

Tips and Troubleshooting

Directors' Report

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

Principal activities

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

Results

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

Dividends

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

Business review and key performance indicators

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

Principal risks and uncertainties

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

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

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

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

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

Tips and Troubleshooting

Directors' Report *(continued)*





Paddy TV

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

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

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

Tips and Troubleshooting

Directors' Report *(continued)*

Research and development

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

Market research

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

Events since the year end and future developments

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

Amendment of Articles of Association

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

Rights and obligations attaching to the Company's shares

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

Own shares held

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

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

Substantial holdings

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

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

Directors' power to purchase and allot Company shares

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

Board of Directors and Company Secretary

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

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

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

Directors' remuneration

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

Directors' and Secretary's interests

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

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

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

Tips and Troubleshooting

Directors' Report *(continued)*



Election Betting

Who will win the BBC Debate?



Paddy Power plc



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Election Betting

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

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

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Directors' Report (continued)

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Share ownership and dealing

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

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

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

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

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

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

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

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

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

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

Political donations

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

Books of account

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

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

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

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

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

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

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

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

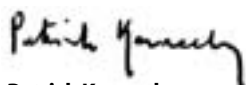
Auditor

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

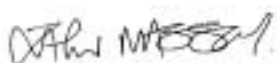
Going concern

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

On behalf of the Board



Patrick Kennedy
Chief Executive



Jack Massey
Finance Director

4 March 2011

Tips and Troubleshooting

Directors' Report *(continued)*



Paddy Power plc



Pope My Ride

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

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