

**NOW**

THAT'S WHAT I CALL ENTERTAINMENT

**25**

**PADDYPOWER.**

ANNUAL REPORT 2013



# WHO'S YOUR PAPA?

'Holy Moly – our prayers have been answered' came the cry from the PR bods on hearing the news that Pope Benedict had thrown in the towel on the biggest gig in Catholicism. Over the next month in our quest to spread the gospel of Pope betting we racked up a handful of visits to Vatican Square to relieve the world's media of nothing to report on, one arrest, the biggest non-sporting market in Paddy Power history, a parking ticket for the Popemobile and another world famous offer promising papal punters 'Money Back If He's Black' on account of the African cardinals who were favourites in the betting. Short of God turning up himself, the NBA superstar proved to be the only man on the planet who could have upstaged a Papal election delivering a heavenly slam-dunk of Mischief on the big man's doorstep.



**YES WE VATI-CANI!**

MONEY BACK FROM PADDY POWER IF THE CARDINALS ELECT THE FIRST BLACK POPE

Cardinal Malindi **8/5**

Cardinal Tumbani **4/1**

CALL US TODAY  
**Paddy Power**  
0800 331 331  
www.paddypower.com



**paddypower.com**

**NEXT POPE BETTING**

- 1 Cardinal Marc Ouellet
- 2 Cardinal Francis Arinze
- 3 Cardinal Peter Turkson of Ghana
- 4 Cardinal Leonardo Sandri
- 5 Cardinal George Pell

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# DIRECTORS AND OTHER INFORMATION

## Directors

Nigel Northridge *Chairman*  
Patrick Kennedy *Chief Executive*  
Cormac McCarthy *Chief Financial Officer*  
Tom Grace *Non-executive Director*  
Michael Cawley *Non-executive Director*  
Danuta Gray *Non-executive Director*  
Ulric Jerome *Non-executive Director*  
Stewart Kenny *Non-executive Director*  
Pádraig Ó Riordáin *Non-executive Director*

## Company Secretary and Registered Office

Jack Massey  
Power Tower  
Belfield Office Park  
Beech Hill Road  
Clonskeagh  
Dublin 4

## Stockbrokers

Goodbody Stockbrokers  
Ballsbridge Park  
Ballsbridge  
Dublin 4

Credit Suisse Securities (Europe) Limited  
One Cabot Square  
London  
E14 4QJ

## Legal advisers

Arthur Cox  
Earlsfort Centre  
Earlsfort Terrace  
Dublin 2

## Auditor

KPMG  
1 Stokes Place  
St Stephen's Green  
Dublin 2

## Principal bankers

Allied Irish Banks p.l.c.  
Barclays Bank PLC  
Lloyds TSB Bank plc  
National Australia Bank Limited

## Registrars

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

## Registered number

16956

## 2013 GROUP FINANCIAL HIGHLIGHTS

### AMOUNTS STAKED<sup>\*/\*\*</sup>

**€6,180M**

**+8%**

2012: €5,703M

### INCOME<sup>\*/\*\*</sup>

**€745.2M**

**+12%**

2012: €662.7M

### DIVIDENDS PER SHARE

**135.0c**

**+13%**

2012: 120.0c

### DILUTED EARNINGS PER SHARE

**€2.520**

**+2%**

2012: €2.481

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

\*\* 2012 UK retail machine net revenue expressed on a consistent basis of taxation with 2013.

A large crowd of people is gathered in a bar area, illuminated by green neon lights. In the upper right, a man wearing a blue hard hat and a dark jacket is leaning over a railing, holding a white sign. The sign reads "THE PADDY POWER AND TITAN PRACTICES POLITICAL BOOK AWARDS 2013 #PBAwards" and features a graphic of Big Ben. The word "BAR" is written in large, white, stylized letters on the left side of the image.

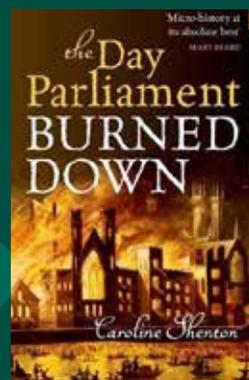
# BAR

# POLITICAL BOOK AWARDS

Napoleon Bonaparte once said "In politics, stupidity is not a handicap". Well, there are no prizes for stupidity in one area of politics that is close to our heart: insightful, witty, occasionally mischievous writing that gives people like us plenty to talk about. That's why we were delighted to be the headline sponsor of the Paddy Power Political Book Awards 2013, an annual event which celebrates the Political Book of the Year as well as awards in categories including biography, polemic, political history, international affairs, humour, satire, and fiction. In 2013, our inaugural year, winners included Ian Cobain, Ian McEwan, Daily Telegraph cartoonist Matthew Pritchett, and Nick Cohen. Caroline Shenton, winner of Political Book of the year for 'The Day Parliament Burned Down' received a cheque for the princely sum of £10,000. And who said politics doesn't pay? Or is that crime?



Copyright John Russell



# CHAIRMAN'S STATEMENT

Dear Shareholder,

I am pleased to report on another year of growth at your Company.

The Group achieved record turnover of €6.2 billion and operating profit of €137m. Net revenue of €745m was up 17% in constant currency, with growth in every division, and the Board's proposed final dividend makes for a total 2013 dividend of 135 cent per share, an increase of 13% versus 2012.

Profit growth in 2013 was achieved notwithstanding a €10m headwind from new product fees and taxes, currency depreciation and the first full year of investment in Italy. The second half of 2013 also saw an exceptional run of punter-friendly sports results. The impact of these results prevented us achieving double-digit earnings growth last year and resulted in a sportsbook gross win percentage of 9.7%. This compares to a rate of over 10% attained in the first half of 2013, and also anticipated in the second half, given the more attractive product and customer mix we have achieved since 2012.

€m	2013	2012	% Change	% Change in Constant Currency ('CC')
Amounts staked <sup>1</sup>	6,180	5,703	+8%	+14%
Sportsbook gross win %	9.7%	9.4%		
<b>Net revenue<sup>1</sup></b>	<b>745.2</b>	<b>662.7</b>	<b>+12%</b>	<b>+17%</b>
Gross profit	617.0	553.6	+11%	+15%
Operating costs	(479.6)	(417.6)	+15%	+19%
<b>Operating profit</b>	<b>137.4</b>	<b>136.0</b>	<b>+1%</b>	<b>+4%</b>
Profit before tax	141.0	139.2	+1%	+5%
<b>EBITDA</b>	<b>176.9</b>	<b>168.2</b>	<b>+5%</b>	<b>+8%</b>
EPS, diluted	252.0 cent	248.1 cent	+2%	+5%
Dividends	135.0 cent	120.0 cent	+13%	
<b>Net cash at year end</b>	<b>€229m</b>	<b>€209m</b>		

<sup>1</sup> 2012 UK Retail machine net revenue expressed on a consistent basis of taxation with 2013

Short term results, however, never deflect us from our long term strategy to develop a leadership position in the global betting market through considered and sustained investment in people, product, value and brand. In Online, 2013 saw the release of more new product than ever and reinforced our industry leading penetration in mobile betting, both for sports and eGaming. In Retail, we opened a record 67 new shops and now have over 500 units. In new geographies, we are steadily growing our revenues in Italy, and we signed a new B2B contract with Niké, the largest retail and online operator in Slovakia.

## Betting Regulation & Taxation

Increased regulation, and taxation, of the global gambling industry presents both opportunities and challenges for the Group. Paddy Power is keen to play its part in such developments, by sharing its international experience, participating in research and supporting evidence-based debate to ensure we meet our responsibilities to customers and to the broader community.

## Online

In Ireland and the UK, the new online licence and tax regimes on a 'point of consumption' basis have been well flagged and are expected to increase our costs from later this year. We continue to urge the authorities in both jurisdictions to implement as wide a range of enforcement mechanisms as possible, so that their player protection and tax collection objectives are not frustrated and jobs put at risk by the emergence of non-compliant competing operators.

Similarly, there is a strong case for certain governments to move from their prohibition of some or all types of online betting to responsible regulation and taxation, so as to eliminate illicit unregulated supply. Such developments would enable us to broaden our product offer in Australia, Italy and for B2B in Canada, and possibly enter new geographies.

## Retail

The regulations governing gaming machines in UK betting shops continue to be the subject of political and media debate. Together with other leading industry operators, we have met with the Minister for Sport, Tourism & Equalities and are in dialogue with the Department for Culture, Media and Sport and the Gambling Commission. We have pushed for faster and deeper research to ensure policy is based on evidence. The Responsible Gambling Trust (RGT) have now extended and brought forward some of their related research and we are cooperating fully, including supplying loyalty programme data. We have also rolled out all the measures in the new Association of British Bookmakers' (ABB) Code for Responsible Gambling and Player Protection launched on 1 March.

There has also been debate in the UK regarding the 'clustering' of betting shops. We believe related proposals to change planning or licensing legislation to be anti-competitive and could be subject to legal challenge.

## Employment & Tax

Paddy Power has a strong track record of providing high quality jobs and making a significant tax contribution in the countries in which we operate. We employed 4,422 people at the end of 2013 and paid total taxes and duties of €183m during the year.

	Employment 31 Dec 2013	% Change in 2013	Tax/Duty Paid 2013	% Change in 2013
Ireland	2,328	+7%	€72m	+2%
UK	1,487	+32%	€58m	+11%
Australia	461	+25%	€45m	+28%
Italy and Rest of World	146	+43%	€8m	+300%
<b>Group</b>	<b>4,422</b>	<b>+17%</b>	<b>€183m</b>	<b>+15%</b>

## Financial Position and Dividends

Net cash at the end of 2013 was €229m (including customer balances of €57m), an increase of €20m compared to a year earlier, notwithstanding a 16% increase to €62m in dividends paid in 2013 to shareholders, and substantial investment in our online businesses and retail estate.

The Board regularly reviews the Group's capital structure and is committed to capital discipline. Notwithstanding the strength of the Group's balance sheet and ongoing cash generation, we believe that the Group should maintain the flexibility that its current capital structure provides, given the opportunities that may arise during this period of industry change. The Board will continue to keep the position under review.

The Board is proposing an increase in the final dividend of 11% to 90.0 cent per share. This would bring the total dividend in respect of 2013 to €66.4m or 135.0 cent per share, an increase of 13% on 2012.

## Outlook

In January to February, sportsbook stakes in constant currency grew by 6% like-for-like in retail and 19% in online. Football results were poor for bookmakers in January, the impact of which has partially reversed in the subsequent weeks.

The Board remains confident of the Group's prospects for 2014 and I look forward to updating you on progress at our AGM in May.



**Nigel Northridge**  
Chairman

3 March 2014

THE GROUP ACHIEVED  
RECORD TURNOVER OF  
**€6.2 BILLION**

WE PROVIDED  
**4,422 JOBS**

# CHIEF EXECUTIVE'S REVIEW

## Clear, Consistent & Effective Strategy

Paddy Power was 25 years old in 2013. From an Irish retail bookmaking business with 42 shops in 1988, we have grown to be one of the world's leading online betting and gaming groups, with B2C and B2B customers around the globe and an estate of over 500 shops across the UK and Ireland. The strategy that has driven this outcome has been consistent:

- identify large, attractive, regulated markets;
- aspire to be the fastest growing and biggest operator;
- invest – for the long term – in product, marketing, technology and people;
- generate strong payback in these markets, creating scale and optionality for new markets.

The details are regularly refined but the endurance of the overall strategy provides clarity to the Group's direction, particularly during periods of industry transition. Our sector is experiencing such a period now with new regulations, taxes, technologies and consumer behaviours emerging. Paddy Power is well positioned for these changes and through this period we are continuing to invest substantially and smartly – in our product, in marketing and in sustainable industry leading operating capabilities. We believe such investment has been the basis of our success, and will continue to deliver long term growth and value for our shareholders.

## Strong Positions in Attractive Markets

### Industry Growth 'Hot Spots' – Online, Mobile and Multi-Channel

While the overall gambling market (retail and online) grows as consumer spending increases, online growth is accelerated by new bettors engaging disproportionately online, more retail bettors becoming multi-channel consumers and increasing tablet/smartphone penetration. Over the next five years, we expect online betting markets to typically achieve double-digit percentage annual growth and for mobile betting to account for some 90% of total industry growth. Meanwhile, multi-channel customers will continue to grow in importance, having already reached 42% of total UK online sportsbook spending in 2012, as compared to 20% in 2008.

### Paddy Power Over-Indexes on Key Growth 'Hot Spots'

Paddy Power is distinctively well positioned for these opportunities. Over three quarters of the Group's profits are generated from the high growth online markets. Within online, we have the highest exposure to increased tablet/smartphone usage, with 45% of our online revenues coming from mobile in 2013, compared to a quoted UK competitor average of some 25%. In addition, we have strong multi-channel potential given we have both a leading retail and online proposition, and already generate a disproportionately large online 'halo' in the areas surrounding our shops.

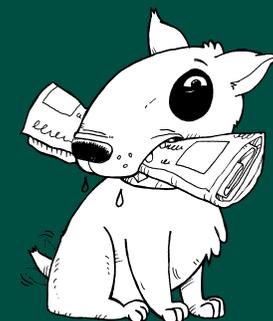
Geographically, we are positioned strongly. We have made substantial B2C investments in the largest regulated betting markets in the world: in Italy, in the UK and in Australia, with B2B businesses in other large markets. We also have a very attractive exposure to economic recovery in our Irish home market.

### Market Share Consolidating

Our markets are becoming less fragmented as the investment, capabilities and scale required to succeed continues to increase. For example, mobile has driven an increase in the IT platforms that Paddy Power supports from 15 in 2011 to 51 in 2013, with over 70 expected by the end of this year, as we provide an optimised user experience for multiple products, across multiple devices and operating systems. In Australia, such complexity, combined with higher product fees payable to racing and sporting bodies, has seen the acquisition and consolidation by larger operators of six of the eight online corporate bookmakers that existed five years ago. In the UK, market share has also consolidated amongst larger operators and we expect that trend will continue with the introduction, later this year, of the new 15% tax on online revenues. We estimate that some 20% of the UK online market was held by operators with less than a 15% online operating profit margin in 2013.

WE HAVE GROWN TO BE

ONE OF THE  
WORLD'S  
LEADING  
ONLINE BETTING  
AND GAMING  
GROUPS





# CHELTENHAM MISCHIEF

During the 2013 Cheltenham Festival we decided to fly the world's biggest pair of inflatable underpants behind the racecourse. Modelled on our famous Lucky Pants, the balloon was a massive 63ft high and 60ft wide. It took two of the UK's most skilled seamstresses six months to make the giant undergarments flight-worthy. It made its debut appearance at Cheltenham after the Supreme Novice's Hurdle. Despite experiencing difficulty in the trouser department on day one of the Festival, on day two, we were fully pumped and in full flight! The Festival proved to be a week of firsts as we unveiled the world's first branded horse, the green-bottomed Hunt Ball. All this Mischief can be hungry work, so to feed the masses at Cheltenham we brought our Horse Burger Van to the track and our Shergar Burgers went down an absolute storm.



## CHIEF EXECUTIVE'S REVIEW (CONTINUED)

### Effective Long Term Investment in Product, Marketing, Technology and People

#### Rigorous, Analytical and Long Term

A rigorous, analytical and long term perspective is applied to every investment decision we make at Paddy Power. For example, our brand advertising is entertainment led, but it is fully informed by painstaking marketing analytics and testing to ensure its returns are maximised. Our third generation football pricing model will incorporate accumulated data on over 100,000 matches and build on the initial investment we made ten years ago. To gather consumer insights, last year we interviewed 16,000 retail, online and multichannel Paddy Power and competitors' customers, in the UK, Ireland, Italy and Australia. Such research informs targeted investment in product, in marketing and in our capabilities.

#### Product

Product innovation has always been at the heart of what we do. Market research consistently confirms that the top considerations for online bettors when choosing an operator are product, not price, related. Over the past two years we have more than quadrupled our annual investment in product development days to over 30,000 in 2013 from both internal and external sources for online (excluding Australia). We have at the same time improved efficiency by halving the ratio of test days to development days over the past two years. This year we expect to have over 230 new product releases, compared with 131 in 2013 and 73 in 2012.

Key recent product releases include a series of in-house developed mobile products, including new Sports, Games and Casino tablet apps. Tablet devices will be central to future growth in mobile with their penetration amongst consumers having more than doubled in the UK last year. We also added a record 200 new games last year, of which over 60% are mobile games and 35% are exclusive Paddy Power proprietary games. This mobile leadership is enabling Paddy Power to effectively serve valuable multi-product mobile customers, who enjoy both sports and gaming. Last year, our eGaming net revenue grew by 16% in constant currency, as compared to an average of 2% amongst quoted UK peers. Further product initiatives this year will present a more 'joined up' experience across retail and online channels to serve multi-channel consumers. We will also put additional investment into over 160 new or existing shops this year, versus 82 last year.

#### Marketing

Marketing has become a key battle ground for competition in our industry. This applies in Italy, in Ireland, in Australia and in the UK, where the industry's TV spend has more than doubled in the last two years. This is a battle ground where we have distinctive strengths and are recognised leaders. Ours is the only brand in the sector which customers say has a real personality which, together with our industry leading online marketing capabilities, delivers new customers to Paddy Power at a lower cost relative to the competition. These distinctive capabilities are hard to replicate, and contribute more than the sum of their individual parts. They span a huge range of acquisition, retention and reactivation activities, across multiple products, platforms and customer segments and use many new tools, technologies and techniques. And we will put more money behind our capabilities

when conditions require it, such as in the UK market where, within existing operating cost guidance, our 2014 TV advertising expenditure is currently running at more than double 2013 levels.

#### Technology

Technology is a key enabler to ensure we seize the significant growth opportunities available to us. Much of the infrastructure groundwork has been completed with past investment in 'active/active' data centres, diverse network routing and the ability to dynamically load balance to address incident management, maintenance windows or high transaction volumes. As a result, we are now seeing higher platform availability and scaling benefits in our core technology infrastructure.

We continue to invest substantially in our internal development capabilities, in particular for mobile and tablet product and 'front-end' customer interfaces. This ensures our products are differentiated, increases development efficiency and accelerates the pace at which we release product to our customers. The acquisition of a development base in Bulgaria in late 2011 was an important evolution of our capabilities, enabling us to create proprietary product in targeted areas like mobile gaming, as well as providing a cost efficient base for some of our additional technology requirements.

#### People

The last – but most important – category of investment is people. Our people are the best in the sector – smarter, hungrier and more creative than the competition. We now have substantial and deep expertise with over 1,400 people in the Group across Online, IT and Risk, compared to some 600 three years ago, and we plan to add a further 250 this year. At a country level, we now have over 450 people in Australia and over 60 based in Italy, providing local insight and specialisation, which when combined with central expertise, gives us a capability that many competitors do not match. In addition, we have never invested more in developing our people and setting a unified direction, at a Group, team and individual level.

#### Conclusion

Paddy Power is strongly positioned to benefit from the growth 'hot-spots' in our markets: in online, in mobile and in multi-channel. We continue to make substantial, well-targeted and long term investment in our product, marketing, technology and people, with a significant programme in train for 2014. We have a strong track record of payback on such investment. Our strong balance sheet provides further opportunities to create value for shareholders. As a result, we look forward to 2014 and beyond with confidence.



**Patrick Kennedy**  
Chief Executive

3 March 2014

# PRODUCT INNOVATION

HAS ALWAYS BEEN AT THE  
HEART OF WHAT WE DO

PADDY POWER IS  
**STRONGLY  
POSITIONED TO  
BENEFIT FROM  
THE GROWTH  
'HOT-SPOTS'**  
IN OUR MARKETS: IN ONLINE,  
IN MOBILE AND IN MULTI-CHANNEL

## OPERATING & FINANCIAL REVIEW

### Introduction

Paddy Power is an international betting and gaming group. Last year, 79% of Group profits came from the high growth online channel. The Group also benefits from being a multi-channel operator in the UK and Ireland. Shops boost brand recognition, trust and scale, as well as directly contributing 20% of operating profit last year.

### Operating Profit by Division

Division	2013		2012		% Change
	€m	% of Group	€m	% of Group	
Online (ex Australia)	73.5	54%	72.7	53%	+1%
Online Australia	33.5	24%	30.8	23%	+9%
UK Retail	13.9	10%	15.3	11%	(9%)
Irish Retail	14.0	10%	14.4	11%	(2%)
Telephone	2.5	2%	2.7	2%	(8%)
<b>Group Operating Profit</b>	<b>137.4</b>	<b>100%</b>	<b>136.0</b>	<b>100%</b>	<b>+1%</b>

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

Paddy Power has become increasingly diversified geographically in recent years with online customers now in Ireland, the UK, Australia and Italy, in addition to business-to-business clients in France and Canada, and more recently in Slovakia.

### Operating Profit by Geography

Geography	2013		2012		% Change
	€m	% of Group	€m	% of Group	
UK	83.3	61%	81.7	60%	+2%
Australia	33.5	24%	30.8	23%	+9%
Ireland, Italy and Rest of					
World	20.6	15%	23.5	17%	(12%)
<b>Group Operating Profit</b>	<b>137.4</b>	<b>100%</b>	<b>136.0</b>	<b>100%</b>	<b>+1%</b>

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

### Sports Results & Trading

As we reported during 2013, the random walk of sports results had an adverse impact on profits in the second half of last year driven by the drubbing we took in November (on the Australian Spring Racing Carnival) and in July (on pretty much everything).

In the first half of the year sports results went backwards and forwards like a naked Miley Cyrus riding a wrecking ball but overall showed their tendency to normalise with time (we hope the same is true for Miley!). After a strong start to the year, then a Cheltenham to forget (let's just say that record for Irish-trained winners better never be broken), we got a dream Grand National result when Auroras Encore romped home at 66/1.

As ever, our distinctive value proposition for punters kicked in boosting customer satisfaction and retention. We refunded €2.5m of losing bets when Hurricane Fly reclaimed the Champion Hurdle. We paid an unrivalled extra 5th place on the National in both retail and online, and we righted wrongs with Justice Payouts, like when well backed favourite, Ektihaam, slipped at Ascot. Our customers don't even have to wait until the fat lady sings, with bets on Man U winning the 2013 Premier League paid out in February with a third of the season still to go (...funny how things change...as we were about to find out ourselves).

Beware the British Open! We've had bad results here before (Harrington x2) but Mickelson winning, with other favourites featuring throughout our generous seven place each-way payout, was the worst single event result we've ever had (even more painful than the Yanks shouting 'get in the hole' after every shot!). And there was more to come. Not since finding a fluffy tuppence down the back of the sofa were the Scots as happy – Andy Murray wins Wimbledon – triggering a massive Money-Back Special for losing Paddy Power punters into the bargain (if you thought Andy's tears were excessive, you should have seen our tennis traders). Racing results were little better with, for example, 46% of favourites obliging punters over the Galway festival.

The geographic risk diversification we get from Australia worked well in September, with some nasty UK football results offset by upsets in the AFL and NRL final series. However inter-office relations took a nose-dive when five of the eight Group One races at the Australia Spring Racing Carnival were won by the favourite, including Fiorente, the first favourite to win the Melbourne Cup since 2005.

When there's an unusually positive or negative run of results it can be helpful to pick out the specific random outturns that impacted us. Less entertaining, but much more important, is the rigorous analysis of bets by our Risk team, to review, calculate and optimise our underlying structural gross win percentages. The strength of this core capability is borne out by higher gross win percentages for paddy.com than for our quoted UK competitors in each of the last ten years, notwithstanding the extra value we offer.

**79% OF GROUP PROFITS  
CAME FROM THE  
HIGH  
GROWTH  
ONLINE  
CHANNEL**



# ROYAL BABY

There was the mother of all media scrums outside St Mary's Hospital in Central London last June as the world waited with bated breath for the arrival of the new Royal Baby. We gave the assembled hacks something to talk about when we gate-crashed the baby shower with our bookie's board and the latest odds on the Royal Baby's name. We also unleashed our very own 'Royal Babies' on an unsuspecting British public. Bizarrely the babies were a huge hit and generated tons of media coverage including the front page of The Sunday Times. Other than Will, Kate and Baby George, Paddy Power was the name being most spoken during this global news event.



## OPERATING & FINANCIAL REVIEW

(CONTINUED)

### Online

€m	2013	2012	% Change	% Change in CC
Sportsbook net revenue	347.6	300.5	+16%	+22%
Gaming & other net revenue	125.3	109.1	+15%	+17%
<b>Total net revenue</b>	<b>472.9</b>	<b>409.6</b>	<b>+15%</b>	<b>+21%</b>
Gross profit	389.4	338.2	+15%	+20%
Operating costs	(281.3)	(236.1)	+19%	+24%
<b>Operating profit</b>	<b>108.1</b>	<b>102.1</b>	<b>+6%</b>	<b>+10%</b>
% of Group operating profit	79%	75%		
<b>Active customers</b>	<b>1,940,559</b>	<b>1,628,198</b>	<b>+19%</b>	

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

We grew online profits by 10%, in constant currency, to €108m last year, despite the impact of adverse sports results and the first full year of investment in our Italian business.

The scale of our online operation continues to increase significantly, all via organic growth and driven from legal, regulated markets. Last year, net revenue grew by 21% in constant currency to €473m and active customers increased by 19% to 1.9 million, all off a much increased base. Over the last three years, annual growth has averaged 25% for net revenue in constant currency and 33% for active customers.

Net revenue from mobile was an industry-leading 45% of total revenue, or €212m, an increase of 73% in constant currency versus 2012. We continue to invest heavily in mobile to enhance our leadership position and exploit its exceptional growth potential. Last year, we released new mobile content and product enhancements across all our online businesses, as well as introducing our first in-house developed tablet apps for Sportsbook, Games and Casino.

Excluding Italy, online operating costs increased by 22% in constant currency, a considerable moderation on the equivalent growth of 41% in 2012, as we are now benefiting from investments in our infrastructure made in previous years.

### Online (Excluding Australia)

€m	2013	2012	% Change	% Change in CC
Amounts staked	2,317	2,112	+10%	+13%
Sportsbook net revenue	174.4	154.0	+13%	+15%
<i>Sportsbook gross win %</i>	<i>8.6%</i>	<i>8.4%</i>		
Gaming & other net revenue	125.3	109.1	+15%	+17%
<b>Total net revenue</b>	<b>299.7</b>	<b>263.1</b>	<b>+14%</b>	<b>+15%</b>
Gross profit	258.6	226.1	+14%	+15%
Operating costs	(185.1)	(153.4)	+21%	+23%
<b>Operating profit – total</b>	<b>73.5</b>	<b>72.7</b>	<b>+1%</b>	<b>+1%</b>
<i>Operating loss - paddypower.it</i>	<i>(16.8)</i>	<i>(14.7)</i>		

The Online Division (ex Australia) comprises the B2C businesses, paddypower.com and paddypower.it, and smaller B2B activities. Divisional operating profit increased by €0.8m to €73.5m. Net revenue grew 15% in constant currency to €300m and active customers were up 17% to 1.5m.

Last year saw a more intensive competitive environment in the UK, with a drive for increased market share by many operators in advance of the new 'point of consumption' tax regime, expected from December 2014. As a leading scale player, paddypower.com performed well in this tougher environment achieving double digit growth, in both sportsbook and eGaming net revenue, and a 13% increase in active customers. This performance was driven by our strong market positions, marketing execution, product investment and operating capabilities, with, for example, free bet and marketing costs unchanged as a percentage of net revenue (notwithstanding significant media inflation). As a result, our operating profit as a percentage of net revenue remained amongst the highest in the sector at 31%, leaving us very well positioned. During this period of industry change, we will continue to invest in order to enhance our competitive position for the long term.

In the very large and attractive Italian betting market, our online business continues to progress well, as we roll-out products, establish our brand and build a critical mass of customers to reach profitability. Market research shows spontaneous brand awareness of Paddy Power has increased to 30%, as compared to 20% a year ago. On product roll-out, we were the first operator to offer the additional betting product allowed under the new Palinsesto Supplementare regulations in October and we lead the market in events offered with over 550 per week in January versus 400 by our nearest competitor. This has helped drive our share of the online sports betting market to 10% in the first two months of 2014, versus 5% at the start of 2013. In addition, we over-index in the fastest growing part of the market, with mobile accounting for almost half of our amounts staked last month, versus an estimated industry average in Italy of 30%. We also introduced a significant amount of product for the large eGaming market, including Games on desktop and mobile, a Casino mobile app and 'Live' Casino on desktop. This year we will roll out more mobile casino product, 'virtual' betting product, Bingo and Poker, and are also looking forward to the full implementation of the Palinsesto Supplementare regulations.

**ONLINE  
NET REVENUE  
GREW 21%,  
IN CONSTANT CURRENCY,  
TO €473M LAST YEAR**

# MOBILE GAMING NET REVENUE INCREASED BY 143% IN CONSTANT CURRENCY LAST YEAR

Online (Ex Aus) Active Customers	2013	2012	% Change
UK	1,157,694	1,021,517	+13%
Ireland and Rest of World	366,295	285,181	+28%
<b>Total</b>	<b>1,523,989</b>	<b>1,306,698</b>	<b>+17%</b>

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

Online (Ex Aus) Customers Product Usage	2013	2012	% Change
Sportsbook only	920,685	767,566	+20%
Gaming only	173,325	146,752	+18%
Multi product customers	429,979	392,380	+10%
<b>Total</b>	<b>1,523,989</b>	<b>1,306,698</b>	<b>+17%</b>

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

## (A) Online Sportsbook

The amounts staked on the online sportsbook increased by 13% in constant currency to €2.2 billion. Within this, bet volumes grew by 14% to 154.0m, while the average stake per bet decreased by 1% in constant currency to €14.14. Net revenue increased by 15% in constant currency.

We continue to use our scale and expertise to innovate and develop our products. First to market betting enhancements last year included: 'partial settlement' of multiples, as soon as each leg of the bet is resulted, to get winnings to customers faster; retail style 'football coupons' to grow multiples betting; 'combined horses' odds for when customers fancy more than one runner in a race; and 'powercasts' giving fixed odds returns on forecast and tricast bets. We also added 'cash out' allowing customers to sell their bet before it settles, and new content to our site including the 'Paddy Power inFormer' guide to racing form with Racing Post statistics.

We also significantly enriched our mobile product, adding new features including 'two-tap' betting, extra streamed international racing, targeted push notifications, coupon enhancements and 'my-team' pages. In December we launched our all-new sports betting iPad app which was researched, designed, developed and tested entirely in-house. This ensures the app is fully customisable to reflect our brand, product and offers and delivers stronger differentiation and protection of our IP (we're talking the best performance from a tablet since Lance Armstrong!). This investment helped grow our mobile turnover by 42% in constant currency to €1.1 billion, representing over half of our sportsbook turnover last year, with 69% of sportsbook customers transacting with us via mobile last month, generating 56% of sportsbook stakes.

In August, we 'beta' launched Paddy Power In-Play!, the first real money sports betting product on Facebook. We continue to refine the product and test its potential.

Novelty betting proved as popular as ever. Paddy Power was first to market on papal betting with our Obama-esque campaign ('Yes we VATI-CAN' and 'Money Back if he's black!'), and our Royal baby betting generated media coverage by the pram load.

## (B) Online Gaming & B2B

Paddy Power continues to take significant share in the eGaming market. Gaming and other revenue increased by 17% in constant currency to €125m with growth in Casino, Games, Bingo and B2B, offsetting a reduction in Poker driven by a declining market.

Pivotal to this strong performance has again been our early and on-going investment in mobile. Mobile net revenue increased by 143% in constant currency last year, with 42% of eGaming customers transacting with us via mobile last month, generating an industry-leading 35% of total online gaming revenue. Mobile product releases last year included our in-house developed native tablet apps for Games and Casino, the PP Vegas tablet app, a 'Live' Casino app, a revamped Games app and 40 exclusive proprietary mobile games developed by our games development subsidiary in Bulgaria. This in-house team was our largest supplier of new game content last year, providing 70 of the 200 games released across desktop, mobile and tablet – and it's quality, as well as quantity – with revenue per new game higher than third party suppliers, driving their contribution to 20% of total Games revenue by December.

Our B2B relationships with PMU in France and BCLC in Canada continue to perform strongly, highlighting our betting risk management, operations and partnership capabilities. PMU achieved further market share gains last year with 22% growth in its online sports turnover. In November, we concluded a new B2B agreement to supply Niké, the largest retail and online operator in Slovakia, with sports betting product for both its channels. A six month trial of the planned three year deal went live in December.

## Online Australia - [sportsbet.com.au](http://sportsbet.com.au)

€m	2013	2012	% Change	% Change in CC
Amounts staked	1,914	1,710	+12%	+24%
<b>Net revenue</b>	<b>179.6</b>	<b>156.4</b>	<b>+15%</b>	<b>+28%</b>
<i>Sportsbook gross win %</i>	<i>9.8%</i>	<i>9.4%</i>		
Gross profit	135.1	119.4	+13%	+26%
Operating costs	(101.6)	(88.6)	+15%	+26%
<b>Operating profit</b>	<b>33.5</b>	<b>30.8</b>	<b>+9%</b>	<b>+25%</b>
Active customers	419,388	324,341	+29%	

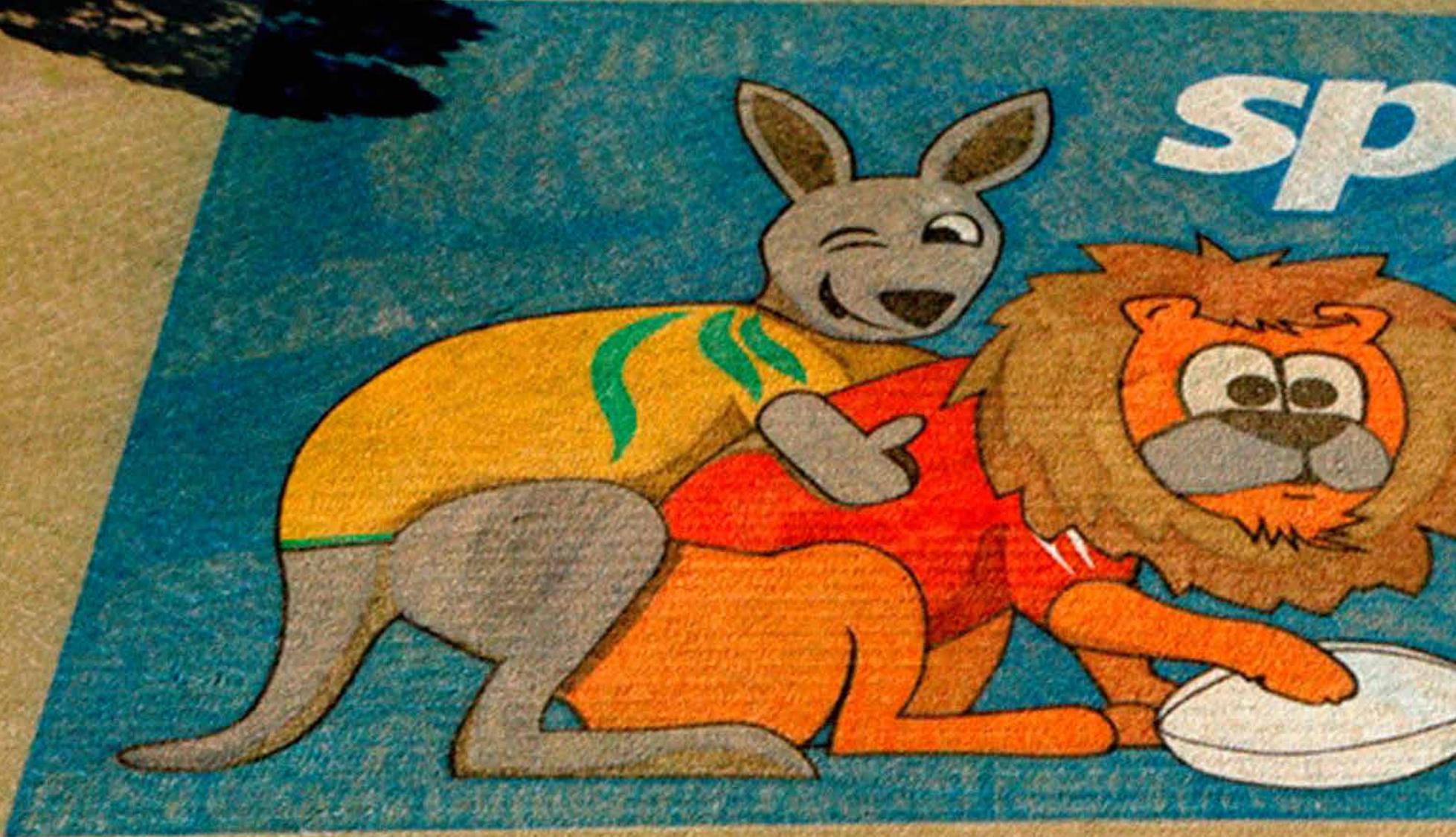
(Active customers defined as customers who have deposited real money and have bet in the year)  
(The division also includes telephone operations accounting for less than 10% of its gross and operating profit)

Our Australian business is hotter than centre court at an Aussie Open, growing its net revenue by 28% and its operating profit by 25% last year in constant currency, despite a €2m headwind from higher product fees payable to racing and sports bodies. In online, we continue to take market share, with stakes up by 25%, net revenue up by 31% (both in constant currency) and active customers up by 30%. Mobile turnover almost doubled in constant currency to €632m, with 69% of our online customers transacting with us via mobile last month, generating 45% of sportsbook turnover.

# ONLINE AUSTRALIA OPERATING PROFIT UP 25% LAST YEAR IN CONSTANT CURRENCY

# ROOTING FOR THE WALLABIES

Proving their credentials as heavyweight Mischief Makers, Sportsbet created quite a stir Down Under during the 2013 British & Irish Lions Tour, creating the world's largest sign, featuring the world's biggest Hashtag. Our Aussie cousins wanted to rally the home support to get (ahem) 'behind' the Wallabies ahead of their crucial second match and 'root' for their nation. Beautifully located under the flight path into Melbourne, the sign sent the Aussie media into raptures. 170m wide by 90m high using 2,500 litres of paint, it took five experts a full week to create. Fair dinkum boys.





## OPERATING & FINANCIAL REVIEW

(CONTINUED)

The approach driving this outperformance in sportsbet.com.au is the same one we apply in paddypower.com and paddypower.it – considered and substantial investment in people, product, value and brand. We have a team of over 450 people in Australia now, having doubled the online and technology staff over the last three years. This creates a level of capacity and specialist skills significantly ahead of our competitors, which is difficult and time consuming to replicate. Our Australian product benefits from the combination of this local expertise with our central resources, enabling us for example to offer 80% more sports betting opportunities online than our nearest competitor. Later this month we will enhance our position in the crucial mobile market with the release of in-house developed tablet apps.

Australian online bettors rank Sportsbet as the brand that offers the best value for money, by a distance – not surprising given that over 130,000 of our Australian customers benefitted from our Money-Back Specials last year. Independent market research shows our spontaneous brand awareness at 49% last year, markedly ahead of our corporate bookmaker competitors, and a lead we should extend this year with the addition of Channel 9 NRL coverage to our media assets. Social media is of course an intrinsic part of our distinctive marketing and sportsbet.com.au leads the industry on Facebook Fans and Twitter Followers.

### Retail

Our retail businesses in Ireland and the UK are giving us very attractive direct returns on capital, as well as the important benefits of a multi-channel offer and increased scale.

Last year, the average EBITDA per shop for the 139 mature units we opened between 2008 and 2011 was €175,000 as compared to a cost per unit of €324,000 (capex plus any acquisition costs). We also successfully accelerated our rate of investment last year with a record 67 new shops opened (and a further 15 new units already trading this year). With just a 3% share of the shops in the UK market, we expect to open at least 40 shops annually in the UK, in the current environment.

Multi-channel consumers are one of the fastest growing and most valuable betting customers segments, as shown by the popularity of our Cash-Card, which allows customers to deposit or withdraw cash from their online account at any of our 500 plus shops. Last year, we launched promotions cross-selling retail betting to online customers, and vice-versa. Further initiatives are planned this year to take advantage of our multi-channel position, including enabling customers use their Cash-Card in our Self Service Betting Terminals ('SSBTs') from next month.

Notwithstanding migration of betting activity from retail to online, there are core retail users who place greater value on the attractions of retail betting such as the social experience, immersion in the action and physical cash transactions. Such bettors see little value in migrating online, despite having the option. Paddy Power's retail position is further protected by our turnover per shop which is double that of competitors' units, and which also feeds into higher profitability per unit. This allows us to continuously enhance an already leading proposition, in a way others simply cannot.

In terms of value for customers, we offer the most generous machine gaming loyalty programme, and are the only major bookmaker to offer the same odds, and block-buster Money Back Specials, over-the-counter as we do online.

We have also enhanced our product offering. We were the first operator to complete the roll-out of the new Inspired 'Eclipse' gaming cabinets last December. We also lead the market for SSBTs, with at least one terminal per shop in the UK since July 2011. Following successful product development and return on investment trials last year, we'll put new screen, shop format or new opening investment into over 160 units this year, versus 82 last year.

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

### UK Retail

€m	2013	2012	% Change	% Change in CC
Amounts staked	619	540	+15%	+20%
Sportsbook net revenue	64.0	53.9	+19%	+24%
Sportsbook gross win %	11.7%	11.3%		
Machine gaming net revenue	63.5	56.4	+12%	+17%
<b>Total net revenue</b>	<b>127.5</b>	<b>110.3</b>	<b>+16%</b>	<b>+20%</b>
Gross profit	96.1	85.3	+13%	+17%
Operating costs	(82.2)	(70.0)	+17%	+22%
<b>Operating profit</b>	<b>13.9</b>	<b>15.3</b>	<b>(9%)</b>	<b>(6%)</b>
Shops at year end	266	209	+27%	

(UK Retail machine net revenue is expressed on a consistent basis of taxation above and throughout this statement. 'Sportsbook' includes over-the-counter and SSBTs)

UK Retail profits decreased by €1.4m due to headwinds of €1.8m from a new gaming machine tax regime and €0.6m from unfavourable exchange rate movements.

In constant currency, turnover grew 20% to €619m, while net revenue also increased by 20% to €128m. Like-for-like net revenue grew by 2% in constant currency. This growth comprised a decline in machine gaming net revenue of 3% offset by sportsbook net revenue growth of 8%. Like-for-like sportsbook turnover was up by 4%, comprised of bet volumes up by 6% and an average sportsbook stake per bet down by 2% in constant currency to €15.33.

WE HAVE A TEAM OF  
**OVER 450  
PEOPLE IN  
AUSTRALIA**

OUR **RETAIL  
BUSINESSES  
ARE GIVING  
US VERY  
ATTRACTIVE  
DIRECT  
RETURNS  
ON CAPITAL**  
AS WELL AS THE IMPORTANT  
BENEFITS OF A MULTI-CHANNEL  
OFFER AND INCREASED SCALE

Machine gaming performance reflected the impact of new terminal trials and the launch costs of our loyalty programme earlier in 2013, as well as weaker consumer demand. While the market remains competitive, the latter part of 2013 benefitted from the roll-out of new terminals and the maturing of our loyalty programme. In the last five months of the year, like-for-like machine gaming net revenue was up by 4% versus the prior year in constant currency. Like-for-like average gross win per machine per week was in line with 2012 at £1,229. We had 1,059 gaming machines installed at the end of 2013, an increase of 228 compared to the previous year, entirely as a result of new shops.

Operating costs grew 22% in constant currency driven by a 25% increase in average shop numbers. Like-for-like shop operating costs were up just 2% in constant currency, reflecting our rigorous attention to cost management.

We opened 57 new shops last year, including 15 which we acquired, at an average capital cost per unit of €335,000 (£283,000) including lease premia and the costs of acquisition and refit for acquired units. The average cost per unit for organic openings was €305,000 (£259,000). EBITDA per shop pre central costs for mature shops opened pre 2012 averaged €179,000 (£151,000), in line with the prior year, despite increased gaming machine tax. EBITDA per shop, pre central costs, for later shops open between one and 24 months by the end of 2013, averaged €69,000 (£58,000), a return of some 20% on the capital cost, with further maturity to come.

### Irish Retail

€m	2013	2012	% Change
Amounts staked	981	927	+6%
<b>Net revenue</b>	<b>115.6</b>	<b>110.4</b>	<b>+5%</b>
Gross win %	11.8%	12.0%	
Gross profit	104.7	100.5	+4%
Operating costs	(90.7)	(86.1)	+5%
<b>Operating profit</b>	<b>14.0</b>	<b>14.4</b>	<b>(2%)</b>
Shops at year end	223	213	+5%

Irish Retail operating profit decreased marginally last year to €14.0m, impacted by unfavourable sports results, particularly at Cheltenham. We opened ten new shops in 2013, including seven acquired. Excluding the impact of new units, like-for-like amounts staked were up by 3% and net revenue was up by 2%. The second half of 2013 was the first period with both like-for-like stakes and revenue growth since 2007, contributing to our best ever year for amounts staked at €981m.

Like-for-like operating costs increased by 3% reflecting the impact of content cost inflation, investment in product and increased bet volume per shop.

Our estimated market share in Irish retail was over 38% in 2013, up from 35% in 2012.

### Telephone

€m	2013	2012	% Change	% Change in CC
Amounts staked	348	415	(16%)	(13%)
<b>Net revenue</b>	<b>22.6</b>	<b>22.5</b>	<b>+1%</b>	<b>+3%</b>
Gross win %	7.0%	5.8%		
Gross profit	22.4	22.2	+1%	+3%
Operating costs	(19.9)	(19.5)	+2%	+4%
<b>Operating profit</b>	<b>2.5</b>	<b>2.7</b>	<b>(8%)</b>	<b>(3%)</b>

Our telephone channel continues to perform strongly relative to its competitors, consolidating its leading position in the combined UK and Irish markets. In constant currency, operating profit was down just 3%, notwithstanding the structural challenge of migration online.

In constant currency, net revenue was up by 3%, while amounts staked were down by 13%, in part due to the higher gross win percentage relative to 2012, and the absence of a major international football championship in 2013.

Operating costs increased by 4% in constant currency, reflecting 10% growth in bet volumes and selected investment in our product and infrastructure. In particular, we built on the popularity of text betting, by launching the unique Paddy Power Messenger app last December. This app allows punters to follow their favourite teams, jockeys or trainers, to receive news updates and live text commentary, and of course to place a bet, in just a few seconds.

### Telephone Channel

Active Customers	2013	2012	% Change
UK	47,461	58,916	(19%)
Ireland and Rest Of World	23,579	24,119	(2%)
<b>Total</b>	<b>71,040</b>	<b>83,035</b>	<b>(14%)</b>

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

# 2013 WAS OUR BEST EVER YEAR FOR AMOUNTS STAKED IN IRISH RETAIL AT €981 MILLION

# Paddy Power

FINO A  
**350€**

DI BONUS CASINO  
PPOWER.IT/ARCORE

## BERLUSCONI

During the sweltering summer of 2013, the hottest story on the Italian news agenda was the trial of former long serving Prime Minister, Silvio Berlusconi. In fact it was such a big story that we simply couldn't resist the temptation for a little Italian style Mischief. We recreated Berlusconi's residence in the middle of Milan's busy shopping streets and invited the fun-loving politician to find escape from his troubles with our online casino. The sign proclaimed "If in the next 7 years you need a distraction, you will find all the entertainment you need with Paddy Power". Our stunt was widely reported across the Italian media including La Repubblica, Corriere della Sera and La Stampa. Bunga bunga indeed!

SE NEI PROSSIMI  
7 ANNI TI SERVE  
EVASIONE, SU  
PADDYPOWER.IT / ARCORE  
TROVI TUTTO IL  
DIVERTIMENTO CHE VUOI!



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## OPERATING & FINANCIAL REVIEW

(CONTINUED)

### Brand & Marketing

Paddy Power's marketing epitomises our approach to building sustainable industry leading capabilities through smarter, more innovative and more distinctive execution. These capabilities give us consistent industry leading marketing efficiency and significant capacity to invest, with marketing costs for our online businesses representing 20% of online revenues last year, as compared to an average of 27% for our major quoted UK competitors. The approach also allows us indulge our passion for a bit of mischief making.

For starters, we like thinking big – be it flying a 63 foot tall Paddy Power Lucky Pants hot-air balloon at Cheltenham, or lighting up the front of the Milan Stock Exchange with slot reels to promote our Italian online casino, or 'rooting for the Wallabies' by creating the world's largest painted sign to welcome the British & Irish Lions to Melbourne.

We also like to talk and to get people talking – and when they're talking to us, we listen. Our 'Ball of Shame' campaign engaged with fans on the mad and bad behaviour of top flight football, and amplified the conversation with a smart combination of social media, TV, billboards and editorial coverage. A provocative way to react to real time events, we sympathised with fans on lazy over-weight players, 'tight Arsène' Wenger's initial refusal to spend during the transfer window and Alex Ferguson's retirement (a story Paddy Power broke as money ploughed onto David Moyes as Sir Alex's replacement).

We also teamed up with Stonewall, the lesbian, gay and bisexual charity, to tackle homophobia in football with our 'Rainbow Laces' campaign. We got the campaign noticed and trending globally on Twitter with messages like 'We don't care what team you play for' and Paddy Power 'Right behind gay footballers' (#RBGF). Yes, the puns were a bit 'Carry on Matron', but it did the trick and players from 54 professional British clubs wore the rainbow laces. Social media and over 400 pieces of media coverage generated over half a billion impressions, and over a quarter of the UK adult population heard about the campaign. The campaign, like many of our initiatives, can be re-used in other geographies and we launched 'Rainbow Laces' in Italy last month.

The experts seem to like our work too. For the third consecutive year, we were voted Britain's 'Most Admired Company' for our marketing in a Management Today/ BSI poll. Twitter have praised our handy work in their Twitter Success Story Case Studies and we won multiple gongs at the Social Buzz Awards.

The only opinions that matter are of course the customers'. Our combined Facebook Fans and Twitter Followers increased by 55% in the last year to over 2.0m today, more than double the level of our nearest industry competitor. This helped our spontaneous brand awareness in the UK reach an all-time high of 56%. In market research in the UK and Australia, consumers rated us number one for being 'fun', 'mischievous' and 'sharp witted' (and the same positioning is being achieved in Italy, where we are rated number one for being 'fun', 'bold' and 'distinctive').

### Taxation

The effective corporation tax rate was 12.7%, as compared to a rate of 13.0% in 2012.

In the Queen's Speech in May 2013, the UK Government once again confirmed its intention to change the licensing regime on remote gambling to a 'point of consumption' basis on all remote gambling operators supplying UK customers. The related regulatory and tax legislation has been proceeding through various drafting, consultation and parliamentary approval phases and is expected to receive Royal Assent in the coming months, with the new tax effective from December. If the tax was in place at a rate of 15% of eGaming net revenue and 15% of sportsbook gross win, it would have increased our tax payable by €37m in 2013. Opportunities exist to mitigate this gross impact through lower revenue share and marketing costs, and through potential 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 Irish Government published an updated Betting (Amendment) Bill which is expected to facilitate the extension of the 1% tax on Irish retail stakes to online and telephone sportsbooks in respect of bets taken from customers in Ireland. Such a tax would have cost the Group €7m in 2013.

### Cashflows & Financial Position

Profit growth at Paddy Power converts strongly into increased cash flow. Operating cashflow (after LTIP trust share purchases and estimated maintenance capital expenditure of €18m) was €141m or 114% of profit after tax in 2013. Estimated enhancement capital expenditure of €40m mainly related to new shop openings and technology spending for product enhancement and expansion. As at 31 December 2013, the Group had net cash of €229m or €172m excluding customer balances (2012: €209m and €153m respectively).

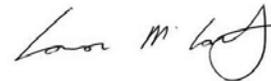
### Foreign Exchange Risk

Sterling and Australian Dollar denominated operating profits were approximately £144m and AUD64m respectively last year. Accordingly, Group operating profit can be positively impacted by a weaker Euro versus these currencies and adversely impacted by a stronger Euro versus these currencies.

In order to reduce this volatility, the Group periodically sells Sterling forward for Euro and has sold approximately half of its expected 2014 sterling denominated operating profit for settlement in 2014 at an average rate of 0.844.



**Patrick Kennedy**  
Chief Executive



**Cormac McCarthy**  
Chief Financial Officer

3 March 2014

**PADDY POWER'S MARKETING  
EPITOMISES OUR APPROACH TO  
BUILDING SUSTAINABLE INDUSTRY  
LEADING CAPABILITIES THROUGH  
SMARTER, MORE  
INNOVATIVE  
AND MORE  
DISTINCTIVE  
EXECUTION**

## CORPORATE SOCIAL RESPONSIBILITY

### Paddy's Responsibilities

#### A fun, fair and entertaining experience

We'd like to think Paddy Power has become a byword for entertainment – but while we love making mischief, we never forget our responsibilities to consumers and the wider communities in which we operate.

We believe that it is our responsibility to empower our customers, so that they have an entertaining, fun, and fair experience, while remaining in control of their gambling. To make sure that customers have the best available information, we provide them with self-assessment questionnaires, information on the various forms of problem gambling treatment available, relevant contact information, and advice on software to block access to gambling sites.

Our approach to responsible gambling is focused on working directly with customers and expert partners to help us understand the issues involved. These include, for example, the Responsible Gambling Trust, Gamble Aware, GamCare, and the Dunlewey Centre. We also work with industry bodies like the Association of British Bookmakers in the UK and the Australian Wagering Council to develop a cohesive approach to responsible gambling measures and cross sector adherence to associated codes of conduct.

Important developments in 2013 included the launch of our new Responsible Gambling micro-site which covers all of our geographies. Our plans for the micro-site are that it becomes a key hub for best practice on responsible gambling together with signposting to information and advice for our customers.

### GamCare

GamCare is a leading authority on the provision of information, advice and practical help to promote responsible gambling, and helps us to protect our customers. All of our customer service agents are certified by GamCare and undergo annual GamCare training to ensure they offer the most professional service possible to those who might be suffering from a problem with gambling. In 2013 our Responsible Gaming training programme underwent an audit and was approved by GamCare.

GamCare also audits our websites and mobile applications annually from a Responsible Gambling perspective, and provides certification that both are of a high standard. GamCare are also involved in certifying all our new products and supporting us in making them as responsible as possible pre-launch. We also display information about GamCare in all of our shops. The comprehensive information we provide our customers with problem gambling described above is available in the responsible gambling section of all our websites, with a link to this section included on every page of the site and in the footer of every welcome email to customers.

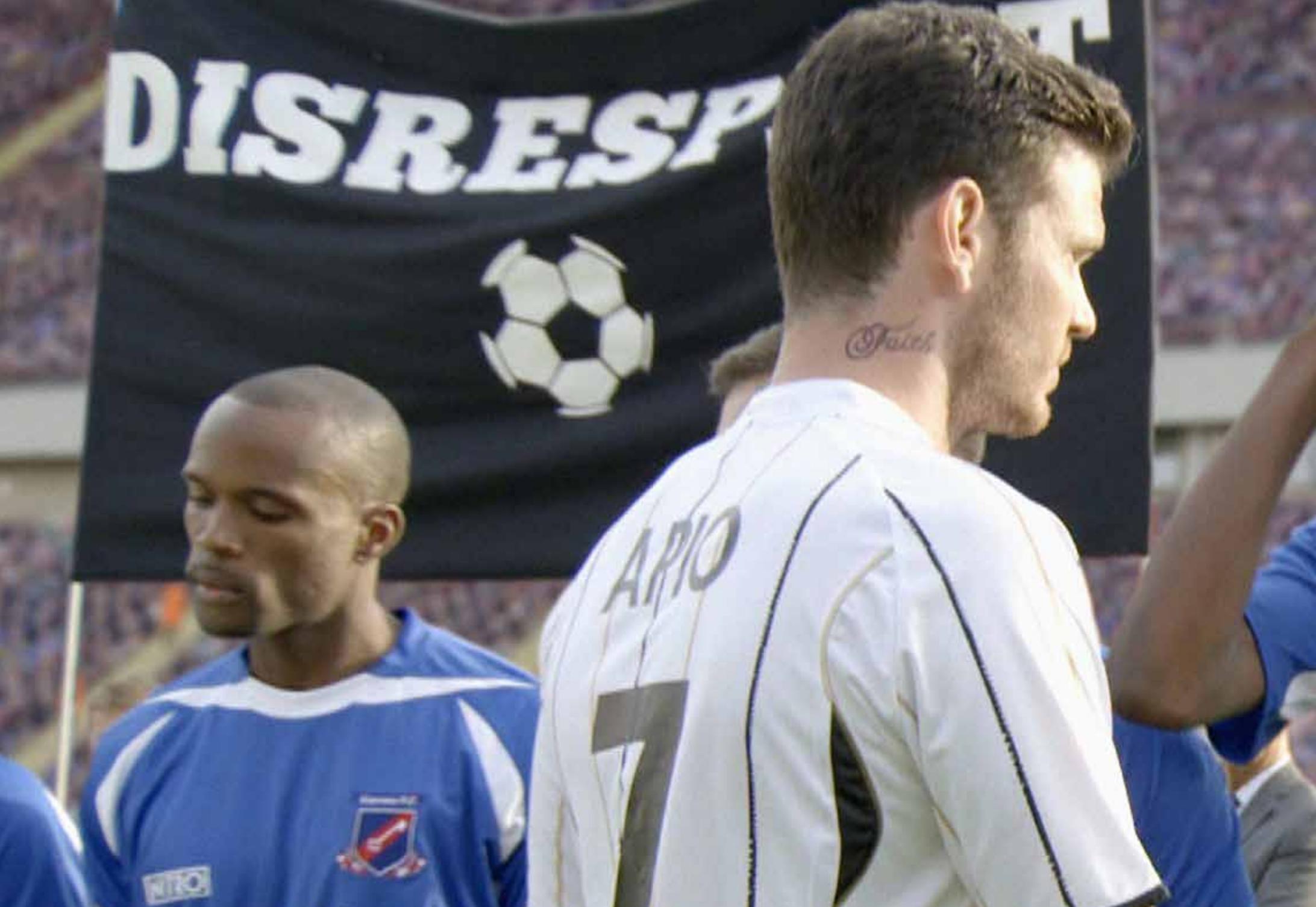
Paddy Power provides funding to GamCare via agreed contributions to the Responsible Gambling Trust, which raises money from the gambling industry to minimise problem gambling and gambling-related harm in society through effective education and prevention techniques. We now also work closely with Gambling Therapy who provide international support to customers seeking help or advice. Their support website provides customers with an array of options and contact methods in line with our own customer contact methods (live chat, phone, email and online forums).

### Age verification

It is illegal for anyone under the age of 18 to bet, and we have multiple measures in place to prevent underage play. Online we use age verification software to carry out electronic checks, if technologically possible, whenever a potential customer is proposing to use a payment method that might be available to someone under 18. But we go beyond that – we also work closely with age verification software providers to help develop new and better ways of verifying age as the range of payment methods increases.

We also advise our online customers to install web-filtering software if they share their computer with anyone underage. We operate a strict 'think 21' policy in all our shops. Employees in our betting shops are trained to be vigilant, to refuse bets from anyone underage, and, when in doubt, to ask for reliable proof of age. We also hire third-party 'mystery shoppers' who pose as underage customers to make sure our staff are vetting customers properly.

**WE BELIEVE THAT IT IS OUR RESPONSIBILITY TO EMPOWER OUR CUSTOMERS, SO THAT THEY HAVE AN ENTERTAINING, FUN, AND FAIR EXPERIENCE, WHILE REMAINING IN CONTROL OF THEIR GAMBLING.**



# BALL OF SHAME

At the start of the Premier League season we launched our Ball of Shame campaign to reward customers for the mad and bad behaviour displayed by professional footballers. The worse the behaviour, the better the offers unlocked for our customers. Our TV ads poked fun at lazy millionaire players, over-weight players and those who rely on literally shocking on-field tactics. During the year we unlocked offers for Hull City fans after their 'Tigers' renaming and we even ran a decathlon for overpaid underworked footballers for whom the most difficult task of the day is often untangling their Beats headphones!



TO SEE THE VIDEO SCAN THIS QR CODE

# CORPORATE SOCIAL RESPONSIBILITY

(CONTINUED)

## Empowering customers

We empower our customers to stay in control of their own gambling activity by enabling them to set limits on the value and frequency of deposits to their account. Customers have the ability to also close off a particular product channel. Our responsible gaming microsite provides customers with a budget calculator and diary to track their gambling spend and time using our products. In addition, we have strict processes in place to ensure that any customer who wishes to go further and exclude themselves completely from transactions with us can do so. We offer this self-exclusion option to our customers directly through our customer service agents and offer any customer who closes their account the option to close for responsible gambling reasons. Should the customer choose this option then we utilise bespoke technology to ensure that they do not re-open this account or create another account with us.

## Working with the industry

Major developments in 2013 include working closely with the UK Association of British Bookmakers (ABB) to draw up the 'Code for responsible gambling and player protection in Licenced Betting Offices'. The code was launched in September 2013 and covers four main areas:

- **Staff training and awareness** – all of our shop staff must be trained to recognise problem gambling indicators and are encouraged to 'walk the shop floor' to promote relevant interaction with customers.
- **Self-exclusion** – operators must maintain a central self-exclusion register; have processes to ensure staff implement self-exclusion properly; and have arrangements in place to exclude customers from other channels and remove them from marketing databases.
- **Age verification** – our staff are encouraged to walk the shop floor and implement the 'Think 21' policy.
- **Fixed odds betting terminals (FOBTs)** – from 1 March 2014, in addition to mandatory reminders when the thresholds of £250 staked or 30 minutes of play have been reached, UK customers were able to set limits on the time and money spent during a session of play on a FOBT.

We recognise the need to ensure that customers have a fair and entertaining experience wherever they are. In our Australian business, Sportsbet, we have adopted a number of responsible gambling measures designed to support customers including voluntary pre-commitment and self-exclusion, while the Sportsbet responsible gambling site includes contact details for 24/7 counselling services, information and support.

In Ireland Paddy Power is part of a group spearheading efforts to establish a new cross sector not-for-profit organisation comprising representatives from the whole gambling sector and designed to enhance existing responsible gambling measures adopted by the industry. Paddy Power will be a founding member of the body, which will be established this year. Its primary objective is to ensure adherence to industry codes of conduct in relation to responsible gambling practices. In addition it will levy the industry to contribute to a fund that will be used to support addiction counselling, commission research into gambling addiction and support education and awareness programmes designed to promote responsible gambling.

## Raising our game in the community

In 2013 the Paddy Power group (including Sportsbet in Australia) donated €838,000 (up from €477,000 in 2012) to charity, but cash donations are only one measure of our commitment to being a leader in corporate responsibility.

Our commitment begins with our employees and extends to the people, time, technology and the donations we give as a company to build and support programs that support our company strategy. This includes not only sharing our skills and experience with charitable organisations, but also using the unique power of our brand to raise awareness of issues that we think are important.

## Issues we care about: Rainbow Laces

In September we teamed up with LGBT rights charity Stonewall for our first ever brand led corporate responsibility initiative – Right Behind Gay Footballers. This involved us asking professional players in the UK to don rainbow laces for a weekend to show their support for gay footballers while at the same time offering the public an opportunity to get behind the campaign by using the hashtag #RBGF.

The campaign which was backed by the infamous Joseph 'and his amazing technicolour laces' Barton was an overwhelming success exceeding all expectations in both traditional media and social media. On the weekend in question players from 54 clubs laced up to show their support for the campaign leading to #RBGF trending across the globe on twitter.

*'We were totally overwhelmed by the outpouring of support for the campaign and for tackling homophobia in our national game. Getting the public, politicians, celebrities and football fans talking about the issue was a great first step to kicking homophobia out of the beautiful game once and for all.'* - Richard Lane, Media Manager, Stonewall

Over a quarter of the entire UK adult population heard about the campaign. Hundreds of celebs, sports stars and politicians showed public support and our own people, from shop floor to head office, told us how proud they were of Paddy Power's involvement in this campaign. Not bad for a shoestring budget.

IN 2013 PADDY POWER  
**DONATED**  
**€838,000**  
**TO CHARITY**

Ok, so the job is not done, we get that. That's why we will continue to support Stonewall and the idea behind the Rainbow Laces campaign throughout 2014. We also thought we should walk our own talk, which is why we signed up to Stonewall's Diversity Champions programme, the UK's good practice employers' forum on sexual orientation, and agreed to sponsor the Sports Award of the Year at their annual awards in 2013.

#### **Being a good neighbour**

The vast majority of our shop staff live in the communities near to our shops, and the vast majority of our shop customers live within walking distance of their favourite branch of Paddy Power. So it's a statement of the obvious that communities matter to us.

In Ireland, as well as providing employment for over 1,000 people across our retail estate, we also provide support to charity and local events nationally. Our Charity Committee, which is comprised of employees from across the Group, has responsibility for maximising the effectiveness of the Group's charitable strategy and for the implementation and management of that strategy.

Whether it is a racenight in the local GAA Club, a soccer tournament in south Dublin or a Donkey Derby in Cork, we are always looking for ways to give something back to the towns and villages in which we operate. Our staff members are the key link in supporting these local initiatives and sometimes even take part themselves, such as Donna Dunne who not only fought in but won a white collar boxing event in Dundalk!

In what was the best Cheltenham in living memory for punters, over a dozen clued in charities hit us for over €15,000 by taking full advantage of the free bets that we gave them.

With a philosophy of "serious fun" our charity of the year for 2013, Barretstown charity, was very much in line with our own mischievous approach. Our main summer fundraising event was the now annual 'Paddy Power Race to the Races' where 50 fearless Paddy Power souls took on the two day, two hundred kilometre cycling challenge from Dublin to the Galway Races. With only a handful of scrapes and bruises picked up along the way, the event raised over €20,000 for Barretstown and plans are already in place to make the 2014 event an even larger affair.

It wasn't just pedal power that Barretstown benefitted from. Other staff fundraising initiatives such as quiz nights, poker nights, sports days, charity balls, charity bets and volunteering also contributing to the charity throughout the year.

In November, our in-house experts gave a little back by sharing their in depth knowledge during our 'Master Class in Online Marketing' for charities. Now in its third year the day long programme has continued to go from strength to strength growing from 12 charities attending in 2011 to over 50 this year. The day involved over 30 staff members giving their time to help charities understand how each aspect of online marketing and social media contributes to Paddy Power and, more importantly, how attendees could apply this knowledge to their own cause.

The week before Christmas we had our annual cake sale where senior staff auction off their best and sometimes woeful efforts in the kitchen. A healthy combination of Christmas and competitive spirit proved to be the perfect recipe for success as the auction raised over €11,000 for Aware.

Our Sportsbet business has a long history of supporting charities in Australia which includes making contributions to charities that are close to the hearts of our team. In 2013 we supported a wide range of charities in Australia including Living Legends – home to some of Australia's finest retired champion racehorses; the Men of League Foundation, which supports members of the rugby league community who have fallen on hard times and the Zaidee's Rainbow Foundation, which raises awareness of the need for organ and tissue donation.

#### **Upping the ante in the UK**

Whilst Paddy has brilliant community links in Ireland, in the UK we realised that there was still plenty more to do. We want to be good neighbours wherever we are – so in 2013 we started to look at ways we could enhance our links into the community in the UK. As it happens, one of our shops is opposite the head office of a truly pioneering organisation called Community Links. Based in the Borough of Newham in east London, Community Links has over 30 years of experience working with local people to support children, young people, adults and families. They provide advice and support services in debt, housing and welfare, a range of activities for children, sports sessions and youth clubs, mentoring programmes, health programmes, support for people trying to get into work, support for kids who are excluded from school, support for people trying to set up their own business... the list goes on.

We were blown away by the breadth of services that Community Links provides to the people of Newham, and we were delighted when they agreed to work with us. We decided to kick things off by providing financial support to their 'community hubs'. This initial tranche of funding came from costs awarded to us in our court case challenging a licence refusal by Newham Council. We didn't want the community to lose out as a result of this case and Community Links were the perfect recipients for the £31,400 awarded.

In December 2013 the good people of Paddy Power's London head office dug deep and donated more than 100 gifts to the Community Links annual Christmas toy appeal, giving presents to children and young people who may otherwise get nothing during the season of goodwill. We look forward to developing our relationship with Community Links throughout 2014.

**WE ARE ALWAYS  
LOOKING FOR  
WAYS TO GIVE  
SOMETHING BACK  
TO THE TOWNS AND VILLAGES IN  
WHICH WE OPERATE**



# SPACE BET

In September 2013 Paddy Power reached our one millionth Facebook fan. To celebrate we gave one loyal fan the opportunity to win £1 million by placing the first ever bet from space. From our 'Mission Control' just outside London, we attached a small 'Raspberry pi' computer to a high altitude weather balloon which sailed into the stratosphere. Once in position a signal was transmitted to place the first ever bet from space and we also had time to take a few delightful snaps of Planet Earth. Our competition winner, Dean Saunders of Kent didn't become a millionaire as a result of his accumulator but he did earn his place in the Guinness Book of Records. Live long and prosper Dean.



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# CORPORATE SOCIAL RESPONSIBILITY

(CONTINUED)

## Safety, Health and Welfare at Work Act 2005

Paddy Power is committed to the safety and well-being of employees at work in compliance with the Safety, Health and Welfare at Work Act 2005. The Act imposes certain obligations on employers in respect of health and safety in the workplace.

Appropriate measures have been taken to ensure that health and safety standards are complied with at all relevant locations and that all applicable Group companies meet the requirements of the Act. These measures include on-going updates of Safety Statements at all locations and training in health, fire and general safety for all new employees, conducted by our area trainers at the start of employees' induction training.

All of our appointed contractors must submit an up to date Health and Safety Statement and proof of their public liability insurance before we award any contract. Prior to the commencement of any major works within the Group, the appointed contractor must submit a 'method statement' describing how the proposed works will be carried out safely. We service all of our essential emergency and fire alarm systems on a six-monthly basis to protect our staff and to ensure we comply with relevant statutory regulations.

## Environment

Paddy Power is committed to being a leader in its sector on all aspects of corporate responsibility (CR), and a proactive approach to reducing our environmental impact is one of a number of components of our overall CR strategy. In addition to demonstrating leadership on an issue of increasing concern for governments and the wider community, we know that it is something that our people care about and we recognise that there are dual benefits in identifying environmental efficiencies that also serve to reduce costs.

Business as usual initiatives include charity-administered mobile phone recycling, using only eco-friendly cleaning products in our shops, use of more efficient, and lower cost, combined heat and power ('CHP') generated electricity in our shops in Ireland and use of motion-sensitive lighting in our London and Dublin HQs. In addition, in 2013 we introduced the following new measures:

- **LED lighting:** LED lighting is currently being trialled in Irish retail as we seek the most efficient lighting technology.
- **Travel management:** We have introduced a new travel policy which has afforded us closer control on corporate travel which is designed to reduce cost and environmental impact.

- **Bike to Work scheme:** Our new bike to work scheme is designed to help employees reduce their personal carbon footprint and contribute to their health and wellbeing by making the costs of purchasing a bike more manageable.

- **IT:** Toner recycling and double sided printing has been introduced on multifunctional printing devices and we have reduced the numbers of desktop printers.

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

## Supply Chain

We work closely with our suppliers and consider many of them to be part of the Paddy Power family, particularly those that work on-site in our offices. It is important to us that they maintain high levels of responsibility in relation to financial, social, ethical and environmental behaviour.

All our suppliers are subject to the requirement to conform to best practice in terms of safety, employment, staff welfare and human rights, wherever they are based in the world.

## Paddy's People

It's not just the distinctive green branding, the fact that our tongue is planted firmly in our cheek, or that we like a bit of mischief that sets Paddy Power apart from our competitors. In addition to our better technology, better shop designs, and greater opportunities to bet and play our people are better trained, better prepared, and better looking (we think so, anyway). But we haven't rested on our laurels, which is why in 2013 we have continued to invest in our people and in the systems, training, performance measures and rewards that will continue to make us a great place to work.

## Recruiting, retaining and developing our best ambassadors

The people who work at Paddy Power are key to the continued success of the business. Paddy Power is fortunate to have a group of talented people who epitomise our devotion to entertainment, customer service, product excellence and customer value. We want Paddy Power to be an employer of choice so we have clear strategies for employee communication, professional development and retention of our talent.

**WE WANT  
PADDY POWER  
TO BE AN  
EMPLOYER  
OF CHOICE  
SO WE HAVE CLEAR STRATEGIES  
FOR EMPLOYEE COMMUNICATION,  
PROFESSIONAL DEVELOPMENT  
AND RETENTION OF OUR TALENT**

### **Organisation effectiveness & change**

Following the success of our Dublin office move in 2012, it was London's turn to move to a new location in June 2013. In addition to walls decorated with a history of Paddy Power mischief over the years, the life size green plastic horse leaping majestically through a conference room window provided the perfect metaphor for our continued growth in the UK.

Our Great Place to Work survey results were published in the autumn of 2013. They told us some great things that our people think about the business, and some things that we want to address to keep us at the top of our game in the employment leagues.

For example, our people told us they want more clarity on company direction and their role in supporting business strategy, which is why we rolled out key messages on this in early 2014. They told us that they want training and career development opportunities and so we launched our Igniting Leadership programme which will continue to grow through 2014. They told us they want us to help them feel proud of our commitment to the community, which is why we are currently working on a group wide strategy for corporate responsibility, building on our historical commitment to communities in Ireland, which will more effectively communicate what we are doing both internally and externally.

### **Talent sourcing**

We recently launched our brand new Work With Paddy website both to showcase the full range of jobs on offer in our fast growing business and to ensure that we continue to recruit the highest quality candidates that fit our culture and can help drive our future success.

As we strive to hire the best talent for Paddy Power, we incentivise our employees to refer their previous colleagues, friends, and family for assessment.

Our graduate recruitment programme continues to grow and attract top tier graduates from universities across the UK and Ireland. In all we recruited 25 graduates direct from university in 2013 and continue to demonstrate our commitment to developing talent and the niche skills we need to help our business grow.

### **Communication and learning**

In 2013 we launched our new Igniting Leadership Programme designed to foster emerging talent within our business and help them reach their full potential. In all 318 managers and senior individual contributors from across Paddy Power have attended the first phase of the programme, but this is just the foundation. Through 2014 we will continue Module 2 which will be about helping our people to have the powerful conversations necessary to help us succeed as a business, whether the context is related to coaching, development, performance, feedback, networking, influencing or even in day to day meetings.

### **Performance and reward**

In 2013 we continued to embed enhanced Performance Evaluation, with a more structured approach around goal setting, on-going review and formal evaluation at year end. We also further improved the linkage between performance and reward within our short-term incentive plan. We continue to develop more robust processes around pricing our roles to market to ensure we continue to keep pace with the competition and offer packages that will motivate and engage our key talent.

### **Sports and social**

You could say FUN is an important ingredient in the DNA here at Paddy Power so ensuring our employees enjoy working here is the Sports & Social Committee's mission!

Our employees are busy ensuring we constantly provide our customers with top notch entertainment so it makes sense that we also spend timing focusing on how best to entertain our growing employee community.

If we are not sharing the latest mischievous brand campaigns, exclusive behind the scenes footage of Paddy Power mischief in motion, we are focused on ensuring that our people live in the spirit of our Paddy Power community through a weird and wonderful range of social clubs.

These clubs range from the usual suspects like Golf, Soccer, GAA & Tag Rugby to the more colourful such as the 'Coffin Dodgers' Cycling Club, Bootcamp, Trampoline Dodge-ball, Photography and Board Games (nerdy fun rocks!).

We organise exclusive annual Paddy Power Staff parties to encourage our employees to socialise, celebrate and blow off steam together in true Paddy Power style through a host of curious themed events such as our Cheltenham Party; Summer BBQ Party; Halloween Fancy Dress Party; and our Family Christmas Party.

**OUR GRADUATE  
RECRUITMENT  
PROGRAMME  
CONTINUES  
TO GROW  
AND ATTRACT TOP TIER GRADUATES  
FROM UNIVERSITIES ACROSS THE UK  
AND IRELAND**



# BEST TEAM EVER

Keen to kick off the 2013/14 football season in style, we brought Skrill Conference South team Farnborough FC out of administration, became their title sponsor and even renamed their ground Paddy Power Park. In return for our help, we asked their squad to change their names by Deed Poll to their football heroes, giving us the greatest football team of all time. Pele, Maradona, Beckenbauer, Beckham, Cruyff, Lineker, Carlos and Messi all lined up under the watchful eye of manager Jose Mourinho. The media marvelled at how we got a squad of semi-professional footballers to do such a thing and the pictures of very ordinary-looking West London lads masquerading as the greats flew around the globe.



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# BOARD OF DIRECTORS

## Executive directors



**Patrick Kennedy** (aged 44) is the Chief Executive. He joined the Group in an executive capacity in September 2005 and became Chief Executive in January 2006. Patrick was already a Board member, having been appointed as a non-executive director in March 2004. Before joining Paddy Power, Patrick was Chief Financial Officer of Greencore Group plc, having previously been Group Development Director. Patrick has also worked with KPMG Corporate Finance both in Ireland and the Netherlands, and as a strategy consultant with McKinsey & Company in London, Dublin and Amsterdam. Patrick was previously a non-executive director of Elan Corporation, plc and is currently a non-executive director of Bank of Ireland Group plc. Patrick has been a member of the Bookmaking Risk Committee\* since January 2006.

**Cormac McCarthy** (aged 51) is the Chief Financial Officer. Cormac joined the Group as a non-executive director in September 2011 and was appointed Chief Financial Officer in October 2012. A Chartered Accountant, Cormac was Chief Executive of Ulster Bank from 2004 to 2011, where he also served as a member of the Royal Bank of Scotland ('RBS') Group Management Committee and as Deputy Chief Executive of RBS UK Retail. He was previously Chief Executive of the RBS Retail and Commercial Division in Europe and the Middle East and Chief Executive of the bank's European Consumer Finance Division. Prior to 2004, Cormac was Chief Executive of First Active plc. Cormac is a non-executive director of BWG Limited, the Irish-owned food retail and wholesale distribution business.

## Non-executive directors



**Nigel Northridge** (aged 58), Chairman, was appointed as a non-executive director in July 2003 and as Chairman from January 2009. He has extensive experience working with consumer products companies in international markets, in the roles of executive, non-executive director and Chairman. Nigel spent 32 years with Gallaher Group plc in sales and marketing roles, becoming Group Chief Executive in 2000, a position in which he oversaw significant growth in shareholder value, leading to the sale of the company in 2007 for £9.4 billion. Nigel is Chairman of Debenhams plc and is a non-executive director of Inchcape plc, where he chairs the Remuneration Committee. He was appointed as a non-executive director of Aer Lingus Group plc in January 2014 at which time he was also appointed as a member of its Appointments Committee and as Chairman of its Remuneration Committee. Nigel has been a member of Paddy Power's Nomination Committee since September 2003 (becoming Committee Chairman in January 2009). He is also a member of Paddy Power's Remuneration Committee since July 2007 and of the Bookmaking Risk Committee since May 2013.

**Tom Grace** (aged 65) was appointed as a non-executive director and Audit Committee Chairman in January 2006. He became Senior Independent Director in January 2009 and was appointed as a member of the Nomination Committee in July 2012. Tom was a partner with PricewaterhouseCoopers from 1983 to 2005, where he led the Insolvency Department from 1987 onwards. With 34 years' experience in total at PricewaterhouseCoopers, Tom also worked in the audit and management consultancy divisions, principally in the area of financial advice. Tom has significant financial experience given his former role as a partner at PricewaterhouseCoopers, which is particularly relevant for his role as Chairman of the Audit Committee. Tom is also well known as a former rugby international and is currently honorary treasurer of the Irish Rugby Football Union and Chairman of the British and Irish Lions. He won 25 international rugby caps for Ireland between 1972 and 1978 and captained the side on eight occasions. He also toured as a British and Irish Lion in 1974.

**Michael Cawley** (aged 59) was appointed as a non-executive director and as a member of the Audit Committee in July 2013. Michael has been Deputy Chief Executive Officer and Chief Operating Officer of Ryanair since 2003, having previously served as Ryanair's Chief Financial Officer and Commercial Director since 1997. During his time at Ryanair, the airline has experienced huge international growth with profit after tax rising from c.€20 million in 1996 to c.€550 million in 2013. Prior to joining Ryanair, Michael was Group Finance Director of Gowan Group Limited, one of Ireland's largest private companies. Michael holds a Bachelor of Commerce degree and is a fellow of the Institute of Chartered Accountants in Ireland.



**Danuta Gray** (aged 55) was appointed as a non-executive director and as a member of the Remuneration Committee in January 2013. Danuta brings to the Board significant leadership experience as the former Chief Executive Officer of O2 Ireland, a position she held from 2001 to 2010. Prior to that, she was Senior Vice President of BT Europe in Germany and, previous to that, was General Manager at BT Mobile in the UK. Danuta was a non-executive director of Aer Lingus Group plc from 2006 to 2013 and is currently a non-executive director of Michael Page plc and Old Mutual plc. She holds a B.Sc. in Biophysics and an MBA and is a Board member of Headstrong, a charity supporting the mental health of young people in Ireland. Danuta was appointed as a member of the Nomination Committee in February 2014.



**Ulric Jerome** (aged 36) was appointed as a non-executive director and as a member of the Audit Committee in December 2012. Born in Paris, Ulric studied in France before completing his degree in economics in Montréal. He was a founding partner and executive director of Pixmania, the only pan-European online retailer of digital photographic and consumer electronic goods, and has extensive experience of consumer technology in the online sector. Ulric was instrumental in the growth and development of Pixmania from a start-up to a business with revenues of over €960 million that operates in 26 countries across Europe through bespoke transactional websites. He is a partner and Chief Operating Officer of MatchesFashion.com, a global multi-channel online and retail business.



**Stewart Kenny** (aged 62) was a co-founder of Paddy Power in 1988. He has considerable experience in the betting industry and has established two successful bookmaking firms. He trained with Ladbrokes in London for two years before establishing a chain of betting shops, Kenny O'Reilly Bookmakers. He sold that business to Coral in 1986 and subsequently re-entered the business, opening ten betting shops between 1986 and 1988. He was Group Chief Executive from 1988 to 2002, and Chairman from 2002 to 2003. Stewart has been a member of the Bookmaking Risk Committee since June 2006 and was appointed as a member of the Nomination Committee in July 2012.



**Pádraig Ó Ríordáin** (aged 48) was appointed as a non-executive director in July 2008. Pádraig is an internationally recognised lawyer with extensive experience advising on regulated industries in Ireland and international markets. He is a Corporate Partner in Arthur Cox, the leading Irish law firm, where he served as Managing Partner from 2003 to 2011. In 2009, he was named European Managing Partner of the Year. He studied law in the National University of Ireland and Harvard Law School and has practiced in New York and Dublin. He is Chairman of Dublin Airport Authority and is a non-executive director of TVC Holdings plc, where he also chairs its Remuneration Committee. Pádraig has been Chairman of Paddy Power's Remuneration Committee since August 2008 and a member of the Nomination and Bookmaking Risk Committees since August 2009 and December 2011, respectively.

## Secretary



**Jack Massey** (aged 45) was appointed as Director of Finance and Company Secretary in October 2012. A Chartered Accountant, Jack joined the Group as Finance Director in 2006. He was previously Chief Operating Officer with ITG Europe, the European division of the NYSE quoted company, Investment Technology Group, Inc. Prior to that he worked with Ulster Bank Markets and, previous to that, Arthur Andersen.

\*the Group's Risk Committee was renamed as the Bookmaking Risk Committee in December 2013.



# RAINBOW LACES

There are over 5,000 professional footballers in Britain, and not one of them is gay. What are the odds on that? Pretty high, we thought. So in September 2013, we decided to kick the game into the 21st Century. We sent rainbow coloured bootlaces to every player in the land and encouraged them to wear them in their next match. Then we got the whole country Right Behind Gay Footballers. Despite some bureaucrats' complaints, players from 54 professional clubs wore the laces and we generated 400 media pieces in 7 days. It was the same story on Social Media, where Twitter heavyweights Stephen Fry and Gary Lineker tweeted their support. Overall, despite a tiny budget, an amazing 43% of bettors were aware of the campaign and of these, 47% thought better of Paddy Power, versus only 4% who thought worse. Success on a shoestring indeed.



Stephen Fry @stephenfry - Sep 18

It shouldn't matter what team you play for. I am right behind gay footballers (stop it!) #RBGF - RT to show support

[Expand](#)

[Reply](#) [Retweet](#) [Favorite](#) [More](#)

**NOW**

THAT'S WHAT I CALL ENTERTAINMENT

**25**

**PADDYPOWER.**

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**NOW**  
THAT'S WHAT I CALL ENTERTAINMENT  
**25**

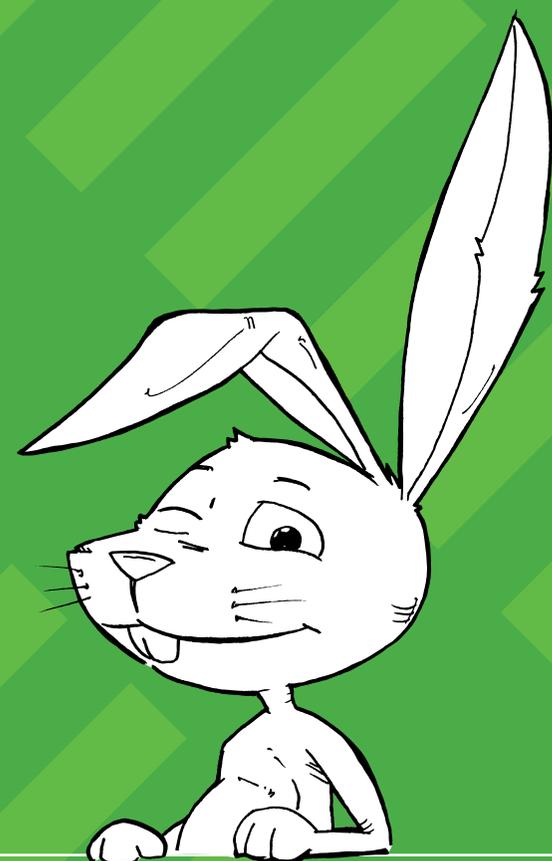
**PADDYPOWER.**

ANNUAL REPORT 2013



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# DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2013.

## Principal activities

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

## Results

The Group's profit for the year of €123.2m reflects an increase of 2% on the 2012 profit of €121.0m. Basic earnings per share amounted to €2.567 compared with €2.511 in the previous year, an increase of 2%. The financial results for the year are set out in the consolidated income statement on page 60. Total equity attributable to Company equity holders at 31 December 2013 amounted to €311.0m (2012: €277.7m).

## Dividends

An interim dividend amounting to 45.0 cent per share was paid during 2013 (2012: 39.0 cent per share). The directors recommend that a final dividend of 90.0 cent per share (2012: 81.0 cent per share), amounting to €44.3m (2012: €39.8m), be paid on 23 May 2014 to shareholders registered at close of business on 14 March 2014. This would make a total distribution of profit to shareholders of €66.4m in respect of the year ended 31 December 2013 (2012: €58.9m), and represents an increase of 13% year-on-year.

## Business review and key performance indicators

A detailed commentary incorporating key performance indicators by channel including like-for-like growth, active customers, average bet values, bet volumes, gross win %, net revenue, gross profit and operating costs is contained in the Operating & Financial Review on pages 11 to 22.

## Principal risks and uncertainties

The Board is responsible for the Group's risk management systems, which are designed to identify, manage and mitigate potential material risks to the achievement of the Group's strategic and business objectives.

## Risk Management Framework

The Group risk management framework is the 'three lines of defence' model which is set out as follows:



The Group and Company are exposed to a number of risks and uncertainties that could affect their operating results, financial position and/ or prospects. The principal such risks and uncertainties facing the Group in the short to medium term are set out below. These should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties and additional items that are not currently known to the Board or which the Board currently deem not to be material could also arise.

Risk and uncertainty	Mitigating activities
<b>Strategic risks and uncertainties</b>	
<b>Macro-economic conditions</b>	The economic, demographic, technological, consumer behaviour and other macro factors affecting demand for the Group's products especially in the Group's current primary markets of the UK, Ireland, Australia and Italy.
The Group monitors developments closely to ensure changes in the economic climate are identified and adequately addressed. The Group's financial position is strong with significant cash resources and no long term debt.	
<b>Competition</b>	The intensity of competition in the Group's markets and the Group's ability to successfully compete.
The Group has a programme of brand investment and product innovation to maintain and enhance its market position.	
<b>New Business / Acquisitions</b>	The ability of the Group to enter new markets, launch new products or introduce new technologies or systems in a successful, cost effective and/ or timely manner, either organically or via acquisition.
The Group rigorously assesses any potential acquisitions, new products and or new technologies. A detailed assessment is completed in respect of all potential acquisitions in order to ensure their commercial viability and strategic fit.	
<b>Compliance risks and uncertainties</b>	
<b>Taxation</b>	Changes in current tax law, interpretation or practice in the areas of betting tax, value added tax, payroll, corporation or other taxes, particularly in Ireland, the UK, Australia, the Isle of Man and Italy.  Increased payment obligations to racing and sporting bodies either directly or indirectly through related obligations to government authorities.
The Group has its own internal tax function which has responsibility for all tax compliance matters. The Group also engages external tax advisors for guidance on matters of compliance where appropriate.  The Group engages proactively in relevant consultations with Government authorities with respect to taxation of betting and gaming or payments to sporting bodies.	
<b>Compliance</b>	The regulatory, consumer protection or legislative environment, including interpretations or practices, applicable to the Group's activities and the related risks from limitation of business activities or litigation by third parties or the Group.
The Group has a central Group Compliance function which has responsibility for guiding business units in their management of compliance matters.  The Head of Compliance reports periodically to the Audit Committee on any changes in the various laws and regulations by relevant jurisdiction to ensure they are appropriately understood and managed.  The Group's internal and external auditors report the findings of their audit procedures to the Audit Committee on relevant compliance matters.	
<b>Data security</b>	The ability to adequately protect customer and other key data and information.
The Group has a data protection policy in place in order to protect the privacy rights of individuals in accordance with the relevant Data Protection legislation.  The Group's Legal and Compliance team ensures the business adheres to industry best practice standards and relevant laws of data protection compliance.	

# DIRECTORS' REPORT

(CONTINUED)

## Operational risks and uncertainties

<b>Key supplier relationships</b>	Managing relationships with and performance by key suppliers, particularly those supplying software platforms, payment processing and data to support the Group's products.	<p>The Group has strong commercial relationships with its key suppliers. Contracts and service level agreements are in place and are regularly reviewed. Proposed new contracts are passed through a robust procurement process to ensure the Group is fully protected.</p> <p>The Group monitors the performance of third party suppliers in order to ensure the efficiency and quality of contract performance.</p>
<b>Business-to-business customer relationships</b>	Managing relationships with and performance for business-to-business customers.	The Group maintains strong commercial relationships with its key business-to-business customers. Contracts and agreements are in place and are regularly reviewed.
<b>Business continuity planning and disaster recovery</b>	The ability of the Group to maintain, develop and avoid disruption to its key information technology systems.	<p>The Group has a Chief Technical Officer and Head of Information Security who monitor controls to maintain the integrity and efficiency of the Group's technology systems.</p> <p>An IT disaster recovery plan exists and is tested regularly with specific arrangements in place for alternative data centres (live replication) for the online sportbook.</p>
<b>Bookmaking Risk</b>	The performance of the Group in managing bookmaking risk so as to achieve gross win margins within expected percentage ranges.	The Group's central Risk Department has responsibility for the compilation of bookmaking odds and for sportsbook risk management. This function reports to the Group Chief Executive and to the Bookmaking Risk Committee of the Board. Predefined limits have been set for the acceptance of sportsbook bet risks. These limits are subject to formal approval by the Bookmaking Risk Committee.
<b>Disruption to sporting calendar</b>	Disruption to the sporting calendar or the broadcasting of major sporting events due to weather or other factors.	Geographical diversification, with operations in the UK, Ireland, Australia and Italy, is helping to mitigate this risk. Diversification of products also helps mitigate this risk via gaming (gaming machines, games, casino, bingo and poker), and business-to-business activities.
<b>Key employees</b>	The ability of the Group to attract and retain key employees.	Succession planning, management training and development and competitive remuneration structures have been established by the Group and are actively managed by the Group HR function.
<b>Brand</b>	Social, media or political sentiment towards the Group, its brands and its businesses.	The Group has a programme of corporate communications, brand investment and product innovation to maintain and enhance its market position.
<b>Intellectual Property</b>	The ability of the Group to successfully defend its intellectual property rights or claims alleging infringement of the intellectual property rights of others.	<p>Protecting the intellectual property rights of the Group is key to its operations. The Group has invested significantly in its brand and new technologies to maintain and enhance its market position. Similarly, the Group understands and abides by the intellectual property rights of others in order to mitigate the risk of litigation and related costs.</p> <p>The Group's Legal and Compliance Department supports the business in ensuring that it complies with all licensing obligations on an on-going basis.</p>

## Financial Risks and Uncertainties

<b>Foreign Exchange Risk</b>	Changes in the exchange rates between the euro and the foreign currencies in which the Group transacts business, primarily the pound sterling and the Australian dollar.	<p>It is Group policy to maintain a naturally hedged balance sheet by ensuring that foreign currency denominated liabilities are broadly matched by foreign currency denominated assets, primarily cash deposits.</p> <p>The Group uses forward contracts (subject to Investment Committee approval), to manage foreign currency exposures on expected future cash flows.</p>
<b>Credit Risk</b>	The performance of the Group in managing credit risk arising from treasury activities and credit betting customers.	<p>The Group has an established Treasury policy which places limits on cash deposits and foreign exchange forward contracts with its banking counterparts. These must typically hold a Moody's (or equivalent) long term credit rating of Aa3 or higher and a Moody's (or equivalent) short term credit rating of P1 unless otherwise specifically approved by the Investment Committee. The Group carefully measures counterparty risk by monitoring credit agency ratings, Credit Default Swap spread prices and other public information, and takes action to mitigate such risks as are identified.</p> <p>The Group has established policies and controls in place in respect of credit betting customers. Individual credit limits are decided upon by the credit control function after taking into account credit and background reference checks.</p>

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

The composition and responsibilities of the Audit Committee and Bookmaking Risk Committee are set out on page 48. The Board has also established financial risk management objectives and policies which have been implemented by executive management, details of which are given in Note 3 to the consolidated financial statements on pages 73 to 76.

## Research and development

The Group performs research and development activities to ensure that it continues to be a recognised innovator in the betting and gaming industry. These activities support the introduction of new products, the creation of new betting markets, improved online customer experience and the development of better processes and systems. Continued research and development contributes to the Group's future growth and profitability. The Group incurred research and development expenditure (calculated by reference to Irish and Australian research and development tax credit rules) in 2013 of €4.3m (2012: €1.3m).

## Market research

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

## Events since the year end and future developments

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

## Amendment of Articles of Association

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

## Rights and obligations attaching to the Company's shares

As at 3 March 2014, the Company had 50,983,581 shares in issue, all of which are of the same class and carry the same rights and obligations (apart from 1,734,000 shares held by the Group as treasury shares which have no voting rights and no entitlement to dividends). With regard to the Company's shares: (i) there are no restrictions on their transfer; (ii) no person holds shares carrying special rights with regard to the control of the Company; (iii) there are no shares to which an employee share scheme relates carrying rights with regard to the control of the Company; (iv) there are no restrictions on the voting rights attaching to the Company's shares; and (v) there are no agreements between shareholders that are known to the Company that may result in restrictions on the transfer of securities or on voting rights. Further information on the Company's share capital is set out in Note 20 to the consolidated financial statements.

# DIRECTORS' REPORT

## (CONTINUED)

### Own shares held

The Paddy Power plc Employee Benefit Trust (the 'Trust') manages the Long Term Incentive Plan. Further information on the Long Term Incentive Plan is presented in the Remuneration Committee Report on pages 54 and 55 and in Note 22 to the consolidated financial statements. During the year ended 31 December 2013, the Trust purchased 380,000 (2012: 627,808) Paddy Power plc shares at a cost of €24.2m (2012: €36.3m). During 2013, the Trust transferred 348,064 (2012: 535,435) ordinary shares that had vested to beneficiaries of the Trust. At 31 December 2013, the Trust held 1,302,378 (2012: 1,270,442) ordinary shares in Paddy Power plc, representing 2.55% (2012: 2.50%) of the issued share capital. Further information is set out in Note 22 to the consolidated financial statements.

As of 31 December 2013 and 2012, the Company's ordinary shares held in treasury totalled 1,734,000 shares and represented 3.40% (2012: 3.41%) of the issued share capital. The treasury shares have no voting rights and have no entitlement to dividends. Further information is set out in Note 20 to the consolidated financial statements.

### Substantial holdings

As at 31 December 2013 and 3 March 2014, details of interests of over three per cent in the ordinary share capital carrying voting rights (excluding directors) which have been notified to the Company are:

	Notified holding 31 December 2013	Notified holding 3 March 2014	% Holding 3 March 2014
The Capital Group Companies, Inc. (1)	4,498,074	5,423,105	11.01%
David Power	3,858,692	3,858,692	7.84%
UBS Investment Bank	4,102,583	3,696,959	7.51%
Standard Life Investments Limited	3,245,520	3,245,520	6.59%
Massachusetts Financial Services Co.	2,537,955	3,436,524	6.97%
FMR LLC	1,962,160	1,962,160	3.98%
Marathon Asset Management LLP (2)	1,954,060	1,954,060	3.96%
John Corcoran	1,500,000	1,500,000	3.05%

(1) SMALLCAP World Fund, Inc. ('SWF') and EuroPacific Growth Fund ('EGF') have notified the Company that they are interested in 4.46% and 5.66% respectively of the Company's ordinary share capital carrying voting rights, and that SWF's and EGF's voting rights have been delegated to Capital Research and Management Company ('CRMC'). CRMC's holdings under management are reported in aggregate by The Capital Group Companies, Inc. Accordingly, SWF's and EGF's interests are included in the 11.01% interest notified by The Capital Group Companies, Inc. and disclosed above.

(2) Marathon Asset Management LLP has notified the Company that of its total holding of 1,954,060 ordinary shares, it has discretion authority to vote on 1,619,759 ordinary shares (3.29% of the Company's ordinary share capital).

In addition to the above notifications in respect of holdings carrying voting rights, the Company has been notified of an economic interest in the Company of 11.7% of the ordinary share capital by Parvus Asset Management (UK) LLP as at 20 February 2014, held by them in the ordinary course of their business via equity swaps which do not carry voting rights.

### Directors' power to purchase and allot Company shares

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

### Board of Directors and Company Secretary

Michael Cawley was appointed to the Board on 17 July 2013 and is proposed for election by the shareholders at the AGM to be held on 13 May 2014. In line with best practice principles set out in the UK Corporate Governance Code (September 2012) the Group has adopted a policy of annual re-election for all Board directors.

### Directors' remuneration

Details of directors' remuneration are given in the Remuneration Committee Report on pages 53 to 55 and in Note 7 to the financial statements on pages 79 and 80. No director or employee is entitled to any compensation for loss of office or employment occurring as a result of a takeover of the Company.

### Directors' and Secretary's interests

The interests of the directors and Company Secretary (including those of their spouses and minor children) who held office at 31 December 2013 in the share capital of Paddy Power plc, all of which were beneficially owned, were as follows:

	Number of ordinary shares of €0.10 each	
	31 December 2013	31 December 2012 (or date of appointment if later)
Nigel Northridge	6,000	6,000
Patrick Kennedy	473,905	441,111
Cormac McCarthy	2,000	1,000
Tom Grace	-	-
Ulric Jerome	-	-
Stewart Kenny	398,502	428,502
Danuta Gray	-	-
Michael Cawley	-	-
Pádraig Ó Riordáin	8,000	8,000
Jack Massey (Secretary)	40,040	59,058

There have been no changes in the above shareholdings between 31 December 2013 and the date the directors approved these financial statements.

### Share ownership and dealing

The Company has established share ownership guidelines for executive directors and the Group's Executive Management Committee to ensure that their interests are aligned with those of shareholders. Further details are set out within the Remuneration Committee Report on page 55.

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

The executive directors and the Company Secretary, who held office at 31 December 2013, had the following movements in share options during the year and held the following share options at 31 December 2013 (all under the terms of the Company's Sharesave Scheme (see Note 22)):

	Number of options at start of year	Options granted during the year	Options exercised during the year	Options lapsed during the year	Number of options at end of year	Exercise price	Exercise period
Patrick Kennedy	1,236	-	(1,236)	-	-	€9.45	4 December 2013 – 3 June 2014
	279	-	-	-	279	€41.36	4 December 2015 – 3 June 2016
	-	243	-	-	243	€45.52	4 December 2018 – 3 June 2019
Cormac McCarthy	-	676	-	-	676	€45.52	4 December 2018 – 3 June 2019
Jack Massey (Secretary)	650	-	-	-	650	€27.79	4 December 2014 – 3 June 2015

The market price of the Company's shares at 31 December 2013 was €62.00 and, for the year then ended, the Company's daily closing share price ranged between €55.00 and €70.65 (2012: ranged between €41.20 and €63.10 and was €62.05 at year end).

During the year ended 31 December 2013, the executive directors and the Company Secretary had the following interests and were conditionally granted the following share awards under the Long Term Incentive Plan schemes which are more fully described in the Remuneration Committee report on page 54 and in Note 22 to the consolidated financial statements:

	Date awards granted	Awards outstanding at start of year	Granted during year	Dividend shares	Vested during year	Lapsed during year	Awards outstanding at end of year	Weighted average share price at date of grant	Cost of shares vested during the year €'000
Patrick Kennedy	2011 & 2012	310,000	-	3,125	(103,125)	-	210,000	€36.81	2,576
	14 May 2013	-	51,508	-	-	-	51,508	€67.00	-
Cormac McCarthy	2012	35,000	-	-	-	-	35,000	€57.00	-
	14 May 2013	-	18,396	-	-	-	18,396	€67.00	-
Jack Massey (Secretary)	2011 & 2012	72,500	-	781	(25,781)	-	47,500	€36.74	644
	28 August 2013	-	9,583	-	-	-	9,583	€59.15	-

The awards are subject to the rules of the schemes and will vest if testing growth performance targets are met over the allowable vesting period. Further details of the schemes are outlined in the Remuneration Committee Report and in detail in Note 22 to the consolidated financial statements. Included in vestings are a small number of vested shares which relate to dividends earned over the vesting period in respect of the shares vested during the year. The cost of shares vested during the year included in the table above represents the original cost of shares vested from the Long Term Incentive Plan (see Note 22) to the directors and Company Secretary during the year.

Transactions with directors and parties related to them have been disclosed in Note 7 to the consolidated financial statements on pages 79 and 80. The directors and secretary have no beneficial interests in shares in any other Group companies.

### Political donations

No political donations were made by the Group during the year that require disclosure in accordance with the Electoral Acts 1997 to 2002 and the Electoral Political Funding Act 2012.

### Books of account

The measures which the directors have taken to ensure that proper books of account are kept are: the appointment of suitably qualified personnel, the adoption of suitable policies for recording transactions, assets and liabilities, and the appropriate use of computers and documentary systems. The Group and Company books of account are kept at Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4.

# DIRECTORS' REPORT

(CONTINUED)

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

For the purpose of Regulation 21 of Statutory Instrument 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006', the information given under the following headings on pages 90 and 91 (Share capital and reserves), pages 34 and 35 (Board of Directors), pages 53 and 54 (Performance bonus), pages 54 and 55 (Long Term Incentive Plan), page 55 (Share options), page 55 (directors' service contracts) and pages 91 to 95 (Share schemes) is deemed to be incorporated in the Directors' Report. The Company's outsourcing contract with PMU can be terminated by PMU in some circumstances if there is a change of control in the Company.

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

For the purposes of information required by Statutory Instrument 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2007' concerning the development and performance of the Group, the following sections of the Company's Annual Report shall be treated as forming part of this report:

1. The Chairman's Statement on page 6, the Chief Executive's Review on pages 7 to 10 and the Operating & Financial Review on pages 11 to 22 which include a review of the external environment, key strategic aims and financial and other key performance measures.
2. The Directors' Statement on Corporate Governance on pages 45 to 49.
3. Details of earnings per share on page 82.
4. Details of shares purchased by the Company on page 95.
5. Details of derivative financial instruments on pages 103 to 105.

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

For the purpose of Statutory Instrument 450/2009 'European Communities (Directive 2006/46/EC) Regulations 2009', the Directors' Statement on Corporate Governance on pages 45 to 49 is deemed to be incorporated in the Directors' Report.

## Auditor

In accordance with Section 160(2) of the Companies Act 1963, the auditor, KPMG, will continue in office and a resolution authorising the directors to fix their remuneration will be proposed at the forthcoming AGM.

## Going concern

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

On behalf of the Board



**Patrick Kennedy**  
Chief Executive



**Cormac McCarthy**  
Chief Financial Officer

3 March 2014

# DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

The Board is committed to maintaining the highest standards of corporate governance. This statement describes how the Group applies the UK Corporate Governance Code (the 'UK Code') and the Irish Corporate Governance Annex (the 'Irish Annex') which set out principles of good governance and a code of best practice. Copies of the Code can be found on the Financial Reporting Council's website ([www.frc.org.uk](http://www.frc.org.uk)).

## Board of Directors – role and responsibilities

Your Board has overall responsibility for the leadership, control and oversight of the Group. Responsibility for the day-to-day management of the Group has been delegated by the Board to executive management. This delegation is effected through the Chief Executive, who is accountable to the Board.

The functions of Chairman and Chief Executive are not combined and both roles' responsibilities are clearly divided. A number of responsibilities of the Board are delegated to sub-committees of the Board, details of which are set out on page 48.

## Matters reserved for the Board

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

## Board composition

The Board currently comprises nine directors who are listed below.

Director	Status	Independent / non-independent	Tenure (in years)
Nigel Northridge	Current	Independent (Chairman)	10
Patrick Kennedy	Current	Non-independent (Executive)	10
Cormac McCarthy	Current	Non-independent (Executive)	2
Tom Grace	Current	Independent	8
Michael Cawley	Current	Independent	1
Danuta Gray	Current	Independent	1
Ulric Jerome	Current	Independent	1
Stewart Kenny	Current	Non-independent (Founder)	25
Pádraig Ó Ríordáin	Current	Independent	5

The Board comprises the mix of the necessary business skills, knowledge and experience required to provide leadership, control and oversight of the management of the business and to contribute to the development and advancement of business strategy. In particular, the Board combines a group of directors with diverse backgrounds within the betting industry, technology industry and financial services sector, among others, which combine to provide the Board with rich expertise and experience to drive the continuing development of Paddy Power.

## Board refreshment and renewal

The Board is committed to a policy of on-going Board refreshment and renewal and, through the Nomination Committee, continually reviews the composition and diversity, including gender diversity, of the Board and the skills and experience of each of the directors. The relevant skills and experience of each director are set out under individual biographies which are detailed on pages 34 and 35.

In July 2013, Michael Cawley was appointed as an independent non-executive director. Michael brings substantial commercial, financial and international business experience to the Board. Michael's biography is set out on page 34.

In August 2013, Jane Lighting retired from the Board having served a four year term.

Stewart Kenny, a founder member of the Group, has served on the Board for longer than nine years. In line with the principles of the UK Code, and consistent with the Group's policy on re-election, he is subject to annual re-election. The Board reviewed the appropriateness of this long-standing director continuing to serve on the Board. The Board believes that Stewart's experience within the industry remains central to your Group's continued development and success and that his continuance in office is in the best interests of the Group and its shareholders.

## Board size

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

## Gender policy

The focus of the Board, through the Nomination Committee, is to maintain a Board which comprises the necessary mix of business skills, knowledge and experience to advance the Group's commercial objectives and drive shareholder value. Paddy Power recognises the benefits gender diversity may bring.

# DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

(CONTINUED)

## Directors' independence

The UK Code states that at least half the Board, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent.

The Group has determined that Tom Grace, Pádraig Ó Ríordáin, Ulric Jerome, Danuta Gray and Michael Cawley are independent. The Chairman, Nigel Northridge, was independent on his appointment to the Board as a non-executive director in July 2003 and as Chairman in January 2009. Stewart Kenny is a founder member of the Group and has served on the Board for longer than nine years and is not considered by the Board to be independent. There are two executives on the Board (Patrick Kennedy and Cormac McCarthy).

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

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

## Re-election of directors

In line with best practice principles set out in the UK Code, the Group has adopted a policy of annual re-election for all Board directors. Directors seeking re-election are subject to a performance appraisal, which is overseen by the Nomination Committee. This is an annual process for all directors under the policy of annual re-election. In addition, the Group has recently undertaken an evaluation of the Board and its committees, further detail on which is set out under 'Board performance evaluation' on page 47.

## The Chairman's role

I have been Chairman of the Group since January 2009. The Chairman is responsible for the leadership of the Board, ensuring its continued effectiveness in carrying out its duties and setting its agenda. The Chairman is also responsible for ensuring that all directors receive accurate, timely and clear information. I facilitate the effective contribution of my non-executive colleagues, encourage openness, debate and challenge at Board meetings, and ensure constructive relationships exist between executive and non-executive directors. The Chairman is the guarantor of effective communications with shareholders and ensures that the Board is kept aware of the views of shareholders. I am available to meet shareholders on request and during the course of 2013, other non-executive directors and I met with certain institutional shareholder representatives.

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

## Senior Independent Director

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

## Company Secretary

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

## Induction and development of non-executive directors

New directors are provided with extensive induction materials and are comprehensively briefed on the Group, its operations, corporate governance best practice and their duties as a director.

Non-executive directors are briefed by the executive directors and senior management on a regular basis. During 2013, at each Board meeting, senior management from various parts of the Group made presentations on the progress of and prospects for their area of responsibility.

Throughout the year, directors are also provided with detailed briefing materials on the performance of the Group and with feedback from institutional shareholders and analysts regarding their perspectives on the Group.

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

The standard terms of the letter of appointment of non-executive directors are available, on request, from the Company Secretary.

## External non-executive directorships

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

The Board also believes that a broadening of the skills, knowledge and experience of non-executive directors is also of benefit to the Group. The Group welcomes the participation of the non-executives on the boards of other companies. To avoid potential conflicts of interest, non-executive directors inform the Chairman before taking up any external appointments. Details of the non-executive positions held by each director in public companies are set out under individual biographies which are detailed on pages 34 and 35.

### Directors' fees

Directors' fees were reviewed in 2014 by the Board. An independent external advisor was engaged to perform a benchmarking study to compare directors' fees with these of other Irish and UK comparable-sized companies and the Group's peers. Following that review and effective 1 March 2014, it was determined that the standard non-executive director's fee would increase from €70,000 (unchanged since 2008) to €75,000, the Chairman's fee would increase from €230,000 to €245,000, the fee for the Senior Independent Director would remain unchanged at €12,000 and that the fee for the Remuneration Committee chair would remain at €20,000 in line with that of the chair of the Audit Committee. Fees for chairs of other committees remain at €12,000. No additional fees are paid if a committee is chaired by the Chairman. Non-executive directors are not eligible to participate in the Group's bonus schemes, option plans or share award schemes. None of the remuneration of the non-executive directors is performance related. The non-executive directors' fees are not pensionable and non-executive directors are not eligible to join any Group pension plans. Non-executive directors are reimbursed for their reasonable travel expenses incurred in connection with the Board and its related committees.

### Board performance evaluation

As Chairman, it is my responsibility to ensure that the performance of all directors is at the levels required. During 2013, the Board carried out an internal evaluation of the performance of the Board, the Chairman, the directors and each of the committees.

The Senior Independent Director also conducted a review of my performance with the non-executive directors, while also taking into account the views of the executive directors, the results of which were discussed with me.

In accordance with the recommendations of the UK Corporate Governance Code, which requires an external Board evaluation to be conducted at least once every three years, the next external evaluation will be undertaken in 2015.

### Attendance at Board and committee meetings

The Board holds at least eight Board meetings each year. The Board may meet more frequently as required. The number of meetings of Board sub-committees each year varies by committee.

There were eight full meetings of the Board in 2013. The attendance at Board and sub-committee meetings by the directors who held office in 2013 is set out below. The Board places considerable importance on attendance at both scheduled Board and sub-committee meetings. During the year, no director attended less than 75% of scheduled Board meetings which they were entitled to attend.

All of the directors were in attendance at the 2013 AGM on 14 May 2013.

	Note	Board	Audit	Remuneration	Nomination	Bookmaking Risk
Number of meetings held in 2013		8	5	12	3	2
Attended by:						
N Northridge*	(1)	8		12	3	2
T Grace*		6	4		3	
M Cawley*	(2)	4	2			
D Gray*	(3)	8		11		
U Jerome*		8	5			
S Kenny**		8			3	2
J Lighting*	(4)	6	4	9		
P Ó Riordáin*		8		12	3	2
D Power**	(5)	3				2
P Kennedy***		8				2
C McCarthy***		8				

\* Independent non-executive director

\*\* Non-executive director

\*\*\* Executive director

- (1) Nigel Northridge was appointed to the Bookmaking Risk Committee on 14 May 2013. There were two Bookmaking Risk Committee meetings after his appointment, which he attended.
- (2) Michael Cawley was appointed to the Board and the Audit Committee on 17 July 2013. There were four Board meetings and two Audit Committee meetings after his appointment, all of which he attended.
- (3) Danuta Gray was appointed to the Board and Remuneration Committee on 17 January 2013. There were eight Board meetings and 11 Remuneration Committee meetings after her appointment, all of which she attended.
- (4) Jane Lighting resigned from the Board, Audit Committee and Remuneration Committee on 20 August 2013. Prior to her resignation, there were six Board meetings, four Audit Committee meetings and nine Remuneration Committee meetings, all of which she attended.
- (5) David Power resigned from the Board on 14 May 2013. Prior to his resignation, there were four Board meetings, three of which he attended. He remains as Chairman of the Bookmaking Risk Committee.

# DIRECTORS' STATEMENT ON CORPORATE GOVERNANCE

(CONTINUED)

## Board sub-committees

The Board has established four permanent sub-committees to assist in the execution of its responsibilities. These are: the Audit Committee; the Remuneration Committee; the Nomination Committee; and the Bookmaking Risk Committee. In December 2013, the name of the Risk Committee was changed to the Bookmaking Risk Committee as the Committee believed that the new name was a more accurate reflection of its activities. Attendance at meetings held in 2013 is set out in the table above. Ad-hoc committees are formed from time to time to deal with specific matters.

The composition of the Board committees as at 3 March 2014 was as follows:

### Audit

Tom Grace (Chair); Michael Cawley; Ulric Jerome.

### Remuneration

Pádraig Ó Ríordáin (Chair); Nigel Northridge; Danuta Gray.

### Nomination

Nigel Northridge (Chair); Pádraig Ó Ríordáin; Tom Grace; Stewart Kenny; Danuta Gray.

### Bookmaking Risk

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

Given David Power's extensive experience of the betting industry and as a co-founder of Paddy Power, he remained as Chairman of the Bookmaking Risk Committee following his retirement as a director of the Board at the conclusion of the 2013 AGM. David is paid the standard fee for chairing a committee of €12,000 per annum. As Chairman of the Bookmaking Risk Committee, David is subject to the share dealing restrictions and disclosures of a PDMR (Person Discharging Managerial Responsibility).

Each of the permanent Board sub-committees has terms of reference under which authority is delegated to them by the Board. These terms of reference are available on the Group's website [www.paddypowerplc.com](http://www.paddypowerplc.com). The chairman of each sub-committee attends the Annual General Meeting and is available to answer shareholder questions.

## Audit Committee

The Audit Committee is primarily responsible for ensuring the integrity of the Group's financial statements and the Group's internal controls. The report of the Audit Committee is set out on pages 50 to 52.

In line with best practice, the Audit Committee is comprised of three non-executive directors all of whom have been determined by the Board to be independent.

## Remuneration Committee

The Remuneration Committee is primarily responsible for making recommendations to the Board on remuneration policy for the Group's executive directors and other senior executives. The report of the Remuneration Committee is set out on pages 53 to 55.

The Remuneration Committee is comprised of three independent non-executive directors and the Group Chairman. In line with best practice, the Committee is not chaired by the Group Chairman.

## Nomination Committee

The Nomination Committee is primarily responsible for recommending candidates to the Board for appointment as directors and ensuring that appropriate procedures are followed for all such appointments. On behalf of the Board, the Nomination Committee also continually reviews the composition and diversity of the Board and the skills and experience of each of the directors, to ensure that Paddy Power has a Board which is fit for purpose and capable of protecting and creating value for shareholders. The relevant skills and experience of each director are set out under individual biographies which are detailed on pages 34 and 35. Danuta Gray was appointed as a member of the Nomination Committee in February 2014.

The Nomination Committee comprises the Group Chairman, three independent directors and one non-independent, non-executive director. In line with best practice, at least half of the Committee is comprised of independent directors.

## 2013 review

During 2013, consistent with a commitment to on-going Board refreshment and renewal, and following an external evaluation of the Board during 2012, the Nomination Committee engaged external search and recruitment agents to identify potential candidates and to assist in selecting and recommending candidates.

In July 2013, Michael Cawley was appointed as an independent non-executive director. Michael brings substantial commercial, financial and international business experience to the Board. His biography is set out on page 34.

Stewart Kenny, a founder member of the Group, has served on the Board for longer than nine years. Given his tenure on the Board, he has been subject to annual re-election for a number of years, consistent with best practice. In line with the principles of the UK Corporate Governance Code, all directors are now subject to annual re-election. The Board reviewed the appropriateness of this long-standing director continuing to serve on the Board. The Board believes that Stewart's experience within the industry remains central to your Group's continued development and success and that his continuance in office is in the best interests of the Group and its shareholders.

## Bookmaking Risk Committee

The Bookmaking Risk Committee is responsible for ensuring that policies in respect of betting risk are appropriate, monitoring that such policies are being correctly applied, reviewing reports from the Head of Bookmaking Risk and monitoring the adequacy and effectiveness of the Group's Bookmaking Risk function. The Committee also sets overall policy for betting risk. Limits are agreed with the Committee and set annually but are subject to review by the Committee at any time.

### Internal control

The UK Code states that:

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

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

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

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

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

The Board, through the Audit Committee, is responsible for conducting a review of the effectiveness of the Group's systems of internal control. This review has been performed in respect of the year ended 31 December 2013. The directors consider that the procedures necessary to implement the Turnbull guidelines on internal control in the UK Corporate Governance Code have been properly established.

### Relations with shareholders

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

There is regular discussion between Group management and analysts, brokers and institutional shareholders, ensuring that the market is appropriately informed on business activities. Visits to the Group's headquarters are encouraged and a significant number of existing and prospective institutional shareholders visited the Group's offices in 2013. In addition, tours of our retail outlets are undertaken regularly. Feedback from major shareholders and reports by analysts are communicated to directors so that directors can, in line with the UK Code, understand the issues and concerns of shareholders.

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

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

### Compliance

The directors confirm that the Group has complied throughout the accounting period with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex.

### Conclusion

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



**Nigel Northridge**  
Chairman

3 March 2014

# AUDIT COMMITTEE REPORT

## Role of the Audit Committee

The role, responsibilities and authorities of the Audit Committee are set out in our written Terms of Reference, which are available on the Paddy Power plc website. The primary role of the Group's Audit Committee is to provide governance and oversight over the integrity of the Group's financial reporting, the Group's internal controls and risk management frameworks. The Committee also monitors the performance of internal and external audit.

During the year the Committee has continued its assessment of the overall risk management and internal control frameworks in place to ensure their appropriateness. The Committee has met with various members of the senior management team to obtain assurance in this regard. The Committee has also engaged regularly with internal and external audit.

## Membership

Members are appointed to the Committee by the Board, based on the recommendations of the Nominations Committee. The Committee comprises Independent Non-Executive Directors, Ulric Jerome, Michael Cawley and myself as Chairman. In accordance with Provision C3.1 of the Code, the Board has determined that I have the 'recent and relevant financial experience' as required to discharge my duties as Chairman. As with other Board Committees, the Company Secretary or his deputy acts as secretary to the Committee.

Michael Cawley was appointed to the Committee in July 2013 following Jane Lighting's retirement from the Committee. I would like to thank Jane for her substantial contribution to the work of the Committee since her appointment in October 2009.

All members of the Committee are expected to be financially literate, to have knowledge of financial reporting principles and accounting standards and to understand any material factors impacting the Group financial statements. All members are also required to have an understanding of the Group internal controls and risk management frameworks and the regulatory and legal environments in which the Group operates. Further details of the members' qualifications and experience are available on pages 34 and 35.

The Chief Financial Officer ('CFO') and the Director of Internal Audit have a standing invitation to attend the Audit Committee meetings, with the exception of the limited number of instances where the Committee meets without executive management. The Chairman of the Board also attends at least one Audit Committee meeting each year. Key members of management, the external auditors and key staff in risk management functions also attend meetings by invitation.

## Meetings

In accordance with the Committee Terms of Reference, the Committee meets at least three times a year. The Committee met five times in 2013. Attendance at meetings held is set out in the table on page 47.

Certain meetings are scheduled around the financial reporting cycle to allow the Committee to discharge its duties in relation to the financial statements. To discharge its functions effectively, the Audit Committee has unrestricted access to the Group's external and internal auditors, with whom it meets at least three times a year, with and without management. These meetings ensure that there are no restrictions on the scope of their audits, and allow discussion of any matters that the auditors might not wish to raise in the presence of management.

Various key members of management have reported to the Audit Committee during the year including the Chief Technical Officer, the Head of Information Security, the Director of Tax and the Head of Compliance. The CFO regularly updates the Committee on key financial matters.

In general the Committee meets in advance of the Board meeting and I provide an update to the Board of the key outcomes from each meeting. In addition, minutes of all meetings are made available to the Board.

## Main activities during the year

The activities undertaken by the Audit Committee in 2013 included:

- monitoring the integrity of the financial statements of the Company and Group;
- reviewing the effectiveness of the Group's internal controls;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- ensuring that there are appropriate procedures in place to monitor and evaluate the general business risks to which the Group is exposed;
- considering and making recommendations to the Board in relation to the continued appointment of the external auditor;
- approving the remuneration and terms of engagement of the external auditor;
- evaluating the performance of the external auditor, including their independence and objectivity;
- approving non-audit services provided by the auditor;
- reviewing arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- reviewing the Group's procedures for detecting fraud;
- providing an open line of communication between the Board, internal audit and external audit; and
- reporting to the Board on how the Committee has discharged its duties.

## Financial reporting and significant financial issues

The role of the Committee in relation to financial reporting is to monitor the integrity of the financial statements at half-year and at year end. The Committee has considered whether accounting standards are consistently applied across the Group and whether disclosures to the financial statements are clear and sufficient. Following discussions with management and the external auditors the Committee has determined that the key risks of misstatement of the Group's financial statements are in relation to the following:

## Income

The Group has a number of income streams across its online and retail operations with a high prevalence of cash and credit card transactions. Effective operational and fraud related controls from both an IT systems and financial control perspective assist in ensuring the accuracy and completeness of these income streams. The Audit Committee gained comfort over this area through discussion with the CFO in relation to the operation of key financial controls such as cash and revenue reconciliations. Representations from the Chief Technical Officer and Head of Information Security provided additional assurance throughout the year in relation to the operating effectiveness of our IT systems. There are also a number of oversight functions within the Group that assist in validating the accuracy and completeness of revenue, such as the Security and Fraud teams. The Committee also gained an understanding of and challenged the work performed by the external auditor, including their assessment of the key IT controls in operation in relation to the Group's IT systems. As a result of the above procedures the Committee is satisfied that there are appropriate controls and processes in place across the Group to ensure the completeness and accuracy of reported income.

## Compliance with laws and regulations

The Group operates in heavily regulated markets across a number of geographical jurisdictions. The area of compliance continues to evolve in all of our markets. Compliance with the laws and regulations in place in each jurisdiction that could have a direct effect on material amounts reported and disclosed in the Group's financial statements is a key risk area considered by the Committee. This includes matters such as taxation, licensing, data protection, money laundering, fraud and other legislation.

In recognition of this the Group's Head of Compliance presented to the Committee during the year setting out the key obligations and controls in place across the Group that are designed to prevent and detect instances of non-compliance with the laws and regulations as set out above. The Committee reviewed relevant Internal Audit reports covering compliance with laws and regulations. In addition, our external auditor reports to us on the results of their procedures which are designed to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements. The above procedures provide the Committee with assurance that sufficiently robust policies and procedures are in place to prevent and detect instances of non-compliance with laws and regulations that could have a material impact on the amounts reported in the Group's financial statements.

In relation to taxation, we engage PricewaterhouseCoopers ('PWC') as our main tax advisor. Our in-house Director of Tax (together with PWC) presented to the Committee during the year in relation to Group tax compliance. The combination of this independent advice, our in-house expertise and the procedures and reporting provided by our external auditor assists in providing assurance to the Committee that the assumptions and methodologies used by the Group in relation to taxation amounts reported and disclosed in the Group's financial statements are appropriate.

## Goodwill and indefinite life intangible assets

At 31 December 2013, the Group had goodwill of €92.6m and indefinite life intangible assets of €32.5m, as detailed in Note 13 and Note 14 to the financial statements. Under International Financial Reporting Standards (IFRSs), these balances are not amortised, rather they are tested annually for impairment. Impairment testing requires the application of judgement, largely around the assumptions that are built into the calculation of the value in use of the business being tested for impairment – in this instance, our Australian, Online, and retail shop businesses operations.

The primary inputs into the impairment testing are estimates of the future cash flows derived from the continuing use of the businesses and the application of an appropriate discount rate in discounting these cash flows. In order to satisfy ourselves that the goodwill and indefinite life intangible assets balances are not materially misstated, the Committee obtained assurance from management that detailed impairment testing had been undertaken for each cash generating unit ('CGU'), using appropriate assumptions. In addition, sensitivity analysis was also performed for each CGU. In considering this matter the Committee reviewed the impairment reviews and sensitivity analysis performed. In addition, the Committee also discussed with the external auditor their review of the assumptions used in the impairment reviews for each CGU and the sensitivity analysis performed. Following these discussions the Committee concurred with management's conclusion that the goodwill and indefinite life intangible assets were not impaired.

## Internal audit

The Committee has oversight responsibilities for the internal audit function. The Committee approved the 2013 internal audit plan in December 2012. The plan was assessed to ensure it provided adequate coverage across the Group and was risk based in its approach. Changes are made to the plan based on emerging risks or changes in the business that should be addressed. All changes to the plan were reviewed and agreed by the Committee.

Progress against the plan was reported in detail to the Committee by the Director of Internal Audit at the half-year end and at the end of the year. The Committee also reviewed the specifics of audit findings and the progress of the business in addressing audit recommendations. Internal Audit regularly reported to the Committee on key risk themes and on the overall risk management frameworks in the business.

The Committee made independent inquiries of the external auditor and of senior management as to the performance of internal audit and is satisfied in this regard.

## Risk management

The risk management process is reviewed annually by the Audit Committee for its appropriateness and effectiveness in identifying, assessing and managing corporate risk appropriately. There are a number of key management functions that have a core role in the overall risk management framework. The Audit Committee met with a number of these throughout the year to gain comfort over the overall approach. The Committee also reviewed reports from both internal and external audit when considering risk management. A summary of key risks to which the business is exposed and the activities undertaken to mitigate those risks are detailed on pages 38 to 41.

There were a number of enhancements made to the risk management frameworks during the year and the Director of Internal Audit presented these to the Committee. The Committee believes these changes will further assist the business in identifying and managing key risks to the delivery of the Group's strategic objectives.

# AUDIT COMMITTEE REPORT

(CONTINUED)

## External audit

There are a number of areas that the Committee considers in relation to the external auditor – its performance, its independence and objectivity, its appointment and remuneration.

### External auditor performance

In December 2013 we met with the external auditor to agree the 2013 year end audit plan. The plan provided detail on its proposed audit approach and methodology, the materiality that it intended to use during the audit and highlighted the areas considered to have a higher risk due to the level of judgement involved and the potential impact of a misstatement on the Group financial statements. The areas of highest risk were considered to be those of revenue and compliance with laws and regulations. The Committee reviewed and appropriately challenged the conclusions reached by the external auditor before agreeing the proposed audit scope and approach.

The external auditor presented a detailed report of its audit findings to the Committee at our meeting in February 2014. During the year, the external auditors also presented the findings of its half year review procedures to the Committee and in December 2013 it presented a detailed report of its IT audit findings. These findings were reviewed and questioned by the Committee, with appropriate challenge made to the work performed, assumptions made and conclusions drawn – particularly in relation to the higher risk areas as identified above.

The Committee took into account the following factors in assessing the performance of the external auditor:

- the quality and content of the deliverables presented to the Committee;
- the ability of the external auditor to respond appropriately to challenges raised by the Committee;
- the progress achieved against the agreed audit plan, and the communication of any changes to the plan in respect of matters such as emerging risks;
- the competence with which they handle key accounting and audit judgements and the manner in which they communicate the same;
- their compliance with relevant ethical and professional guidance on the rotation of audit partners; and
- their qualifications, expertise and resources.

After taking into account all of the above factors, the Committee continues to be fully satisfied with the performance of KPMG.

### Independence and reappointment

The Committee is responsible for ensuring that the external auditor is objective and independent. KPMG have been the Group's auditor since 2001. During this time the audit partner has been rotated every five years to ensure independence and objectivity is maintained with the current lead audit partner being appointed since the year ended 31 December 2011. The audit was last tendered in 2011, for the year ending 31 December 2011. Following written tenders and presentations from the four leading global audit firms, it was decided to retain KPMG. The Committee meets privately with the external auditor at least annually without any members of management or the executive directors being present.

The Committee is responsible for implementing appropriate safeguards where the auditor also provides non-audit services to the Group and recognises that the perceived independence and objectivity of an auditor may be compromised in circumstances where non-audit fees exceed the annual audit fee. To assist in this regard the Committee monitor the extent to which the external auditor is engaged to provide non-audit services. Upon the re-appointment of KPMG as external auditor in 2011, the Audit Committee agreed that KPMG would cease to be the primary tax advisor to the Group.

During 2013, the Committee reviewed the letter from the Group's external auditors confirming their independence and objectivity. The Committee also performed a review of the audit and non-audit services provided by the external auditor, and the fees charged for those services, to ensure there was no impairment of objectivity or independence.

An analysis of the non-audit fees provided by the Group's auditor in 2013 is set out on page 81. For 2013, non-audit fees paid to KPMG, amounted to 37% of audit related fees paid to the firm as compared to 79% in 2012. The level of non-audit fees paid to KPMG is within the principle that non-audit fees should not exceed audit fees, other than as approved by the Audit Committee.



**Tom Grace**  
*Chairman of the Audit Committee*

3 March 2014

# REMUNERATION COMMITTEE REPORT

## The Remuneration Committee

The Remuneration Committee operates within agreed terms of reference and has responsibility for making recommendations to the Board on the Group's general policy relating to executive remuneration, and to determine, on behalf of the Board, specific remuneration packages for the executive directors. In addition to the remuneration of the executive directors, the Committee is also responsible for approving the remuneration of those other senior executives who report directly to the Chief Executive ('senior executives'). The remuneration of the Chairman of the Board is also determined by the Remuneration Committee. The remuneration of the non-executive directors is determined by the Board.

The Remuneration Committee consists of non-executive directors all of whom are independent with no personal financial interest, other than as shareholders, in the decisions of the Committee. By invitation, other members of the Board may attend the Committee's meetings. The Committee uses the services of external independent consultants to provide advice on compensation and remuneration matters as required. The Chief Executive, Patrick Kennedy, is not a member of this committee but may be invited to attend meetings; however, he is not present when his own remuneration is discussed. Membership of the Remuneration Committee is set out on page 48. The Committee is accountable to shareholders through this Remuneration Committee Report which is put before shareholders for an advisory vote each year.

## Meetings

The Remuneration Committee meets at least three times a year. During 2013, the Committee met twelve times. Details of attendance at the meetings held during the year are set out on page 47.

## Remuneration policy

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

- to provide remuneration arrangements that align executives' and shareholders' interests over the long-term and take account of risk;
- to drive superior performance by delivering upper quartile remuneration for upper quartile performance; and
- to ensure remuneration levels are fair and sufficiently competitive to attract, retain and motivate executives of the highest calibre to deliver the Group strategy.

The Committee does not have a policy of chasing median for base salary. In line with shareholder preference, the remuneration package is heavily weighted towards performance-related pay (with a significant element weighted towards long-term rather than short-term performance). The aim is to provide base salaries that are fair, and a total remuneration package that delivers upper quartile pay for exceptional performance, primarily through the mechanism of long-term incentives linked to profit and strategy. The Committee believes the current remuneration structure appropriately links pay to strategy and supports shareholder value creation.

## 2013 activities

During 2013, the Committee reviewed the Group's Remuneration policy and practice. The underlying remuneration policy for executive directors and senior executives of Paddy Power has always been, and will continue to be, heavily weighted towards delivering long-term performance. The Committee believes this policy remains appropriate and it is consistently applied to both the executive directors and the senior executives.

## Executive Remuneration

The base salaries of executive directors are reviewed annually having regard to personal performance, Group performance, significant changes in their responsibilities and competitive market practice. Employment-related benefits typically include (but are not limited to) life and health insurances and the provision of a company car or car allowance. No separate directors' fees are payable to executive directors.

During the year, the Committee reviewed executive remuneration arrangements to ensure that they continued to be aligned with shareholders' interests and the Group's strategy. Following the review, the Committee approved a two per cent increase in the Chief Executive's salary for 2014 (effective from 1 March 2014) given the continued growth in the business, and also being mindful of his positioning on total cash compensation of between market median and lower quartile.

The Committee also approved a two per cent increase in the Chief Financial Officer's salary for 2014 (effective from 1 March 2014). No changes were made to existing employment-related benefits for either the Chief Executive or the Chief Financial Officer.

## Performance bonus

In 2013, the maximum bonus opportunity for the CEO and CFO were 100% and 80% of salary respectively. Target bonus was 50% of the maximum opportunity. These arrangements are reviewed annually by the Remuneration Committee, however no changes have been made in the last year. The level of annual bonus earned in any one year depends on the Remuneration Committee's assessment of each individual's performance and the overall performance of the Group against predetermined financial targets for the year. In 2013, 70% of the bonus was based on financial performance and 30% on the achievement of personal or strategic objectives. For the financial element, the percentage achieved was based on a matrix which took account of (a) EBIT margin performance versus budget and (b) amounts staked performance versus budget. Further details of the bonuses paid, including financial and personal targets set and performance against each of the metrics, are provided in the table below.

# REMUNERATION COMMITTEE REPORT

(CONTINUED)

Measure	Weight (% of max)	Performance targets			Actual performance	
		'Threshold'	'Target'	'Maximum'		
Financial element	EBIT margin	70%	76% of budget	Budget	124% of budget	Between threshold and target
	Amounts staked		90% of budget	Budget	110% of budget	Between threshold and target
Personal element	Based on personal objectives agreed and evaluated through the performance evaluation process.	30%	As agreed with the Board			Dependent on individual performance assessed through the performance evaluation process
Total		100%				

The specific financial performance targets are not publicly disclosed for reasons of commercial sensitivity.

The Committee has considered deferring a portion of the executive directors' performance bonus into shares in Paddy Power plc but did not believe it was appropriate to do so given the lower quartile total cash opportunity, and also as their interests are already sufficiently aligned with shareholders through their long-term incentive arrangements and shareholdings. However, the Committee did increase the shareholding guidelines in place for the executive directors in 2012, details of which are set out below.

## Pension entitlements

The Group does not operate any pension scheme or make pension provision for non-executive directors. Both executive directors receive cash allowances in lieu of pension contributions.

## Targeted remuneration

Based on the 2013 LTIP grants, the composition of each director's target annual remuneration (excluding sundry benefits) is as follows:

	Performance related	Non-performance related
<b>Executive</b>		
Patrick Kennedy	74%	26%
Cormac McCarthy	62%	38%
<b>Non-executive</b>		
Nigel Northridge	-	100%
Tom Grace	-	100%
Michael Cawley	-	100%
Danuta Gray	-	100%
Ulric Jerome	-	100%
Stewart Kenny	-	100%
Pádraig Ó Riordáin	-	100%

## 2013 Long Term Incentive Plan ('LTIP')

The Group's first LTIP was approved by shareholders in 2004 and has been one of the most important elements of the Group policy on executive directors' and senior executives' remuneration and a key driver of long-term growth for the Group. Shareholder approval was granted at the Annual General Meeting ('AGM') held on 14 May 2013 for the introduction of a new LTIP. Details of awards made in 2013 under the plan are set out in the Directors' Report on page 43.

The 2013 LTIP is available for executive directors and senior managers who are individually nominated to participate in the plan by the Remuneration Committee. Eligibility is at the sole discretion of the Remuneration Committee. The key features of the 2013 LTIP are set out below:

### Performance Conditions

EPS continues to be the most important long-term performance indicator for Paddy Power and therefore the most appropriate measure for the LTIP. The 2013 LTIP allow shares conditionally awarded to executives to be earned subject to the achievement of a growth target over a minimum vesting period of three years. The target growth range chosen represents a significant level of stretch above what is typically seen at our competitors. 25% of an award vests for EPS growth of 7% per annum with full vesting for EPS growth of 15% per annum, with sliding scale vesting in between. The current performance range reinforces our policy to allow maximum vesting only if outstanding levels of growth are delivered for shareholders.

The Committee will review the EPS growth targets applicable to 2014 LTIP awards during 2014 in order to ensure that these are sufficiently challenging and appropriate in the context of the Group's expected performance and market conditions. No significant changes to growth targets, as compared to those applicable to the 2013 LTIP awards, are expected at this point.

### Individual cap

All outstanding awards granted to an individual in the preceding ten-year period should not exceed eight times their Annual Remuneration at that time. Annual Remuneration is defined as salary, bonus opportunity and benefits in kind as at the date of grant. At the time of each grant, the Committee reviews the number of shares being granted to each individual to ensure award sizes are appropriate.

### Dilution levels

The total number of awards across all incentive schemes may not exceed ten per cent of the issued share capital of the Company. A further limit of three per cent applies over a three year period. Shares to satisfy awards that vest under the LTIP have to date been purchased in the open market by an LTIP Trust. The Trust's current holding represents three per cent of the issued share capital of the Company.

### Discretion to Adjust Target

As under the 2004 plan, the Committee will retain discretion to amend a condition that it no longer deems appropriate, provided that it is reasonable in the circumstances and is neither materially more nor less difficult to satisfy than was originally intended. Such discretion is important to ensure that outcomes are fair to both shareholders and participants. For example, the Board of Paddy Power is aware that a number of jurisdictions (e.g. UK and Ireland) may increase or introduce new taxes/ fees specific to the betting industry that could have a significant impact on the Group's profits. These taxes are considered to be outside of management control and the Remuneration Committee would therefore have the ability to adjust the EPS targets to ensure the outcome fairly reflects underlying performance. This will ensure that profit is being measured on a consistent basis; any tax 'windfalls' will be similarly adjusted (i.e. excluded from the calculation of EPS).

### Treatment on Change of Control

In the event of a change of control, awards will be pro-rated for time and performance. As is normal practice, the Committee will retain overall discretion to ensure that vesting outcomes are fair to both participants and shareholders if such an event occurs.

### Clawback

Following feedback from shareholders in 2012, the Committee introduced clawback provisions on unvested LTIP awards. In line with market practice, these provisions will apply in the events of material financial statement misstatement or where an individual (or group of individuals) is responsible for serious reputational damage to the Company.

### 2004 Long Term Incentive Plan

The 2004 Long Term Incentive Plan ('2004 LTIP') allowed shares conditionally awarded to executives to be earned subject to the achievement of a testing growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) over a minimum vesting period of three years. No awards have been made under the 2004 LTIP since the approval by shareholders of the 2013 LTIP and it will automatically expire in June 2014.

Details of share awards to the executive directors and the Company Secretary are included with the directors' and secretary's interests in the Directors' Report on page 43.

### Share ownership guidelines

The Group has put in place share ownership guidelines for executive directors and the Group's Executive Management Committee to ensure that their interests are aligned with those of shareholders. In summary, the guidelines are that the current market value of the shares in the Company held should be at least 2 times salary for the Chief Executive, 1.5 times salary for other executive directors and 1.0 times salary for the Group's Executive Management Committee. If share ownership guidelines are not met, then individuals must retain up to 50% of the vested LTIP award (net of tax). The shareholdings of Directors are shown on page 42 of this report.

### Share options

Details of options granted to executive directors under the Sharesave Scheme are included with the directors' and secretary's interests in the Directors' Report on page 43. Options granted under these Revenue approved all-employee sharesave schemes are granted at a discount of 25% (or 20% for UK participants) of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option. Further details of this plan are given in Note 22 to the consolidated financial statements.

The market price of the Company's shares at 31 December 2013 was €62.00 and, for the year then ended, the Company's daily closing share price ranged between €55.00 and €70.65 (2012: ranged between €41.20 and €63.10 and was €62.05 at year end).

### Executive directors' service contracts

The notice period for Patrick Kennedy is 12 months if issued by the Company and six months if issued by the executive. The notice period for Cormac McCarthy is six months. Both executive directors are employed on contracts with a normal retirement age of 65. Neither executive director is entitled to any contractual termination payment other than for payment in lieu of notice, which includes salary and benefits only.

### Non-executive directors' remuneration

Effective 1 March 2014, following a review of non-executive directors' fees, it was agreed that the standard non-executive director's fee would increase from €70,000 to €75,000, the Chairman's fee would increase from €230,000 to €245,000, it was agreed that the fee for the Senior Independent Director would remain unchanged at €12,000 and that the fee for the Remuneration Committee chair would remain at €20,000 in line with that of the chair of the Audit Committee. Fees for chairs of other committees remain at €12,000. There were no changes to non-executive directors' fees during 2013.

Non-executive directors are not entitled to participate in any of the Company's performance related share or incentive schemes.

### Non-executive directors' letters of appointment

Non-executive directors, in accordance with best practice, are not appointed on service contracts, rather they are issued with a letter confirming the terms of their appointment. Non-executive directors are currently appointed for an initial three year term subject to satisfactory performance and annual re-election by shareholders at Annual General Meetings, and are expected to give three months' notice of resignation, but this is without prejudice to their right to resign immediately if they feel it appropriate. Invitations to act for subsequent three-year terms are subject to annual review of performance and balancing the need to refresh the Board but without compromising its effectiveness and continuity. None of the non-executive directors have an entitlement to a termination payment.

### Directors' detailed emoluments

Full details of the emoluments of the directors are set out in Note 7 to the consolidated financial statements on pages 79 and 80.



**Pádraig Ó Riordáin**

*Chairman, Remuneration Committee*

3 March 2014

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

## IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

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

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

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Acts 1963 to 2013 provide in relation to such financial statements that references in the relevant part of the Acts to financial statements giving a true and fair view are references to their achieving a fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements the directors are required to:

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

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

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Group and Company, and which enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2013, and, as regards the Group financial statements, Article 4 of the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 (the 'IAS Regulation'). They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

### Responsibility Statement and UK Corporate Governance Code

Each of the directors, whose names and functions are listed in the Board of Directors section on pages 34 and 35, confirm that, to the best of each person's knowledge and belief:

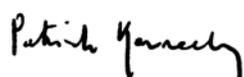
#### As required by the Transparency Regulations:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2013 and of the profit of the Group for the year then ended;
- the Company financial statements, prepared in accordance with generally accepted accounting practice in Ireland, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2013; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

#### As required by the UK Corporate Governance Code:

- the annual report and financial statements taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

On behalf of the Board



Patrick Kennedy  
Chief Executive



Cormac McCarthy  
Chief Financial Officer

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF PADDY POWER PLC

### Opinion and Conclusions arising from our Audit

#### 1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Paddy Power plc for the year ended 31 December 2013 as set out on pages 60 to 118, which comprise the Group consolidated income statement, the Group consolidated statement of comprehensive income, the Group consolidated statement of financial position, the Group consolidated statement of cash flows, the Group consolidated statement of changes in equity, the Group accounting policies and the related notes 1 to 35; and the Company balance sheet, the Company accounting policies and the related notes 1 to 19. Our audit was conducted in accordance with International Standards on Auditing (ISAs) (UK and Ireland).

#### *In our opinion:*

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2013 and of its profit for the year then ended;
- the Company balance sheet gives a true and fair view, in accordance with generally accepted accounting practice in Ireland, of the state of the Company's affairs as at 31 December 2013; and
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Acts 1963 to 2013 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

#### 2. Our assessment of risks of material misstatement

The risks of material misstatement detailed in this section of this report are those risks that we have deemed, in our professional judgment, to have had the greatest effect on: the overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team. Our audit procedures relating to these risks were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks, and we do not express an opinion on these individual risks.

In arriving at our audit opinion above on the Group financial statements, the risks of material misstatement that had the greatest effect on our Group audit were as follows:

#### **Income (€745.2 million)**

Refer to page 51 (Report of the Audit Committee), pages 67 and 68 (accounting policy) and note 4 to the Group financial statements.

#### • *The risk*

The Group has a number of income streams across its online and retail operations. The accuracy and completeness of these income streams, which are predominantly driven by cash and credit card transactions, is largely dependent on the effectiveness of the operational and fraud-related controls in place in the Group's IT systems and the financial controls in place in relation to cash and bank reconciliation processes.

#### • *Our response*

Our audit procedures included using a team of IT audit specialists to assist the Group audit team in assessing the effectiveness of the IT controls in place in relation to the Group's IT systems. Our IT specialists also performed various audit procedures to test the accuracy of the income processed by the Group's IT systems. Our audit procedures also included testing the cash and bank reconciliations and income reconciliation controls in place across the various income streams as well as tests in relation to the accuracy of year end income cut off. We also performed audit procedures to test the effectiveness of the controls in a sample of retail betting shops in Ireland, Northern Ireland and Great Britain.

#### **Compliance with laws and regulations**

Refer to page 51 (Report of the Audit Committee)

#### • *The risk*

The Group operates in a heavily regulated industry across multiple geographic jurisdictions. Each jurisdiction has various laws and regulations in relation to taxation, licensing, data protection, money laundering, fraud and other legislative matters. It is the responsibility of management, with the oversight of those charged with governance, to ensure that the Group's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the Group's financial statements.

#### • *Our response*

Our audit procedures are designed to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognised to have a direct effect on the determination of material amounts and disclosures in the financial statements.

Accordingly we have performed specified audit procedures to help identify instances of non-compliance with laws and regulations, including illegal acts, that may have a material effect on the financial statements of the Group.

Our audit procedures included assessing the controls and processes in place across the Group that may assist in the prevention and detection of non-compliance with laws and regulations, including illegal acts in each of the geographic locations in which the Group operates. Such procedures included discussions with the Group's in-house legal counsel and an assessment of policies and procedures implemented by the Group's Legal & Compliance and Security & Internal Audit functions.

Our audit procedures also included using KPMG specialists to assist the Group audit team in evaluating the assumptions and methodologies used by the Group and its tax advisers in relation to the recognition of tax and gaming duty liabilities and in assessing the reasonableness of the assumptions underpinning the measurement and recognition of such amounts.

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF PADDY POWER PLC (CONTINUED)

### 3. Our application of materiality and an overview of the scope of our audit

Materiality is a term used to describe the acceptable level of precision in financial statements. The concept of materiality is applied in planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming our opinion on them. In accordance with ISAs (UK and Ireland), we identify a monetary amount, "materiality for the financial statements as a whole", based on our judgment as to the quantitative misstatement or omission that might reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The materiality for the Group financial statements as a whole was set at €7.0 million. This has been calculated using a benchmark of Group profit before taxation (of which it represents 5%), which we have determined, in our professional judgment, to be one of the principal benchmarks within the financial statements relevant to members of the Company in assessing financial performance. We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit in excess of €300,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

With the exception of the Group's Australian operations which are accounted for by a separate finance team in Melbourne, Australia, the structure of the Group's finance function is such that the Central Group finance team provides support to Group entities for the accounting for the majority of transactions and balances. We performed comprehensive audit procedures, including those in relation to the significant risks above, on those transactions and balances for which the Central Group finance team provide accounting support at a Group level.

In relation to the Group's Australian operations, an audit for Group reporting purposes was performed in Melbourne, Australia to a local materiality level of AUD \$2 million (€1.5 million).

Detailed audit instructions were sent to the auditors of the Group's Australian operations. These instructions covered the significant audit areas to be covered by the audit (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported to the Group audit team. The Group audit team, including the lead engagement partner, discussed the audit findings arising from the audit of the Group's Australian operations with the KPMG Australia audit team and with Group management.

Our audits covered 100% of total Group income, 100% of Group profit before taxation and 100% of Group total assets.

### 4. We have nothing to report in respect of the matters on which we are required to report by exception

ISAs (UK and Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider the annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; or
- the Report of the Audit Committee does not appropriately disclose those matters that we communicated to the Audit Committee.

The Listing Rules of the Irish Stock Exchange require us to review:

- the directors' statement, set out on page 44, in relation to going concern;
- the part of the Directors' Statement on Corporate Governance on page 49 relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code and the two provisions of the Irish Corporate Governance Annex specified for our review; and
- certain elements of disclosures to shareholders by the Board in the Report on Directors' Remuneration.

In addition, the Companies Acts require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

### 5. Our conclusions on other matters on which we are required to report by the Companies Acts 1963 to 2013 are set out below

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The Company balance sheet is in agreement with the books of account and, in our opinion, proper books of account have been kept by the Company.

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

The net assets of the Company, as stated in the Company balance sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

***Basis of our report, responsibilities and restrictions on use***

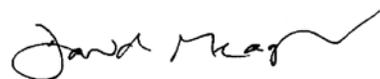
As explained more fully in the Statement of Directors' Responsibilities set out on page 56, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group and Company financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK and Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing our audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK and Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of accounting and reporting.

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



**David Meagher**  
for and on behalf of



**Chartered Accountants, Statutory Audit Firm**

1 Stokes Place  
St. Stephen's Green  
Dublin 2  
Ireland

3 March 2014

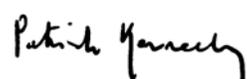
# CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 DECEMBER 2013

	Note	2013 €'000	2012 €'000
Amounts staked by customers		<b>6,179,971</b>	5,694,496
<b>Continuing operations</b>			
<b>Income</b>	4	<b>745,195</b>	653,750
Direct betting costs	5	<b>(128,243)</b>	(100,197)
<b>Gross profit</b>		<b>616,952</b>	553,553
Employee expenses	6	<b>(228,721)</b>	(202,184)
Property expenses		<b>(48,362)</b>	(44,288)
Marketing expenses		<b>(76,145)</b>	(67,878)
Technology and communications expenses		<b>(42,534)</b>	(35,033)
Depreciation and amortisation		<b>(39,468)</b>	(32,159)
Other expenses, net		<b>(44,336)</b>	(36,011)
<b>Total operating expenses</b>		<b>(479,566)</b>	(417,553)
<b>Operating profit</b>		<b>137,386</b>	136,000
Financial income	8	<b>3,825</b>	3,440
Financial expense	8	<b>(181)</b>	(285)
<b>Profit before tax</b>		<b>141,030</b>	139,155
Income tax expense	10	<b>(17,846)</b>	(18,156)
<b>Profit for the year – all attributable to equity holders of the Company</b>		<b>123,184</b>	120,999
<b>Earnings per share</b>			
Basic	11	<b>€2.567</b>	€2.511
Diluted	11	<b>€2.520</b>	€2.481

Notes 1 to 35 on pages 66 to 107 form an integral part of these consolidated financial statements.

On behalf of the Board



Patrick Kennedy



Cormac McCarthy

3 March 2014

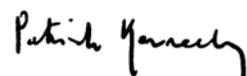
# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2013

	Note	2013 €'000	2012 €'000
<b>Profit for the year – all attributable to equity holders of the Company</b>		<b>123,184</b>	120,999
<b>Other comprehensive (expense) / income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Effective portion of changes in fair value of cash flow hedges	8	<b>2,706</b>	(1,324)
Fair value of foreign exchange cash flow hedges transferred to income statement	8	<b>(4,688)</b>	1,839
Foreign exchange (loss) / gain on translation of the net assets of foreign currency denominated subsidiaries	8	<b>(21,774)</b>	237
Deferred tax on fair value of cash flow hedges	23	<b>248</b>	(64)
<b>Other comprehensive (expense) / income</b>		<b>(23,508)</b>	688
<b>Total comprehensive income for the year – all attributable to equity holders of the Company</b>		<b>99,676</b>	121,687

Notes 1 to 35 on pages 66 to 107 form an integral part of these consolidated financial statements.

On behalf of the Board



Patrick Kennedy



Cormac McCarthy

3 March 2014

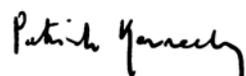
# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2013

	Note	31 December 2013 €'000	31 December 2012 €'000
<b>Assets</b>			
Property, plant and equipment	12	116,216	105,536
Intangible assets	13	69,185	62,482
Goodwill	14	92,554	96,582
Financial assets – restricted cash	15, 19	993	5,359
Deferred tax assets	23	8,002	6,561
Trade and other receivables	17	2,903	4,837
<b>Total non-current assets</b>		<b>289,853</b>	<b>281,357</b>
Trade and other receivables	17	29,262	26,063
Derivative financial assets	18	-	375
Financial assets – restricted cash	19	52,806	32,961
Financial assets – deposits	19	13,686	42,014
Cash and cash equivalents	19	161,359	129,004
<b>Total current assets</b>		<b>257,113</b>	<b>230,417</b>
<b>Total assets</b>		<b>546,966</b>	<b>511,774</b>
<b>Equity</b>			
Issued share capital	20	5,098	5,085
Share premium		41,646	40,038
Treasury shares		(34,177)	(34,177)
Shares held by long term incentive plan trust		(71,736)	(56,191)
Other reserves including foreign currency translation, cash flow hedge and share-based payment reserves		23,406	38,593
Retained earnings		346,765	284,308
<b>Total equity attributable to equity holders of the Company</b>		<b>311,002</b>	<b>277,656</b>
<b>Liabilities</b>			
Trade and other payables	24	180,973	173,467
Derivative financial liabilities	24	17,048	11,767
Provisions	25	515	460
Current tax payable		20,462	18,287
<b>Total current liabilities</b>		<b>218,998</b>	<b>203,981</b>
Trade and other payables	24	12,289	23,663
Derivative financial liabilities	24	270	228
Provisions	25	1,115	1,419
Deferred tax liabilities	23	3,292	4,827
<b>Total non-current liabilities</b>		<b>16,966</b>	<b>30,137</b>
<b>Total liabilities</b>		<b>235,964</b>	<b>234,118</b>
<b>Total equity and liabilities</b>		<b>546,966</b>	<b>511,774</b>

Notes 1 to 35 on pages 66 to 107 form an integral part of these consolidated financial statements.

On behalf of the Board



Patrick Kennedy



Cormac McCarthy

3 March 2014

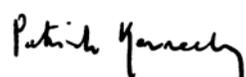
# CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2013

	Note	2013 €'000	2012 €'000
<b>Cash flows from operating activities</b>			
Profit for the year – all attributable to equity holders of the Company		<b>123,184</b>	120,999
Income tax expense		<b>17,846</b>	18,156
Financial income		<b>(3,825)</b>	(3,440)
Financial expense		<b>181</b>	285
Depreciation and amortisation		<b>39,468</b>	32,159
Employee equity-settled share-based payments expense		<b>17,671</b>	12,462
Foreign currency exchange loss / (gain)		<b>529</b>	(472)
Loss on disposal of property, plant and equipment and intangible assets		<b>68</b>	123
<b>Cash from operations before changes in working capital</b>		<b>195,122</b>	180,272
(Increase) / decrease in trade and other receivables		<b>(3,317)</b>	7,359
Increase in trade and other payables and provisions		<b>8,096</b>	40,632
<b>Cash generated from operations</b>		<b>199,901</b>	228,263
Income taxes paid		<b>(17,015)</b>	(15,361)
<b>Net cash from operating activities</b>		<b>182,886</b>	212,902
<b>Net cash used in investing activities</b>			
Purchase of property, plant and equipment		<b>(34,821)</b>	(32,743)
Purchase of intangible assets		<b>(22,625)</b>	(18,702)
Purchase of businesses, net of cash acquired	16	<b>(6,594)</b>	(3,705)
Payment of contingent deferred consideration	16	<b>(3,072)</b>	(857)
Proceeds from disposal of property, plant and equipment and intangible assets		<b>74</b>	80
Transfers from / (to) financial assets – deposits		<b>27,985</b>	(42,639)
Interest received		<b>3,173</b>	3,410
<b>Net cash used in investing activities</b>		<b>(35,880)</b>	(95,156)
<b>Net cash used in financing activities</b>			
Proceeds from the issue of new shares under option arrangements		<b>1,621</b>	2,237
Purchase of shares by long term incentive plan trust		<b>(24,220)</b>	(36,281)
Dividends paid	21	<b>(61,907)</b>	(53,477)
Movements in current and non-current restricted cash balances		<b>(15,452)</b>	(12,738)
Interest paid		<b>(286)</b>	(128)
<b>Net cash used in financing activities</b>		<b>(100,244)</b>	(100,387)
<b>Net increase in cash and cash equivalents</b>		<b>46,762</b>	17,359
<b>Cash and cash equivalents at start of year</b>		<b>129,004</b>	111,139
<b>Foreign currency exchange (loss) / gain on cash and cash equivalents</b>		<b>(14,407)</b>	506
<b>Cash and cash equivalents at end of year</b>	19	<b>161,359</b>	129,004

Notes 1 to 35 on pages 66 to 107 form an integral part of these consolidated financial statements.

On behalf of the Board



Patrick Kennedy



Cormac McCarthy

3 March 2014

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

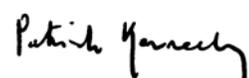
YEAR ENDED 31 DECEMBER 2013

	Attributable to equity holders of the Company (see Note 20)										
	<i>Number of ordinary shares in issue</i>	<i>Issued share capital</i> €'000	<i>Share premium</i> €'000	<i>Foreign exchange translation reserve</i> €'000	<i>Cash flow hedge reserve</i> €'000	<i>Other reserves</i> €'000	<i>Treasury shares</i> €'000	<i>Shares held by long term incentive plan trust</i> €'000	<i>Share-based payment reserve</i> €'000	<i>Retained earnings</i> €'000	<i>Total equity</i> €'000
Balance at 1 January 2013	<b>50,850,848</b>	5,085	40,038	14,110	451	1,240	(34,177)	(56,191)	22,792	284,308	277,656
<b>Total comprehensive income / (expense) for the year</b>											
Profit	-	-	-	-	-	-	-	-	-	123,184	123,184
Foreign exchange translation	-	-	-	(21,774)	-	-	-	-	-	-	(21,774)
Net change in fair value of cash flow hedge reserve (Note 8)	-	-	-	-	(1,982)	-	-	-	-	-	(1,982)
Deferred tax on cash flow hedges (Note 23)	-	-	-	-	248	-	-	-	-	-	248
Total comprehensive income / (expense) for the year	-	-	-	(21,774)	(1,734)	-	-	-	-	123,184	99,676
<b>Transactions with owners of the Company, recognised directly in equity</b>											
Shares issued (Note 20)	<b>126,237</b>	13	1,608	-	-	-	-	-	-	-	1,621
Own shares acquired by the long term incentive plan trust – 380,000 ordinary shares (Note 22)	-	-	-	-	-	-	-	(24,220)	-	-	(24,220)
Equity-settled transactions – expense recorded in income statement (Note 22)	-	-	-	-	-	-	-	-	17,671	-	17,671
Equity-settled transactions – vestings (Note 22)	-	-	-	-	-	-	-	8,675	(8,651)	246	270
Deferred tax on share-based payments (Note 23)	-	-	-	-	-	-	-	-	-	235	235
Transfer to retained earnings on exercise of share options (Note 20)	-	-	-	-	-	-	-	-	(699)	699	-
Dividends to shareholders (Note 21)	-	-	-	-	-	-	-	-	-	(61,907)	(61,907)
Total contributions by and distributions to owners of the Company	<b>126,237</b>	13	1,608	-	-	-	-	(15,545)	8,321	(60,727)	(66,330)
Balance at 31 December 2013	<b>50,977,085</b>	5,098	41,646	(7,664)	(1,283)	1,240	(34,177)	(71,736)	31,113	346,765	311,002

	Attributable to equity holders of the Company (see Note 20)										
	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation 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 equity €'000
Balance at 1 January 2012	50,725,021	5,072	37,826	13,873	-	1,185	(34,177)	(33,397)	21,918	218,086	230,386
<b>Total comprehensive income for the year</b>											
Profit	-	-	-	-	-	-	-	-	-	120,999	120,999
Foreign exchange translation	-	-	-	237	-	-	-	-	-	-	237
Net change in fair value of cash flow hedge reserve (Note 8)	-	-	-	-	515	-	-	-	-	-	515
Deferred tax on cash flow hedges (Note 23)	-	-	-	-	(64)	-	-	-	-	-	(64)
<b>Total comprehensive income for the year</b>	-	-	-	237	451	-	-	-	-	120,999	121,687
<b>Transactions with owners of the Company, recognised directly in equity</b>											
Shares issued (Note 20)	125,827	13	2,212	-	-	-	-	-	-	-	2,225
Own shares acquired by the long term incentive plan trust – 627,808 ordinary shares (Note 22)	-	-	-	-	-	-	-	(36,281)	-	-	(36,281)
Other (Note 20)	-	-	-	-	-	55	-	-	-	(55)	-
Equity-settled transactions – expense recorded in income statement (Note 22)	-	-	-	-	-	-	-	-	12,462	-	12,462
Equity-settled transactions – vestings (Note 20)	-	-	-	-	-	-	-	13,487	(10,929)	(2,198)	360
Deferred tax on share-based payments (Note 23)	-	-	-	-	-	-	-	-	-	294	294
Transfer to retained earnings on exercise of share options (Note 20)	-	-	-	-	-	-	-	-	(659)	659	-
Dividends to shareholders (Note 21)	-	-	-	-	-	-	-	-	-	(53,477)	(53,477)
<b>Total contributions by and distributions to owners of the Company</b>	125,827	13	2,212	-	-	55	-	(22,794)	874	(54,777)	(74,417)
Balance at 31 December 2012	50,850,848	5,085	40,038	14,110	451	1,240	(34,177)	(56,191)	22,792	284,308	277,656

Notes 1 to 35 on pages 66 to 107 form an integral part of these consolidated financial statements.

On behalf of the Board



Patrick Kennedy



Cormac McCarthy

3 March 2014

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. General information

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

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

The consolidated financial statements of the Group for the year ended 31 December 2013 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 3 March 2014.

## 2. Basis of preparation and summary of significant accounting policies

The consolidated financial statements are prepared on the historical cost basis except for betting transactions and foreign exchange forward 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 share-based payments). The consolidated financial statements are presented in euro, the Company's functional currency, rounded to the nearest thousand.

Further to IAS Regulation (EC1606/2002, 'Accounting standards adopted for use in the EU'), EU law requires that the annual consolidated financial statements of the Group be prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted by the European Union ('EU'). The consolidated financial statements have been prepared on the basis of IFRSs adopted by the EU and effective for accounting periods ending on or after 1 January 2013. The accounting policies set out below have been applied consistently by Group entities.

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

### Recent accounting pronouncements

The IASB have issued the following standards, policies, interpretations and amendments which were effective for the Group for the first time in the year ended 31 December 2013:

#### *IFRS 13 'Fair Value Measurement'*

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 'Financial Instruments: Disclosures'. IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013.

#### *Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income'*

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

#### *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.

#### *New IFRSs not yet adopted*

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

- IFRS 9, 'Financial Instruments' (expected to be effective for the Group's 2017 consolidated financial statements).
- IFRS 10, 'Consolidated Financial Statements' (effective for the Group's 2014 consolidated financial statements).
- IFRS 11, 'Joint Arrangements' (effective for the Group's 2014 consolidated financial statements).
- IFRS 12, 'Disclosure of Interests in Other Entities' (effective for the Group's 2014 consolidated financial statements).
- IAS 27 (2011), 'Separate Financial Statements' (effective for the Group's 2014 consolidated financial statements).
- IAS 28 (2011), 'Investments in Associates and Joint Ventures' (effective for the Group's 2014 consolidated financial statements).
- Amendments to IAS 32, 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities', (effective for the Group's 2014 consolidated financial statements).

The directors do not believe that any of the above will have a significant impact on Group reporting. There are other new accounting standards which have been considered but are not deemed applicable.

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

### **Basis of consolidation**

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

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

### **Judgements and estimates**

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

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

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

- Note 14 – measurement of the recoverable amounts of cash generating units containing goodwill and indefinite life licences and brands intangible assets.
- Note 22 – measurement of share-based payments.
- Note 30 – contingent deferred consideration and measurement of sports betting open positions.

### *Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Significant unobservable inputs and valuation adjustments are monitored on an on-going basis.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in the different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following note:

- Note 30 – contingent deferred consideration and measurement of sports betting open positions.

### **Income**

The services provided by the Group comprise sports betting, fixed odds games betting, online games and casino, peer to peer games including online bingo and poker and business-to-business services. Income is stated exclusive of value added tax. The costs of customer promotions (including free bets) and bonuses are deducted from income.

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

Income from online sportsbook, retail and telephone betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end, and is stated net of the cost of customer promotions and bonuses incurred in the period.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

Income from peer to peer games represents commission income ('rake') and tournament fees earned from games completed by the period end, and is stated net of the cost of customer promotions and bonuses incurred in the period. Income from business-to-business services represents fees charged for the services provided in the period.

### Amounts staked

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

### Research and development

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

### Financial income

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

### Financial expense

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

### Operating segment reporting

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

### Foreign currency

#### *Functional and presentation currency*

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

#### *Foreign currency transactions*

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

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

#### *Foreign currency translation of foreign operations*

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

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

### Business combinations

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

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

Costs relating to the acquisition of businesses that occurred since 1 January 2010 are expensed to the income statement when incurred. Costs related to the acquisition of non-controlling interests are recognised directly in retained earnings.

Amounts payable in respect of deferred contingent consideration are recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the profit or loss.

### Property, plant and equipment

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

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

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

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight line basis over their useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	Unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 7 years
Computer equipment	3 – 5 years
Motor vehicles	3 – 5 years

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

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

### Intangible assets

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

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

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

The licences intangible assets recognised on the acquisition of the D McGranaghan Limited business in 2008, the acquisition of an additional betting shop in Northern Ireland in 2011 and the brands intangible assets recognised on the acquisition of Sportsbet Pty Limited and International All Sports Limited in 2009 are not amortised for the reasons set out in Note 13.

### Impairment

#### *Financial assets (including receivables)*

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

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives (such as certain licences and brands) or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash generating unit', or 'CGU'). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **Other non-derivative financial instruments**

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

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

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

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

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

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

Deposits represent term deposits with an original maturity of greater than three months. In accordance with IAS 7, 'Statement of Cash Flows', these deposits do not qualify as a cash equivalent for the purposes of the statement of cash flows as the maturity is greater than three months from the date of the original deposit.

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

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

### **Derivative financial instruments**

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

### ***Sports betting open positions***

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

### ***Hedge accounting***

The Group uses derivative financial instruments, specifically foreign exchange forward contracts, to hedge its exposure to foreign currency exchange risks arising from operational activities (pound sterling denominated transactions). The Group does not enter into speculative transactions.

Derivative financial instruments are measured at fair value at each reporting date. The fair value of foreign exchange forward contracts is calculated by reference to current forward foreign exchange rates for contracts with similar maturity profiles and equates to the market price at the statement of financial position date.

Gains or losses on re-measurement to fair value are recognised immediately in the income statement except where derivatives are designated and qualify for hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Derivative financial instruments entered into by the Group are, for the purposes of hedge accounting, classified as cash flow hedges which hedge exposure to fluctuations in future cash flows derived from a particular risk associated with a highly probable forecast transaction.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of hedged items and whether the actual results of each hedge are within a range of 80 to 125 per cent.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecasted transaction that could affect profit or loss, the effective part of any changes in the fair value of the derivative financial instrument is recognised in other comprehensive income and presented in the cash flow hedge reserve within equity. Any ineffective portion of changes in fair value is recognised in the income statement. The associated gains or losses that had previously been recognised in other comprehensive income are transferred to the income statement at the same time as the hedged item affects the profit or loss. Hedge accounting is discontinued prospectively when the hedging instrument expires or is sold, is terminated or exercised, or no longer qualifies for hedge accounting. If the hedged transaction is still expected to occur, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecast transaction occurs, with future changes in fair value recognised in the income statement. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is reclassified to the income statement in the period.

### **Leases**

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

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

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

### **Income tax**

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

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

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

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

### **Provisions**

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

### **Long service leave**

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

### **Lease reinstatement**

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

### **Onerous contracts**

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

### **Employee benefits**

#### **Pensions**

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

#### **Long term incentive bonus plans**

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

#### **Share-based payments**

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

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

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

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

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

### Share capital

#### *Ordinary shares*

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

#### *Shares held by long term incentive plan trust*

The costs of purchases of the Company's shares by the long term incentive plan trust, which have been conditionally awarded to executives under the terms of the share award schemes, are shown separately as deductions from equity in the consolidated statement of financial position.

#### *Repurchase of share capital (treasury shares)*

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

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

#### *Dividends*

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

#### *Earnings per share*

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

#### *Bank and credit card charges*

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

#### *Exceptional items*

The Group has applied an income statement format which seeks to highlight exceptional items within Group profit or loss for the period. Exceptional items are those that in management's judgement need to be disclosed by virtue of their size or incidence. Such items are included within the income statement caption to which they relate, and are separately disclosed either on the face of the consolidated income statement or in the notes thereto.

## 3. Financial risk management

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

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

Set out below is information on the Group's exposure to each of the above risks, and what its objectives, policies and processes are for measuring and managing those risks. Information is also provided on how the Group manages its capital. Quantitative disclosures in respect of these risks are included throughout these consolidated financial statements and, in particular, in Notes 26 to 31.

### General

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

### Market risk

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 3. Financial risk management (continued)

### *Sports betting prices/odds*

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

### *Foreign currency risk*

The Group is exposed to currency risk in respect of income, expenses, receivables, cash and cash deposits, and other financial assets and financial liabilities (primarily trade payables and accruals, and customer balances) that are denominated in currencies that are not the functional currency of the entities in the Group. The currencies in which transactions are primarily denominated are the euro ('EUR'), the pound sterling ('GBP'), the Australian dollar ('AUD') and the US dollar ('USD'). The Group does not accept business from residents of the United States of America and USD transactions arise primarily from USD-denominated poker customer play.

It is Group policy to ensure that foreign currency denominated liabilities are broadly matched by foreign currency denominated assets, primarily cash deposits. This is generally achieved by monthly sales of net foreign currency inflows into euro (or the subsidiaries' functional currency) at spot rates. Foreign exchange impacts therefore arise on the retranslation of their income and expense into euro for Group reporting purposes. Subject to Investment Committee approval, the Group may make use of forward contracts, intentional imbalances between foreign currency denominated liabilities and assets, and other derivatives to manage foreign currency exposures on expected future cash flows. The Group's Australian activities are conducted by separate subsidiaries whose functional currency is AUD.

While the Group generally maintained a naturally hedged balance sheet, as described in the preceding paragraph, it remains exposed to exchange rate risk in respect of its expected future foreign currency denominated income and expenses in its foreign operations. In both 2012 and 2013, the Group entered into foreign exchange forward contracts. The contracts were to hedge a portion of expected GBP cash flows in the relevant years in order to reduce the volatility to which the Group was exposed. The average EUR-GBP rate at which the 2013 contracts were entered into was 0.8175 (2012: 0.8210), which compares to the actual average EUR-GBP rate of 0.8493 for the same period (2012: 0.7994). At 31 December 2013, the Group had hedged GBP61.3m of expected 2014 cash flows at an average EUR-GBP rate of 0.8503 (2012: the Group had hedged GBP57.3m of expected 2013 cash flows at an average EUR-GBP rate of 0.8094). At 31 December 2013, a derivative financial liability of €1,467,000 (2012: a derivative financial asset of €375,000) in respect of foreign exchange forward contracts due to mature in 2014 (2012: due to mature in 2013) has been recorded in the Group's consolidated statement of financial position (see Note 24).

The average GBP exchange rate against the euro decreased by approximately 5% in 2013 versus 2012 (increased by 7% in 2012 versus 2011), while the AUD exchange rate decreased by 11% (increased by 8% in 2012 versus 2011) and the USD exchange rate decreased by approximately 3% (increased by 8% in 2012 versus 2011). The strengthening in the value of the euro against these currencies negatively impacted the Group's profit for the year ended 31 December 2013, with a (primarily GBP and AUD) currency movement-driven profit decrease of €12.6m being recorded in the year (2012: a weakening in the value of the euro positively impacted the Group's profit with a (primarily GBP) currency movement-driven profit increase of €9.2m being recorded).

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

The loss on retranslation of cash and cash equivalent balances in the year ended 31 December 2013 was €14,407,000 (2012: gain of €506,000). Within the cash retranslation losses / gains are losses of €1,436,000 (2012: gains of €689,000) that have been included within 'other expenses' in the income statement rather than as a financial expense, as the directors consider that the loss or gain relates to operations as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised (as described above). Losses and gains on retranslation of non-cash and cash equivalent assets and liabilities are also dealt with as operating items. Included within the gain on retranslation of non-cash and cash equivalent assets and liabilities of €907,000 in 2013 (2012: loss of €217,000) is a loss of €145,000 (2012: gain of €547,000) relating to the retranslation of short term intercompany receivables from the Online Australia operating segment. Gains and losses on foreign currency retranslation are separately analysed into their components in the consolidated statement of cash flows, with further analysis presented in Notes 8 and 9.

### *Interest rate risk*

Excess cash funds are invested in interest-bearing bank deposits on which the interest rate is fixed for the term of the deposit. Group treasury policy imposes limits on the terms over which cash can be placed on deposit. As a consequence of the financial market instability in recent years and to minimise the credit risk of cash deposits, the Group has at times reduced the average maturity period of deposits placed and invested cash with financial institutions with only the highest credit standing. In 2012, the maturity profile of deposits was lengthened in order to achieve higher interest returns subject to compliance with appropriate counterparty risk limits.

### *Credit risk*

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

### *Trade and other receivables*

The Group's sports betting and gaming businesses (excluding Australia) are predominantly cash and credit card/ debit card businesses where there is a requirement that the customer pays in advance when a transaction is entered into. An option for customers to avail of credit is normal practice in the Australian online and telephone sports betting markets and, accordingly, the Australian sports betting business model is one where credit is sometimes granted to customers. Trade receivables (after provisions for impairment) amounted to €5,725,000 at 31 December 2013 (2012: €7,129,000); included in this balance are receivables from credit betting customers (primarily in Australia) of €3,907,000 (2012: €5,975,000) (see Note 17). Credit lines are provided to customers on a case by case basis for higher value customers or based on credit ratings for smaller value customers. Individual credit limits are decided upon by the credit control function in the first instance after taking into account credit and background reference checks. The collectability of outstanding trade receivable balances is closely monitored by reference to aged receivables and other reports and any receivable balances

### 3. Financial risk management (continued)

considered to be uncollectible are provided against when identified. Trade and other receivables impairment allowances are established against individual receivable balances when there is objective evidence that such balances are likely to be uncollectible, either in full or in part. The impairment allowance also includes a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. There is no material concentration of sales with individual customers.

#### **Cash investments and foreign exchange forward contracts**

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

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

The Group continues to carefully measure counterparty risk by monitoring credit agency ratings, Credit Default Swap spread prices and other public information, and to take action to mitigate such risks as are identified. The Group has accordingly restricted its cash deposit investments to counterparties that had higher credit ratings and has, when required, shortened the maturities of deposits placed. As noted above, in 2012, the maturity profile of deposits was lengthened in order to achieve higher interest returns subject to appropriate counterparty risk, and deposit financial assets (representing deposits with original maturities of greater than three months) totalling €13,686,000 (2012: €42,014,000) were recorded on the Group consolidated statement of financial position as of 31 December 2013 (see Note 19).

#### **Guarantees**

The Group's policy is generally to provide guarantees only in respect of certain commitments of wholly-owned subsidiaries of the Group. The guarantees entered into are primarily in respect of certain third party obligations of subsidiaries, such as overdraft and bank guarantee facilities. As of 31 December 2013, there were no amounts outstanding in the consolidated financial statements under these guarantees (2012: €nil).

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, other property commitments and merchant facilities and third party letter of credit facilities. Some of these guarantees (which are more fully described in Note 31) are required by the terms of gambling licences and have in the past covered the value of player funds held by certain Group companies. The Group now utilises client funds bank accounts to guarantee payment of player funds (see Note 19). The Group also has bank guarantees in respect of certain third party rental, other property commitments and merchant facilities and third party letter of credit facilities.

The Australian corporate sports bookmaking licences issued to Sportsbet and IAS require those companies to hold sufficient liquid funds to cover monies owed to customers. At 31 December 2013, the total amount of relevant customer balances attributable to the Online Australia operating segment was €24,660,000 (AUD38,033,000) (2012: €25,546,000 (AUD32,474,000)) and total cash balances amounted to €73,859,000 (AUD113,913,000) at that date (2012: €64,747,000 (AUD82,307,000)).

#### **Liquidity risk**

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

The Group performs regular cash projections to ensure that there is sufficient cash on hand to meet its expected obligations as they fall due. The nature of the Group's business and the potential volatility in sporting results can result in significant differences between expected and actual short term cash flows. Consequently, a conservative approach is applied to cash forecasting and flexibility is built into the forecast to cover potentially adverse sporting results. Cash deposit placement time periods are decided upon by reference to cash inflows forecast and expected requirements in respect of the Group's financial obligations. The Group's treasury policy sets a maximum maturity on deposits of up to six months. Information on the overall maturity of deposits at 31 December 2013 and 2012 is set out in Note 19. It is the directors' belief that the Group's cash deposit balances can be withdrawn without significant penalty.

The Group has the following lines of credit:

- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling €7.5m. Interest is payable thereon at the bank's prime overdraft rate plus 0.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of Allied Irish Banks p.l.c.
- Unsecured uncommitted bank overdraft facilities for working capital purposes totalling GBP6.5m (€7.8m). Interest is payable thereon at the bank's sterling base rate plus 3.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of AIB Group (UK) p.l.c.

At 31 December 2013 and 31 December 2012, none of the bank overdraft facilities were being utilised.

#### **Capital management**

The Group has historically funded its operations through internally generated cash. Borrowings historically have not formed part of its capital structure, apart from the consolidation of debt within its majority-owned subsidiaries in Australia during 2009, 2010 and part of 2011. This debt has since been repaid. The Group's financing and capital structure is kept under review by the Board. The Board is committed to capital discipline; however in the current environment a strong cash balance gives Paddy Power financial strength and flexibility for expansion organically or via acquisition, thereby creating more opportunities for the Group.

The Group has the authority to buy back up to ten per cent of the Company's issued share capital between the dates of its Annual General Meetings ('AGM's), subject to the annual approval of its shareholders at the Company's AGM. No shares were acquired under this authority in 2013 or 2012. Shares bought back may either be cancelled or held in treasury. Since its first share buybacks in 2007, a total of 3,873,443 of the Company's own shares have been bought back at an average share price of €21.11, of which 2,139,443 were cancelled and the remaining 1,734,000 are held in treasury.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 3. Financial risk management (continued)

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

There were no significant changes in the Group's approach to capital management during 2013.

At 31 December 2013 and 31 December 2012, neither the Company nor any of its subsidiaries were subject to externally imposed capital requirements.

In the year ended 31 December 2013, the Group earned a return on capital of 41.9% (2012: 47.6%). Capital is defined by the Group as total equity attributable to equity holders of the Company. Return on capital is calculated by dividing the profit for the year attributable to equity holders of the Company (€123,184,000) (2012: €120,999,000) by the average capital attributable to the equity holders of the Company for the year. Average capital is calculated by taking the average of the start and end of year capital balances (the average of €277,656,000 and €311,002,000 respectively, being €294,329,000) (2012: average of €230,386,000 and €277,656,000 respectively, being €254,021,000).

## 4. Operating segments

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

### Income

Income for the years ended 31 December 2013 and 2012 is analysed as follows:

	2013 €'000	2012 €'000
Income in respect of sportsbook and gaming activities	<b>730,037</b>	641,730
Other commission and fee revenue (included in Online (ex Australia) and Online Australia income)	<b>15,158</b>	12,020
<b>Total income</b>	<b>745,195</b>	653,750

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

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

### (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 all derive their revenues primarily from sports betting and/ or gaming (gaming machines, games, casino, bingo and poker). 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, UK Retail from retail outlets in Great Britain and Northern Ireland, and the Irish Retail segment from retail outlets in the Republic of Ireland. The Online Australia segment earns its revenues from sports betting services provided to Australian customers using both the internet and the public telephony system.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies set out in Note 2 above. Central operating expenses are allocated to reportable segments based on internal management allocation methodologies. Any expenses that are not directly allocated to reportable segments in internal management reports are shown in the reconciliation of reportable segments to Group totals. The Group does not allocate income tax expense or interest. Treasury management is centralised for the Online (ex Australia), 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.

#### 4. Operating segments (continued)

Reportable business segment information for the year ended 31 December 2013:

	Online (ex Australia) €'000	Online Australia €'000	UK Retail €'000	Irish Retail €'000	Telephone €'000	Total reportable segments €'000
Income from external customers	299,745	179,627	127,880	115,895	22,048	745,195
Inter-segment trading	-	-	(347)	(246)	593	-
Total income	299,745	179,627	127,533	115,649	22,641	745,195
Direct betting costs	(41,157)	(44,522)	(31,385)	(10,974)	(205)	(128,243)
Gross profit	258,588	135,105	96,148	104,675	22,436	616,952
Depreciation and amortisation	(14,919)	(7,903)	(8,466)	(7,100)	(1,080)	(39,468)
Other operating expenses	(170,173)	(93,732)	(73,783)	(83,554)	(18,856)	(440,098)
Reportable segment profit	73,496	33,470	13,899	14,021	2,500	137,386

Reportable business segment information for the year ended 31 December 2012:

	Online (ex Australia) €'000	Online Australia €'000	UK Retail €'000	Irish Retail €'000	Telephone €'000	Total reportable segments €'000
Income from external customers	263,065	156,427	101,428	110,434	22,396	653,750
Inter-segment trading	-	-	(83)	(2)	85	-
Total income	263,065	156,427	101,345	110,432	22,481	653,750
Direct betting costs	(36,955)	(37,006)	(15,998)	(9,969)	(269)	(100,197)
Gross profit	226,110	119,421	85,347	100,463	22,212	553,553
Depreciation and amortisation	(9,130)	(7,469)	(6,567)	(7,724)	(1,269)	(32,159)
Other operating expenses	(144,243)	(81,116)	(63,440)	(78,366)	(18,229)	(385,394)
Reportable segment profit	72,737	30,836	15,340	14,373	2,714	136,000

#### Reconciliation of reportable segments to Group totals:

	2013 €'000	2012 €'000
<b>Income</b>		
Total income from reportable segments, being total Group income	745,195	653,750
<b>Profit and loss</b>		
Total profit and loss from reportable segments	137,386	136,000
<i>Unallocated amounts:</i>		
Financial income – non-Online Australia <sup>(1)</sup>	580	695
Financial income – Online Australia	3,245	2,745
Financial expense – non-Online Australia <sup>(1)</sup>	(112)	(279)
Financial expense – Online Australia	(69)	(6)
Profit before tax	141,030	139,155

<sup>(1)</sup> Non-Online Australia above comprises 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 payable, 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 of online and telephone sports betting from Australian customers. The Ireland and rest of world geographic segment is composed of the Irish Retail bookmaking business, online and telephone sports betting from Irish and rest of world customers, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 4. Operating segments (continued)

Group revenues by geographical segment are as follows:

Income	2013 €'000	2012 €'000
UK	<b>357,112</b>	310,252
Australia	<b>179,627</b>	156,427
Ireland and rest of world	<b>208,456</b>	187,071
<b>Total</b>	<b>745,195</b>	653,750

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

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

Non-current assets	2013 €'000	2012 €'000
UK	<b>128,586</b>	104,854
Australia	<b>77,386</b>	91,764
Ireland and rest of world	<b>74,886</b>	72,819
<b>Total</b>	<b>280,858</b>	269,437

## 5. Direct betting costs

Direct betting costs comprise:

	2013 €'000	2012 €'000
Betting taxes	<b>52,249</b>	33,165
Software supplier costs	<b>25,139</b>	22,676
Other direct betting costs	<b>50,855</b>	44,356
<b>Direct betting costs</b>	<b>128,243</b>	100,197

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. Employee expenses and numbers

	2013 €'000	2012 €'000
Wages and salaries	168,303	145,383
Social security costs	17,066	14,870
Defined contribution pension and life assurance costs	7,149	5,844
Share-based payments costs	22,191	22,264
Other staff costs	14,012	13,823
	<b>228,721</b>	<b>202,184</b>

	2013	2012
The average number of persons employed by the Group (including executive directors), all of whom were involved in the provision of sports betting and gaming services, during the year was	<b>4,156</b>	3,457

## 7. Directors' emoluments and transactions with key management personnel

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

	Fees €'000	Salary €'000	Benefits €'000	Annual bonus €'000	Total 2013 €'000	Total 2012 €'000
<b>Executive</b>						
Patrick Kennedy <sup>(1)</sup>	-	763	254	421	1,438	1,447
Cormac McCarthy <sup>(2)</sup>	-	500	83	196	779	238
Jack Massey <sup>(3)</sup>	-	-	-	-	-	423
<b>Non-executive</b>						
Nigel Northridge <sup>(4)</sup>	230	-	-	-	230	210
Tom Grace <sup>(5)</sup>	102	-	-	-	102	100
Michael Cawley <sup>(6)</sup>	32	-	-	-	32	-
Danuta Gray <sup>(7)</sup>	67	-	-	-	67	-
Ulric Jerome <sup>(8)</sup>	70	-	-	-	70	3
Stewart Kenny	70	-	-	-	70	70
Jane Lighting <sup>(9)</sup>	47	-	-	-	47	70
Pádraig Ó Riordáin <sup>(10)</sup>	90	-	-	-	90	89
David Power <sup>(11)</sup>	41	-	-	-	41	82
William Reeve <sup>(12)</sup>	-	-	-	-	-	47
	<b>749</b>	<b>1,263</b>	<b>337</b>	<b>617</b>	<b>2,966</b>	<b>2,779</b>
Cost of shares vested from Long Term Incentive Plan					<b>2,576</b>	<b>2,862</b>
	<b>749</b>	<b>1,263</b>	<b>337</b>	<b>617</b>	<b>5,542</b>	<b>5,641</b>

- (1) Patrick Kennedy was also a non-executive director of Elan Corporation, plc up until his resignation for which he received and retained fees of €66,240 in the year ended 31 December 2013 (2012: €58,504). He was also awarded 20,325 (2012: 15,186) Restricted Stock Units over Elan Corporation, plc shares. He resigned as a non-executive director of Elan Corporation, plc on 18 December 2013. He is also a non-executive director of Bank of Ireland and he received fees of €78,750 in 2013 (2012: €78,750) for his services. His salary was increased by 2% to €765,000 with effect from 1 March 2013.
- (2) Cormac McCarthy was appointed Chief Financial Officer on 15 October 2012 having originally been appointed to the Board as non-executive director on 1 September 2011. In 2012, he earned fees of €55,000 in the period prior to when he was a non-executive director. He is also a non-executive director of BWG Limited for which he received and retained fees of €50,000 in 2013 (2012: €10,548 in the period subsequent to his appointment as an executive director of the Company on 15 October 2012). His salary was unchanged at €500,000 during 2013.
- (3) Jack Massey resigned from the Board on 15 October 2012 and was appointed Director of Finance and Company Secretary on that date. The emoluments disclosed above are in respect of the period during which he served as a director.
- (4) Nigel Northridge is Chairman of the Company.
- (5) Tom Grace is the Senior Independent Director and is Chairman of the Audit Committee.
- (6) Michael Cawley was appointed to the Board on 17 July 2013.
- (7) Danuta Gray was appointed to the Board on 17 January 2013.
- (8) Ulrich Jerome was appointed to the Board on 13 December 2012.
- (9) Jane Lighting resigned from the Board on 20 August 2013.
- (10) Pádraig Ó Riordáin is Chairman of the Remuneration Committee.
- (11) David Power resigned from the Board on 14 May 2013. As noted in the 2012 annual report, he remains Chairman of the Group's Bookmaking Risk Committee for which he receives an annual fee of €12,000.
- (12) William Reeve resigned from the Board on 5 September 2012.

Benefits provided to executive directors include cash allowances in lieu of pension contributions, provision of a company car or car allowance and life and medical insurance. Not included in the above table are accruals made in respect of the long term incentive bonus plan and share-based payment costs in respect of unvested shares in the Group's Long Term Incentive Plan (see Note 22). Details of the number and value of shares vested to executive directors from the Long Term Incentive Plan during the year are set out in the Directors' Report on page 43.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### Other transactions with directors

There were no loans outstanding to any director at any time during the year. Details of directors' interests in share awards and share options are set out on page 43. Other related party transactions between the Group and the directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

In addition to the directors' emoluments disclosed above, in the year ended 31 December 2013, directors were paid the following:

- Stewart Kenny received €200,000 (2012: €180,000) in respect of consulting fees.
- Pádraig Ó Riordáin is a Partner in Arthur Cox. During the year ended 31 December 2013, the Group incurred fees of €318,894 (2012: €659,418) relating to legal and taxation advice received from Arthur Cox;
- the Group engages in transactions with David Power in his capacity as an on-course bookmaker. In aggregate, during 2013, Richard Power On-Course Bookmakers placed bets with the Group winning €100,300 (2012: winning €177,256). In addition, the Group paid rent of €38,727 (2012: €38,727) during the year for retail properties owned by David Power and occupied by the Group under long term leases.

### Transactions with key management personnel, comprising executive directors, non-executive directors and other members of the Group's Executive Management Committee

Key management personnel compensation is as follows:

	2013 €'000	2012 €'000
Short-term employee benefits	7,468	7,760
Non-executive directors fees	749	726
Post-employment benefits	417	467
Other long-term benefits	1,433	2,763
Share-based payments costs	11,954	11,067
	<b>22,021</b>	<b>22,783</b>

## 8. Financial income and expense

	2013 €'000	2012 €'000
<b>Recognised in profit or loss:</b>		
Financial income:		
<i>On financial assets at amortised cost</i>		
Interest income on short term bank deposits	3,363	3,342
Unwinding of the discount on non-current assets	462	98
	<b>3,825</b>	<b>3,440</b>
Financial expense:		
<i>On financial liabilities at amortised cost</i>		
Interest on bank guarantees and bank facilities, and other interest payable	47	121
Unwinding of the discount on provisions and other non-current liabilities	134	164
	<b>181</b>	<b>285</b>
	<b>2013</b>	<b>2012</b>
	<b>€'000</b>	<b>€'000</b>
<b>Recognised in other comprehensive income:</b>		
Effective portion of changes in fair value of cash flow hedges	2,706	(1,324)
Fair value of foreign exchange cash flow hedges transferred to income statement	(4,688)	1,839
Net change in fair value of cash flow hedge reserve	(1,982)	515
Foreign exchange (loss) / gain on translation of the net assets of foreign currency denominated subsidiaries	(21,774)	237
	<b>(23,756)</b>	<b>752</b>

No amounts were recorded in the income statement in respect of ineffective cash flow hedges in the year ended 31 December 2013 (2012: €nil).

## 9. Statutory and other information

	2013 €'000	2012 €'000
Directors' emoluments	5,542	5,641
Auditor's remuneration for audit services	354	377
Depreciation – owned assets	25,295	22,597
Amortisation of intangible assets	14,173	9,562
Loss on disposal of property, plant and equipment and intangible assets	68	123
Foreign currency exchange loss / (gain) – cash and cash equivalents	1,436	(689)
Foreign currency exchange (gain) / loss – other monetary items	(907)	217
Operating lease rentals, principally premises	25,455	23,191
Research and development	4,307	1,327
Operating lease income (representing sub-lease income)	(394)	(438)

### Remuneration to Group external auditors (KPMG Ireland)

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

	2013 €'000	2012 €'000
Audit	130	125
Other assurance services – audit of subsidiaries	35	35
Other assurance services – miscellaneous	18	21
Tax advisory services	8	36
<b>Total</b>	<b>191</b>	<b>217</b>

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

### Analysis of total auditor's remuneration for audit services

	2013 €'000	2012 €'000
Audit of Group (KPMG Ireland)	130	125
Audit of other subsidiaries (KPMG Ireland)	35	35
Value added tax on audit fees – Group and other subsidiaries (KPMG Ireland)	37	37
Audit of other subsidiaries (other KPMG offices)	122	151
Other assurance services – miscellaneous	30	29
<b>Total</b>	<b>354</b>	<b>377</b>

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

	2013 €'000	2012 €'000
Tax advisory services (KPMG Ireland)	8	36
Value added tax on fees – tax advisory services (KPMG Ireland)	2	8
Tax advisory services (other KPMG offices)	56	198
Other non-audit services	66	56
<b>Total</b>	<b>132</b>	<b>298</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 10. Income tax expense

	2013 €'000	2012 €'000
<b>Recognised in profit or loss:</b>		
Current tax charge	<b>22,370</b>	24,250
Prior year over provision	<b>(1,537)</b>	(1,800)
	<b>20,833</b>	22,450
Deferred tax credit	<b>(3,052)</b>	(4,664)
Prior year under provision	<b>65</b>	370
Decrease in net deferred tax liability (Note 23)	<b>(2,987)</b>	(4,294)
<b>Total income tax expense in income statement</b>	<b>17,846</b>	18,156

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

		2013 €'000		2012 €'000
Profit before tax		<b>141,030</b>		139,155
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5%	12.5%	<b>17,629</b>	12.5%	17,394
Depreciation on non-qualifying property, plant and equipment	0.7%	<b>970</b>	0.2%	274
Effect of different statutory tax rates in overseas jurisdictions	0.7%	<b>999</b>	0.9%	1,304
Brands and licences	(0.4%)	<b>(637)</b>	(0.3%)	(434)
Other differences	0.2%	<b>318</b>	0.7%	990
Interest income taxable at higher rates	0.0%	<b>39</b>	0.0%	58
Over provision in prior year	(1.0%)	<b>(1,472)</b>	(1.0%)	(1,430)
<b>Total income tax expense</b>	<b>12.7%</b>	<b>17,846</b>	<b>13.0%</b>	18,156

### Tax rates

No significant changes are expected to statutory tax rates in Ireland or Australia. Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012, respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current UK tax charge accordingly. The UK deferred tax balances at 31 December 2013 have been calculated based on the rate of 20% substantively enacted at the balance sheet date.

## 11. Earnings per share

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

	2013	2012
<i>Numerator in respect of basic and diluted earnings per share (€'000):</i>		
Profit attributable to equity holders of the Company	<b>123,184</b>	120,999
<i>Denominator in respect of basic earnings per share:</i>		
Ordinary shares in issue at the beginning of the year	<b>50,850,848</b>	50,725,021
Adjustments for weighted average number of:		
– ordinary shares issued during year	<b>15,975</b>	36,838
– ordinary shares held in treasury	<b>(1,734,000)</b>	(1,734,000)
– ordinary shares held by long term incentive plan trust	<b>(1,142,119)</b>	(843,957)
<b>Weighted average number of ordinary shares in issue during the year</b>	<b>47,990,704</b>	48,183,902
<b>Basic earnings per share</b>	<b>€2.567</b>	€2.511
<i>Adjustments to derive denominator in respect of diluted earnings per share (in '000s):</i>		
Weighted average number of ordinary shares in issue during the year	<b>47,990,704</b>	48,183,902
Dilutive effect of the Share Option Scheme, Sharesave Scheme, share award schemes and shares held by long term incentive plan trust	<b>892,228</b>	581,723
<b>Adjusted weighted average number of ordinary shares in issue during the year</b>	<b>48,882,932</b>	48,765,625
<b>Diluted earnings per share</b>	<b>€2.520</b>	€2.481

At 31 December 2013, no options and awards (2012: 325,826) were excluded from the diluted weighted average number of ordinary shares calculation as their effect would have been anti-dilutive.

## 12. Property, plant and equipment

	Land, buildings & leasehold improvements €'000	Fixtures & fittings €'000	Computer equipment €'000	Motor vehicles €'000	Total €'000
<b>Cost</b>					
Balance at 1 January 2012	71,075	107,676	46,070	894	225,715
Additions	6,282	11,732	13,432	153	31,599
Additions – business combinations (Note 16)	-	1,070	-	-	1,070
Disposals	(1,862)	(6,689)	(4,126)	(404)	(13,081)
Transfers (Note 13)	-	-	(92)	-	(92)
Foreign currency translation adjustment	(46)	-	(43)	1	(88)
Balance at 31 December 2012	75,449	113,789	55,241	644	245,123
Additions	<b>9,212</b>	<b>17,146</b>	<b>11,663</b>	<b>139</b>	<b>38,160</b>
Additions – business combinations (Note 16)	-	<b>368</b>	-	-	<b>368</b>
Disposals	<b>(3,789)</b>	<b>(712)</b>	<b>(2,404)</b>	<b>(225)</b>	<b>(7,130)</b>
Transfers (Note 13)	<b>(14)</b>	<b>1</b>	<b>(827)</b>	-	<b>(840)</b>
Foreign currency translation adjustment	<b>(471)</b>	<b>(121)</b>	<b>(2,430)</b>	-	<b>(3,022)</b>
Balance at 31 December 2013	<b>80,387</b>	<b>130,471</b>	<b>61,243</b>	<b>558</b>	<b>272,659</b>
<b>Depreciation and impairment</b>					
Balance at 1 January 2012	27,480	72,874	29,304	458	130,116
Depreciation charges	3,542	9,165	9,748	142	22,597
Disposals	(1,862)	(6,737)	(4,114)	(338)	(13,051)
Foreign currency translation adjustment	(42)	-	(33)	-	(75)
Balance at 31 December 2012	29,118	75,302	34,905	262	139,587
Depreciation charges	<b>4,338</b>	<b>9,794</b>	<b>11,036</b>	<b>127</b>	<b>25,295</b>
Disposals	<b>(3,737)</b>	<b>(678)</b>	<b>(2,403)</b>	<b>(168)</b>	<b>(6,986)</b>
Foreign currency translation adjustment	<b>(338)</b>	<b>(50)</b>	<b>(1,065)</b>	-	<b>(1,453)</b>
Balance at 31 December 2013	<b>29,381</b>	<b>84,368</b>	<b>42,473</b>	<b>221</b>	<b>156,443</b>
<b>Net book value</b>					
At 31 December 2013	<b>51,006</b>	<b>46,103</b>	<b>18,770</b>	<b>337</b>	<b>116,216</b>
At 31 December 2012	46,331	38,487	20,336	382	105,536

The net book value of land, buildings and leasehold improvements at 31 December 2013 includes €46.9m (2012: €42.5m) in respect of leasehold improvements.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 13. Intangible assets

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

	Computer software €'000	Licences €'000	Brands €'000	Total €'000
<b>Cost</b>				
Balance at 1 January 2012	41,780	26,795	18,549	87,124
Additions	20,224	287	-	20,511
Disposals	(505)	-	-	(505)
Transfers (Note 12)	92	-	-	92
Foreign currency translation adjustment	(84)	551	16	483
Balance at 31 December 2012	61,507	27,633	18,565	107,705
Additions	<b>23,402</b>	<b>442</b>	-	<b>23,844</b>
Disposals	<b>(627)</b>	-	-	<b>(627)</b>
Transfers (Note 12)	<b>840</b>	-	-	<b>840</b>
Foreign currency translation adjustment	<b>(2,834)</b>	<b>(513)</b>	<b>(3,263)</b>	<b>(6,610)</b>
Balance at 31 December 2013	<b>82,288</b>	<b>27,562</b>	<b>15,302</b>	<b>125,152</b>
<b>Amortisation and impairment</b>				
Balance at 1 January 2012	27,275	3,426	5,423	36,124
Amortisation charges	9,192	370	-	9,562
Disposals	(377)	-	-	(377)
Foreign currency translation adjustment	(85)	(6)	5	(86)
Balance at 31 December 2012	36,005	3,790	5,428	45,223
Amortisation charges	<b>13,778</b>	<b>395</b>	-	<b>14,173</b>
Disposals	<b>(627)</b>	-	-	<b>(627)</b>
Foreign currency translation adjustment	<b>(1,834)</b>	<b>(14)</b>	<b>(954)</b>	<b>(2,802)</b>
Balance at 31 December 2013	<b>47,322</b>	<b>4,171</b>	<b>4,474</b>	<b>55,967</b>
<b>Net book value</b>				
At 31 December 2013	<b>34,966</b>	<b>23,391</b>	<b>10,828</b>	<b>69,185</b>
At 31 December 2012	25,502	23,843	13,137	62,482

The value of betting shop licences of €21,716,000 (2012: €22,184,000) acquired as a result of the purchase of D McGranaghan Limited in 2008 and an additional betting shop in Northern Ireland in 2011 are not being amortised as the directors consider these licences to have an indefinite life because:

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

The value of brand intangible assets recognised on application of fair value accounting to the purchase of Sportsbet and IAS in 2009 (amounting to €15,302,000 at 31 December 2013 (2012: €18,565,000)) are not being amortised as the directors consider that the relevant brands have indefinite lives because:

- the directors intend to utilise the brands in the businesses for the foreseeable future (with the exception of the IAS brand – see below); and
- substantial sums are invested annually in the form of marketing expenditure expensed through profit or loss to maintain and to enhance the value of these brands.

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

In 2011, the directors reviewed the carrying value of the IAS brand of AUD6,900,000 and determined, on the basis of future plans, that an impairment provision was required against the value of that brand at 31 December 2011. A similar review was performed at 31 December 2012 and at 31 December 2013 (when the euro equivalent value of the brand was €5,428,000 and €4,474,000, respectively) which indicated that there had been no changes in the circumstances that gave rise to the impairment provision and that continued provision was appropriate.

## 14. Goodwill

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

	Online (ex Australia) €'000	Online Australia €'000	UK Retail €'000	Irish Retail €'000	Total €'000
Balance at 1 January 2012	13,303	60,671	11,426	8,207	93,607
Arising on acquisitions during the year (Note 16)	-	-	2,604	125	2,729
Foreign currency translation adjustment	-	52	194	-	246
Balance at 31 December 2012	13,303	60,723	14,224	8,332	96,582
Arising on acquisitions during the year (Note 16)	-	-	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

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

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

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

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

### Impairment tests for cash generating units containing goodwill and indefinite life intangible assets

In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2013.

For the purpose of impairment testing, the Group's operating segments include amounts in respect of goodwill and indefinite life intangible assets (comprising licences acquired as part of the purchase of the D McGranaghan Limited business in 2008 and a shop acquisition in 2011, and brands acquired as part of the purchase of Sportsbet and IAS in 2009 – see Note 13).

The details of the impairment reviews in respect of the operating segments above as of 31 December 2013 are presented below:

	31 December 2013 €'000	31 December 2012 €'000
Online (ex Australia) – goodwill	13,303	13,303

The recoverable amount of the Online (ex Australia) operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Cash flow growth for the extrapolated period (following the initial three year period) is projected to be approximately 3% (2012: 4%) per annum and is based on a weighted average revenue growth rate of 3% (2012: 4%), which is based on experience and is consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. A pre-tax discount rate of 13% (2012: 13%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Online (ex Australia) segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2013 €'000	31 December 2012 €'000
Online Australia – goodwill and brands	65,351	79,288
Less: IAS brand impairment provision	(4,474)	(5,428)
Online Australia – goodwill and brands net of impairment provision	60,877	73,860

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 14. Goodwill (continued)

The recoverable amount of the Online Australia operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Cash flow growth for the extrapolated period (following the initial three year period) is projected to be approximately 3% (2012: 3%) per annum and is based on a weighted average income growth rate of 3% (2012: 3%) and a gross win of 11% (2012: 10%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. A pre-tax discount rate of 15.5% (2012: 15.5%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Online Australia operating segment goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts (with the exception of the IAS brand amounting to €4,474,000 at 31 December 2013 (2012: €5,428,000) – see Note 13).

	31 December 2013 €'000	31 December 2012 €'000
UK Retail – goodwill and licences	<b>40,032</b>	36,408

The recoverable amount of the UK Retail operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Cash flow growth for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2012: 2%) per annum and is based on weighted average income growth rates of 2% (2012: 2%) and a gross win rate of 12% (2012: 12%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2012: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the UK Retail operating segment goodwill and licences recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

	31 December 2013 €'000	31 December 2012 €'000
Irish Retail – goodwill	<b>10,886</b>	8,332

The recoverable amount of the Irish Retail operating segment underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a three year period. Cash flow growth for the extrapolated period (following the initial three year period) is projected to be approximately 2% (2012: 2%) per annum and is based on weighted average income growth rates of 2% (2012: 2%) and a gross win rate of 13% (2012: 13%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next three years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2012: 10%), which reflects the specific risks and currency of the cash flows relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish Retail operating segment goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

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

Based on the reviews as described above, with the exception of the IAS brand impairment of AUD6,900,000 initially provided for in 2011 (see Note 13), no impairment has arisen.

## 15. Financial assets (non-current)

	31 December 2013 €'000	31 December 2012 €'000
Restricted cash (Note 19)	993	5,359
	<b>993</b>	<b>5,359</b>

The movements during the prior year and current year in respect of restricted cash was as follows:

	Restricted cash €'000
Balance at 1 January 2012	6,409
Net withdrawals	(1,083)
Foreign currency translation adjustment	33
Balance at 31 December 2012	5,359
Net withdrawals	<b>(4,142)</b>
Foreign currency translation adjustment	<b>(224)</b>
Balance at 31 December 2013	<b>993</b>

## 16. Business combinations

### Year ended 31 December 2013

#### Shop property business acquisitions

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

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

	Provisional fair values 31 December 2013 €'000
Identifiable net assets acquired:	
Property, plant and equipment	368
Goodwill arising on acquisition – UK Retail and Irish Retail	<b>6,824</b>
Consideration	<b>7,192</b>
The consideration is analysed as:	
Cash consideration	<b>6,594</b>
Contingent deferred consideration	<b>598</b>
	<b>7,192</b>

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

Information in respect of amounts staked, income, operating profit and cash flows for the acquired businesses in the period from acquisition and for the year ended 31 December 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 financial targets for the three years following the date of acquisition. The contingent deferred consideration amount of €609,000 at 31 December 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 €2,984,000 in respect of contingent deferred consideration for the 2011 Online (ex Australia) acquisition and €88,000 in respect of a 2012 UK Retail acquisition (see below).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 16. Business combinations (continued)

Year ended 31 December 2012

### Shop property business acquisitions

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

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

	Fair Values 31 December 2012 €'000
Identifiable net assets acquired:	
Property, plant and equipment	1,070
Goodwill arising on acquisition – UK Retail and Irish Retail	2,729
Consideration	3,799
<hr/>	
The consideration is analysed as:	
Cash consideration	3,705
Contingent deferred consideration	94
	3,799

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

Information in respect of amounts staked, income, operating profit and cash flows for the acquired businesses in the period from acquisition and for the year ended 31 December 2012 has not been presented on the basis of immateriality.

Contingent deferred consideration is payable to the vendors by reference to the acquired businesses' performance against agreed financial targets in the year following the date of acquisition. The contingent deferred consideration amount of €92,000 at 31 December 2012 represents management's best estimate of the fair value of the amount that will be payable.

During 2012, the Group also paid a total of €450,000 in respect of contingent deferred consideration for Irish Retail acquisitions, €60,000 for UK Retail acquisitions and €347,000 for the 2011 Online (ex Australia) acquisition.

### Net cash outflow from purchase of businesses

	31 December 2013 €'000	31 December 2012 €'000
Cash consideration – acquisitions in the period	6,594	3,705
Cash consideration – acquisitions in previous periods	3,072	857
	9,666	4,562
<hr/>		
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses	6,594	3,705
Payment of contingent deferred consideration	3,072	857
	9,666	4,562

## 17. Trade and other receivables

### Non-current assets

	31 December 2013 €'000	31 December 2012 €'000
Prepayments and accrued income	2,903	4,837
	2,903	4,837

The amount in non-current prepayments and accrued income represents 'Goods and Services Tax' ("GST") refunds owing as a result of the court case brought by Sportsbet and IAS in 2011 against the Australian Commissioner of taxation relating to the interpretation and application of certain legislation pertaining to Australian 'Goods and Services Tax', as described more fully in the 2011 annual report.

## 17. Trade and other receivables (continued)

### Current assets

	31 December 2013 €'000	31 December 2012 €'000
Trade receivables – credit betting customers	3,907	5,975
Trade receivables – other sports betting counterparties	1,818	1,154
Trade receivables	5,725	7,129
Other receivables	1,815	1,453
Prepayments and accrued income	21,722	17,481
	<b>29,262</b>	<b>26,063</b>

Trade and other receivables are non-interest bearing.

An amount of €1,615,000 has been included within current prepayments and accrued income at 31 December 2013 (2012: €1,955,000) relating to the GST court case referred to above.

## 18. Derivative financial assets

	31 December 2013 €'000	31 December 2012 €'000
<b>Current</b>		
Foreign exchange forward contracts – cash flow hedges (Note 24)	-	375
	-	375

The notional principal amount of outstanding foreign exchange forward contracts at 31 December 2012 was GBP55.5m. Gains and losses recognised in the cash flow hedge reserve in equity at 31 December 2012 (see Note 20) on foreign exchange forward contracts designated as cash flow hedges under IAS 39, 'Financial Instruments: Recognition and Measurement', were released to the income statement at various dates during the year ending 31 December 2013.

## 19. Financial assets and cash and cash equivalents

	31 December 2013 €'000	31 December 2012 €'000
<b>Non-current</b>		
Financial assets – restricted cash	993	5,359
	<b>993</b>	<b>5,359</b>
<b>Current</b>		
Financial assets – restricted cash	52,806	32,961
Financial assets – deposits	13,686	42,014
Cash and cash equivalents	161,359	129,004
	<b>227,851</b>	<b>203,979</b>
<b>Total</b>	<b>228,844</b>	<b>209,338</b>

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

	31 December 2013 €'000	31 December 2012 €'000
Cash	61,181	42,488
Short term bank deposits – with an original maturity of less than three months	100,178	86,516
Cash and cash equivalents in the statement of cash flows	<b>161,359</b>	<b>129,004</b>

The effective interest rate on bank deposits at 31 December 2013 was 1.59% (2012:1.74%); these deposits have an average original maturity date of 61 days (2012: 78 days). The bank deposits also have an average maturity date of 36 days from 31 December 2013 (2012: 41 days).

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 19. Financial assets and cash and cash equivalents (continued)

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

	31 December 2013 €'000	31 December 2012 €'000
Euro	76,305	82,643
GBP	73,455	54,461
AUD	77,188	69,453
USD	1,595	2,253
Other	301	528
	<b>228,844</b>	<b>209,338</b>

### Financial assets

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

Included in current financial assets – restricted cash at 31 December 2013 are bank deposits totalling €52,806,000 (2012: €32,961,000) which were either (1) restricted at that date, as they represented client funds balances securing player funds held by the Group or (2) required to be held to guarantee third party letter of credit facilities.

Included in current financial assets – deposits are bank deposits totalling €13,686,000 (2012: €42,014,000) which had an initial cost of €13,621,000 (2012: €42,159,000). The maturity of these investments falls outside the three months' timeframe for classification as cash and cash equivalents under IAS 7, 'Statement of Cash Flows', and, accordingly, the related balance has been separately reported in the consolidated statement of financial position.

## 20. Share capital and reserves

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2012: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

During the year, 126,237 ordinary shares of €0.10 each (2012: 125,827 ordinary shares of €0.10 each) were issued as a result of the exercise of share options granted to employees of the Group under the terms of the Share Option and Sharesave Schemes, for a total consideration of €1,621,000 (2012: €2,225,000) and giving rise to a share premium of €1,608,000 (2012: €2,212,000). The total number of ordinary shares issued at 31 December 2013 was 50,977,085 (2012: 50,850,848), those shares having a total nominal value of €5,098,000 (2012: €5,085,000).

The total number of shares held in treasury at 31 December 2013 was 1,734,000 shares (2012: 1,734,000 shares). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the cost of the treasury shares, which amounted to €34,177,000 as of 31 December 2013 (2012: €34,177,000). The cost of treasury shares held by the Company at 31 December 2013 was €5,975,000 (2012: €5,975,000), with the remaining €28,202,000 of shares being held by Paddy Power Isle of Man Limited (2012: €28,202,000).

At 31 December 2013, the Company held a further 1,302,378 (2012: 1,270,442) of its own shares, which were acquired at a total cost of €71,736,000 (2012: €56,191,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan (see Note 22). The Company's distributable reserves at 31 December 2013 are further restricted by this cost amount. In the year ended 31 December 2013, 348,064 shares with an original cost of €8,675,000 were transferred from the long term incentive plan trust ('the Trust') to beneficiaries of the Trust consequent to the vesting thereof (2012: 535,435 shares with an original cost of €13,487,000). During the year ended 31 December 2013, the Trust purchased 380,000 Paddy Power plc ordinary shares for a total consideration of €24,220,000 (2012: 627,808 Paddy Power plc ordinary shares for a total consideration of €36,281,000) (see Note 22).

The foreign exchange translation reserve at 31 December 2013 had a debit balance of €7,664,000 (2012: credit balance of €14,110,000) which arose from the retranslation of the Group's net investment in AUD and GBP functional currency subsidiary companies. The movement in the foreign exchange translation reserve for the year ending 31 December 2013 reflects the weakening of the AUD and GBP against the euro in the period.

Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund and a net wealth tax reserve. The capital redemption reserve fund of €876,000 (2012: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2012: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. No amount was transferred to the net wealth tax reserve from retained earnings in the year ended 31 December 2013 (2012: an amount of €55,000 was transferred) and the reserve had a balance of €104,000 at 31 December 2013 (2012: €104,000).

## 20. Share capital and reserves (continued)

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 year ended 31 December 2014. The fair value loss of €1,283,000 at 31 December 2013 (2012: gain of €451,000), which is stated after applicable deferred taxation of €184,000 (2012: deferred tax liability of €64,000), arises as the applicable forward contract EUR-GBP rates were weaker than the relevant forward foreign exchange rate ruling at 31 December 2013 (31 December 2012: the applicable EUR-GBP rates were stronger than the relevant forward foreign exchange rate ruling at 31 December 2012).

In 2013, an amount of €699,000 (2012: €659,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings. An amount of €235,000 of deferred tax relating to the Group's share-based payments was credited to retained earnings in 2013 (2012: credit of €294,000) – see also Note 23.

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year (measured in accordance with Irish GAAP) of €3.5m (2012: €76.6m) which includes €42.0m (2012: €76.3m) of dividends receivable from subsidiary companies.

## 21. Dividends paid on ordinary shares

	2013 €'000	2012 €'000
Ordinary shares:		
- final paid of 81.0 cent per share (2012: 70.0 cent)	39,803	34,355
- interim paid of 45.0 cent per share (2012: 39.0 cent)	22,104	19,122
	<b>61,907</b>	53,477
Proposed final dividend of 90.0 cent (2012: 81.0 cent) per share (see Note 34)	44,325	39,803

## 22. Share schemes

### Summary of equity-settled share-based payments expense

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

	2013 €'000	2012 €'000
Sharesave Scheme	828	693
Long Term Incentive Plan ('LTIP')	16,843	11,769
	<b>17,671</b>	12,462

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

### General

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

### Summary of options outstanding

The total number of options outstanding at 31 December 2013 was 357,380 (2012: 412,873). These options had exercise prices ranging from €9.45 to €48.93 (2012: €9.45 to €43.63).

#### For the year ended 31 December 2013:

	Options outstanding at 1 January 2013	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2013
Share Option Scheme	47,000	-	-	-	47,000
Sharesave Scheme	365,873	95,770	(25,026)	(126,237)	310,380
Total	<b>412,873</b>	<b>95,770</b>	<b>(25,026)</b>	<b>(126,237)</b>	<b>357,380</b>

#### For the year ended 31 December 2012:

	Options outstanding at 1 January 2012	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2012
Share Option Scheme	97,500	-	-	(50,500)	47,000
Sharesave Scheme	361,800	98,163	(18,763)	(75,327)	365,873
Total	459,300	98,163	(18,763)	(125,827)	412,873

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 22. Share schemes (continued)

The Group has the following employee share schemes:

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

The Share Option Scheme was adopted by shareholders on 21 November 2000 and modified by the shareholders on 22 June 2004. The Share Option Scheme was open to directors, other than non-executive directors, and employees. Options could be granted within a period of ten years from 7 December 2000 at the higher of nominal and current market value. No further options can or have been granted under this scheme since 7 December 2010. Share Options lapse ten years after the date of grant.

A total of 1,600,472 options were granted over the life of the scheme. Since November 2000, options over 1,348,606 shares have been exercised and options over 204,866 shares have lapsed. Options over 47,000 shares were outstanding at 31 December 2013 (2012: 47,000), all of which were exercisable at 31 December 2013 and 31 December 2012.

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

#### Year ended 31 December 2013

Options outstanding at 1 January 2013	Options granted during year	Options exercised during year	Options outstanding at 31 December 2013	Earliest exercise date	Latest exercise date	Exercise price	Market price at date of exercise
4,000	-	-	4,000	October 2009	October 2016	€14.40	-
43,000	-	-	43,000	September 2010	September 2017	€24.17	-
<b>47,000</b>	-	-	<b>47,000</b>				

#### Year ended 31 December 2012

Options outstanding at 1 January 2012	Options granted during year	Options exercised during year	Options outstanding at 31 December 2012	Earliest exercise date	Latest exercise date	Exercise price	Market price at date of exercise
12,000	-	(8,000)	4,000	October 2009	October 2016	€14.40	€58.50
85,500	-	(42,500)	43,000	September 2010	September 2017	€24.17	€45.75 – €59.15
97,500	-	(50,500)	47,000				

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

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

All employees (including executive directors) who have not less than 12 months continuous service with the Company or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. Options will normally be granted to all eligible employees in the 42 day period after the announcement of the interim or final results of the Company. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 75 per cent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme is €500/ £250.

## 22. Share schemes (continued)

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

### Year ended 31 December 2013

Options outstanding at 1 January 2013	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2013	Earliest exercise date	Exercise price	Market price at date of exercise
523	-	-	(523)	-	December 2010 & December 2012	€19.26	€61.50
159	-	-	-	159	December 2010 & December 2012	£14.36	-
104,358	-	(113)	(83,030)	21,215	December 2011 & December 2013	€9.45	€57.75 – €66.90
2,093	-	-	-	2,093	December 2011 & December 2013	£8.00	-
25,248	-	(2,219)	(6,531)	16,498	December 2012 & December 2014	€14.90	€61.00 – €68.46
1,980	-	(440)	-	1,540	December 2012 & December 2014	£14.13	-
43,106	-	(518)	(31,214)	11,374	December 2013 & December 2015	€19.87	€57.75 – €59.67
5,351	-	(856)	(4,465)	30	December 2013 & December 2015	£17.62	€57.75 – €59.02
80,160	-	(4,320)	(378)	75,462	December 2014 & December 2016	€27.79	€60.65
4,732	-	(351)	-	4,381	December 2014 & December 2016	£25.99	-
91,340	-	(14,421)	(96)	76,823	December 2015 & December 2017	€41.36	€66.80
6,823	-	(1,134)	-	5,689	December 2015 & December 2017	£35.61	-
-	84,193	(619)	-	83,574	December 2016 & December 2018	€45.52	-
-	11,577	(35)	-	11,542	December 2016 & December 2018	£40.79	-
<b>365,873</b>	<b>95,770</b>	<b>(25,026)</b>	<b>(126,237)</b>	<b>310,380</b>			

### Year ended 31 December 2012

Options outstanding at 1 January 2012	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2012	Earliest exercise date	Exercise price	Market price at date of exercise
2,008	-	-	(2,008)	-	December 2009 & December 2011	€11.29	€51.00 – €51.20
5,385	-	(25)	(4,837)	523	December 2010 & December 2012	€19.26	€58.65
1,753	-	-	(1,594)	159	December 2010 & December 2012	£14.36	€58.65
111,794	-	1,859	(9,295)	104,358	December 2011 & December 2013	€9.45	€43.40 – €47.60
2,813	-	-	(720)	2,093	December 2011 & December 2013	£8.00	€43.40
79,351	-	(369)	(53,734)	25,248	December 2012 & December 2014	€14.90	€58.65 – €61.33
5,111	-	(184)	(2,947)	1,980	December 2012 & December 2014	£14.13	€58.65 – €60.05
48,354	-	(5,056)	(192)	43,106	December 2013 & December 2015	€19.87	€53.29
7,451	-	(2,100)	-	5,351	December 2013 & December 2015	£17.62	-
89,803	-	(9,643)	-	80,160	December 2014 & December 2016	€27.79	-
7,977	-	(3,245)	-	4,732	December 2014 & December 2016	£25.99	-
-	91,340	-	-	91,340	December 2015 & December 2017	€41.36	-
-	6,823	-	-	6,823	December 2015 & December 2017	£35.61	-
<b>361,800</b>	<b>98,163</b>	<b>(18,763)</b>	<b>(75,327)</b>	<b>365,873</b>			

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

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €1,089,000 (2012: €1,407,000). The significant inputs into the model were the share price of €60.70 (2012: €55.15) at the grant date, the exercise prices of €45.52 and £40.79 (2012: €41.36 and £35.61), the volatility of expected share price returns of 19% and 24% (2012: 19% and 30%), the option lives disclosed above and annual risk free rates of 0.34% and 0.81% (2012: 0.17% and 0.54%). The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's share price over the last three and five years, respectively. The cost of these options is being expensed in the Group income statement over the expected vesting period of the options granted.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 22. Share schemes (continued)

### Long Term Incentive Plan

#### Summary of share awards outstanding

The total number of share awards outstanding under the Long Term Incentive Plan at 31 December 2013 was 1,252,629 (2012: 1,236,750). The movements in share awards during the years ended 31 December 2013 and 2012 (excluding related dividends awarded as shares) were as follows:

#### For the year ended 31 December 2013:

	Share awards outstanding at 1 January 2013	Share awards granted during year	Share awards lapsed during year	Share awards vested during year	Share awards outstanding at 31 December 2013
2004 LTIP scheme	1,236,750	-	(52,000)	(339,000)	845,750
2013 LTIP scheme	-	421,596	(14,717)	-	406,879
<b>Total</b>	<b>1,236,750</b>	<b>421,596</b>	<b>(66,717)</b>	<b>(339,000)</b>	<b>1,252,629</b>

#### For the year ended 31 December 2012:

	Share awards outstanding at 1 January 2012	Share awards granted during year	Share awards lapsed during year	Share awards vested during year	Share awards outstanding at 31 December 2012
2004 LTIP scheme	1,218,597	539,750	-	(521,597)	1,236,750
<b>Total</b>	<b>1,218,597</b>	<b>539,750</b>	<b>-</b>	<b>(521,597)</b>	<b>1,236,750</b>

#### 2004 Long Term Incentive Plan

On 22 June 2004, the 2004 Long Term Incentive Plan ('2004 LTIP') for senior executives was adopted by the shareholders, under which the Remuneration Committee can make conditional awards of a number of Company shares to each eligible executive. LTIP awards made prior to 2013 are subject to the rules of the 2004 scheme. In accordance with the rules, the awards vest if the growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) is achieved over a minimum vesting period of three years. To the extent the award has not vested on or before the latest vest date, the award will automatically lapse in its entirety immediately following such date. The relevant growth target in relation to the awards made in 2011 was 95% met and accordingly, in accordance with the plan rules 95% of the awards are expected to vest in March 2014.

#### 2013 Long Term Incentive Plan

On 14 May 2013, the shareholders adopted the 2013 Long Term Incentive Plan ('2013 LTIP') for senior executives, under which the Remuneration Committee can also make conditional awards of a number of Company shares to each eligible executive. Awards made from 2013 onwards are subject to the rules of this scheme. In accordance with the rules, the awards vest proportionately to the achievement of an EPS growth target of between 7% and 15% over the vesting period of three years. Full vesting of the awards will only occur if EPS growth of at least 15% per annum is achieved over the vesting period. A minimum annual EPS growth target of 7% over the vesting period must be achieved to trigger 25% award vesting, with vesting occurring on a sliding scale ranging from 25% of awards (if the minimum EPS growth target of 7% per annum is met) to 100% of awards (if the EPS growth target of 15% per annum is met).

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

During the year, awards of 177,891 shares, 14,000 shares, 224,215 shares, 3,490 shares and 2,000 shares (2012: 267,500 shares, 32,500 shares, 12,000 shares and 227,750 shares) were granted to senior management (including executive directors) under the terms of the 2013 LTIP (2012 awards: under the terms of the 2004 LTIP). The share prices at the dates of award were €67.00, €65.92, €59.15, €57.30 and €58.80, respectively (2012: €45.00, €48.50, €51.56 and €57.00, respectively). The cost of these awards is being expensed in the Group income statement over the expected vesting periods of the awards. The operating profit for the year ended 31 December 2013 is stated after an LTIP charge of €16,843,000 (2012: €11,769,000). During 2013, 66,717 share awards lapsed (2012: no share awards lapsed).

During 2013, a total of 348,064 shares in respect of LTIP awards made in 2010 (2012: 535,435 shares in respect of LTIP awards made in 2009) and related dividends (amounting to 9,064 shares (2012: 13,838 shares)) were vested from the Trust to senior management.

## 22. Share schemes (continued)

### Paddy Power plc Employee Benefit Trust

The Paddy Power plc Employee Benefit Trust (the 'Trust') manages the Long Term Incentive Plan. Purchases of Paddy Power plc ordinary shares from 1 January 2012 to 31 December 2013, and shares vested from the Trust during that period, are shown below:

	Number of Paddy Power plc ordinary shares	Cost of purchase €'000
Shares held by the Trust at 1 January 2012	1,178,069	33,397
Purchased – May 2012	55,155	2,790
Purchased – September 2012	104,488	5,897
Purchased – October 2012	53,165	3,143
Purchased – November 2012	146,002	8,300
Purchased – December 2012	268,998	16,151
Purchased – 2012	627,808	36,281
Vested from the Trust in 2012	(535,435)	(13,487)
Shares held by the Trust at 31 December 2012	1,270,442	56,191
Purchased – May 2013	17,000	1,128
Purchased – June 2013	168,000	11,136
Purchased – September 2013	180,125	11,061
Purchased – October 2013	14,875	895
Purchased – 2013	380,000	24,220
Vested from the Trust in 2013	(348,064)	(8,675)
Shares held by the Trust at 31 December 2013	1,302,378	71,736

The results of the Trust are included in the Paddy Power plc Company financial statements. The shares held by the Trust at the reporting date are shown as a deduction from equity in the consolidated statement of financial position in accordance with the Group's accounting policy (see Note 20).

### Paddy Power 2004 Second Tier Option Scheme

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

No options have been granted to date under this scheme to any Group employees nor are any expected to be granted in the future. The scheme will expire on 22 June 2014.

### Other

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

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## 23. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2013			31 December 2012		
	Assets €'000	Liabilities €'000	Total €'000	Assets €'000	Liabilities €'000	Total €'000
Property, plant and equipment	1,751	-	1,751	896	-	896
Business combinations – licences intangible assets	-	(4,256)	(4,256)	-	(5,000)	(5,000)
Employee benefits	6,139	-	6,139	4,746	-	4,746
Derivative financial liabilities / (assets)	184	-	184	-	(64)	(64)
Other	892	-	892	1,156	-	1,156
Net assets / (liabilities)	8,966	(4,256)	4,710	6,798	(5,064)	1,734
Analysed by corporation tax jurisdiction:						
Irish corporation tax	4,849	-	4,849	3,653	(64)	3,589
UK corporation tax	964	(4,256)	(3,292)	173	(5,000)	(4,827)
Australian corporation tax	3,153	-	3,153	2,972	-	2,972
Net assets / (liabilities)	8,966	(4,256)	4,710	6,798	(5,064)	1,734

Deferred tax assets and liabilities have been offset at 31 December 2013 and 2012 where there is a legally enforceable right to such set-off.

Included in the statement of financial position is a deferred tax asset of €8,002,000 (2012: €6,561,000) representing the Irish and Australia net deferred tax assets and a deferred tax liability of €3,292,000 (2012: €4,827,000) representing the UK net deferred tax liability.

### Movement in temporary differences during the year

	Property plant and equipment €'000	Business combinations - intangible assets €'000	Employee benefits €'000	Derivative financial liabilities / (assets) €'000	Other €'000	Total €'000
Balance at 1 January 2012	1,212	(5,309)	2,083	-	(572)	(2,586)
Recognised in income	(313)	434	2,406	-	1,767	4,294
Recognised in other comprehensive income	-	-	-	(64)	-	(64)
Recognised directly in equity	-	-	294	-	-	294
Foreign currency translation adjustment	(3)	(125)	(37)	-	(39)	(204)
Balance at 31 December 2012	896	(5,000)	4,746	(64)	1,156	1,734
Recognised in income	751	638	1,667	-	(69)	2,987
Recognised in other comprehensive income	-	-	-	248	-	248
Recognised directly in equity	-	-	235	-	-	235
Foreign currency translation adjustment	104	106	(509)	-	(195)	(494)
Balance at 31 December 2013	1,751	(4,256)	6,139	184	892	4,710

### Unrecognised deferred tax assets

There were no unrecognised deferred tax assets at 31 December 2013 or 31 December 2012.

### Unrecognised deferred tax liabilities

At 31 December 2013, the aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is €8.9m (2012: €7.3m). This has been calculated based on the temporary differences arising between the group accounting base and tax base of each investment.

## 24. Trade and other payables and derivative financial liabilities

### Current liabilities

	31 December 2013 €'000	31 December 2012 €'000
<b>Trade and other payables</b>		
Trade payables	18,856	19,789
Customer balances	57,290	56,765
PAYE and social security	5,284	4,921
Value added tax and goods & services tax	1,035	4,670
Betting duty, data rights and product & racefield fees	9,349	4,865
Employee benefits	30,363	30,146
Contingent deferred consideration – business combinations (Note 30)	3,375	2,581
Accruals and other liabilities	55,421	49,730
	<b>180,973</b>	<b>173,467</b>
<b>Derivative financial liabilities</b>		
Foreign exchange forward contracts – cash flow hedges (Note 30)	1,467	-
Sports betting open positions (Note 30)	15,581	11,767
	<b>17,048</b>	<b>11,767</b>

### Non-current liabilities

	31 December 2013 €'000	31 December 2012 €'000
<b>Trade and other payables</b>		
PAYE and social security	501	593
Employee benefits	6,499	13,083
Contingent deferred consideration – business combinations (Note 30)	4,701	9,216
Accruals and other liabilities	588	771
	<b>12,289</b>	<b>23,663</b>
<b>Derivative financial liabilities</b>		
Sports betting open positions (Note 30)	270	228
	<b>270</b>	<b>228</b>

### Derivative financial liabilities

The notional principal amount of outstanding foreign exchange forward contracts at 31 December 2013 was GBP61.3m. Gains and losses recognised in the cash flow hedge reserve in equity at 31 December 2013 on foreign exchange forward contracts designated as cash flow hedges under IAS 39, 'Financial Instruments: Recognition and Measurement', will be released to the income statement at various dates during the year ending 31 December 2014.

### Sports betting open positions

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

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

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

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## 25. Provisions

### Current liabilities

	31 December 2013 €'000	31 December 2012 €'000
Employee benefits (long service leave)	189	261
Accruals and other liabilities (lease reinstatement and onerous contracts)	326	199
	<b>515</b>	<b>460</b>

### Non-current liabilities

	31 December 2013 €'000	31 December 2012 €'000
Employee benefits (long service leave)	373	283
Accruals and other liabilities (lease reinstatement and onerous contracts)	742	1,136
	<b>1,115</b>	<b>1,419</b>

The movements in provisions during 2012 and 2013 were as follows:

### Current liabilities

	Long service leave €'000	Lease reinstatement €'000	Onerous contracts €'000	Total €'000
Balance at 1 January 2012	221	288	84	593
Transfers from non-current liabilities	-	111	59	170
Charged / (credited) to the income statement:				
- Additional provisions recognised	41	-	-	41
- Unused amounts reversed	-	-	-	-
Amounts used during the year	-	(288)	(56)	(344)
Foreign currency translation adjustment	(1)	-	1	-
Balance at 31 December 2012	261	111	88	460
Transfers from non-current liabilities	-	299	325	624
Charged / (credited) to the income statement:				
- Additional provisions recognised	90	-	-	90
- Unused amounts reversed	(32)	(282)	-	(314)
Amounts used during the year	(88)	-	(199)	(287)
Foreign currency translation adjustment	(42)	(16)	-	(58)
Balance at 31 December 2013	<b>189</b>	<b>112</b>	<b>214</b>	<b>515</b>

### Non-current liabilities

	Long service leave €'000	Lease Reinstatement €'000	Onerous Contracts €'000	Total €'000
Balance at 1 January 2012	183	658	808	1,649
Transfers to current liabilities	-	(111)	(59)	(170)
Charged / (credited) to the income statement:				
- Additional provisions recognised	102	43	-	145
- Unused amounts reversed	-	(212)	-	(212)
Foreign currency translation adjustment	(2)	5	4	7
Balance at 31 December 2012	283	383	753	1,419
Transfers to current liabilities	-	(299)	(325)	(624)
Charged to the income statement:				
- Additional provisions recognised	157	9	221	387
Foreign currency translation adjustment	(67)	-	-	(67)
Balance at 31 December 2013	<b>373</b>	<b>93</b>	<b>649</b>	<b>1,115</b>

## 25. Provisions (continued)

### Long service leave

This provision represents the amounts provided in respect of the long service leave entitlements of Australian employees under the provisions of relevant Australian state legislation. The long service leave liability is measured as the present value of expected future payments to be made in respect of services rendered up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The timing and amount of long service leave cash outflows are primarily dependent on when staff employed at the balance sheet date avail of their entitlement to leave and their expected salaries at that time. As of 31 December 2013, it was expected that cash outflows would occur primarily within the following five years (2012: within the following five years).

### Lease reinstatement

Included in this category are amounts provided by the Group for the reinstatement of properties held under operating leases to their original condition when the leases were taken out. These costs are generally provided for over the expected term of the relevant leases. The timing and amount of lease reinstatement cash outflows is dependent on the expected dates on which leased premises will be exited and the existence of provisions in the lease contracts requiring reinstatement. The cash outflows are expected to occur at various stages over the next 27 years as longer term leases are not renewed (2012: the next 28 years).

### Onerous contracts

The onerous contracts provision primarily relates to operating leases where the Group is not occupying properties for which it still has a present and future obligation to make lease payments. The provision represents the future expected net cash outflows under these leases discounted at an interest rate appropriate to the timing of these net cash outflows. Future cash outflows in respect of onerous contracts are dependent on the relevant lease expiry dates and the timing of break provisions in the lease contracts. It is expected that the provisions will unwind over an 18 year period (2012: 13 year period).

## 26. Credit risk

### Exposure to credit risk

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

	Carrying amount	
	31 December 2013	31 December 2012
	€'000	€'000
Cash flow hedges	-	375
Restricted cash	53,799	38,320
Deposits	13,686	42,014
Trade receivables	5,725	7,129
Other receivables	1,815	1,453
Cash and cash equivalents	161,359	129,004
	<b>236,384</b>	<b>218,295</b>

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

	31 December 2013	31 December 2012
	€'000	€'000
Australia	4,567	6,029
United Kingdom	844	1,014
Ireland	1,105	668
Other	1,024	871
	<b>7,540</b>	<b>8,582</b>

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

	31 December 2013	31 December 2012
	€'000	€'000
Trade receivables – credit betting customers	3,907	5,975
Trade receivables – other sports betting counterparties	1,818	1,154
Other receivables	1,815	1,453
	<b>7,540</b>	<b>8,582</b>

### Significant customers

There were no individual customers at 31 December 2013 or 2012 that represented over ten per cent of trade receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 26. Credit risk (continued)

### Impairment losses

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

	31 December 2013 €'000	31 December 2012 €'000
Not past due	2,836	3,887
Past due 0 days to 30 days	2,356	2,351
Past due 31 days to 120 days	529	840
Past due 121 days to 365 days	4	51
More than one year	-	-
	<b>5,725</b>	<b>7,129</b>

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

	2013 €'000	2012 €'000
Balance at 1 January	4,335	4,140
Impairment losses recognised	475	612
Impairment losses written off	(1,962)	(416)
Foreign currency translation adjustment	(584)	(1)
Balance at 31 December	<b>2,264</b>	<b>4,335</b>

## 27. Liquidity risk

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

	Carrying amount €'000	Contractual cash flows €'000	31 December 2013				
			6 months or less €'000	6 to 12 months €'000	1 to 2 years €'000	2 to 3 years €'000	4 years and over €'000
<b>Non-derivative financial liabilities</b>							
Trade and other payables	185,186	185,219	167,081	10,517	4,890	2,346	385
Contingent deferred consideration	8,076	8,082	50	3,328	122	4,582	-
	<b>193,262</b>	<b>193,301</b>	<b>167,131</b>	<b>13,845</b>	<b>5,012</b>	<b>6,928</b>	<b>385</b>
<b>Derivative financial liabilities</b>							
Sports betting open positions	15,851	15,851	15,396	185	253	17	-
Cash flow hedges:							
- Inflows	-	(72,031)	(49,324)	(22,707)	-	-	-
- Outflows	1,467	73,498	50,406	23,092	-	-	-
	<b>210,580</b>	<b>210,619</b>	<b>183,609</b>	<b>14,415</b>	<b>5,265</b>	<b>6,945</b>	<b>385</b>

	Carrying amount €'000	Contractual cash flows €'000	31 December 2012				
			6 months or less €'000	6 to 12 months €'000	1 to 2 years €'000	2 to 3 years €'000	4 years and over €'000
<b>Non-derivative financial liabilities</b>							
Trade and other payables	185,333	185,333	161,904	8,982	11,171	3,276	-
Contingent deferred consideration	11,797	11,900	92	2,513	5,749	3,546	-
	197,130	197,233	161,996	11,495	16,920	6,822	-
<b>Derivative financial liabilities</b>							
Sports betting open positions	11,995	11,995	11,448	319	228	-	-
	<b>209,125</b>	<b>209,228</b>	<b>173,444</b>	<b>11,814</b>	<b>17,148</b>	<b>6,822</b>	<b>-</b>

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

## 27. Liquidity risk (continued)

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

	Carrying amount €'000	Contractual cash flows €'000	31 December 2012					
			6 months or less €'000	6 to 12 months €'000	1 to 2 Years €'000	2 to 3 years €'000	4 years and over €'000	
<b>Derivative financial assets</b>								
Cash flow hedges:								
- Inflows	375	68,515	62,941	5,574	-	-	-	-
- Outflows	-	(68,140)	(62,640)	(5,500)	-	-	-	-
	375	375	301	74	-	-	-	-

## 28. Currency risk

### Currency risk exposure

As of 31 December 2013 and 2012, the Group's foreign currency risk exposure, based on the functional currencies of its operations, was as follows:

	31 December 2013					31 December 2012				
	EUR €'000	GBP €'000	AUD €'000	USD €'000	Other €'000	EUR €'000	GBP €'000	AUD €'000	USD €'000	Other €'000
Trade receivables	-	705	-	403	86	-	852	-	35	167
Other receivables	5	140	-	-	-	13	163	-	-	-
Financial assets – current restricted cash	-	37,539	-	-	-	-	12,320	-	-	-
Financial assets – deposits	-	3,386	-	-	-	-	12,253	-	-	-
Cash and cash equivalents	265	32,370	2,827	1,595	301	237	30,027	3,346	2,419	728
Trade payables	(17)	(7,250)	-	(220)	-	(13)	(9,628)	-	(548)	-
Customer balances	(89)	(21,946)	-	(1,743)	(159)	(89)	(21,112)	-	(1,858)	(183)
Other payables	(33)	(28,926)	-	(474)	-	-	(21,652)	-	(316)	(97)
Intercompany payables	(5,004)	(9,221)	-	-	-	(3,357)	(6,786)	-	-	-
Contingent deferred consideration	-	(7,826)	-	-	-	-	(8,580)	(3,217)	-	-
Gross statement of financial position exposure	(4,873)	(1,029)	2,827	(439)	228	(3,209)	(12,143)	129	(268)	615

At 31 December 2013, the Group had hedged GBP61.3m of its expected 2014 GBP cash flows at an average EUR-GBP rate of 0.8503 (2012: hedged GBP57.3m of expected 2013 cash flows at an average EUR-GBP rate of 0.8094). A derivative financial liability of €1,467,000 (2012: derivative financial asset of €375,000) in respect of foreign exchange forward contracts due to mature in 2014 (2012: due to mature in 2013) has been recorded in the Group's consolidated statement of financial position (see Notes 18, 24 and 30).

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

To 1 Euro:	Average rate		31 December (mid-spot rate)	
	2013	2012	2013	2012
GBP	0.849	0.811	0.834	0.816
AUD	1.378	1.241	1.542	1.271
USD	1.328	1.285	1.379	1.319

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## 28. Currency risk (continued)

### Sensitivity analysis

A ten per cent increase and decrease in the value of the euro against the following currencies at 31 December 2013 and 2012 would have increased / (decreased) profit and equity by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	Profit		Equity	
	10% increase €'000	10% decrease €'000	10% increase €'000	10% decrease €'000
<b>31 December 2013</b>				
GBP	82	(101)	(2,792)	3,414
AUD	(1,198)	1,464	(10,672)	13,044
USD	54	(66)	-	-
<b>31 December 2012</b>				
GBP	996	(1,217)	(2,797)	3,419
AUD	(654)	799	(9,932)	12,139
USD	26	(31)	-	-

## 29. Interest rate risk

### Profile

At 31 December 2013 and 31 December 2012 the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2013 €'000	31 December 2012 €'000
<b>Variable rate instruments</b>		
Financial assets – non-current restricted cash	993	5,359
Financial assets – current restricted cash	52,806	32,961
Financial assets – deposits	13,686	42,014
Financial assets – cash	61,181	42,488
Financial assets – short term bank deposits	100,178	86,516
	<b>228,844</b>	<b>209,338</b>

### Cash flow sensitivity analysis for variable rate instruments

An increase and decrease of 50 basis points ('bps') in interest rates at 31 December 2013 and at 31 December 2012 would have increased / (decreased) profit for a full year and equity by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	Profit		Equity	
	50 bps increase €'000	50 bps decrease €'000	50 bps increase €'000	50 bps decrease €'000
<b>31 December 2013</b>				
Variable rate instruments	677	(677)	-	-
<b>31 December 2012</b>				
Variable rate instruments	671	(671)	-	-

### 30. Fair values

#### Fair values versus carrying amounts

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

	31 December 2013		31 December 2012	
	Carrying amount €'000	Fair value €'000	Carrying amount €'000	Fair value €'000
<b>Carried at fair value</b>				
<b>Assets</b>				
Derivative financial assets – forward contract cash flow hedges	-	-	375	375
	-	-	375	375
<b>Liabilities</b>				
Derivative financial liabilities – sports betting open positions	(15,851)	(15,851)	(11,995)	(11,995)
Derivative financial liabilities – forward contract cash flow hedges	(1,467)	(1,467)	-	-
Non-derivative financial liabilities – contingent deferred consideration	(8,076)	(8,076)	(11,797)	(11,797)
	(25,394)	(25,394)	(23,792)	(23,792)
Net	(25,394)	(25,394)	(23,417)	(23,417)
<b>Carried at amortised cost</b>				
<b>Assets</b>				
Restricted cash – non-current	993	993	5,359	5,359
Trade receivables	5,725	5,725	7,129	7,129
Other receivables	1,815	1,815	1,453	1,453
Restricted cash – current	52,806	52,806	32,961	32,961
Deposits	13,686	13,686	42,014	42,014
Cash and cash equivalents	161,359	161,359	129,004	129,004
	236,384	236,384	217,920	217,920
<b>Liabilities</b>				
Trade and other payables	(185,186)	(185,186)	(185,333)	(185,333)
	(185,186)	(185,186)	(185,333)	(185,333)
Net	51,198	51,198	32,587	32,587
Total	25,804	25,804	9,170	9,170

#### Fair value hierarchy

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 30. Fair values (continued)

	31 December 2012			Total €'000
	Level 1 €'000	Level 2 €'000	Level 3 €'000	
Derivative financial assets	-	375	-	375
	-	375	-	375
Derivative financial liabilities	-	-	(11,995)	(11,995)
Non-derivative financial liabilities	-	-	(11,797)	(11,797)
	-	-	(23,792)	(23,792)
<b>Total</b>	-	375	(23,792)	(23,417)

### Basis for determining fair values

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

#### Financial instruments carried at amortised cost

##### Trade and other receivables (Level 2)

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

##### Financial assets and cash and cash equivalents (Level 2)

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

#### Financial instruments carried at fair value

##### Derivative financial instruments

Derivative financial instruments comprise foreign exchange forward contracts (Level 2) and sports betting open positions (Level 3).

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

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

##### 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 represents management's best estimate of the fair value of the amounts that will be payable, discounted as appropriate using a market interest rate. The fair value was estimated by assigning probabilities, based on management's current expectations, to the potential payout scenarios. The significant unobservable inputs include the performance of the acquired businesses, earnings per share growth and the share price of the Company.

#### 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 31 December 2013 and 2012:

##### 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 €1,189,000 decrease and €1,081,000 increase, respectively, in the value of open sports bets at 31 December 2013 (2012: decrease of €900,000 and increase of €818,000, respectively).

##### Contingent deferred consideration

The fair value of contingent deferred consideration is primarily dependent on the future performance of both the acquired businesses and the Group against predetermined targets including the performance of the acquired businesses, earnings per share growth and the share price of the Company and on management's current expectations thereof. An increase and decrease of 10% in management's expectation as to the amounts that will be paid out would increase and decrease the value of contingent deferred consideration at 31 December 2013 by €20,000 and €803,000, respectively (2012: increase and decrease of €2,954,000 and €2,963,000, respectively).

### 30. Fair values (continued)

#### Movements in the year 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 year to 31 December are as follows:

	Sports betting open positions €'000	Contingent deferred consideration €'000	Total €'000
Balance at 1 January 2012	(9,909)	(12,472)	(22,381)
Arising on acquisition (Note 16)	-	(94)	(94)
Recognised in the income statement	(641,730)	125	(641,605)
Settlements	639,644	857	640,501
Foreign currency translation adjustment	-	(213)	(213)
Balance at 31 December 2012	(11,995)	(11,797)	(23,792)
Arising on acquisition (Note 16)	-	(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 31 December 2013	(15,851)	(8,076)	(23,927)

#### *Sports betting open positions*

The amounts recognised in the income statement represent the Group's net revenue in respect of sports betting positions and other derivatives that have been included in income in the year (see Note 4). The settlements in the year are the net amounts received and receivable from customers in respect of those sports betting positions. All gains and losses have been recognised in the income statement in 2013 and 2012.

#### *Contingent deferred consideration*

The credit of €502,000 to the consolidated income statement in 2013 includes a credit of €2.6 million in respect of contingent deferred consideration relating to the purchase of the remaining 39.2% of Sportsbet Pty Limited in 2011 which is no longer due as a result of the relevant profitability targets not being achieved. This has been offset by the provision of an additional €2.1 million in respect of potential payments relating to the Online (ex Australia) acquisition in 2011. Of the total contingent deferred consideration amount of €8,076,000 (2012: €11,797,000), €3,375,000 (2012: €2,581,000) is due within one year and €4,701,000 (2012: €9,216,000) is due within the following two years (2012: due within the following three years).

### 31. Commitments and contingencies

#### *(a) Guarantees*

The Group has uncommitted working capital overdraft facilities of €15.3m (2012: €15.5m) 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 third party letter of credit facilities. The maximum amount of the guarantees at 31 December 2013 was €19,249,000 (2012: €5,629,000). No claims had been made against the guarantees as of 31 December 2013 (2012: €nil). The guarantees are secured by counter indemnities from Paddy Power plc and certain of its subsidiary companies, and, at 31 December 2013, were also secured by cash deposits totalling €18,769,000 (2012: €5,359,000) over which the guaranteeing banks hold security. The fair value accounting impact of these guarantees is deemed to be immaterial.

The Group has cash amounts totalling €35,030,000 (2012: €32,961,000) deposited in client funds 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 licences issued to Sportsbet and IAS require those companies to hold sufficient cash funds to cover monies owed to customers. At 31 December 2013, the total value of relevant customer balances attributable to the Online Australia business segment was €24,660,000 (AUD38,033,000) (2012: €25,546,000 (AUD32,474,000)) and the combined cash and cash equivalent balances held by Sportsbet and IAS at that date totalled €73,859,000 (AUD113,913,000) (2012: €64,747,000 (AUD82,307,000)).

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONTINUED)

## 31. Commitments and contingencies (continued)

### (b) Capital commitments

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

	31 December 2013 €'000	31 December 2012 €'000
Property, plant and equipment	2,359	3,342
Intangible assets	183	2,625
	<b>2,542</b>	<b>5,967</b>

### (c) Operating leases

The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases have, on average, approximately seven years left to run (if the Group was to exercise available break options), with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December 2013 and 2012, the future minimum rentals payable under non-cancellable operating leases on properties were as follows:

	31 December 2013 €'000	31 December 2012 €'000
Within one year	26,429	23,376
Between two and five years	84,564	82,371
After five years	82,496	97,804
	<b>193,489</b>	<b>203,551</b>

The Group has a small number of shop properties that are sublet. Sublease payments of €321,000 (2012: €364,000) are expected to be received during the year ended 31 December 2014.

During 2013, an amount of €25,971,000 was recognised in profit or loss in respect of operating leases (2012: €23,438,000). Contingent rent expense in profit or loss amounted to a credit of €516,000 (2012: credit of €247,000). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to €394,000 in 2013 (2012: €438,000).

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

## 32. Related parties

The principal related party transactions requiring disclosure under IAS 24 Related Party Transactions relate to the existence of subsidiaries and transactions with these entities entered into by the Group and the identification and compensation of key management personnel.

### Subsidiaries

The consolidated financial statements include the financial statements of the Company and its subsidiaries. A listing of the subsidiaries is provided in Note 33. Transactions to and from subsidiaries have been eliminated in the preparation of the consolidated financial statements.

### Key management personnel compensation

Key management personnel compensation is set out in Note 7.

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

### 33. Group entities

The Company had the following 100 % subsidiary undertakings carrying on businesses which materially affect the profits and assets of the Group at 31 December 2013:

Name	Equity interest at 31 December 2013	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited*	100%	England	Bookmaker	OneustonSq, 40 Melton Street, London, NW1 2FD.
Paddy Power Isle of Man Limited	100%	Isle of Man	Bookmaker	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.
Paddy Power Online Limited	100%	Isle of Man	Bookmaker	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.
D McGranaghan Limited	100%	Northern Ireland	Bookmaker	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU.
Sportsbet Pty Limited	100%	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820.
International All Sports Limited	100%	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820.
CT Networks Limited	100%	Isle of Man	Games developer	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.
Paddy Power Financials Limited*	100%	Ireland	Marketing services	Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4.
Paddy Power Luxembourg s.à.r.l.*	100%	Luxembourg	Treasury services	16 Avenue Pasteur, L-2310, Luxembourg.
Paddy Power Australia Pty Limited	100%	Australia	Holding company	Level 3, 367 Collins Street, Melbourne, Victoria 3000.
Paddy Power Holdings Limited*	100%	Isle of Man	Holding company	1st Floor, 12-14 Ridgeway Street, Douglas, Isle of Man, IM1 1EN.

\*These companies are held directly by Paddy Power plc

The above subsidiary undertakings had the same year end date as the Company in 2013 and 2012. All subsidiary undertakings have been included in the Group consolidated financial statements.

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

### 34. Events after the reporting date

#### Dividend

In respect of the current year, the directors propose that a final dividend of 90.0 cent per share (2012: 81.0 cent per share) will be paid to shareholders on 23 May 2014. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 14 March 2014. The total estimated dividend to be paid amounts to €44,325,000 (2012: €39,803,000).

### 35. Accounting estimates and judgements

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

Goodwill of €92,554,000 (2012: €96,582,000) and indefinite life intangible assets of €32,544,000 (2012: €35,321,000) continues to be carried in the Group consolidated statement of financial position as the directors believe that there has been no impairment in the fair value of the net identifiable assets of the acquired businesses with the exception of the IAS brand intangible described more fully in Note 14. The key assumptions made in respect of goodwill and indefinite life intangible assets are set out in Note 14.

The share-based payment reserve, which includes amounts in relation to the LTIP and various share option schemes, amounted to €31,113,000 at 31 December 2013 (2012: €22,792,000). The significant assumptions made in accounting for share-based payments are set out in Note 22.

The fair value of the Group's sports betting open positions amounted to €15,851,000 at 31 December 2013 (2012: €11,995,000) and the Group considers such arrangements to be derivatives. The Group performs a revaluation of sports betting open positions at each reporting date. The revaluation takes into account the expected probability of such open positions resulting in a gain or loss to the Group in the future, and is dependent on factors that cannot always be reliably predicted.

Included in trade and other payables at 31 December 2013 are contingent deferred consideration amounts of €8,076,000 (2012: €11,797,000) relating to certain business combinations and the purchase of non-controlling interest. Contingent deferred consideration is payable to vendors by reference to the acquired businesses' performance against various agreed targets including the performance of the acquired businesses, earnings per share growth and the share price of the Company. The contingent deferred consideration amount of €8,076,000 at 31 December 2013 represents management's best estimate of the fair value of the amounts that will be payable.

# COMPANY BALANCE SHEET

AS AT 31 DECEMBER 2013

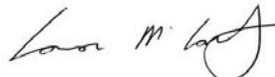
	Note	31 December 2013 €'000	31 December 2012 €'000
<b>Fixed assets</b>			
Intangible assets	3	86	119
Goodwill	4	7,786	5,800
Tangible assets	6	34,822	34,312
Financial assets	7	54,412	42,653
		<b>97,106</b>	<b>82,884</b>
<b>Current assets</b>			
Trade and other receivables	8	612,828	602,951
Derivative financial assets	9	-	375
Cash at bank and on hand	10	68,758	50,349
		<b>681,586</b>	<b>653,675</b>
<b>Creditors (amounts falling due within one year)</b>	11	<b>(438,129)</b>	<b>(328,907)</b>
<b>Net current assets</b>		<b>243,457</b>	<b>324,768</b>
<b>Total assets less current liabilities</b>		<b>340,563</b>	<b>407,652</b>
<b>Creditors (amounts falling due after more than one year)</b>	12	<b>(968)</b>	<b>(4,959)</b>
<b>Provision for liabilities</b>	13	<b>-</b>	<b>-</b>
<b>Net assets</b>		<b>339,595</b>	<b>402,693</b>
<b>Capital and reserves</b>			
Issued share capital	14	5,098	5,085
Share premium	14	41,646	40,038
Capital redemption reserve fund	14	876	876
Capital conversion reserve fund	14	260	260
Treasury shares	14	(5,975)	(5,975)
Shares held by long term incentive plan trust	14	(71,736)	(56,191)
Share-based payment reserve	14	31,113	22,792
Profit and loss account	14	338,313	395,808
<b>Shareholders' funds – all equity interests</b>	14	<b>339,595</b>	<b>402,693</b>

Notes 1 to 19 on pages 109 to 118 form an integral part of these financial statements.

On behalf of the Board



Patrick Kennedy



Cormac McCarthy

3 March 2014

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## 1. Basis of preparation and accounting policies

The financial statements have been prepared in euro in accordance with generally accepted accounting principles under the historical cost convention and comply with the financial reporting standards of the Financial Reporting Council, as promulgated by the Institute of Chartered Accountants in Ireland. The accounting policies have been applied consistently throughout the year and the preceding year.

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €3.5m (2012: €76.6m), which includes dividends receivable from subsidiary companies amounting to €42.0m (2012: €76.3m).

### Financial assets

Interests in subsidiary undertakings are stated in the Company balance sheet as financial fixed assets, at cost less, where necessary, provisions for impairment.

Included within financial fixed assets are capital contributions representing share-based payment awards made to employees of certain of the Company's subsidiaries.

### Tangible assets and depreciation

Tangible assets are stated at historical cost less accumulated depreciation. Depreciation is calculated so as to write off the cost less estimated residual value of tangible assets on a straight line basis over their estimated useful lives, as follows:

Land	Not depreciated
Buildings: Freehold	50 years
Buildings: Leasehold improvements	Unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 – 7 years
Computer equipment	3 years
Computer software	3 – 5 years
Motor vehicles	5 years

The residual value, if not insignificant, is reassessed annually.

### Goodwill

Goodwill arising on the acquisition of a subsidiary or business, representing the excess of cost over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised by equal annual instalments against profit over its expected useful life, currently 20 years. Provision is made for any impairment in the value of goodwill held.

### Intangible assets

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

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business and licences for electronic point of sale ('EPOS') system software.

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

Licences – shop licences and EPOS software licences	5 years
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### Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

### Pensions

The Company operates a number of defined contribution pension schemes for certain employees. Contributions are charged to the profit and loss account as incurred.

### Foreign currency

Transactions denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date. The resulting profits and losses are dealt with in the profit and loss account.

### Financial instruments

Under the provisions of FRS 26, 'Financial Instruments: Recognition and Measurement', the Company has measured financial instruments which are used to hedge the foreign currency cash flows of subsidiary companies at fair value with changes in the fair value recognised in the profit and loss account.

### Taxation

Current tax, including Irish corporation tax and foreign tax, is provided on the Company's taxable profits at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 1. Basis of preparation and accounting policies (continued)

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

### Cash flow statement

Under the provisions of FRS 1, 'Cash Flow Statements', a cash flow statement has not been prepared as the Company itself publishes consolidated financial statements that include a cash flow statement in the required format.

### Related party transactions

Under the exemption granted by FRS 8, 'Related Party Disclosures', the Company, as a member of a group which publishes consolidated financial statements in which the Company is included, is not required to and does not disclose transactions with fellow members, associated undertakings and joint ventures of that group.

### Financial assets and liabilities

The company is exempt from the disclosure requirements of FRS 29, 'Financial Instruments: Disclosures', in its single entity financial statements.

### Share-based payments

The Company operates equity-settled long term incentive plans for selected senior Group executives and other key Group management under which they are conditionally awarded shares which vest upon the achievement of predetermined earnings targets. The fair value is measured at the award grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

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

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

### Own shares held

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

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

### Dividends

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

## 2. Employee expenses and numbers

	2013 €'000	2012 €'000
Wages and salaries	31,596	28,693
Social security costs	3,169	2,551
Defined contribution pension and life assurance costs	538	472
Share-based payments (see below)	5,380	3,604
Other staff costs	1,453	1,251
	<b>42,136</b>	<b>36,571</b>

## 2. Employee expenses and numbers (continued)

	2013	2012
The average number of persons employed by the Company (including executive directors), all of whom were involved in the provision of betting services, during the year was	<b>1,065</b>	964

Details of transactions with directors are set out in Note 7 to the consolidated financial statements.

### Summary of share-based payments expense

The share-based payments expense in the profit and loss account in respect of the Company's share schemes is comprised as follows:

	2013 €'000	2012 €'000
Sharesave Scheme	<b>327</b>	284
Long Term Incentive Plan	<b>5,053</b>	3,320
	<b>5,380</b>	3,604

### Summary of options outstanding to employees of the Company

The total number of options outstanding at 31 December 2013 was 98,614 (2012: 133,792). These options had exercise prices ranging from €9.45 to €45.52 (2012: €9.45 to €41.36).

#### For the year ended 31 December 2013:

	Options outstanding at 1 January 2013	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2013
Sharesave Scheme	<b>133,792</b>	<b>26,292</b>	<b>(3,235)</b>	<b>(58,235)</b>	<b>98,614</b>
Total	<b>133,792</b>	<b>26,292</b>	<b>(3,235)</b>	<b>(58,235)</b>	<b>98,614</b>

#### For the year ended 31 December 2012:

	Options outstanding at 1 January 2012	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2012
Share Option Scheme	4,000	-	-	(4,000)	-
Sharesave Scheme	145,635	27,757	(3,577)	(36,023)	133,792
Total	149,635	27,757	(3,577)	(40,023)	133,792

### Summary of share awards outstanding under the Long Term Incentive Plan

The total number of share awards outstanding to Company employees at 31 December 2013 was 373,509 (2012: 452,500). The movements in share awards during the years ended 31 December 2013 and 2012 (excluding related dividends awarded as shares) were as follows:

#### For the year ended 31 December 2013:

	Share awards outstanding at 1 January 2013	Share awards granted during year	Share awards lapsed during year	Share awards vested during year	Share awards outstanding at 31 December 2013
2004 LTIP scheme	<b>452,500</b>	-	<b>(35,000)</b>	<b>(125,000)</b>	<b>292,500</b>
2013 LTIP scheme	-	<b>95,726</b>	<b>(14,717)</b>	-	<b>81,009</b>
Total	<b>452,500</b>	<b>95,726</b>	<b>(49,717)</b>	<b>(125,000)</b>	<b>373,509</b>

#### For the year ended 31 December 2012:

	Share awards outstanding at 1 January 2012	Share awards granted during year	Share awards lapsed during year	Share awards vested during year	Share awards outstanding at 31 December 2012
2004 LTIP scheme	403,000	192,500	-	(143,000)	452,500
Total	403,000	192,500	-	(143,000)	452,500

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 3. Intangible assets

The movements during the year in respect of intangible assets, which comprise licences, were as follows:

	Licences €'000
<b>Cost</b>	
Balance at 1 January 2013 and 31 December 2013	1,534
<b>Amortisation</b>	
Balance at 1 January 2013	1,415
Amortisation for year	<b>33</b>
Balance at 31 December 2013	<b>1,448</b>
<b>Net book value</b>	
At 31 December 2012	119
At 31 December 2013	<b>86</b>

## 4. Goodwill

	€'000
<b>Cost</b>	
Balance at 1 January 2013	9,849
Additions (Note 5)	<b>2,554</b>
Balance at 31 December 2013	<b>12,403</b>
<b>Amortisation</b>	
Balance at 1 January 2013	4,049
Amortisation for year	<b>568</b>
Balance at 31 December 2013	<b>4,617</b>
<b>Net book value</b>	
At 31 December 2012	5,800
At 31 December 2013	<b>7,786</b>

The goodwill balance as of 1 January 2013 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, the acquisition of eight licensed bookmaking shops (through three separate acquisitions) in Ireland in 2007, the acquisition of one licensed bookmaking shop in 2009, the acquisition of two licensed bookmaking shops in 2010 and one licenced booking making shop in 2012.

Additional goodwill in 2013 arose on the acquisition of seven licenced bookmaking shops in Ireland (through three separate acquisitions).

## 5. Purchases and transfers of businesses

### Year ended 31 December 2013

#### Business combinations

In 2013, the Company, in the absence of available comparable sites for organic shop openings, acquired seven licensed bookmaking shops in Ireland. Goodwill arising on the acquisition amounted to €2,554,000. The principal factors contributing to the Irish Retail goodwill balance are the well-established nature of the acquired shops within the location in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired shops within the Paddy Power group.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired business in respect of the period from acquisition and for the year ended 31 December 2013 has not been presented on the basis of immateriality.

### Year ended 31 December 2012

#### Business combinations

In 2012, the Company, in the absence of available comparable sites for organic shop openings, acquired one retail licensed bookmaking business in Ireland. Goodwill arising on the acquisition amounted to €125,000. The principal factors contributing to the Irish Retail goodwill balance are the well-established nature of the acquired business within the location in which it operates and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired business within the Paddy Power group.

## 5. Purchases and transfers of businesses (continued)

Information in respect of amounts staked, income, operating profit and cash flows for the acquired business in respect of the period from acquisition and for the year ended 31 December 2012 has not been presented on the basis of immateriality.

### *Transfer of the Company's interests in certain wholly-owned subsidiaries to Paddy Power Holdings Limited*

In 2012, as a result of an internal restructuring of certain of the Paddy Power plc group's non-Irish operations, the Company transferred its interests in a number of its wholly-owned subsidiaries to another wholly-owned subsidiary, Paddy Power Holdings Limited. The transfers were made at cost. The Company also transferred its interests in the redeemable preference share capital of Paddy Power Australia Pty Limited to Paddy Power Holdings Limited at cost.

## 6. Tangible assets

	Land, buildings & leasehold improvements €'000	Fixtures, fittings & equipment €'000	Computer equipment €'000	Computer software €'000	Motor vehicles €'000	Total €'000
<b>Cost</b>						
Balance at 1 January 2013	37,226	59,023	6,015	3,454	118	105,836
Additions (including business combinations)	<b>1,654</b>	<b>3,907</b>	<b>718</b>	<b>102</b>	-	<b>6,381</b>
Disposals	(96)	(276)	(5)	-	-	(377)
Balance at 31 December 2013	<b>38,784</b>	<b>62,654</b>	<b>6,728</b>	<b>3,556</b>	<b>118</b>	<b>111,840</b>
<b>Depreciation</b>						
Balance at 1 January 2013	18,226	46,005	4,653	2,630	10	71,524
Charge for year	<b>1,275</b>	<b>3,642</b>	<b>505</b>	<b>340</b>	<b>24</b>	<b>5,786</b>
Disposals	(45)	(243)	(4)	-	-	(292)
Balance at 31 December 2013	<b>19,456</b>	<b>49,404</b>	<b>5,154</b>	<b>2,970</b>	<b>34</b>	<b>77,018</b>
<b>Net book value</b>						
At 31 December 2012	19,000	13,018	1,362	824	108	34,312
At 31 December 2013	<b>19,328</b>	<b>13,250</b>	<b>1,574</b>	<b>586</b>	<b>84</b>	<b>34,822</b>

The net book value of land, buildings and leasehold improvements at 31 December 2013 includes €15.2m (2012: €15.2m) in respect of leasehold improvements.

The directors do not consider the remaining useful lives of tangible fixed assets to be materially different from the period over which the assets are being depreciated.

## 7. Financial assets

	Unlisted investments in subsidiary companies €'000	Capital contributions €'000	Total €'000
Balance at 1 January 2013		42,340	42,653
Share-based payments	-	<b>11,759</b>	<b>11,759</b>
Balance at 31 December 2013	<b>313</b>	<b>54,099</b>	<b>54,412</b>

In the opinion of the directors, the value to the Company of the unlisted investments in and capital contributions to subsidiary companies at 31 December 2013 is not less than the carrying amount of €54,412,000 (2012: €42,653,000). The Company's principal subsidiaries are listed in Note 33 to the consolidated financial statements.

Capital contributions represent amounts included in the Company's share-based payment reserve relating to share-based payment awards made to employees of certain of the Company's subsidiary undertakings.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 8. Trade and other receivables

	31 December 2013 €'000	31 December 2012 €'000
Other debtors and prepayments	4,680	3,516
Amounts owed by fellow Group companies	479,562	443,022
Loan receivable from Paddy Power Australia	128,044	155,352
Corporation tax receivable	-	687
Deferred tax (Note 13)	542	374
	<b>612,828</b>	<b>602,951</b>

All of the above debtors, with the exception of the loan receivable from Paddy Power Australia, fall due within one year. Amounts owed by fellow Group companies are unsecured, interest free and repayable on demand.

## 9. Derivative financial assets

	31 December 2013 €'000	31 December 2012 €'000
<b>Current</b>		
Forward contracts – cash flow hedges (see Note 11)	-	375
	-	375

Gains and losses at 31 December 2012 on foreign exchange forward contracts designated as financial instruments under FRS 26, 'Financial Instruments: Recognition and Measurement', have been recognised in the profit and loss account.

## 10. Cash at bank and on hand

At 31 December 2013 the company held restricted cash balances of €17,893,000. No cash balances were restricted at 31 December 2012.

## 11. Creditors (amounts falling due within one year)

	31 December 2013 €'000	31 December 2012 €'000
Trade creditors	4,263	2,986
Accruals	11,178	9,834
PAYE and social welfare	1,224	1,040
Betting duty	2,403	2,218
Sports betting open positions	1,510	1,399
Derivative financial liabilities - forward contracts - cash flow hedges (Note 9)	1,467	-
Value added tax	209	563
Contingent deferred consideration for business combinations	250	-
Amounts owed to fellow Group companies	415,625	310,867
	<b>438,129</b>	<b>328,907</b>

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

Gains and losses at 31 December 2013 on foreign exchange forward contracts designated as financial instruments under FRS 26, 'Financial Instruments: Recognition and Measurement', have been recognised in the profit and loss account.

## 12. Creditors (amounts falling due after more than one year)

	31 December 2013 €'000	31 December 2012 €'000
Accruals	968	1,742
Contingent deferred consideration for business combinations	-	3,217
	<b>968</b>	<b>4,959</b>

As a result of the relevant profitability targets not being achieved, the contingent deferred consideration payable relating to the purchase of the remaining 39.2% of Sportsbet Pty Limited in 2011 is not due as at 31 December 2013 (2012: €3,217,000).

## 13. Provision for liabilities

	2013 €'000	2012 €'000
<b>Deferred tax</b>		
<b>Cost</b>		
Balance at 1 January	(374)	(593)
(Credited) / charged to the profit and loss account for year	(216)	230
Charged / (credited) to retained earnings in respect of share-based payments	48	(11)
Balance at 31 December	<b>(542)</b>	<b>(374)</b>

Deferred tax at 31 December 2013 and 2012 is analysed by category as follows:

	31 December 2013 €'000	31 December 2012 €'000
Capital allowances	278	117
Employee benefits	(25)	(4)
Share schemes	(795)	(557)
Capitalised rents	(12)	13
Other	12	57
Deferred tax asset	<b>(542)</b>	<b>(374)</b>

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

## 14. Capital and reserves

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Capital redemption reserve fund €'000	Capital conversion reserve fund €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2013	50,850,848	5,085	40,038	876	260	(5,975)	(56,191)	22,792	395,808	402,693
Shares issued on exercise of share options	<b>126,237</b>	<b>13</b>	<b>1,608</b>	-	-	-	-	-	-	<b>1,621</b>
<i>Own shares acquired:</i>										
By the long term incentive plan trust – 380,000 ordinary shares	-	-	-	-	-	-	(24,220)	-	-	(24,220)
Profit for the year	-	-	-	-	-	-	-	-	3,515	3,515
Equity-settled transactions – profit and loss account and financial assets	-	-	-	-	-	-	-	17,671	(48)	17,623
Equity-settled transactions – vestings	-	-	-	-	-	-	8,675	(8,651)	246	270
Transfer to profit and loss account on exercise of share options	-	-	-	-	-	-	-	(699)	699	-
Dividends to shareholders (Note 15)	-	-	-	-	-	-	-	-	(61,907)	(61,907)
Balance at 31 December 2013	<b>50,977,085</b>	<b>5,098</b>	<b>41,646</b>	<b>876</b>	<b>260</b>	<b>(5,975)</b>	<b>(71,736)</b>	<b>31,113</b>	<b>338,313</b>	<b>339,595</b>

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 14. Capital and reserves (continued)

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2012: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

During 2013, 126,237 ordinary shares of €0.10 each (2012: 125,827 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for a total consideration of €1,621,000 (2012: €2,225,000), giving rise to a share premium of €1,608,000 (2012: €2,212,000).

The total number of shares held in treasury at 31 December 2013 was 250,000 shares (2012: 250,000 shares). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Company's distributable reserves are restricted by the value of the treasury shares, which amounted to €5,975,000 as of 31 December 2013 (2012: €5,975,000).

At 31 December 2013, the Company held a further 1,302,378 of its own shares (2012: 1,270,442), which were acquired at a total cost of €71,736,000 (2012: €56,191,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan (see Note 22 to the consolidated financial statements). The Company's distributable reserves at 31 December 2013 are further restricted by this cost amount. In the year ended 31 December 2013, 348,064 shares originally valued at €8,675,000 were transferred from the long term incentive plan trust ('the Trust') to beneficiaries of the Trust consequent to the vesting thereof (2012: 535,435 shares originally valued at €13,487,000).

The capital redemption reserve fund of €876,000 (2012: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2012: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In 2013, an amount of €699,000 (2012: €659,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to the profit and loss account. An amount of €48,000 of deferred tax relating to the Company's share-based payments was charged to retained earnings in 2013 (2012: credit of €11,000) – see also Note 13.

## 15. Dividends paid on equity shares

	2013 €'000	2012 €'000
Ordinary shares:		
- final paid of 81.0 cent per share (2012: 70.0 cent)	<b>39,803</b>	34,355
- interim paid of 45.0 cent per share (2012: 39.0 cent)	<b>22,104</b>	19,122
	<b>61,907</b>	53,477
Proposed final dividend of 90.0 cent (2012: 81.0 cent) per share (see Note 21)	<b>44,325</b>	39,803

## 16. Pension arrangements

The Company operates defined contribution pension schemes for certain employees. The assets of the schemes are held separately from those of the Company in independently administered funds.

Pension costs for the year were €456,000 (2012: €382,000) and the amount due to the schemes at 31 December 2013 amounted to €67,000 (2012: €37,000).

## 17. Commitments and contingencies

### (a) Guarantees

The Company has uncommitted working capital overdraft facilities of €7.8m (2012: €7.9m) with Allied Irish Banks p.l.c. These facilities are unsecured.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company has issued a letter of guarantee totalling €7.5m (2012: €7.6m) in favour of Allied Irish Banks p.l.c. in respect of working capital overdraft facilities provided to certain of the Company's subsidiaries.

The Paddy Power plc group has had bank guarantees primarily in favour of certain gaming regulatory authorities to guarantee the payment of player funds, player prizes, and certain taxes and fees due by a number of Group companies. The maximum amount of the guarantees for the Company at 31 December 2013 was €nil (2012: €4,000,000). No claims had been made against the guarantees as of 31 December 2013 (2012: €nil). The guarantees are secured by counter indemnities from the Company and certain of its subsidiary companies.

### (b) Section 17 guarantees

Pursuant to the provisions of Section 17 of the Companies (Amendment) Act 1986, the Company has guaranteed the liabilities of its wholly-owned subsidiary undertakings in the Republic of Ireland for the financial year ended 31 December 2013 and, as a result, such subsidiary undertakings have been exempted from the filing provisions of Section 7 of the Companies (Amendment) Act 1986.

### (c) Capital commitments

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

	31 December 2013 €'000	31 December 2012 €'000
Property, plant and equipment	206	-
Intangible assets	74	-
	<b>280</b>	-

### (d) Operating lease commitments

The Company has annual commitments of €9,851,000 (2012: €9,390,000) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2013 €'000	31 December 2012 €'000
Within one year	1,373	743
Between two and five years	2,488	1,750
After five years	5,990	6,897
	<b>9,851</b>	9,390

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

(CONTINUED)

## 18. Statutory information

	2013 €'000	2012 €'000
Directors' remuneration	5,542	5,641
Auditor's remuneration	150	145

The auditor's remuneration of €150,000 (2012: €145,000) comprises €20,000 (2012: €20,000) for the audit of the Company and €130,000 (2012: €125,000) in respect of fees incurred by the Company in relation to the Group financial statements audit.

### Auditor remuneration to Company external auditors (KPMG Ireland)

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

	2013 €'000	2012 €'000
Audit	20	20
Other assurance services	163	161
Tax advisory services	8	36
Total	191	217

Other assurance services includes €130,000 (2012: €125,000) in respect of fees incurred by the Company for the audit of the Group financial statements, €15,000 (2012: €15,000) in respect of fees relating to the audit of subsidiary companies which have been borne by the Company and fees for other miscellaneous assurance work of €18,000 (2012: €21,000).

## 19. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2013 were approved for issue by the Board of Directors on 3 March 2014.

## FIVE YEAR FINANCIAL SUMMARY

Financial information for the Group reported under IFRS for the five years ended 31 December 2013 is set out below in euro and pounds sterling.

	2013 €'000	2012 €'000	2011 €'000	2010 €'000	2009 €'000
Amounts staked by customers	<b>6,179,971</b>	5,694,496	4,554,919	3,834,316	2,751,537
Income	<b>745,195</b>	653,750	499,330	426,698	295,928
Operating profit (before exceptional items)	<b>137,386</b>	136,000	119,546	103,749	66,694
Profit before tax	<b>141,030</b>	139,155	143,379	111,300	67,192
Profit for the year – attributable to equity holders of the Company	<b>123,184</b>	120,999	121,488	90,005	56,946
Net cash inflow from operating activities	<b>182,886</b>	212,902	161,278	160,245	85,420
Total equity – attributable to equity holders of the Company	<b>311,002</b>	277,656	230,386	228,439	157,563

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

	2013 GBP'000	2012 GBP'000	2011 GBP'000	2010 GBP'000	2009 GBP'000
Amounts staked by customers	<b>5,248,383</b>	4,617,499	3,953,123	3,289,846	2,451,757
Income	<b>632,862</b>	530,107	433,359	366,107	263,687
Operating profit (before exceptional items)	<b>116,676</b>	110,278	103,752	89,017	59,428
Profit before tax	<b>119,771</b>	112,837	124,436	95,495	59,871
Profit for the year – attributable to equity holders of the Company	<b>104,615</b>	98,115	105,437	77,224	50,742
Net cash inflow from operating activities	<b>155,317</b>	172,636	139,970	137,490	76,113
Total equity – attributable to equity holders of the Company	<b>264,121</b>	225,143	199,953	196,001	140,393
Average annual exchange rates used are	<b>1.1775</b>	1.2332	1.1522	1.1655	1.1223

# ADDITIONAL INFORMATION FOR SHAREHOLDERS

## Listings

Paddy Power plc is an Irish registered company. Its ordinary shares are quoted on the Irish Stock Exchange and the London Stock Exchange.

## Registrar

Enquiries concerning shareholdings should be addressed to the Company's Registrar:

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

Telephone: +353-1-447 5105

Facsimile: +353-1-216 3151

Website: [www.computershare.com](http://www.computershare.com)

## Payment of dividends direct to a bank account

Dividends are paid by cheque; however shareholders resident in Ireland or in the UK may have their dividends paid by electronic transfer direct to a designated bank account. Shareholders who wish to avail of this facility should contact the Company's Registrar (see above).

## Payment of dividends in euro

Dividend payments are made in euro by default. However, shareholders wishing to opt for payments in pounds sterling either by cheque or direct to their bank account may do so by contacting the Registrar (see details above).

## CREST

Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

## Dividend Withholding Tax ('DWT')

Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from:

DWT Unit, Collector General's Division, Government Offices,

Nenagh, Co. Tipperary, Ireland.

Telephone: +353-67-63400

Facsimile: +353-67-33822

E-mail: [infodwt@revenue.ie](mailto:infodwt@revenue.ie)

Website: [www.revenue.ie/en/tax/dwt/](http://www.revenue.ie/en/tax/dwt/)

## General

With certain exceptions, dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, which is currently 20%. DWT, where applicable, is deducted by the Company from all dividends. The following summarises the position in respect of different categories of shareholder:

### A. Irish resident shareholders

#### Individuals

Individuals resident in the Republic of Ireland for tax purposes are liable to DWT in respect of dividends received. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT may be available for offset against their income tax liability; where the DWT exceeds such liability, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the excess.

#### Shareholders not liable for DWT

Shareholders who receive a dividend in a beneficial capacity can, in certain circumstances, be exempted from DWT. Provided the shareholder furnishes a properly completed declaration on a standard form to the Company's Registrar, and not less than three working days prior to the relevant dividend payment record date, the following classes of shareholders may receive their dividends gross:

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Collective Investment Undertakings;
- Qualifying unit trusts;
- Charities exempt from income tax on their income;
- Athletic/ amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ('SPIA');
- Qualifying fund managers of Approved Retirement Funds or an Approved Minimum Retirement Fund;
- Qualifying savings managers of Special Savings Incentive Accounts;
- A PRSA administrator; and
- Persons exempt from tax on income from personal injury claims.

Copies of the relevant declaration form may be obtained from the Company's Registrar or from the Revenue Commissioners at their addresses shown on page 120. Once lodged with the Company's Registrar, the declaration form remains valid until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to shareholders not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown on page 120, for a refund of the DWT so deducted.

#### Qualifying intermediaries

Dividends received by qualifying intermediaries on behalf of a shareholder who is exempt from DWT may be received without deduction of DWT. A 'qualifying intermediary' is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory\*, and:

- holds a licence under the Central Bank Act 1971, or a similar authorisation under the law of a relevant territory, or is owned by a company which holds such a licence; or
- is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
- otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary; and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

\* A 'relevant territory' means:

- (i) a member state of the European Communities (other than the Republic of Ireland); or
- (ii) a country with which the Republic of Ireland has concluded a double taxation agreement which is currently in force; or
- (iii) a country with which the Republic of Ireland has concluded a double taxation agreement where that agreement has yet to come into force.

Information concerning conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown on page 120. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company's Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT. A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown on page 120.

#### B. Non Irish-resident shareholders

Persons not resident in the Republic of Ireland are liable to DWT in respect of dividends received. The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:

- (a) an individual who is neither resident nor ordinarily resident for the purpose of tax in the Republic of Ireland and who is resident for tax purposes in a relevant territory;
- (b) an unincorporated entity which is not resident in the Republic of Ireland and is resident for tax purposes in a relevant territory;
- (c) a company which is not resident in the Republic of Ireland and is resident in a relevant territory (by virtue of the law of that relevant territory) and which is not under the control, whether directly or indirectly, of a person or persons who is/ are resident for the purpose of tax in Ireland;
- (d) a company which is not resident in the Republic of Ireland and is under the control, whether directly or indirectly, of a person or persons who is/ are resident for the purposes of tax in a relevant territory and who are not under the control, whether directly or indirectly, of a person or persons who is/ are not so resident; or
- (e) a company not resident in the Republic of Ireland, the principal class of the shares of which,
  - (i) where the company is a 75 per cent subsidiary of another company, of that other company, or
  - (ii) where the company is wholly-owned by two or more companies, of each of those companies,is substantially and regularly traded on one or more than one recognised stock exchange in a relevant territory or on such other stock exchange as may be approved of by the Minister for Finance.

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form available from the Irish Revenue Commissioners and from the Company's Registrar, to the Company's Registrar not less than three working days in advance of the relevant dividend payment record date, accompanied by, where relevant:

- Categories (a) and (b): The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary and a notice in writing from the Irish Revenue Commissioners stating that the Irish Revenue Commissioners have noted the contents of the certificate. However, it is important to note where trusts are concerned that only non-resident discretionary trusts, which are resident in a relevant territory, can obtain an exemption from DWT. In that circumstance, the trustee of the discretionary trust may make the declaration. The individual beneficiaries of a non-resident bare trust, where the beneficiaries are resident in a relevant territory, may obtain an exemption from DWT where:
  - the trustees of the trust have been authorised by the Revenue Commissioners to act as a Qualifying Intermediary, and
  - where an exemption declaration has been made to the Qualifying Intermediary by the beneficiaries.
- Category (c): The declaration declares that the claimant company is beneficially entitled to the distribution and must state the name and address of the relevant company and the name of the relevant territory in which the company is resident.
- Category (d): The declaration declares that the claimant company is beneficially entitled to the distribution and must state the name and address of the relevant company, the name of the relevant territory in which the company is resident and the name of the relevant territory or names of the relevant territories in which the person or persons who control the company is or are resident.
- Category (e): The declaration declares that the claimant company is beneficially entitled to the distribution and must state the name and address of the relevant company, the name of the relevant territory in which the company is resident and the name and address of the recognised stock exchange on which the principal class of shares in the company (or (i) where the company is a 75 per cent subsidiary of another company, of that other company, or (ii) where the company is wholly-owned by two or more companies, of each of those companies), is substantially and regularly traded.

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

Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without declaration of DWT - see 'Qualifying intermediaries' under 'A. Irish resident shareholders' on page 121.

# ADDITIONAL INFORMATION FOR SHAREHOLDERS

(CONTINUED)

## C. Dividend statements

Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

## Financial calendar

Announcement of final results for 2013	4 March 2014
Ex-dividend date	12 March 2014
Record date for dividend	14 March 2014
Annual General Meeting	13 May 2014
Dividend payment date	23 May 2014

# LETTER TO SHAREHOLDERS

*This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser being, in the case of shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations (Nos. 1 to 3) 2007 or the Investment Intermediaries Act 1995 (as amended), or, in the case of shareholders in the United Kingdom, a firm authorised under the Financial Services and Markets Act 2000.*

*If you have sold or transferred all of your registered holding(s) of ordinary shares in the Company, please forward this document and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through or by whom the sale or transfer was effected, for delivery to the purchaser or transferee.*

## To all shareholders

I am writing to you to outline the background to the resolutions to be proposed at the forthcoming Annual General Meeting ('AGM') of Paddy Power plc (the 'Company'), all of which are recommended by the Board for approval. Your attention is drawn to the notice of the AGM of the Company, to be held at The Shelbourne Hotel, 27 St Stephen's Green, Dublin 2 at 11.00 am on Tuesday, 13 May 2014. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the appointment and reappointment of directors, the Auditors' remuneration and allowing for the convening of an Extraordinary General Meeting on 14 days' notice, there are various items of special business which are described further below.

Resolution 3 is to receive and consider the Remuneration Committee Report on directors' remuneration as set out on pages 53 to 55 of the 2013 Annual Report. There is no legal obligation on the Company to put such a resolution to shareholders, so it is an advisory resolution and is not binding on the Company.

Resolutions 4 and 5 of the ordinary business propose the appointment of Michael Cawley, and the reappointment of the remaining members of the Board who, in accordance with the recommendation of the UK Corporate Governance Code, offer themselves for re-election. Michael Cawley was appointed by the directors since the last Annual General Meeting and, in accordance with the Articles of Association of the Company, retires at the AGM and puts himself forward for election by the shareholders. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the appointment/ reappointment of each of the directors seeking election/ re-election. Biographical information on the directors is given on pages 34 and 35 of the Annual Report.

Shareholders are being asked in resolution 7 to maintain the existing authority in the Articles of Association which permits the Company to convene an Extraordinary General Meeting on 14 days' notice in writing where the purpose of the meeting is to consider an ordinary resolution. As a matter of policy, the 14 day notice will only be utilised where the directors believe that it is merited by the business of the meeting and the circumstances surrounding the business.

Shareholders are being asked in resolution 8 to renew the directors' authority to allot shares, up to an aggregate nominal value of €1,700,077, representing approximately one third of the issued capital of the Company as at 26 March 2014. If renewed, this authority will expire on the date of the next AGM of the Company or 12 November 2015, whichever is earlier. The Board has no immediate intention to exercise this authority.

Shareholders are being asked in resolution 9 to renew the directors' authority to allot shares for cash without being required to offer them first to shareholders. In line with best practice, this authority is limited to an allotment of shares up to five per cent of the issued ordinary share capital of the Company at the date of the resolution (currently equal to 2.55m shares). If renewed, this authority will expire on the date of the next AGM of the Company or 12 November 2015, whichever is earlier.

Shareholders are being asked in resolution 10 to renew the authority to empower the Company, or any subsidiary, to make market purchases of the Company's shares. No more than ten per cent of the issued share capital of the Company may be acquired under this authority. The price range at which shares may be acquired cannot be less than the nominal value of the Company's shares and cannot be greater than 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or re-issue.

The total number of options to subscribe for shares in the Company on 26 March 2014 is 332,154 and represents 0.67% of the total voting rights of the Company (excluding treasury shares) on that date. This percentage would increase to 0.75% if the full authority to buy shares is used. The authority sought will expire on the date of the next AGM of the Company or 12 November 2015, whichever is earlier. The Board will only exercise the power to purchase shares in the future at price levels at which it considers purchases to be in the best interests of the shareholders generally after taking account of the Group's overall financial position.

Shareholders are being asked in resolution 11 to pass a resolution authorising the Company to re-issue shares purchased by it and not cancelled as treasury shares off market within a price range, which shall not be less than 95% nor more than 120% of the average price of the Company's shares over the ten dealing days prior to the date of re-issue by the Company. The authority sought will expire on the date of the next AGM of the Company or 12 November 2015, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990. The total number of treasury shares held by the Company on 26 March 2014 is 1,734,000, which represents 3.52% of the total ordinary share capital of the Company (excluding treasury shares) in issue on that date.

# LETTER TO SHAREHOLDERS

(CONTINUED)

## Action to be taken

A Form of Proxy for use at the AGM is enclosed with this Annual Report. The Form of Proxy will be valid if lodged at the registered office of the Company or with the Company's Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, by no later than 11.00am on 11 May 2014. Alternatively you may wish to submit your votes via the internet and instructions on how to do so are shown on the form. All proxy forms must be lodged no later than 48 hours before the time appointed for the meeting. The completion and lodging of the Form of Proxy will not prevent you from attending and voting in person at the meeting should you so wish.

## Recommendation

The directors believe that the resolutions proposed are in the best interests of the Company and its shareholders, and so they recommend that you vote in favour of these resolutions at the AGM, as they intend to themselves in respect of their shares.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nigel Northridge', with a stylized flourish at the end.

**Nigel Northridge**  
*Chairman*

26 March 2014

# NOTICE OF ANNUAL GENERAL MEETING

## OF PADDY POWER PLC

NOTICE is hereby given that the Annual General Meeting of Paddy Power plc (the 'Company') will be held at The Shelbourne Hotel, 27 St Stephen's Green, Dublin 2 at 11.00 am on Tuesday, 13 May 2014 for the following purposes:

1. To receive and consider the financial statements for the year ended 31 December 2013 and the reports of the Directors and Auditors thereon.
2. To declare a final dividend of 90.0 cent per share for the year ended 31 December 2013.
3. To receive and consider the Remuneration Committee Report on directors' remuneration for the year ended 31 December 2013.
4. To elect Michael Cawley as a director who is recommended by the Board for election.
5. To re-elect by separate resolution:  
Resolution 5(a) Nigel Northridge  
Resolution 5(b) Patrick Kennedy  
Resolution 5(c) Stewart Kenny  
Resolution 5(d) Ulric Jerome  
Resolution 5(e) Tom Grace  
Resolution 5(f) Danuta Gray  
Resolution 5(g) Cormac McCarthy  
Resolution 5(h) Pádraig Ó Riordáin
6. To authorise the directors to fix the remuneration of the Auditors for the year ending 31 December 2014.
7. To consider and, if thought fit, pass the following as a special resolution:  
"That it is hereby resolved that the provision in Article 53(a) allowing for the convening of an Extraordinary General Meeting by at least fourteen Clear Days' notice (where such meetings are not convened for the passing of a special resolution) shall continue to be effective."

### As Special Business

8. To consider and, if thought fit, pass the following as an ordinary resolution:  
"That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 20 of the Companies (Amendment) Act 1983) up to an aggregate nominal amount of €1,700,077, representing approximately one third of the issued share capital of the Company at the date of the notice containing this resolution; provided that this authority shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 12 November 2015 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired."
9. To consider and, if thought fit, pass the following as a special resolution:  
"That for the purposes of Regulation 8(d) of the Articles of the Association of the Company, the directors are hereby empowered to allot equity securities (as defined in Section 23 of the Companies (Amendment) Act 1983) for cash pursuant to and in accordance with the provisions of their authority pursuant to Section 20 of the Companies (Amendment) Act 1983 as if sub-section (1) of Section 23 of the Companies (Amendment) Act 1983 did not apply to any such allotment provided that, pursuant to Regulation 8(d)(ii), the maximum aggregate nominal value of shares to which this authority relates shall be an aggregate nominal value of €255,012 or five per cent of the Company's issued ordinary share capital at the close of business on the date on which this resolution shall be passed; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 12 November 2015 unless previously renewed, varied or revoked by the Company in general meeting provided that the Company may make before such expiry an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the authority hereby conferred had not expired."
10. To consider and, if thought fit, pass the following as a special resolution:  
"That the Company and/ or any subsidiary (including a body corporate) of the Company be generally authorised to make market purchases or overseas market purchases (as defined by Section 212 of the Companies Act 1990) of shares of any class of the Company on such terms and conditions and in such manner as the directors may from time to time determine in accordance with and subject to the provisions of the Companies Act 1990 and to the restrictions and provisions set out in Regulation 46(a) of the Articles of Association of the Company and that the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 12 November 2015 unless, in any such case, previously renewed, varied or revoked by the Company in general meeting."

# NOTICE OF ANNUAL GENERAL MEETING

OF PADDY POWER PLC (CONTINUED)

**11. To consider and, if thought fit, pass the following as a special resolution:**

“That the re-issue price range at which any treasury share (as defined in Section 209 of the Companies Act 1990) for the time being held by the Company may be re-issued off market, shall be the price range set out in Article 46(b) of the Articles of Association of the Company; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 12 November 2015 unless, in any such case, previously renewed, varied or revoked in accordance with the provisions of Section 209 of the Companies Act 1990.”

By Order of the Board



**Jack Massey**  
*Company Secretary*

26 March 2014

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

## Notes

1. Any member entitled to attend, speak, ask questions and vote at the meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak, ask questions and vote in his/ her place. Completion of a Form of Proxy will not affect the right of a member to attend, speak, ask questions and vote at the meeting in person. A shareholder may appoint more than one proxy to attend and vote at the meeting provided each proxy is appointed to exercise rights attached to different shares held by that shareholder. Should you wish to appoint more than one proxy, please read carefully the explanatory notes accompanying the Form of Proxy. A member may appoint a proxy or proxies electronically by logging on to the website of the Registrars, Computershare Services (Ireland) Limited: [www.eproxyappointment.com](http://www.eproxyappointment.com). Shareholders will be asked to enter the Shareholder Reference Number, PIN Number and Control Number as printed on your Form of Proxy and agree to certain conditions.
2. As a shareholder, you have several ways to exercise your right to vote:
  - (a) By attending the Annual General Meeting in person; or
  - (b) By appointing (either electronically or by returning a completed Form of Proxy) the Chairman or another person as a proxy to vote on your behalf; or
  - (c) By appointing a proxy via the CREST System if you hold your shares in CREST.
3. If you are appointing someone other than the Chairman as your proxy, then you must fill in the details of your representative at the meeting in the box located underneath the wording "I/We hereby appoint the Chairman of the AGM OR the following person" on the Form of Proxy. If you appoint the Chairman or another person as a proxy to vote on your behalf, please make sure to indicate how you wish your votes to be cast by ticking the relevant boxes on the Form of Proxy.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other registered holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members. Completing and returning a Form of Proxy will not preclude you from attending and voting at the meeting should you so wish.

Alternatively, you may appoint a proxy electronically, by visiting the website of the Company's Registrars at [www.eproxyappointment.com](http://www.eproxyappointment.com). You will need your Shareholder Reference Number, PIN Number and Control Number, which can be found on the lower section of your Form of Proxy.

4. To be valid, Forms of Proxy duly signed together with the power of attorney or such other authority (if any) under which they are signed (or a certified copy of such power or authority) must be lodged with the Company's Registrar, Computershare Services (Ireland) Limited, P.O. Box 954, Sandyford, Dublin 18 not less than 48 hours before the time appointed for the holding of the meeting.
5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with Euroclear (UK and Ireland) Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Computershare Services (Ireland) Limited (ID 3RA50) by 11.00 a.m. on 11 May 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Computershare Investor Services PLC is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear (UK and Ireland) Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s)), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35 (5)(a) of the CREST Regulations.
6. Each of the directors has been subject to the evaluation process recommended by the UK Corporate Governance Code. On this basis, the Chairman and Board are pleased to recommend the re-election of those directors.
7. If you or a group of shareholders hold at least three per cent of the issued share capital of the Company, you or the group of shareholders acting together have the right to put an item on the agenda of the AGM. In order to exercise this right, written details of the item you wish to have included in the AGM agenda together with a written explanation why you wish to have the item included in the agenda and evidence of your shareholding must be received by the Company Secretary at Paddy Power plc, Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, Ireland or by email to [info@paddypowerplc.com](mailto:info@paddypowerplc.com) no later than 1 April 2014 (i.e. 42 days before the AGM meeting). An item cannot be included in the AGM agenda unless it is accompanied by the written explanation and received at either of these addresses by this deadline.

# NOTICE OF ANNUAL GENERAL MEETING

## OF PADDY POWER PLC (CONTINUED)

8. If you or a group of shareholders hold at least three per cent of the issued share capital of the Company, you or the group of shareholders acting together have the right to table a draft resolution for inclusion in the agenda of the AGM subject to any contrary provision in company law. In order to exercise this right, the text of the draft resolution and evidence of your shareholding must be received by post by the Company Secretary at Paddy Power plc, Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4, Ireland or by email to [info@paddypowerplc.com](mailto:info@paddypowerplc.com) by no later than 1 April 2014 (i.e. 42 days before the AGM meeting). A resolution cannot be included in the AGM agenda unless it is received at either of these addresses by this deadline. Furthermore, shareholders are reminded that there are provisions in company law which impose other conditions on the right of shareholders to propose resolutions at the general meeting of a company.
9. Pursuant to section 134C of the Companies Act 1963, shareholders have a right to ask questions related to items on the AGM agenda and to have such questions answered by the Company subject to any reasonable measures the Company may take to ensure the identification of shareholders. An answer is not required if (a) an answer has already been given on the Company's website in the form of a 'Q&A' or (b) it would interfere unduly with preparation for the meeting or the confidentiality or business interests of the Company or (c) it appears to the Chairman that it is undesirable in the interests of good order of the meeting that the question be answered.
10. This AGM notice, details of the total number of shares and voting rights at the date of giving this notice, the documents to be submitted to the meeting, copies of any draft resolutions and copies of the forms to be used to vote by proxy are available on the Company's website at [www.paddypowerplc.com](http://www.paddypowerplc.com). Should you not receive a Form of Proxy, or should you wish to be sent copies of documents relating to the meeting, you may request this by telephoning the Company's Registrars on 00 353 1 447 5105 or by writing to the Company Secretary at the address set out above.
11. The Company, pursuant to Section 134A of the Companies Act 1963 and Regulation 14 of the Companies Act 1990 (Uncertificated Securities) Regulations 1996, specifies that only those shareholders registered in the register of members of the Company as at close of business on 11 May 2014 (or in the case of an adjournment as at 48 hours before the time appointed for the holding of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at the time. Changes in the register after that time will be disregarded in determining the right of any person to attend and/or vote at the meeting.



**NOW**  
THAT'S WHAT I CALL ENTERTAINMENT  
**25**

**PADDYPOWER.**

Power Tower, Belfield Office Park, Beech Hill Road, Clonskeagh, Dublin 4

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