

Notes to the Company Financial Statements

1. Basis of preparation and accounting policies

The financial statements have been prepared in euro in accordance with generally accepted accountancy principles under the historical cost convention and comply with financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland. The accounting policies have been applied consistently throughout the year and the preceding year.

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €38.4m (2006: €25.1m).

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:

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	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

Assets held under finance leases are included in the balance sheet at their capital value and are depreciated over the term of the lease. The corresponding liabilities are recorded as a creditor and the interest element of the finance lease rentals is charged to the profit and loss account over the term of the lease to produce a constant rate of charge on the balance of capital repayment outstanding. Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Pensions

The Company operates a number of defined contribution pension schemes for certain employees and executive directors. Contributions are charged to the profit and loss account as incurred.

Foreign currency

Transactions denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date. The resulting profits and losses are dealt with in the profit and loss account.

Notes to the Company Financial Statements

(continued)

1. Basis of preparation and accounting policies (continued)

Taxation

Current tax, including Irish corporation tax and foreign tax, is provided on the Company's taxable profits, at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Cash flow statement

Under the provisions of FRS 1, 'Cash Flow Statements', a cash flow statement has not been prepared as the Company itself publishes consolidated financial statements that include a cash flow statement in the required format.

Related party transactions

Under the exemption granted by FRS 8, 'Related Party Disclosures', the Company, as a member of a group which publishes consolidated financial statements in which the Company is included, is not required to and does not disclose transactions with fellow members, associated undertakings and joint ventures of that group.

Share-based payments

The Company operates equity-settled share option schemes for employees under which employees acquire options over Company shares. The fair value of share options granted is recognised as an employee benefit cost / increase in financial asset 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 financial asset is adjusted to reflect the actual number of share options that vest.

The Company 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 / increase in financial asset with a corresponding increase in the share-based payment reserve. The fair value is measured at grant date and spread over the period of the savings contract. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense / increase in financial asset is adjusted to reflect the actual number of share options that vest.

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

Own shares held

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

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

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in Note 32 to the consolidated financial statements.

Notes to the Company Financial Statements

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2. Employee expenses and numbers

	2007	2006
	€'000	€'000
Wages and salaries	28,616	27,154
Social security costs	2,612	2,453
Defined contribution pension and life assurance costs	567	713
Share-based payments (see below)	1,670	1,275
Other staff costs	1,467	1,348
	34,932	32,943

	2007	2006
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	797	783

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 income statement in respect of the Company's share schemes is comprised as follows:

	2007	2006
	€'000	€'000
Share option schemes	2	21
Sharesave scheme	163	176
Long Term Incentive Plan	1,459	1,078
Managers' Deferred Share Award Scheme	46	-
Total	1,670	1,275

Summary of options outstanding

The total number of options outstanding at 31 December 2007 was 249,881 (2006: 269,999). These options had exercise prices ranging from €8.15 to €24.17 (2006: €3.59 to €14.80).

	Options outstanding at 1 January 2007	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2007
Executive share option scheme	27,000	-	-	(27,000)	-
Share option scheme	37,000	4,000	-	-	41,000
Sharesave scheme	205,999	32,023	(29,051)	(90)	208,881
Total	269,999	36,023	(29,051)	(27,090)	249,881

	Options outstanding at 1 January 2006	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2006
Executive share option scheme	327,000	-	-	(300,000)	27,000
Share option scheme	327,466	12,000	-	(302,466)	37,000
Sharesave scheme	163,610	61,105	(18,328)	(388)	205,999
Total	818,076	73,105	(18,328)	(602,854)	269,999

Further details of the Company's employee share schemes are set out in Note 21 to the consolidated financial statements.

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	Total €'000
Cost		
Balance at 1 January 2007	1,363	1,363
Additions	127	127
Disposals	-	-
Balance at 31 December 2007	1,490	1,490
Amortisation		
Balance at 1 January 2007	174	174
Amortisation for year	248	248
Impairment charge	34	34
Disposals	-	-
Balance at 31 December 2007	456	456
Net book value		
At 31 December 2006	1,189	1,189
At 31 December 2007	1,034	1,034

The impairment charge in respect of the year ended 31 December 2007 relates to the retail business segment. The impairment charge has arisen from a review of the carrying value of shop properties. The recoverable amounts used in the calculation of the impairment charge are based on value in use. The pre-tax discount rate used to determine value in use was 10%.

4. Goodwill

	€'000
Cost	
Balance at 1 January 2007	2,421
Arising on business combinations during the year (Note 5)	3,593
Balance at 31 December 2007	6,014
Amortisation	
Balance at 1 January 2007	1,567
Amortisation for year	238
Balance at 31 December 2007	1,805
Net book value	
At 31 December 2006	854
At 31 December 2007	4,209

The goodwill balance as of 1 January 2007 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988.

Notes to the Company Financial Statements

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5. Purchase of businesses

During January, June and August 2007, the Company acquired a 100% interest in eight retail shops, and their associated bookmaking businesses, in Dublin and Mullingar through three separate acquisitions. Details of the net assets acquired and the goodwill arising on these acquisitions are as follows:

	Acquired cost €'000	Fair value adjustments €'000	Provisional fair values €'000
Net assets acquired:			
Property, plant and equipment	800	(354)	446
Intangible assets (customer lists)	-	1,455	1,455
	800	1,101	1,901
Goodwill arising on acquisition			3,593
Consideration (including associated purchase costs)			5,494
Less: Intangible asset (customer lists) transferred to subsidiary company			(1,455)
			4,039
Satisfied by:			
Cash consideration (including associated purchase costs)			5,415
Intangible asset transferred to subsidiary company			(1,455)
Accrued acquisition expenses			79
			4,039

The intangible asset balance of €1,455,000 was acquired as part of the purchase of a retail shop chain during the year. The asset was transferred to Paddy Power Isle of Man Limited on the date of acquisition thereof.

The value attributed to goodwill reflects both the low fair values of the property, plant and equipment acquired as part of the purchases due to the required post-acquisition re-branding of the shops and to the premium required to acquire established businesses.

Since the dates of acquisition to 31 December 2007, the acquired businesses have contributed €15.3m, €2.4m and €1.0m to Company amounts staked, income and operating profit, respectively.

If the acquisitions had occurred on 1 January 2007, then their contribution to Company income for the year ended 31 December 2007 would have been an estimated €4.0m (including the €2.4m actually contributed) and their contribution to Company operating profit for the year ended 31 December 2007 would have been an estimated €1.6m (including the €1.0m actually contributed).

6. Tangible assets

	Land, buildings & leasehold improvements €'000	Fixtures, fittings & equipment €'000	Computer equipment €'000	Computer software €'000	Motor vehicles €'000	Total €'000
Cost						
At 1 January 2007	31,001	39,325	1,866	3,720	192	76,104
Additions	2,431	5,750	336	72	-	8,589
Arising on business combinations during the year (Note 5)	208	238	-	-	-	446
Transfers	-	(1,287)	652	(1,293)	-	(1,928)
Disposals	(160)	(484)	(4)	-	-	(648)
At 31 December 2007	33,480	43,542	2,850	2,499	192	82,563
Accumulated depreciation						
At 1 January 2007	8,417	17,277	1,265	269	70	27,298
Charge for year	1,442	5,372	820	529	29	8,192
Impairment charges	529	640	32	45	-	1,246
Transfers	-	-	-	-	-	-
Disposals	(69)	(356)	(4)	-	-	(429)
At 31 December 2007	10,319	22,933	2,113	843	99	36,307
Net book value						
At 31 December 2006	22,584	22,048	601	3,451	122	48,806
At 31 December 2007	23,161	20,609	737	1,656	93	46,256

Notes to the Company Financial Statements

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6. Tangible assets (continued)

The net book value of land, buildings and leasehold improvements at 31 December 2007 includes €21.1m (2006: €20.5m) in respect of leasehold improvements.

Included in transfers for the year ended 31 December 2007 are assets with a value of €1,928,000 that were transferred at cost to a subsidiary company, Power Leisure Bookmakers Limited.

The impairment charges relate to the retail business segment and have arisen from a review of the carrying value of shop properties. The recoverable amounts used in the calculation of the impairment charges are based on value in use. The pre-tax discount rate used to determine value in use was 10%.

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.

Directive 2002/96/EC of the European Parliament and of the Council of 27 January 2003 on Waste Electrical and Electronic Equipment was introduced on 13 August 2005. The Company has adopted a comprehensive policy on collection, treatment, recovery, reuse and recycling of waste and does not believe that the introduction of this directive will have a material effect on the carrying cost of property, plant and equipment purchased prior to 13 August 2005. The cost of collection, treatment, recovery and recycling of property, plant and equipment purchased subsequent to 13 August 2005 is financed through the payment of charges on acquisition. These charges, none of which are material, are capitalised as part of the cost of the related assets and depreciated over the assets' expected useful lives.

7. Financial assets

	Unlisted investments in subsidiary companies	Capital contributions	Total
	€'000	€'000	€'000
Balance at 1 January 2007	103	3,661	3,764
Movement during year	-	4,545	4,545
Balance at 31 December 2007	103	8,206	8,309

In the opinion of the directors, the value to the Company of the unlisted investments in subsidiary companies is not less than the carrying amount of €103,000 (2006: €103,000). The Company's subsidiaries are listed in Note 31 to the consolidated financial statements.

Capital contributions represent amounts included in the Company's share-based payment reserve, and relates to share-based payment awards made to employees of certain of the Company's subsidiary undertakings.

8. Trade and other receivables

	31 December 2007	31 December 2006
	€'000	€'000
Sundry debtors and prepayments	890	1,079
Amounts owed by fellow Group companies	20,480	25,641
Deferred tax (Note 11)	-	1,407
	21,370	28,127

All of the above debtors fall due within one year.

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

Notes to the Company Financial Statements

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9. Creditors (amounts falling due within one year)

	31 December 2007	31 December 2006
	€'000	€'000
Trade creditors	4,962	5,609
Accruals	11,381	6,429
Corporation tax	666	639
PAYE and social welfare	1,110	603
Betting duty	2,249	2,060
Sports betting open positions	697	689
Value added tax	260	157
Amounts owed to fellow Group companies	64,183	35,242
	85,508	51,428

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

10. Creditors (amounts falling due after more than one year)

	31 December 2007	31 December 2006
	€'000	€'000
Accruals	1,062	84
	1,062	84

11. Provision for liabilities and charges

<i>Deferred tax</i>	2007	2006
	€'000	€'000
Cost		
At beginning of year	(1,407)	1,247
Charged / (credited) to the profit and loss account for year	1,678	(2,654)
At end of year	271	(1,407)

Deferred tax at 31 December 2007 and 2006 is analysed by category as follows:

	31 December 2007	31 December 2006
	€'000	€'000
Capital allowances	435	(1,127)
Employee benefits	(6)	(280)
Share schemes	(208)	-
Capitalised rents	50	-
Deferred tax liability / (asset)	271	(1,407)

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

12. Called-up share capital

See Note 19 to the consolidated financial statements.

13. Share premium

See Note 19 to the consolidated financial statements.

14. Other reserves, shares held by long term incentive plan trust and treasury shares

See Note 19 to the consolidated financial statements.

Notes to the Company Financial Statements

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15. Dividends paid on equity shares

	2007	2006
	€'000	€'000
Ordinary shares:		
- final paid of 22.77 cent per share (2006: 12.84 cent)	11,674	6,476
- interim paid of 16.00 cent per share (2006: 9.43 cent)	7,833	4,817
	19,507	11,293
Proposed final dividend of 35.00 cent (2006: 22.77 cent) per share (see Note 32 to the consolidated financial statements)	17,142	11,665

16. Pension arrangements

The Company operates defined contribution pension schemes for certain employees and executive directors. The assets of the schemes are held separately from those of the Company in independently administered funds.

Pension costs for the year were €503,000 (2006: €616,000) and the amount due to the schemes at 31 December 2007 amounted to €150,000 (2006: €71,000).

17. Commitments and contingencies

(a) Guarantees

The Company has working capital overdraft facilities of €2.0m with Allied Irish Banks plc. These facilities are unsecured.

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

(b) Capital commitments

The Company has entered into commitments for capital expenditure not provided for in the financial statements amounting to €535,000 (2006: €115,000).

(c) Operating lease commitments

The Company has annual commitments of €7,899,000 (2006: €7,027,000) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2007	31 December 2006
	€'000	€'000
Within 1 year	817	501
Between 2 and 5 years	961	1,164
After 5 years	6,121	5,362
	7,899	7,027

18. Statutory information

	2007	2006
	€'000	€'000
Directors' remuneration	3,285	2,647
Auditor's remuneration	110	105
Depreciation	8,192	7,144
Impairment charges – tangible fixed assets	1,246	-
Amortisation of intangible assets	248	132
Impairment charge – intangible assets	34	-
Amortisation of goodwill	238	121
Operating lease rentals, principally premises	7,767	6,542

19. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2007 were approved for issue by the Board of Directors on 29 February 2008.