% annualised return, notwithstanding their relative immaturity.

TELEPHONE

€m	H1 2014	H1 2013	% Change	% Change in CC
Sportsbook amounts staked	201	179	+13%	+10%
Net revenue	**8.0**	**12.3**	**(35%)**	**(35%)**
Sportsbook gross win %	*4.6%*	*7.5%*		
Gross profit	7.9	12.1	(35%)	(35%)
Operating costs	(9.8)	(10.6)	(8%)	(9%)
Operating (loss) / profit	**(1.9)**	**1.5**	**n/a**	**n/a**

Our telephone channel includes betting via the phone, text and the exclusive PP Messenger App (which also allows punters to follow their favourite teams, jockeys or trainers with news updates and live text commentary). Such product development has seen the channel take significant share from competitors in recent years, and stakes grew a further 10% in the period, consolidating its leading position in the combined UK and Irish markets. The stakes growth was driven by both higher active customers, up 5%, and increased bet volumes, up 12%.

Adverse sports results resulted in 35% lower net revenue in the period, with the gross win percentage below both expectations and the favourable percentage in the comparative period. This led to a €1.9m operating loss in the period, notwithstanding a 9% reduction in operating costs. While the channel faces increased betting taxes later this year, we expect it to make an on-going positive contribution to the Group, given for example phone registered customers spend a similar amount with us online as on the telephone channel.

Telephone Channel Active Customers	H1 2014	H1 2013	% Change
UK	39,823	36,684	+9%
Ireland and Rest Of World	19,505	19,626	(1%)
Total	**59,328**	**56,310**	**5%**

Taxation & Regulation

The effective corporation tax rate for the period was 13.0%, in line with the rate in 2013.

There were a series of changes and announcements in the period relating to regulation and taxation in the UK. In March 2014, we implemented the new voluntary ABB Code for Responsible Gambling & Player Protection. In April, the Department for Culture, Media & Sport published a paper on Gambling Protections and Controls which announced a number of consultations, including on advertising, planning and player protection measures. These included proposed new mechanisms affecting players wishing to stake over £50 in a single play on gaming machines. We have worked closely with Government on how these mechanisms should be implemented and we await the final regulation which we expect to come into force in April 2015. In August, the UK Government launched its consultation on planning changes which would put betting shops in a narrower retail use class, thereby requiring most new betting shops to require planning permission. Separately, Machine Gaming Duty will increase from 20% to 25% of net revenue from March 2015.

In relation to online and telephone betting, the Bill to change the licensing regime on remote gambling to a point of consumption basis received Royal Assent in May and will come into effect from December 2014 with the rate confirmed at 15% of eGaming net revenue and 15% of sportsbook gross win. If the tax had been in place it would have increased our tax payable by €20m in the period. Opportunities exist to mitigate this gross impact through lower revenue share and marketing costs. There is also potential for market share gains from weaker operators being forced to exit the market or compromise their offer, net of any reduction in market share as a result of activity moving to illegal operators. In July, the UK Government published their consultation on the proposed extension of the horseracing betting levy to bookmakers based outside the UK, covering both their business with UK and non-UK based customers. We have responded to the consultation and reject the implication that racing needs additional funding. The UK racing industry has never been wealthier and the total financial contribution to racing from the betting industry has been rising rapidly due to increased media rights payments and streaming costs. This measure, if it is pursued, is not expected to come into effect until April 2016 at the earliest.

In Ireland, we expect the Betting (Amendment) Bill to be passed this year, allowing the opening of betting shops until 10pm during September to April, and the extension of the 1% tax on Irish retail stakes to Irish online and phone customers once administrative arrangements are in place. Such a tax would have cost the Group €4.0m in the period.

Cashflows, Financial Position & Share Buyback

Profits at Paddy Power convert strongly into cash flow. Operating cashflow (after LTIP trust share purchases and estimated maintenance capex of €8m) in the period was €82m or 152% of profit after tax. This cash conversion was boosted by the period end date falling during a major football championship when customer balances are higher. Estimated enhancement capex of €26m mainly related to new shop openings and technology spending for product enhancement and expansion.

At the end of the period, the Group had no debt and net cash of €244m, or €175m excluding customer balances. Notwithstanding the opportunities that may continue to arise during the current period of change within the industry, given the strength of the Group’s balance sheet and ongoing cash generation, the Board does not believe that maintaining flexibility for future growth and returning additional cash to shareholders are mutually exclusive objectives at this time. Accordingly, it is the Board's current intention to recommence share buybacks. The timing and amount of shares purchased will depend on the Group's pipeline of development opportunities as well as prevailing equity market conditions.

Dividend

The Board has decided to pay an interim dividend of 50.0 cent per share, an 11% increase on last year. The total expected interim dividend is €24.7m payable on 26 September to shareholders on the register at the close of business on 5 September.

Foreign Exchange

Sterling and Australian Dollar denominated operating profits were approximately £55m and AUD39m respectively in the period. Accordingly, Group operating profit can be positively impacted by a weaker Euro versus these currencies and adversely impacted by a stronger Euro versus these currencies.

In order to reduce this volatility, the Group periodically sells Sterling forward for Euro and has sold approximately 60% of its expected second half Sterling denominated operating profit for settlement at an average rate of 0.830. The Group has also sold £38m for settlement in 2015 at an average rate of 0.814.

Principal Risks and Uncertainties for the Remainder of the Year

The principal risks and uncertainties facing the Group remain those disclosed within the Directors' Report on pages 39 to 41 of the Group's 2013 Annual Report. The most relevant risks and uncertainties for the remainder of the year are those that could arise from adverse developments in the areas below:

- Sporting results over the short term and/or the performance of the Group in managing bookmaking risk affecting the achievement of expected gross win margins;
- Disruption to the sporting calendar or broadcasting of major sporting events due to weather or other factors;
- The ability of the Group to enter new markets, launch new products or introduce new systems in a successful, cost effective and/or timely manner;
- The intensity of competition in the Group's markets and the Group's ability to successfully compete;
- Changes in the exchange rates between the Euro and Sterling and Australian Dollar;
- Economic, technological, consumer behaviour and other macro factors affecting demand for the Group's products;
- The regulatory, consumer protection or legislative environment, interpretation and practices applicable to the Group's activities and related litigation and reputational risk areas, including intellectual property;
- The ability of the Group to avoid disruption to its systems and protect customer and other key data;
- Changes in current or proposed tax laws, rates, interpretations or practices, or payment obligations to racing and sporting bodies;
- Relationships with, and performance by key suppliers and performance for key B2B customers;
- The ability of the Group to attract and retain key employees and manage succession planning;
- The performance of the Group in managing credit risk arising from treasury activities and credit betting customers;
- Societal, media or political sentiment towards the Group, its brands and its businesses.

Outlook

The second half of the year has started well. We are benefitting from good top-line growth and favourable sports results (versus adverse sports results in the comparable period). Sportsbook stakes are up 18% online and 7% in retail on a like-for-like basis, with total group net revenue up 45% (or up 28% excluding World Cup net revenue).

The Board expects mid-teen percentage growth in earnings per share for the full year and remains confident of the Group's prospects in 2014 and beyond.

Nigel Northridge
Chairman

27 August 2014

Appendix: Supplementary Disclosures

€'m	Online (ex Australia)		Online Australia[iv]		UK Retail		Irish Retail		Telephone		Group	
	H1'14	**YoY % Change in CC**	**H1'14**	**YoY % Change in CC**	**H1'14**	**YoY % Change in CC [v]**	**H1'14**	**YoY % Change in CC**	**H1'14**	**YoY % Change in CC**	**H1'14**	**YoY % Change in CC [v]**
Sportsbook:												
Amounts staked[i]	1,399	+22%	925	+14%	349	+24%	548	+11%	201	+10%	3,422	+17%
Gross win	98.2	(13%)	102.9	+34%	37.3	+10%	63.0	+8%	9.3	(34%)	310.7	+5%
Customer promotions & bonuses	(15.7)	+77%	(4.3)	+105%	(0.5)	(3%)	(0.6)	+177%	(1.2)	(16%)	(22.2)	+71%
Foreign exchange hedging loss[ii]	(0.8)		-	-	(0.1)		-		(0.1)		(1.0)	
Net revenue[iii]	81.7	(20%)	98.6	+32%	36.8	+10%	62.4	+8%	8.0	(35%)	287.4	+2%
Gross win %	*7.0%*	*(2.8%)*	*11.1%*	*+1.6%*	*10.7%*	*(1.4%)*	*11.5%*	*(0.3%)*	*4.6%*	*(3.0%)*	*9.1%*	*(1.0%)*
Net revenue %[vi]	*5.8%*	*(3.2%)*	*10.7%*	*+1.4%*	*10.5%*	*(1.4%)*	*11.4%*	*(0.4%)*	*4.0%*	*(2.7%)*	*8.4%*	*(1.3%)*
Gaming and other net revenue[iii]	66.2	+15%	-	-	42.9	+40%	-	-	-	-	109.0	+23%
Total net revenue[iii]	147.9	(8%)	98.6	+32%	79.6	+24%	62.4	+8%	8.0	(35%)	396.5	+7%
Cost of sales	26.3	+23%	23.1	+26%	20.2	+31%	6.2	+12%	0.1	(64%)	75.9	+25%
- % of net revenue	*17.8%*	*+4.9%*	*23.4%*	*(1.1%)*	*25.4%*	*+1.6%*	*9.9%*	*+0.4%*	*0.8%*	*(0.6%)*	*19.1%*	*+2.7%*
Operating Costs	99.6	+0%	53.7	+26%							260.5	+9%
Depreciation & amortisation	9.1	+28%	4.2	+9%							23.7	+23%
Marketing costs	35.4	+40%	13.9	+57%							53.8	+37%
Other costs	55.0	(18%)	35.6	+19%							183.1	+2%
Online active customers (000's)[vii]											1,792	+25%
Online new customers (000's)[viii]											795	+35%
Total online marketing costs[ix]											62.7	+35%
- % of online net revenue											*26%*	*+6%*
- Per new customer acquired (€)											*78.9*	*(0%)*
Mobile % of online total:												
Sportsbook amounts staked											*55%*	*+12%*
Gaming net revenue											*34%*	*+8%*
Total online net revenue											*52%*	*+9%*
LFL gross win per machine per week											£1,319	+12%
Average effective FX Rates											**H1'14**	**H1'13**
- €:GBP, with hedging											0.845	0.814
- €:AUD											1.495	1.312

Notes:

(i) Sportsbook amounts staked represents amounts received in respect of bets placed on sporting and other events that occurred during the period, including via SSBTs. This does not include income from gaming and business-to-business activities.

(ii) In line with our revenue accounting policy and IFRS we record all foreign exchange hedging gains / losses in our net revenue. Amounts staked, gross win, cost of sales and operating costs are all converted at spot rates.

(iii) Net revenue represents the net gain on betting transactions (stake less payout) plus the gain or loss on the revaluation of open positions at period end, net winnings on fixed odds and online casino gaming activities, and commission income and tournament fees earned from peer to peer games and business-to-business services. The costs of customer promotions and bonuses are deducted when arriving at net revenue.

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

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

(vi) For ease of reference/comparison, a sportsbook net revenue % is calculated including the cost of all cash and free bet offers (calculated excluding foreign exchange hedging gains/losses from net revenue and including stakes from freebets within turnover).

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

(viii) New customers are defined as those who have deposited real money and have bet for the first time in the reporting period.

(ix) Total online marketing costs includes all marketing costs within operating costs and affiliate commissions and other marketing related costs reported within cost of sales.

Directors' Responsibility Statement in respect of the Half Yearly Financial Report
For the six months ended 30 June 2014

Each of the directors, whose names and functions are listed in the 2013 Annual Report, confirm our responsibility for preparing the half yearly financial report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Disclosure and Transparency Rules of the UK FCA and with IAS 34 'Interim Financial Reporting' as adopted by the EU, and that to the best of our knowledge:

a) the condensed consolidated interim financial statements comprising the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in equity and related Notes 1 to 18 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

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

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

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

On behalf of the Board

Patrick Kennedy
Chief Executive

Cormac McCarthy
Chief Financial Officer

27 August 2014

Condensed Consolidated Interim Income Statement
For the six months ended 30 June 2014

	Note	**Six months ended 30 June 2014 (unaudited) €'000**	Six months ended 30 June 2013 (unaudited) €'000
Sportsbook amounts staked		**3,422,019**	2,998,837
Continuing operations			
Income		**396,492**	379,827
Direct betting costs	5	**(75,895)**	(62,632)
Gross profit		**320,597**	317,195
Employee expenses		**(113,826)**	(112,998)
Property expenses		**(27,377)**	(23,499)
Marketing expenses		**(53,803)**	(40,144)
Technology and communications expenses		**(25,533)**	(22,583)
Depreciation and amortisation		**(23,675)**	(19,842)
Other expenses, net		**(16,327)**	(22,744)
Total operating expenses		**(260,541)**	(241,810)
Operating profit		**60,056**	75,385
Financial income	6	**1,630**	1,799
Financial expense	6	**(62)**	(179)
Profit before tax		**61,624**	77,005
Income tax expense	7	**(8,011)**	(10,010)
Profit for the period – all attributable to equity holders of the Company		**53,613**	66,995
Earnings per share			
Basic	8	**€1.113**	€1.394
Diluted	8	**€1.106**	€1.371

Condensed Consolidated Interim Statement of Comprehensive Income
For the six months ended 30 June 2014

	Note	**Six months ended 30 June 2014 (unaudited) €’000**	Six months ended 30 June 2013 (unaudited) €’000
Profit for the period – all attributable to equity holders of the Company		**53,613**	66,995
Other comprehensive income / (expense)			
Items that are or may be reclassified subsequently to profit or loss:			
Effective portion of changes in fair value of cash flow hedges	6	**(3,160)**	4,943
Fair value of foreign exchange cash flow hedges transferred to income statement	6	**1,996**	(3,337)
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated subsidiaries	6	**7,758**	(13,451)
Deferred tax on fair value of cash flow hedges		**146**	(201)
Other comprehensive income / (expense)		**6,740**	(12,046)
Total comprehensive income for the period – all attributable to equity holders of the Company		**60,353**	54,949

Condensed Consolidated Interim Statement of Financial Position
As at 30 June 2014

	Note	**30 June 2014 (unaudited) €'000**	30 June 2013 (unaudited) €'000	31 December 2013 (audited) €'000
Assets				
Property, plant and equipment		**124,993**	108,189	116,216
Intangible assets		**73,545**	63,982	69,185
Goodwill	9	**101,827**	92,528	92,554
Financial assets – restricted cash	11	**-**	993	993
Deferred tax assets		**8,683**	6,846	8,002
Trade and other receivables		**1,685**	3,403	2,903
Total non-current assets		**310,733**	275,941	289,853
Trade and other receivables		**37,879**	36,540	29,262
Derivative financial assets		**-**	2,121	-
Financial assets – restricted cash	11	**53,541**	33,084	52,806
Financial assets – deposits	11	**-**	37,919	13,686
Cash and cash equivalents	11	**190,865**	142,466	161,359
Total current assets		**282,285**	252,130	257,113
Total assets		**593,018**	528,071	546,966
Equity				
Issued share capital	15	**5,103**	5,086	5,098
Share premium		**43,180**	40,150	41,646
Treasury shares		**(34,177)**	(34,177)	(34,177)
Shares held by long term incentive plan trust		**(61,454)**	(59,780)	(71,736)
Other reserves including foreign currency translation, cash flow hedge and share-based payment reserves		**21,792**	25,998	23,406
Retained earnings		**353,625**	311,707	346,765
Total equity – attributable to equity holders of the Company		**328,069**	288,984	311,002
Liabilities				
Trade and other payables	12	**207,928**	181,733	180,973
Derivative financial liabilities	12	**26,943**	12,989	17,048
Provisions		**543**	621	515
Current tax payable		**16,906**	17,150	20,462
Total current liabilities		**252,320**	212,493	218,998
Trade and other payables	12	**7,056**	21,166	12,289
Derivative financial liabilities	12	**403**	110	270
Provisions		**1,152**	1,229	1,115
Deferred tax liabilities		**4,018**	4,089	3,292
Total non-current liabilities		**12,629**	26,594	16,966
Total liabilities		**264,949**	239,087	235,964
Total equity and liabilities		**593,018**	528,071	546,966

Condensed Consolidated Interim Statement of Cash Flows
For the six months ended 30 June 2014

	Note	**Six months ended 30 June 2014 (unaudited) €'000**	Six months ended 30 June 2013 (unaudited) €'000
Cash flows from operating activities			
Profit for the period – all attributable to equity holders of the Company		**53,613**	66,995
Income tax expense		**8,011**	10,010
Financial income	6	**(1,630)**	(1,799)
Financial expense	6	**62**	179
Depreciation and amortisation		**23,675**	19,842
Employee equity-settled share-based payments expense		**3,371**	8,145
Foreign currency exchange (gain) / loss		**(810)**	1,022
(Profit) / loss on disposal of property, plant and equipment and intangible assets		**(8)**	13
Cash from operations before changes in working capital		**86,284**	104,407
Increase in trade and other receivables		**(6,710)**	(10,987)
Increase in trade and other payables and provisions		**26,032**	15,059
Cash generated from operations		**105,606**	108,479
Income taxes paid		**(12,182)**	(10,841)
Net cash from operating activities		**93,424**	97,638
Cash flows from investing activities			
Purchase of property, plant and equipment		**(20,392)**	(16,535)
Purchase of intangible assets		**(13,794)**	(11,929)
Purchase of businesses	10	**(6,177)**	(2,415)
Payment of contingent deferred consideration	10	**(8)**	(88)
Proceeds from disposal of property, plant and equipment and intangible assets		**29**	45
Transfers from financial assets – deposits		**13,781**	3,701
Interest received		**1,533**	1,708
Net cash used in investing activities		**(25,028)**	(25,513)
Cash flows from financing activities			
Proceeds from the issue of new shares		**1,540**	113
Purchase of shares by long term incentive plan trust		**(3,883)**	(12,264)
Dividends paid	14	**(44,392)**	(39,803)
Movements in current and non-current restricted cash balances		**1,773**	3,315
Interest paid		**(166)**	(258)
Net cash used in financing activities		**(45,128)**	(48,897)
Net increase in cash and cash equivalents		**23,268**	23,228
Cash and cash equivalents at start of period		**161,359**	129,004
Foreign currency exchange gain / (loss) on cash and cash equivalents		**6,238**	(9,766)
Cash and cash equivalents at end of period	11	**190,865**	142,466

Condensed Consolidated Interim Statement of Changes in Equity
For the six months ended 30 June 2014

	Attributable to equity holders of the Company										
(unaudited)	***Number of ordinary shares in issue***	**Issued share capital €'000**	**Share premium €'000**	**Foreign exchange translation reserve €'000**	**Cash flow hedge reserve €'000**	**Other reserves €'000**	**Treasury shares €'000**	**Shares held by long term incentive plan trust €'000**	**Share-based payment reserve €'000**	**Retained earnings €'000**	**Total €'000**
Balance at 1 January 2014	*50,977,085*	5,098	41,646	(7,664)	(1,283)	1,240	(34,177)	(71,736)	31,113	346,765	311,002
Total comprehensive income / (expense) for the period											
Profit	-	-	-	-	-	-	-	-	-	**53,613**	**53,613**
Foreign exchange translation	-	-	-	**7,758**	-	-	-	-	-	-	**7,758**
Net change in fair value of cash flow hedge reserve	-	-	-	-	**(1,164)**	-	-	-	-	-	**(1,164)**
Deferred tax on cash flow hedges	-	-	-	-	**146**	-	-	-	-	-	**146**
Total comprehensive income / (expense) for the period	-	-	-	**7,758**	**(1,018)**	-	-	-	-	**53,613**	**60,353**
Transactions with owners of the Company, recognised directly in equity											
Shares issued (Note 15)	***56,982***	**5**	**1,534**	-	-	-	-	-	-	-	**1,539**
Own shares acquired by the long term incentive plan trust – 70,400 ordinary shares (Note 15)	-	-	-	-	-	-	-	**(3,883)**	-	-	**(3,883)**
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	-	**3,371**	-	**3,371**
Equity-settled transactions – vestings	-	-	-	-	-	-	-	**14,165**	**(11,547)**	**(2,010)**	**608**
Deferred tax on share-based payments	-	-	-	-	-	-	-	-	-	**(529)**	**(529)**
Transfer to retained earnings on exercise of share options (Note 15)	-	-	-	-	-	-	-	-	**(178)**	**178**	-
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	-	-	**(44,392)**	**(44,392)**
Total contributions by and distributions to owners of the Company	***56,982***	**5**	**1,534**	-	-	-	-	**10,282**	**(8,354)**	**(46,753)**	**(43,286)**
Balance at 30 June 2014	***51,034,067***	**5,103**	**43,180**	**94**	**(2,301)**	**1,240**	**(34,177)**	**(61,454)**	**22,759**	**353,625**	**328,069**

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

	Attributable to equity holders of the Company										
(unaudited)	*Number of ordinary shares in issue*	Issued share capital €'000	Share premium €'000	Foreign exchange translation reserve €'000	Cash flow hedge reserve €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2013	*50,850,848*	5,085	40,038	14,110	451	1,240	(34,177)	(56,191)	22,792	284,308	277,656
Total comprehensive income / (expense) for the period											
Profit	-	-	-	-	-	-	-	-	-	66,995	66,995
Foreign exchange translation	-	-	-	(13,451)	-	-	-	-	-	-	(13,451)
Net change in fair value of cash flow hedge reserve	-	-	-	-	1,606	-	-	-	-	-	1,606
Deferred tax on cash flow hedges	-	-	-	-	(201)	-	-	-	-	-	(201)
Total comprehensive income / (expense) for the period	-	-	-	(13,451)	1,405	-	-	-	-	66,995	54,949
Transactions with owners of the Company, recognised directly in equity											
Shares issued – exercise of share options (Note 15)	*7,627*	1	112	-	-	-	-	-	-	-	113
Own shares acquired by the long term incentive plan trust – 185,000 ordinary shares (Note 15)	-	-	-	-	-	-	-	(12,264)	-	-	(12,264)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	-	8,145	-	8,145
Equity-settled transactions – vestings	-	-	-	-	-	-	-	8,675	(8,652)	246	269
Deferred tax on share-based payments	-	-	-	-	-	-	-	-	-	(81)	(81)
Transfer to retained earnings on exercise of share options (Note 15)	-	-	-	-	-	-	-	-	(42)	42	-
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	-	-	(39,803)	(39,803)
Total contributions by and distributions to owners of the Company	*7,627*	1	112	-	-	-	-	(3,589)	(549)	(39,596)	(43,621)
Balance at 30 June 2013	*50,858,475*	5,086	40,150	659	1,856	1,240	(34,177)	(59,780)	22,243	311,707	288,984

Notes to the Condensed Consolidated Interim Financial Statements

1. General information

Paddy Power plc (‘the Company’) is a company incorporated in the Republic of Ireland. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as ‘the Group’). The condensed consolidated interim financial statements are unaudited but have been reviewed by the auditor, whose report is set out on page 34.

The financial information presented herein does not comprise full statutory financial statements and therefore does not include all of the information required for full annual financial statements. Full statutory financial statements for the year ended 31 December 2013, prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the EU together with an unqualified audit report thereon and no emphasis of matter under Section 193 of the Companies Act 1990, will be annexed to the annual return and filed with the Registrar of Companies. They are available from the Company, from the website www.paddypowerplc.com and, when filed, from the Registrar of Companies.

The condensed consolidated interim financial statements were approved by the Board of Directors of Paddy Power plc on 27 August 2014.

2. Basis of preparation and accounting policies

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

The financial information contained in the condensed consolidated interim financial statements has been prepared in accordance with the accounting policies set out in the Group’s last annual financial statements in respect of the year ended 31 December 2013, except as set out below.

The Group has adopted the following accounting policies, standards and interpretations during the period ended 30 June 2014:

IFRS 10, ‘Consolidated Financial Statements’
IFRS 11, ‘Joint Arrangements’
IFRS 12, ‘Disclosure of Interests in Other Entities’
IAS 27 (2011), ‘Separate Financial Statements’
IAS 28 (2011), ‘Investments in Associates’
IFRIC 21, ‘Levies’

The adoption of the above new standards and interpretations did not have a significant impact on the Group’s consolidated financial statements.

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

3. Judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements as at and for the year ended 31 December 2013.

4. Operating segments

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

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

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

The accounting policies in respect of operating segments reporting are the same as those described in the summary of significant accounting policies set out in the Company's last annual financial statements in respect of the year ended 31 December 2013. There was no inter-segment trading in the six months ended 30 June 2014. Central operating expenses are allocated to reportable segments based on internal management allocation methodologies. Any expenses that are not directly allocated to reportable segments in internal management reports are shown in the reconciliation of reportable segments to Group totals. The Group does not allocate income tax expense or interest to reportable segments. Treasury management is centralised for the Online (ex Australia), UK Retail, Irish Retail and Telephone segments. The Online Australia segment manages its own treasury function under Group Treasury oversight. Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

Reportable business segment information for the six months ended 30 June 2014:

	Online (ex Australia) €'000	**Online Australia €'000**	**UK Retail €'000**	**Irish Retail €'000**	**Telephone €'000**	**Total reportable segments €'000**
Income from external customers	**147,866**	**98,624**	**79,630**	**62,409**	**7,963**	**396,492**
Total income	**147,866**	**98,624**	**79,630**	**62,409**	**7,963**	**396,492**
Direct betting costs	**(26,293)**	**(23,125)**	**(20,203)**	**(6,208)**	**(66)**	**(75,895)**
Gross profit	**121,573**	**75,499**	**59,427**	**56,201**	**7,897**	**320,597**
Depreciation and amortisation	**(9,142)**	**(4,171)**	**(5,418)**	**(4,362)**	**(582)**	**(23,675)**
Other operating expenses	**(90,420)**	**(49,523)**	**(44,495)**	**(43,241)**	**(9,187)**	**(236,866)**
Reportable segment profit	**22,011**	**21,805**	**9,514**	**8,598**	**(1,872)**	**60,056**

4. Operating segments (continued)

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

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

Reconciliation of reportable segments to Group totals

	Six months ended 30 June 2014 €'000	Six months ended 30 June 2013 €'000
Income		
Total income from reportable segments, being total Group income	**396,492**	379,827
Profit and loss		
Total profit from reportable segments	**60,056**	75,385
Unallocated amounts:		
Financial income – non-Online Australia (1)	**223**	346
Financial income – Online Australia	**1,407**	1,453
Financial expense – non-Online Australia (1)	**(11)**	(154)
Financial expense – Online Australia	**(51)**	(25)
Profit before tax	**61,624**	77,005

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

(b) Geographical segment information

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

4. Operating segments (continued)

Group revenues by geographical segment are as follows:

Income

	Six months ended 30 June 2014 €'000	Six months ended 30 June 2013 €'000
UK	**191,536**	187,157
Australia	**98,624**	86,495
Ireland and rest of world	**106,332**	106,175
Total	**396,492**	379,827

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

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

Non-current assets

	30 June 2014 €'000	30 June 2013 €'000	31 December 2013 €'000
UK	**138,374**	112,522	128,586
Australia	**82,080**	81,722	77,386
Ireland and rest of world	**81,596**	73,858	74,886
Total	**302,050**	268,102	280,858

Seasonality

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

5. Direct betting costs

Direct betting costs comprise:

	Six months ended 30 June 2014 €'000	Six months ended 30 June 2013 €'000
Betting taxes	**32,238**	25,272
Software supplier costs	**14,885**	11,787
Other direct betting costs	**28,772**	25,573
	75,895	62,632

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

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

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

6. Financial income and expense

	Six months ended 30 June 2014 €'000	Six months ended 30 June 2013 €'000
Recognised in profit or loss:		
Financial income		
On financial assets at amortised cost:		
Interest income on short term bank deposits	**1,570**	1,763
Unwinding of discount on non-current assets	**60**	36
	1,630	1,799
Financial expense		
On financial liabilities at amortised cost:		
Interest on bank guarantees and bank facilities, and other interest payable	**11**	114
Unwinding of the discount on non-current liabilities	**51**	65
	62	179
Recognised in other comprehensive income:		
Effective portion of changes in fair value of cash flow hedges	**(3,160)**	4,943
Fair value of foreign exchange cash flow hedges transferred to income statement	**1,996**	(3,337)
Net change in fair value of cash flow hedge reserve	**(1,164)**	1,606
Foreign exchange gain / (loss) on translation of the net assets of foreign currency denominated subsidiaries	**7,758**	(13,451)
	6,594	(11,845)

7. Taxation

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

The Group's effective tax rate for the period was 13.0% (six months ended 30 June 2013: 13.0%), which compares to the standard Irish corporation tax rate of 12.5%.

8. Earnings per share

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

The calculation of basic and diluted EPS is as follows:

	Six months ended 30 June 2014	Six months ended 30 June 2013
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**53,613**	66,995
Denominator in respect of basic earnings per share (in '000s):		
Ordinary shares in issue at the beginning of the period	**50,977**	50,851
Adjustments for weighted average number of:		
- ordinary shares issued during the period	**30**	6
- ordinary shares held in treasury	**(1,734)**	(1,734)
- ordinary shares held by long term incentive plan trust	**(1,096)**	(1,066)
Weighted average number of ordinary shares in issue during the period	**48,177**	48,057
Adjustments to derive denominator in respect of diluted earnings per share (in '000s):		
Dilutive effect of Share Option Schemes, Sharesave Scheme, Long Term Incentive Plan and shares held by long term incentive plan trust	**316**	814
Adjusted weighted average number of ordinary shares in issue during the period	**48,493**	48,871
Basic earnings per share	**€1.113**	€1.394
Diluted earnings per share	**€1.106**	€1.371

9. Goodwill

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

	Online (ex Australia) €'000	**Online Australia €'000**	**UK Retail €'000**	**Irish Retail €'000**	**Total €'000**
Balance at 1 January 2013	13,303	60,723	14,224	8,332	96,582
Arising on acquisitions during the year	-	-	4,270	2,554	6,824
Foreign currency translation adjustment	-	(10,674)	(178)	-	(10,852)
Balance at 31 December 2013	13,303	50,049	18,316	10,886	92,554
Arising on acquisitions during the period (Note 10)	**-**	**-**	**1,699**	**4,192**	**5,891**
Foreign currency translation adjustment	**-**	**3,051**	**331**	**-**	**3,382**
Balance at 30 June 2014	**13,303**	**53,100**	**20,346**	**15,078**	**101,827**

The Group reviews the carrying value of goodwill for impairment semi-annually (or more frequently if there are indications that the value of goodwill may be impaired) by comparing the carrying values of these cash generating units with their recoverable amounts (being the higher of value in use and fair value less costs to sell). Management performed such an impairment review at 30 June 2014 and, on the basis of this review, are satisfied that the carrying amount of the Group's goodwill at 30 June 2014 is not less than its recoverable amount.

10. Business combinations

Six months ended 30 June 2014

Shop property business acquisitions

In 2014, the Group, in the absence of available comparable sites for organic shop openings, acquired a number of licensed bookmaking businesses in Great Britain and Ireland.

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

	Provisional fair values 30 June 2014 €'000
Identifiable net assets acquired:	
Property, plant and equipment	**923**
	923
Goodwill arising on acquisition – UK Retail and Irish Retail	**5,891**
Consideration	**6,814**
The consideration is analysed as:	
Cash consideration	**6,177**
Contingent deferred consideration	**637**
	6,814

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

Information in respect of income, operating profit and cash flows for the acquired businesses in respect of the period from acquisition and for the period ended 30 June 2014 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed targets for the next 12 months following the date of acquisition. The contingent deferred consideration amount of €637,000 at 30 June 2014 represents management's best estimate of the fair value of the amounts that will be payable.

During 2014, the Group also paid a total of €8,000 in respect of contingent deferred consideration for a 2013 UK Retail acquisition (see below).

10. Business combinations (continued)

Six months ended 30 June 2013

Shop property business acquisitions

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

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

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

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

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

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

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

Net cash outflow from purchase of businesses

	Six months ended 30 June 2014	Six months ended 30 June 2013
	€'000	€'000
Cash consideration – acquisitions in the period	**6,177**	2,415
Cash consideration – acquisitions in previous periods	**8**	88
	6,185	2,503
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses	**6,177**	2,415
Payment of contingent deferred consideration	**8**	88
	6,185	2,503

11. Financial assets and cash and cash equivalents

	30 June 2014	31 December 2013
	€'000	€'000
Non-current		
Financial assets – restricted cash	**-**	993
	-	993
Current		
Financial assets – restricted cash	**53,541**	52,806
Financial assets – deposits	**-**	13,686
Cash and cash equivalents	**190,865**	161,359
	244,406	227,851
Total	**244,406**	228,844

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

	30 June 2014	31 December 2013
	€'000	€'000
Cash	**75,821**	61,181
Short term bank deposits – with an original maturity of less than three months	**115,044**	100,178
Cash and cash equivalents in the statement of cash flows	**190,865**	161,359

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

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

	30 June 2014	31 December 2013
	€'000	€'000
Euro	**63,353**	76,305
GBP	**86,544**	73,455
AUD	**92,434**	77,188
USD	**1,583**	1,595
Other	**492**	301
	244,406	228,844

At 31 December 2013 included in non-current financial assets was restricted cash totalling €993,000 which was restricted at that date. This balance related to bank deposits held by the Online Australia business segment to guarantee certain obligations relating to office accommodation held under operating leases. At 30 June 2014, no such balances were restricted.

Included in current financial assets – restricted cash at 30 June 2014 are bank deposits totalling €53,541,000 (31 December 2013: €52,806,000) which were either (1) restricted at that date, as they represented client funds balances securing player funds held by the Group or (2) required to be held to guarantee third party letter of credit facilities.

At 31 December 2013 included in current financial assets – deposits were bank deposits totalling €13,686,000 which had an initial cost of €13,621,000. The maturity of these investments falls outside the three months' timeframe for classification as cash and cash equivalents under IAS 7 'Statement of Cash Flows', and, accordingly, the related balances have been separately reported in the consolidated statement of financial position. At 30 June 2014, no current financial assets – deposits were held.

12. Trade and other payables and derivative financial liabilities

Current liabilities

	30 June 2014 €'000	31 December 2013 €'000
Trade and other payables		
Trade payables	**24,884**	18,856
Customer balances	**69,381**	57,290
PAYE and social security	**5,523**	5,284
Value added tax and goods & services tax	**1,565**	1,035
Betting duty, data rights and product & racefield fees	**12,767**	9,349
Employee benefits	**23,473**	30,363
Contingent deferred consideration – business combinations	**4,006**	3,375
Accruals and other liabilities	**66,329**	55,421
	207,928	180,973
Derivative financial liabilities		
Foreign exchange forward contracts – cash flow hedges	**2,632**	1,467
Sports betting open positions	**24,311**	15,581
	26,943	17,048

Non-current liabilities

	30 June 2014 €'000	31 December 2013 €'000
Trade and other payables		
PAYE and social security	**159**	501
Employee benefits	**3,083**	6,499
Contingent deferred consideration – business combinations	**3,309**	4,701
Accruals and other liabilities	**505**	588
	7,056	12,289
Derivative financial liabilities		
Sports betting open positions	**403**	270

13. Financial instruments

Carrying amounts versus fair values

The following table shows the fair values of financial assets and financial liabilities at 30 June 2014 and 31 December 2013, together with the carrying amounts in the consolidated statement of financial position. It has been determined for financial instruments carried at amortised cost, that the carrying amount represents a reasonable approximation of fair value.

	30 June 2014		**31 December 2013**	
	Carrying amount €'000	**Fair value €'000**	**Carrying amount €'000**	**Fair value €'000**
Carried at fair value				
Current financial liabilities				
Non-derivative financial liabilities – contingent deferred consideration	**(4,006)**	**(4,006)**	(3,375)	(3,375)
Derivative financial liabilities – forward contract cash flow hedges	**(2,632)**	**(2,632)**	(1,467)	(1,467)
Derivative financial liabilities – sports betting open positions	**(24,311)**	**(24,311)**	(15,581)	(15,581)
	(30,949)	**(30,949)**	(20,423)	(20,423)
Non-current financial liabilities				
Non-derivative financial liabilities – contingent deferred consideration	**(3,309)**	**(3,309)**	(4,701)	(4,701)
Derivative financial liabilities – sports betting open positions	**(403)**	**(403)**	(270)	(270)
	(3,712)	**(3,712)**	(4,971)	(4,971)
Net	**(34,661)**	**(34,661)**	(25,394)	(25,394)
Carried at amortised cost				
Non-current financial assets				
Financial assets – restricted cash	-	-	993	993
	-	-	993	993
Current financial assets				
Trade receivables	**6,758**	**6,758**	5,725	5,725
Other receivables	**1,923**	**1,923**	1,815	1,815
Financial assets – restricted cash	**53,541**	**53,541**	52,806	52,806
Financial assets – deposits	**-**	**-**	13,686	13,686
Cash and cash equivalents	**190,865**	**190,865**	161,359	161,359
	253,087	**253,087**	235,391	235,391
	253,087	**253,087**	236,384	236,384
Current financial liabilities				
Trade and other payables	**(203,922)**	**(203,922)**	(177,598)	(177,598)
	(203,922)	**(203,922)**	(177,598)	(177,598)
Non-current financial liabilities				
Trade and other payables	**(3,747)**	**(3,747)**	(7,588)	(7,588)
	(3,747)	**(3,747)**	(7,588)	(7,588)
	(207,669)	**(207,669)**	(185,186)	(185,186)
Net	**45,418**	**45,418**	51,198	51,198
Total	**10,757**	**10,757**	25,804	25,804

13. Financial instruments (continued)

Financial instruments carried at fair value

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

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

	30 June 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
	€'000	**€'000**	**€'000**	**€'000**
Derivative financial liabilities	**-**	**(2,632)**	**(24,714)**	**(27,346)**
Non-derivative financial liabilities	**-**	**-**	**(7,315)**	**(7,315)**
Total	**-**	**(2,632)**	**(32,029)**	**(34,661)**

	31 December 2013			
	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Derivative financial liabilities	-	(1,467)	(15,851)	(17,318)
Non-derivative financial liabilities	-	-	(8,076)	(8,076)
Total	-	(1,467)	(23,927)	(25,394)

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

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

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

The fair value of open sports bets at the period end (Level 3 above) has been calculated using the latest available prices on relevant sporting events. The fair value calculation also includes the impact of any hedging activities in relation to these open positions.

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

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

Sensitivity analysis in respect of Level 3 financial instruments carried at fair value
The following sensitivity analysis has been performed for the Level 3 financial liabilities carried at fair value at 30 June 2014 and 31 December 2013:

Sports betting open positions
The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. Changes in those expectations and ultimately the actual results when the events occur will result in changes in fair value. While it is unlikely that the results of all sporting events would vary against expectation in a similar linear manner, a 10% positive and negative (from the viewpoint of the results of the Group) movement in the overall probability estimate of relevant sporting event outcomes would result in a €1,854,000 decrease and €1,685,000 increase respectively, in the value of open sports bets at 30 June 2014 (31 December 2013: €1,189,000 decrease and €1,081,000 increase respectively).

13. Financial instruments (continued)

Contingent deferred consideration

The fair value of contingent deferred consideration is primarily dependent on the future performance of both the acquired businesses and the Group against predetermined targets and on management's current expectations thereof. An increase and decrease of 10% in management's expectation as to the amounts that will be paid out would increase and decrease the value of contingent deferred consideration at 30 June 2014 by €745,000 and €775,000 respectively (31 December 2013: €20,000 and €803,000 respectively).

Movements in the period in respect of Level 3 financial instruments carried at fair value

The movements in respect of the financial assets and liabilities carried at fair value in the six months to 30 June 2014 and year to 31 December 2013 are as follows:

	Sports betting open positions €'000	Contingent deferred consideration €'000	Total €'000
Balance at 1 January 2013	(11,995)	(11,797)	(23,792)
Arising on acquisition (Note 10)	-	(598)	(598)
Recognised in the income statement	(730,037)	502	(729,535)
Settlements	726,181	3,072	729,253
Foreign currency translation adjustment	-	745	745
Balance at 1 January 2014	(15,851)	(8,076)	(23,927)
Arising on acquisition (Note 10)	**-**	**(637)**	**(637)**
Recognised in the income statement	**(391,269)**	**1,703**	**(389,566)**
Settlements	**382,406**	**8**	**382,414**
Foreign currency translation adjustment	**-**	**(313)**	**(313)**
Balance at 30 June 2014	**(24,714)**	**(7,315)**	**(32,029)**

Financial risk management – credit risk of trade and other receivables

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2013.

14. Dividends paid on ordinary shares

	Six months ended 30 June 2014 €'000	Six months ended 30 June 2013 €'000
Ordinary shares:		
- final dividend of 90.0 cent per share for the year ended 31 December 2013 (31 December 2012: 81.0 cent)	**44,392**	39,803
	44,392	39,803

The directors have proposed an interim dividend of 50.0 cent per share which will be paid on 26 September 2014 to shareholders on the Company's register of members at the close of business on the record date of 5 September 2014. This dividend, which amounts to approximately €24,650,000, has not been included as a liability at 30 June 2014. The interim dividend for the period ended 30 June 2013 was 45.0 cent per share, amounting in total to €22,104,000.

15. Changes in equity

All ordinary shares issued during the six months ended 30 June 2014 and 30 June 2013 were either in respect of share awards to employees or the exercise of share options granted to employees of the Group under the terms of the Share Option and Sharesave Schemes.

A total of 1,734,000 shares were held in treasury as of 30 June 2014 (30 June 2013: 1,734,000). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to €34,177,000 as of 30 June 2014 (30 June 2013: €34,177,000). At 30 June 2014, the Company held a further 1,020,372 of its own shares (30 June 2013: 1,107,378 shares), in respect of potential future awards relating to the Group's Long Term Incentive Plan ('LTIP'). The Company's distributable reserves at 30 June 2014 and 30 June 2013 are further restricted by these respective amounts.

As detailed in the consolidated statement of changes in equity, the movement in the share-based payment reserve and in the shares held by the long term incentive plan trust is due to the equity-settled share-based payments charge, the vesting of LTIP awards and the purchase of shares by the long term incentive plan trust during the six month period ended 30 June 2014. A total of 352,406 shares in respect of the 2011 LTIP awards and related dividends were vested from the long term incentive plan trust to senior and certain other management staff during the six months ended 30 June 2014 (six months ended 30 June 2013: 348,064 shares relating to the 2010 LTIP awards).

The movement in the foreign exchange translation reserve in the six months to 30 June 2014 reflects the strengthening of the AUD and GBP against the Euro in the period.

The cash flow hedge reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that had not yet occurred at that date. The Group has entered into foreign exchange forward contracts to hedge a portion of GBP exposures expected to arise from GBP denominated income in the second six months of 2014 and the first five months of 2015. The fair value loss of €2,301,000 at 30 June 2014 (30 June 2013: gain of €1,856,000), which is stated after applicable deferred taxation of €331,000 (30 June 2013: deferred tax liability of €265,000), arises as the applicable forward contract EUR-GBP rates were weaker than the relevant forward foreign exchange rate ruling at 30 June 2014 (30 June 2013: the applicable EUR-GBP rates were stronger than the relevant forward foreign exchange rate ruling at 30 June 2013).

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

16. Commitments and contingencies

(a) Guarantees
The Group has uncommitted working capital overdraft facilities of €15.6m (31 December 2013: €15.3m) with Allied Irish Banks p.l.c. These facilities are secured by a Letter of Guarantee from Paddy Power plc.

The Group has bank guarantees (1) in favour of certain gaming regulatory authorities to guarantee the payment of player funds, player prizes, and certain taxes and fees due by a number of Group companies and (2) in respect of certain third party rental and other property commitments and letter of credit facilities. The maximum amount of the guarantees at 30 June 2014 was €16,443,000 (31 December 2013: €19,249,000). No claims had been made against the guarantees as of 30 June 2014 or 31 December 2013. The guarantees are secured by counter indemnities from Paddy Power plc and certain of its subsidiary companies, and, at 30 June 2014, were also secured by cash deposits totalling €10,356,000 (31 December 2013: €18,769,000) over which the guaranteeing banks hold security. The fair value accounting impact of these guarantees is deemed to be immaterial.

The Group has cash amounts totalling €43,185,000 (31 December 2013: €35,030,000) deposited in client fund accounts held for the benefit of certain gaming regulatory authorities, of which the Isle of Man Gambling Supervision Commission is the most significant, as security for player funds owed by certain Group companies and as required under the terms of relevant gambling licences.

The Australian corporate sports bookmaking licence issued to Sportsbet and IAS require those companies to hold sufficient cash funds to cover monies owed to customers. At 30 June 2014, the total value of relevant customer balances attributable to the Online Australia business segment was €32,782,000 (AUD47,655,000) (31 December 2013: €24,660,000 (AUD38,033,000)) and the combined cash and cash equivalent balances held by Sportsbet and IAS at that date totalled €91,132,000 (AUD132,478,000) (31 December 2013: €73,859,000 (AUD113,913,000)).

16. Commitments and contingencies (continued)

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

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

	30 June 2014	31 December 2013
	€'000	€'000
Property, plant and equipment	**3,071**	2,359
Intangible assets	**2**	183
	3,073	2,542

17. Related parties

There were no material transactions with related parties during the six months ended 30 June 2014 or 30 June 2013 or the year ended 31 December 2013.

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

18. Events after the reporting date

Dividend
In respect of the current period, the directors propose that an interim dividend of 50.0 cent per share (2013: 45.0 cent per share) be paid to shareholders on 26 September 2014. This dividend has not been included as a liability in these condensed consolidated interim financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 5 September 2014. The total estimated dividend to be paid amounts to €24,650,000 (2013: €22,104,000).

Independent Review Report to Paddy Power plc

Introduction
We have been engaged by Paddy Power plc ('the Company') to review the condensed consolidated interim financial statements in the half yearly financial report for the six months ended 30 June 2014, which comprise the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in equity and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

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

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

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

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

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the half yearly financial report for the six months ended 30 June 2014 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Central Bank of Ireland and the Disclosure and Transparency Rules of the UK FCA.

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

27 August 2014