

Notes to the Consolidated Financial Statements

1. General information

Paddy Power plc (the 'Company') and its subsidiaries (together referred to as the 'Group') provide sports betting services through a chain of licensed betting offices ('Paddy Power Bookmaker'), together with online interactive betting services ('paddypower.com') and telephone betting ('Dial-a-Bet'). The Group also provides online gaming services through 'paddypower.com', 'paddypowerpoker.com', 'paddypowercasino.com' and 'paddypowerbingo.com', and financial spread betting services through 'paddypowertrader.com'. It provides these services principally in Ireland and the United Kingdom.

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 page 2.

The consolidated financial statements of the Group for the year ended 31 December 2007 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 29 February 2008.

2. Basis of preparation and summary of significant accounting policies

The consolidated financial statements are prepared on the historical cost basis except for betting transactions, which are recorded as derivative financial instruments, and certain share-based payments, both of which are stated at fair value or grant date fair value, respectively. 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 at 31 December 2007. 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.

Recent accounting pronouncements

The IFRSs adopted by the EU applied by the Company and Group in the preparation of these financial statements are those that were effective at 31 December 2007. The following provides a brief outline of the likely impact on future financial statements of relevant IFRSs adopted by the EU which are not yet effective and have not been adopted early in these financial statements:

- IFRS 8, 'Operating Segments' (effective for periods beginning on or after 1 January 2009). This standard replaces IAS 14, 'Segment Reporting'. The directors are currently considering the impact of this standard on Group reporting.
- IFRIC 11, IFRS 2 – 'Group and Treasury Share Transactions' (effective for periods beginning on or after 1 March 2007). This IFRIC is not expected to be material in terms of Group reporting.

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.

Judgements and estimates

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes and in Note 33:

- Note 15 – measurement of the recoverable amounts of cash-generating units containing goodwill.
- Note 16 – business combinations.
- Note 21 – measurement of share-based payments.
- Note 22 – utilisation of UK tax losses.
- Note 22 – provisions and contingencies.
- Notes 23 and 28 – valuation of derivative financial instruments.

Notes to the Consolidated Financial Statements

(continued)

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

Income

The services provided by the Group comprise sports betting, fixed odds games betting, online casino and games and peer to peer games, including online poker and bingo. Income is stated exclusive of value added taxes and certain free bets, promotions and bonuses.

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

Income from retail, telephone and online sportsbook 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.

Income from fixed odds games and the online casino represents net winnings ('customer drop'), being amounts staked net of customer winnings.

Income from peer to peer games represents commission income ('rake') and tournament fees earned from games completed by the period end.

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

The Group does not enter into any other derivative activities other than those described above.

Finance income

Interest income is recognised on an accruals basis by reference to the principal outstanding and the effective rate of interest.

Segment reporting

Business segments are distinguishable components of the Group that provide products and services that are subject to risks and returns that are different from other business segments. 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 business segments of retail and non retail are the primary reporting segments.

Foreign currency

The consolidated financial statements are presented in euro, which is the Company's functional currency. Transactions denominated in foreign currencies are translated into the functional currency of the respective Group entities at the exchange rates ruling at the dates of the transactions. Non-monetary assets are not subsequently translated as they are carried at historical cost. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into the functional currency of the respective Group entities at the rates of exchange ruling at that date. Foreign exchange differences arising on such translations are recognised in the income statement. The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated into euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into euro at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Business combinations

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of acquisition is measured at the date of purchase and represents the aggregate of the fair values of assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree, plus any costs incurred that are directly attributable to the business combination. 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', is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is reviewed for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises.

Notes to the Consolidated Financial Statements

(continued)

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

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 asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in the profit or loss as incurred. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

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. Land is not depreciated. The estimated useful lives are 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
Motor vehicles	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 customer lists, are capitalised at cost and amortised over their estimated useful economic lives on a straight line basis, with the exception of customer lists which are amortised on a reducing balance basis.

Computer software includes the costs incurred in acquiring and bringing specific software programs into use. 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.

Customer lists represent the fair value of customer lists acquired as part of purchases of other businesses.

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
Customer lists	5 years

Impairment

The carrying amounts of property, plant and equipment, intangible assets and goodwill are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the recoverable amount of the asset, or the cash generating units to which it relates, is estimated. For intangible assets that are not yet available for use and goodwill, the recoverable amount is estimated at each annual balance sheet date, regardless of whether any indication of impairment exists. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of such assets or cash generating units is the greater of their fair value less costs to sell or value in use. 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.

Notes to the Consolidated Financial Statements

(continued)

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

Non-derivative financial instruments

Other non-derivative financial instruments comprise cash and cash equivalents 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 transactions 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.

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

Cash and cash equivalents for the purpose of the cash flow statement comprise cash at bank and on hand and call deposits with an original maturity of three months or less.

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 on the balance sheet.

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 equity, in which case it is recognised 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 balance sheet 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 balance sheet date.

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

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

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 balance sheet 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.

Notes to the Consolidated Financial Statements

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

Share-based payments

The Group 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 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 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 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.

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.

Own shares held

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

Repurchase of share capital (treasury shares)

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

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

Dividends

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

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.

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 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.

Notes to the Consolidated Financial Statements

(continued)

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

Bank and credit card charges

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

3. Financial risk management

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

- Market risk
- Credit risk
- 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 for measuring and managing those risks are. 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 24 to 28.

General

The Board of Directors of Paddy Power plc has overall responsibility for the management of the Group's risks. This responsibility is delegated to a number of committees over which the Board has oversight. The primary Board committees set up to manage risks are the Risk Committee and the Audit Committee. Both these Committees report regularly to the Board on their activities.

Market risk

Market risk relates to the risk that changes in prices, including sports betting prices/ odds, foreign currency exchange rates and interest rates, 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 acceptable limits, while at the same time ensuring that returns are optimised.

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

Sports betting prices/ odds

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

Foreign currency risk

The Group is exposed to currency risk in respect of income, costs, receivables, cash deposits and financial liabilities (primarily trade payables and customer balances) that are denominated in currencies that are not the functional currency of the entities in the Group. The currencies in which transactions are primarily denominated are the euro, pound sterling ('GBP') and the US dollar ('USD').

It is Group policy to ensure that foreign currency denominated liabilities, primarily customer balances, are broadly matched by foreign currency denominated assets, primarily cash deposits. This is generally achieved by monthly sales of net foreign currency inflows into euro at spot rates. During the years ended 31 December 2007 and 2006, the Group did not utilise either foreign currency forward contracts or derivatives to manage foreign currency risk on expected future net cash flows. The Group may make use of forward contracts and derivatives subject to Investment Committee approval.

Interest rate risk

The Group had no borrowings at either 31 December 2007 or 2006, and consequently there has been no requirement to manage interest rate risk on borrowings. Excess cash funds are generally invested in short term interest-bearing bank deposits on which the interest rate is fixed for the term of the deposit. Group treasury policy imposes limits to the terms over which cash can be placed on deposit.

Notes to the Consolidated Financial Statements

(continued)

3. Financial risk management (continued)

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 or a trading partner fails to meet their contractual obligations. The Group's credit risk principally arises from cash invested with financial institutions and receivables from trading partners.

Trade and other receivables

The Group's sports betting and gaming businesses are cash and credit card/ debit card businesses where there is a requirement that the customer pays in advance when a transaction is entered into with the Group. There is no material concentration of sales with individual customers.

Cash investments

It is Group treasury policy to limit investments in cash deposits to counterparties that have a Moody's (or equivalent) long term credit rating of Aaa3 or higher and a Moody's (or equivalent) short term credit rating of P1, unless otherwise specifically approved (there are currently no such specific approvals). There are also limits on the percentage of total cash on deposit that can be invested with an individual counterparty. Management does not expect any counterparty to fail to meet its obligations. There are also restrictions on the types of cash products that can be invested in. The oversight of the Group's treasury operations is performed by an Investment Committee, chaired by the Finance Director, who reports in turn to the Board on its activities.

Guarantees

The Group policy is in general to only provide guarantees to wholly-owned subsidiaries of the Group. The guarantees entered into are in respect of third party obligations of subsidiaries, such as in respect of player funds. As of 31 December 2007 there were no amounts outstanding in the consolidated financial statements under these guarantees (2006: €nil).

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, either 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 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 maturities are determined 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 nine months. The overall maturity of deposits at 31 December 2007 and 2006 is set out in Note 18.

The Group has the following lines of credit:

- €2.0m unsecured bank overdraft facility for working capital purposes. Interest is payable thereon at the bank's prime overdraft rate.
- Stg£0.5m unsecured bank overdraft facility for working capital purposes. Interest is payable thereon at the rate of LIBOR plus 0.5%.

At 31 December 2007, neither of these facilities had been utilised.

Capital management

The Group has historically funded its operations through internally generated cash and borrowings have not formed part of its capital structure. The Group's capital structure is kept under review by the Board. The Board is committed to capital discipline, as evidenced by the increasing dividend payout ratio and share buybacks; it also continues to maintain flexibility for future growth, both organic and possibly via acquisitions. These objectives of capital discipline and flexibility for growth are not mutually exclusive, and it is the Board's current intention to consider further share buybacks in line with the approval granted by shareholders. The timing and amount of shares bought back will depend on the Group's pipeline of development opportunities as well as equity market conditions.

The Group has the authority to buy back up to ten percent of the Company's issued share capital between the dates of its Annual General Meetings ('AGM's), subject to the annual approval of its shareholders at the Company's AGM. The first time shares were bought back by the Group was in 2007, when 2,389,443 ordinary shares were acquired (see Note 19). Shares bought back may either be cancelled or held in treasury.

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.

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3. Financial risk management (continued)

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

In the year ended 31 December 2007, the Group earned a return on capital of 51.1% (2006: 36.8%). Capital is defined by the Group as total shareholders' equity.

4. Segment reporting

The income, operating profit and net assets of the Group relate to the provision of betting and gaming activities, substantially all of which are conducted in the Republic of Ireland and the UK.

Income for the years ended 31 December 2007 and 2006 is analysed as follows:

	2007	2006
	€'000	€'000
Income in respect of sportsbook and gaming activities	264,191	207,101
Other commission revenue (included in non retail income)	14,761	11,605
Total income	278,952	218,706

As more fully described in our accounting policies, betting activities are considered to be derivative financial instruments as set out in IAS 39. Other commission revenue is earned from peer to peer gaming and, as these activities do not involve customers taking a direct position against the Group, it is not classified as income from derivative financial instruments.

(a) By business segment

The Group considers its primary business segments to be 'retail' and 'non retail'. The retail business segment comprises the Group's Irish and UK licensed bookmaking shop estates. The non retail business segment comprises the Group's online and telephone sports betting businesses and its online gaming businesses, primarily casino, games, poker and bingo.

Business segment information for the year ended 31 December 2007:

	Retail	Non retail	Other unallocated	Total
	31/12/07	31/12/07	31/12/07	31/12/07
	€'000	€'000	€'000	€'000
Income	157,115	121,837	-	278,952
Direct betting costs	(14,880)	(21,654)	-	(36,534)
Gross profit	142,235	100,183	-	242,418
Depreciation and amortisation	(16,680)	(4,148)	(20)	(20,848)
Other operating costs	(88,737)	(51,587)	(9,140)	(149,464)
Operating profit	36,818	44,448	(9,160)	72,106
Financial income	-	-	3,722	3,722
Profit before tax	36,818	44,448	(5,438)	75,828
Total assets	82,122	14,393	80,792	177,307
Segment liabilities	20,389	23,771	15,785	59,945
Capital expenditure	9,276	3,945	-	13,221

Notes to the Consolidated Financial Statements (continued)

4. Segment reporting (continued)

Business segment information for the year ended 31 December 2006:

	Retail	Non retail	Other unallocated	Total
	31/12/06	31/12/06	31/12/06	31/12/06
	€'000	€'000	€'000	€'000
Income	126,783	91,923	-	218,706
Direct betting costs	(17,250)	(17,840)	-	(35,090)
Gross profit	109,533	74,083	-	183,616
Depreciation and amortisation	(12,035)	(3,449)	(28)	(15,512)
Other operating costs	(79,258)	(36,911)	(6,473)	(122,642)
Operating profit before property gain	18,240	33,723	(6,501)	45,462
Property gain	2,098	-	-	2,098
Operating profit	20,338	33,723	(6,501)	47,560
Financial income	-	-	2,139	2,139
Profit before tax	20,338	33,723	(4,362)	49,699
Total assets	87,970	12,350	78,519	178,839
Segment liabilities	14,559	22,466	13,683	50,708
Capital expenditure	22,422	4,421	2	26,845

The amounts shown in the 'other unallocated' category above, representing items that cannot be allocated to either the retail or non retail segments, are primarily in respect of management costs relating to the Group as a whole, cash deposits held centrally and certain accounts payable, tax and accrual balances.

(b) By geographic segment

The Group considers that its principal geographic segments are 'Ireland & other' and 'UK'. The Ireland & other geographic segment is composed of the Irish retail bookmaking business, online and telephone sports betting from non-UK customers (principally in Ireland), and online gaming from non-UK customers. 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.

	Ireland & other	Ireland & other	UK	UK	Total	Total
	31/12/07	31/12/06	31/12/07	31/12/06	31/12/07	31/12/06
	€'000	€'000	€'000	€'000	€'000	€'000
Income	188,407	148,462	90,545	70,244	278,952	218,706
Segment assets	128,331	131,269	48,976	47,570	177,307	178,839
Capital expenditure	11,787	14,369	1,434	12,476	13,221	26,845

Notes to the Consolidated Financial Statements (continued)

4. Segment reporting (continued)

Further analysis of the business segments by channel is as follows:

	2007 €'000	2006 €'000
Amounts staked by customers		
Retail – Ireland	930,005	833,125
Retail – UK	171,497	129,936
Retail	<u>1,101,502</u>	963,061
Online	629,671	525,425
Telephone	296,604	306,604
	<u>2,027,777</u>	1,795,090
Income		
Retail – Ireland	126,086	104,385
Retail – UK	31,029	22,398
Retail	<u>157,115</u>	126,783
Online (including commission revenue)	94,794	67,404
Telephone	27,043	24,519
	<u>278,952</u>	218,706
Gross profit		
Retail – Ireland	116,451	91,510
Retail – UK	25,784	18,023
Retail	<u>142,235</u>	109,533
Online	75,394	51,731
Telephone	24,789	22,352
	<u>242,418</u>	183,616
Operating profit before exceptional item		
Retail – Ireland	34,607	22,025
Retail – UK	(904)	(5,995)
Retail	<u>33,703</u>	16,030
Online	31,962	23,428
Telephone	6,441	6,004
	<u>72,106</u>	45,462

Notes to the Consolidated Financial Statements (continued)

5. Direct betting costs

Direct betting costs comprise:

	2007 €'000	2006 €'000
Betting taxes	18,263	12,895
Software supplier costs	8,711	7,487
Data rights	3,269	2,411
Other direct betting costs	6,291	12,297
	36,534	35,090

Betting taxes comprise taxes levied on gross win and tax levied on Irish retail amounts staked generated in the period 1 July 2006 to 31 December 2007. On 1 July 2006, the Irish government replaced the previous two percent customer based betting tax with a one percent tax levied on the bookmaker.

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

Data rights mainly comprise costs incurred in respect of British Horseracing Board and UK statutory levies.

Other direct betting costs comprise discounts on bets granted in the Irish retail estate prior to 1 July 2006, payments to third parties for new online customers acquired, prize and tournament costs and other miscellaneous direct betting costs.

6. Employee expenses and numbers

	2007 €'000	2006 €'000
Wages and salaries	60,585	50,661
Social security costs	5,639	4,891
Defined contribution pension and life assurance costs	1,672	1,677
Share-based payments (Note 21)	6,216	3,184
Other staff costs	4,778	3,814
	78,890	64,227

	2007	2006
The average number of persons employed by the Group (including executive directors), all of whom were involved in the provision of betting and gaming services, during the year was	1,536	1,414

Notes to the Consolidated Financial Statements

(continued)

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:

	Fees €'000	Salary €'000	Pension costs €'000	Benefits €'000	Annual bonus €'000	Total 2007 €'000	Total 2006 €'000
Executive							
Patrick Kennedy	-	610	183	36	505	1,334	1,248
Breon Corcoran	-	404	61	14	225	704	579
Jack Massey (1)	-	248	49	27	164	488	334
Non-executive							
Fintan Drury	160	-	-	-	-	160	160
Tom Grace (2)	65	-	-	-	-	65	65
Stewart Kenny	55	-	-	-	-	55	55
Nigel Northridge	55	-	-	-	-	55	55
David Power (3)	75	-	-	-	-	75	71
Brody Sweeney	55	-	-	-	-	55	55
Stephen Thomas (4)	-	-	-	-	-	-	25
	465	1,262	293	77	894	2,991	2,647
Cost of shares vested from Long Term Incentive Plan	-	-	-	-	-	294	-
	465	1,262	293	77	894	3,285	2,647

1. Jack Massey was appointed to the Board on 25 April 2006.
2. Tom Grace was appointed to the Board on 3 January 2006. He is Chairman of the Audit Committee.
3. David Power is Chairman of the Remuneration Committee and the Risk Committee.
4. Stephen Thomas resigned from the Board on 16 May 2006.

Benefits provided to executive directors include provision of a company car or car allowance, 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 21). Details of the number and value of shares vested to executive directors from the Long Term Incentive Plan are set out in the Directors' Report on page 26.

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 26. 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 2007 directors were paid the amounts set out below:

Stewart Kenny received €60,000 (2006: €60,000) in respect of consulting fees.

The Group engages in transactions with David Power in his capacity as an on-course bookmaker. In aggregate, the Group placed bets losing €8,505 (2006: losing €224,793) with Richard Power On-Course Bookmakers and that firm placed bets with the Group losing €15,809 (2006: losing €74,454).

The Group paid rent of €38,727 (2006: €38,727) during the year for retail properties owned by David Power and occupied by the Group under long term leases.

Notes to the Consolidated Financial Statements

(continued)

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

Transactions with key management personnel comprising executive and other senior management

Key management personnel compensation is as follows:

	2007	2006
	€'000	€'000
Wages and salaries	4,260	3,883
Social security costs	577	477
Defined contribution pension and life assurance costs	588	490
Provision for executive director long term incentive bonus plan (1)	601	625
Share-based payments	3,579	2,546
Other staff costs	227	228
	9,832	8,249
	2007	2006
	€'000	€'000
Executive directors (excluding share-based payments)	2,526	2,161
Other key management personnel	2,549	2,440
Provision for executive director long term incentive bonus plan (1)	601	625
Social security costs	577	477
Share-based payments	3,579	2,546
	9,832	8,249

(1) An amount of €601,000 (2006: €625,000), accrued by the Company in respect of Breon Corcoran's long term incentive bonus plan for the year ended 31 December 2007, has not been included in the table of directors' emoluments on page 55. As set out in the Remuneration Committee Report on page 36, no payment obligation has crystallised under the plan at this point and payment is dependent on the non retail division achieving very challenging operating profit targets in the year ended 31 December 2009. However the provision represents the Group's best estimate of the most likely amount payable.

8. Exceptional item

	2007	2006
	€'000	€'000
Gain on disposal of Irish retail shop property	-	2,098

During the 2006 financial year, the Group disposed of a shop property. This property, which formed part of the Group's Irish retail licensed bookmaking operations, was originally held under an operating lease. The Group exercised a purchase option contained in the lease and subsequently sold the property at arm's length to a third party, simultaneously entering into a leaseback agreement at arm's length with that third party.

9. Financial income and expense

	2007	2006
	€'000	€'000
Recognised in profit or loss:		
Financial income:		
Interest income on short term bank deposits	3,722	2,139

Notes to the Consolidated Financial Statements

(continued)

10. Statutory and other information

	2007	2006
	€'000	€'000
Directors' emoluments	3,285	2,647
Auditor's remuneration for audit services	165	140
Depreciation	15,445	13,190
Impairment charges – property, plant and equipment	1,940	-
Amortisation of intangible assets	3,161	2,322
Impairment charges – intangible assets	302	-
Loss / (gain) on disposal of property, plant and equipment and intangible assets	211	(1,183)
Operating lease rentals, principally premises	11,678	10,230
Operating lease income	(164)	(158)

Amounts paid to the auditor in respect of non-audit services, comprising tax and advisory fees, were €147,000 (2006: €152,000).

11. Income tax expense

	2007	2006
	€'000	€'000
Recognised in the income statement:		
Current tax charge	13,336	8,536
Prior year (over) / under provision	(117)	789
	13,219	9,325
Deferred tax (credit)	(169)	(403)
Prior year (over) provision	-	(468)
(Decrease) in deferred tax (Note 22)	(169)	(871)
Total income tax expense in income statement	13,050	8,454

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:

	2007	2006
	€'000	€'000
Profit before tax	75,828	49,699
Tax on Group profit before tax at the standard		
Irish corporation tax rate of 12.5% (2006: 12.5%)	12.5% 9,479	12.5% 6,212
Depreciation on non-qualifying property, plant and equipment	2.1% 1,576	0.6% 285
Betting duty	1.5% 1,165	1.1% 528
Other differences	0.6% 475	0.4% 221
Chargeable gains	0.0% -	0.3% 159
Interest income taxable at the higher rates	0.6% 472	0.5% 260
(Over) / under provision in prior year	(0.1%) (117)	1.6% 789
Total income tax expense	17.2% 13,050	17.0% 8,454

No corporation tax is payable in the UK due to the availability of tax losses. A deferred tax asset of €2,646,000 (2006: €2,842,000) relating to these losses forward has not been recognised in accordance with the Group's accounting policy for deferred tax. There is no expiry date in respect of these losses.

No significant changes are expected to statutory tax rates in Ireland, however there will be a decrease in the UK corporation tax rate from 30% to 28% as and from 1 April 2008.

Notes to the Consolidated Financial Statements

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12. Earnings per share

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

	2007	2006
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	62,778	41,245
Numerator in respect of adjusted earnings per share (€'000):		
Profit attributable to equity holders of the Company	62,778	41,245
Less: Property gain after tax	-	(1,677)
Profit for adjusted earnings per share calculation	62,778	39,568
Denominator in respect of basic earnings per share:		
Ordinary shares in issue at beginning of year	51,238,437	50,397,168
Adjustments for weighted average number of:		
- ordinary shares issued during year	65,971	494,991
- ordinary shares purchased and cancelled or held in treasury	(1,317,283)	-
- ordinary shares held by long term incentive plan trust	(727,302)	(547,905)
Weighted average number of ordinary shares	49,259,823	50,344,254
Basic earnings per share	€1.274	€0.819
Adjusted earnings per share	n/a	€0.786
Denominator in respect of diluted earnings per share:		
Basic weighted average number of ordinary shares in issue during year	49,259,823	50,344,254
Adjustments for dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and share award schemes	871,785	501,021
Weighted average number of ordinary shares	50,131,608	50,845,275
Diluted earnings per share	€1.252	€0.811
Adjusted diluted earnings per share	n/a	€0.778

Notes to the Consolidated Financial Statements

(continued)

13. Property, plant and equipment

	Land, buildings & leasehold improvements	Fixtures & fittings	Computer equipment	Motor vehicles	Total
	€'000	€'000	€'000	€'000	€'000
Cost					
Balance at 1 January 2006	41,501	53,300	13,713	1,092	109,606
Additions	5,875	10,929	2,890	229	19,923
Disposals	(1,619)	(989)	(151)	(215)	(2,974)
Transfers (Note 14)	-	-	(1,294)	-	(1,294)
Balance at 31 December 2006	45,757	63,240	15,158	1,106	125,261
Additions	2,495	5,677	2,088	200	10,460
Additions – business combinations (Note 16)	208	238	-	-	446
Disposals	(170)	(485)	(6)	(383)	(1,044)
Balance at 31 December 2007	48,290	68,670	17,240	923	135,123
Accumulated depreciation					
Balance at 1 January 2006	8,806	20,223	7,716	461	37,206
Depreciation charges	2,255	8,242	2,528	165	13,190
Disposals	(566)	(586)	(66)	(157)	(1,375)
Balance at 31 December 2006	10,495	27,879	10,178	469	49,021
Depreciation charges	2,894	9,323	3,060	168	15,445
Impairment charges	909	993	38	-	1,940
Disposals	(69)	(357)	(4)	(285)	(715)
Balance at 31 December 2007	14,229	37,838	13,272	352	65,691
Net book value					
At 31 December 2007	34,061	30,832	3,968	571	69,432
At 31 December 2006	35,262	35,361	4,980	637	76,240

The net book value of land, buildings and leasehold improvements at 31 December 2007 includes €29.5m (2006: €30.4m) in respect of leasehold improvements.

During 2006, an amount of €1,294,000, relating to computer equipment either not available for use or in test as of 31 December 2006 and included in property, plant and equipment additions in 2005, was reclassified as computer software and transferred to intangible assets (see Note 14).

The impairment charges relate to the retail business segment and have arisen from a review of the carrying value of shop properties and the closure of a shop in the UK retail estate. The recoverable amounts used in the calculation of retail business segment impairment charges are based on value in use, with the exception of the shop closure which is based on fair value less costs to sell. The pre-tax discount rate used to determine value in use was 10%. The impairment charges are included in 'depreciation and amortisation' in the consolidated income statement.

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

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 Group 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.

Notes to the Consolidated Financial Statements

(continued)

14. Intangible assets

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

	Computer software €'000	Licences €'000	Customer lists €'000	Total €'000
Cost				
Balance at 1 January 2006	6,632	1,669	-	8,301
Additions	4,526	2,396	-	6,922
Disposals	-	(250)	-	(250)
Transfers (Note 13)	1,294	-	-	1,294
Balance at 31 December 2006	12,452	3,815	-	16,267
Additions	2,539	222	-	2,761
Additions – business combinations (Note 16)	-	-	1,455	1,455
Disposals	(172)	(31)	-	(203)
Balance at 31 December 2007	14,819	4,006	1,455	20,280
Amortisation				
Balance at 1 January 2006	4,545	141	-	4,686
Amortisation charges	2,038	284	-	2,322
Disposals	-	(1)	-	(1)
Balance at 31 December 2006	6,583	424	-	7,007
Amortisation charges	2,535	472	154	3,161
Impairment charges	66	236	-	302
Disposals	(135)	(2)	-	(137)
Balance at 31 December 2007	9,049	1,130	154	10,333
Net book value				
At 31 December 2007	5,770	2,876	1,301	9,947
At 31 December 2006	5,869	3,391	-	9,260

Included in the impairment charges in respect of the year ended 31 December 2007 are €157,000 relating to the retail business segment and €145,000 relating to the non retail business segment. The impairment charges have arisen from a review of the carrying value of shop properties, the closure of a shop in the UK retail estate and reviews of the carrying values of intangible assets used in the non retail business. The recoverable amounts used in the calculation of retail business segment impairment charges are based on value in use, with the exception of the shop closure which is based on fair value less costs to sell. The recoverable values of non retail business segment assets are based on their fair values less costs to sell. The pre-tax discount rate used to determine value in use was 10%. The impairment charges are included in 'depreciation and amortisation' in the consolidated income statement.

15. Goodwill

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

	Irish retail €'000	UK retail €'000	Total €'000
Balance at 1 January 2006 and 31 December 2006	904	976	1,880
Arising on acquisition (Note 16)	3,593	-	3,593
Balance at 31 December 2007	4,497	976	5,473

Goodwill on Irish retail properties arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and from the acquisition of three retail bookmaking businesses during the year ended 31 December 2007 (see Note 16).

Goodwill on UK retail properties arose from the acquisition of two London bookmaking businesses in 2004.

Notes to the Consolidated Financial Statements

(continued)

15. Goodwill (continued)

Impairment tests for cash generating units containing goodwill

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 2007.

The retail divisions in Ireland and the UK include the following amounts in respect of goodwill:

	31 December 2007	31 December 2006
	€'000	€'000
Irish retail – amalgamation of three bookmaking businesses in 1988	904	904

The recoverable amount of the Irish retail underlying cash generating units (relating to 37 retail units) was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flows for thereafter have been extrapolated assuming a weighted average income growth rate of 4% (2006: 5%) and a gross win of 14% (2006: 13%) which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. Cash flow growth for the extrapolated period is projected to be approximately 3% (2006: 3%) per annum. 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% (2006: 9%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2007	31 December 2006
	€'000	€'000
Irish retail – acquisition of three bookmakers in 2007	3,593	-

The recoverable amount of the Irish retail underlying cash generating units for the 2007 acquired businesses was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flows for thereafter have been extrapolated assuming a weighted average income growth rate of 4% and a gross win of 13% which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. Cash flow growth for the extrapolated period is projected to be approximately 2% per annum. 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%, which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Notes to the Consolidated Financial Statements

(continued)

15. Goodwill (continued)

	31 December 2007	31 December 2006
	€'000	€'000
UK retail	976	976

The recoverable amount of the two London underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flows for thereafter have been extrapolated assuming a weighted average income growth rate of 4% (2006: 5%) and a gross win of 13% (2006: 13%) which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. Cash flow growth for the extrapolated period is projected to be approximately 3% (2006: 3%) per annum. 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% (2006: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the UK retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

The primary assumptions used by management in assessing the recoverable amounts of the relevant retail cash generating units over the initial five year review period are as follows:

	Irish retail - amalgamation	Irish retail – 2007 acquisitions	UK retail
Growth in number of bets per annum	2%	2%	2%
Growth in average stake per bet per annum	2%	2%	2%
Gross win % (of amounts staked)	11% - 13%	11% - 13%	11% - 13%
Cost of sales % (of amounts staked)	1%	1%	3%
Cost inflation per annum	5%	5%	3.5% reducing to 3%

The assumptions above are based on past experience, management's expectations for market development, growth in market share, gross win percentage margins and cost inflation for the five year period.

The discount rate applied to the cash flows is based on the risk free rate for ten years plus government bonds, adjusted for a risk premium that reflects both the increased risk of investing in equities and the systemic risk of the cash generating units. The risk premium is calculated using the equity market risk premium (being the increased return required by investors in the equity market as a whole over and above the risk free rate available) and the risk adjustment applied to reflect the risk of the specific cash generating unit relative to the market as a whole. The discount rates reflect the relatively high rate of return earned on the Irish equity market over the period used in the discount rate calculations.

Based on the reviews as described above, no impairment has arisen.

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16. Purchase of businesses

During January, June and August 2007, the Group acquired a 100% interest in eight retail shops, and their associated bookmaking businesses, in Dublin and Mullingar through three separate acquisitions, which were individually considered immaterial and disclosures below are therefore aggregated. Details of the net assets acquired and the goodwill arising on these acquisitions are as follows:

	Cost on acquisition €'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
Satisfied by:			
Cash consideration (including associated purchase costs)			5,415
Accrued acquisition expenses			79
			5,494

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 amounts staked, income and operating profit, respectively.

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

17. Trade and other receivables

	31 December 2007 €'000	31 December 2006 €'000
Trade and sundry receivables	1,151	1,454
Prepayments	3,055	2,749
	4,206	4,203

Trade and other receivables are non-interest bearing.

18. Cash and cash equivalents

	31 December 2007 €'000	31 December 2006 €'000
Cash at bank and on hand	5,922	7,670
Short term bank deposits	81,963	79,391
Cash and cash equivalents in the cash flow statement	87,885	87,061

The effective interest rate on short term bank deposits was 4.76% (2006: 3.95%); these deposits have an average original maturity date of 43 days (2006: 30 days). The short term bank deposits have an average maturity date of 17 days from 31 December 2007 (2006: ten days).

Short term bank deposits are analysed by currency as follows:

	31 December 2007 €'000	31 December 2006 €'000
Euro	72,864	66,000
GBP	8,146	13,391
USD	953	-
	81,963	79,391

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19. Share capital and reserves

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share- based payment reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2006	50,397,168	5,040	7,548	922	-	(4,929)	3,220	84,250	96,051
Shares issued	841,269	84	2,663	-	-	-	-	-	2,747
Share issue costs	-	-	(48)	-	-	-	-	-	(48)
<i>Own shares acquired:</i> By the long term incentive plan trust - 280,000 ordinary shares (Note 21)	-	-	-	-	-	(3,742)	-	-	(3,742)
Total recognised income and expense	-	-	-	1	-	-	-	41,245	41,246
Equity-settled transactions	-	-	-	-	-	534	2,636	-	3,170
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	(243)	243	-
Dividends to shareholders (Note 20)	-	-	-	-	-	-	-	(11,293)	(11,293)
Balance at 31 December 2006	51,238,437	5,124	10,163	923	-	(8,137)	5,613	114,445	128,131
Balance at 1 January 2007	51,238,437	5,124	10,163	923	-	(8,137)	5,613	114,445	128,131
Shares issued	126,758	13	656	-	-	-	-	-	669
<i>Own shares acquired:</i> By the long term incentive plan trust - 325,000 ordinary shares (Note 21)	-	-	-	-	-	(6,715)	-	-	(6,715)
By the Company - 2,389,443 ordinary shares	-	-	-	-	(53,573)	-	-	(669)	(54,242)
Cancellation of own shares acquired	(2,139,443)	(214)	-	214	47,598	-	-	(47,598)	-
Total recognised income and expense	-	-	-	(1)	-	-	-	62,778	62,777
Equity-settled transactions	-	-	-	-	-	1,763	4,529	(43)	6,249
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	(129)	129	-
Dividends to shareholders (Note 20)	-	-	-	-	-	-	-	(19,507)	(19,507)
Balance at 31 December 2007	49,225,752	4,923	10,819	1,136	(5,975)	(13,089)	10,013	109,535	117,362

Notes to the Consolidated Financial Statements

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19. Share capital and reserves (continued)

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2006: 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, 126,758 ordinary shares of €0.10 each (2006: 841,269 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for total consideration of €669,000 (2006: €2,747,000), giving rise to a share premium of €656,000 (2006: €2,663,000).

During 2007, the Company also purchased 2,389,443 of its own shares on the market at prices ranging from €21.40 to €23.90 (average price of €22.42). The total cost of the shares purchased was €54,242,000, comprised of €53,573,000 for the shares themselves and a further €669,000 for other purchase related costs. The other purchase related costs have been written off directly to retained earnings. Of the shares purchased, a total of 2,139,443 shares were subsequently cancelled and the remaining 250,000 shares were held in treasury at 31 December 2007. 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 2007.

At 31 December 2007, the Company held a further 796,028 of its own shares (2006: 654,500), which were acquired at a total cost of €13,089,000 (2006: €8,137,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan (see Note 21). The Company's distributable reserves at 31 December 2007 are further restricted by this amount. In the year ended 31 December 2007, 183,472 shares originally valued at €1,763,000 were transferred from the long term incentive plan trust to beneficiaries of the Trust consequent to the vesting thereof (2006: 55,500 shares originally valued at €534,000).

Other reserves comprise the net foreign exchange translation differences together with a capital redemption reserve fund and a capital conversion reserve fund. The capital redemption reserve fund of €876,000 (2006: €662,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. During 2007, an amount of €214,000, representing the nominal value of the Company's own shares purchased by the Company and subsequently cancelled, was transferred from share capital to the capital redemption reserve fund. The capital conversion reserve fund of €260,000 (2006: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. The foreign exchange reserve at 31 December 2007 was €nil (2006: €1,000).

In 2007, an amount of €129,000 (2006: €243,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings.

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 €38.4m (2006: €25.1m).

20. 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)	17,142	11,665

Notes to the Consolidated Financial Statements

(continued)

21. Share schemes

Summary of share-based payments expense

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

	2007	2006
	€'000	€'000
Share option schemes	453	312
Sharesave scheme	268	274
Long Term Incentive Plan	4,035	2,598
Managers' Deferred Share Award Scheme	1,460	-
Total	6,216	3,184

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.

Summary of options outstanding

The total number of options outstanding at 31 December 2007 was 1,025,043 (2006: 946,684). These options had exercise prices ranging from €8.15 to €24.17 (2006: €1.16 to €14.80).

For the year ended 31 December 2007:

	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	57,000	-	-	(57,000)	-
Share option scheme	571,635	176,800	(3,000)	(69,000)	676,435
Sharesave scheme	318,049	64,628	(33,311)	(758)	348,608
Total	946,684	241,428	(36,311)	(126,758)	1,025,043

For the year ended 31 December 2006:

	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	384,000	-	-	(327,000)	57,000
Share option scheme	843,257	299,300	(57,041)	(513,881)	571,635
Sharesave scheme	265,331	105,025	(51,919)	(388)	318,049
Total	1,492,588	404,325	(108,960)	(841,269)	946,684

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(continued)

21. Share schemes (continued)

The Group has the following employee share schemes:

The Paddy Power plc May 2000 Executive Share Option Scheme (the 'Executive Share Option Scheme')

Under the May 2000 Executive Share Option Scheme, options over a total of 3,543,000 shares have been granted at an exercise price of €1.16 per share. These options were granted prior to 7 November 2002 and accordingly, do not fall within the scope of IFRS 2 'Share-based Payment'.

Since May 2000, options over 3,453,000 shares have been exercised and options over a further 90,000 shares have lapsed. No options over shares were outstanding at 31 December 2007 (2006: 57,000). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2006	Options exercised during year	Options outstanding at 31 December 2007	Earliest exercise date*	Exercise price	Market price at date of exercise
18,000	(18,000)	-	1 May 2004	€1.16	€17.15 - €20.47
39,000	(39,000)	-	1 May 2005	€1.16	€17.15 - €25.22
57,000	(57,000)	-			

* Share options lapse ten years after date of grant.

During 2006, 300,000 options were exercised at an exercise price of €1.16 when the market price was €13.35, 9,000 options were exercised at an exercise price of €1.16 when the market price was €15.07 and a further 18,000 options were exercised at an exercise price of €1.16 when the market price ranged from €12.70 to €13.10.

On 21 November 2000 the shareholders approved the termination of this scheme, and thus no further options may be granted pursuant to it.

The Paddy Power plc 2000 Restricted Share Scheme (the 'Restricted Scheme')

The Restricted Scheme was adopted by shareholders on 21 November 2000. Employees eligible to participate in the Restricted Scheme may not be participants in any other Company share option scheme (except for the Sharesave Scheme described below). In addition, to be eligible, a participant must have been an employee at 7 December 2000, must have had at least three years continuous service, and must have been listed in the allocation schedule attached to the Rules of the Restricted Scheme. The awards of shares granted under the Restricted Scheme were in the amounts of €3,175, €1,905 or €1,270 per eligible employee.

The shares cannot be sold within five years of the date of the award being granted. During this period of five years the shares are held by the Power Leisure Employee Benefit Trust for the benefit of the relevant employees.

At 31 December 2007, 36,283 ordinary shares (2006: 49,588) owned by employees were held on their behalf by Power Leisure Employee Benefit Trust.

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 is open to directors, other than non-executive directors, and employees. Options may be granted within a period of ten years from 7 December 2000 at the higher of nominal and current market value. Options may not be exercised earlier than three years from the date of grant and may only be exercised if the Group meets certain targets and any further condition on exercise which the Board determines to be appropriate. These targets require real growth (Consumer Price Index ('CPI') plus five percent compounded annually) in earnings per share of the Group over a period of not less than three years following the grant of an option. Since November 2000, 1,600,472 options have been granted under the scheme. Options granted before 7 November 2002 do not fall within the scope of IFRS 2 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

Notes to the Consolidated Financial Statements

(continued)

21. Share schemes (continued)

Since November 2000, options over 768,171 shares have been exercised and options over 155,866 shares have lapsed. Options over 676,435 shares were outstanding at 31 December 2007 (2006: 571,635), of which 100,635 were exercisable at 31 December 2007 (2006: 10,000). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2006	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2007	Earliest exercise date*	Exercise price	Market price at date of exercise
<i>Granted before 7 November 2002</i>							
10,000	-	-	(10,000)	-	July 2005	€5.25	€21.73 – €27.05
<i>Granted after 7 November 2002</i>							
53,951	-	-	(8,000)	45,951	February 2007	€8.15	€17.15
8,000	-	-	(8,000)	-	March 2007	€8.90	€22.40
84,000	-	-	(43,000)	41,000	June 2007	€9.43	€21.80 - €24.95
13,684	-	-	-	13,684	September 2007	€9.80	-
138,000	-	-	-	138,000	September 2008	€14.80	-
21,000	-	-	-	21,000	March 2009	€12.55	-
243,000	-	(3,000)	-	240,000	September 2009	€14.40	-
-	176,800	-	-	176,800	September 2010	€24.17	-
571,635	176,800	(3,000)	(69,000)	676,435			

* Share options lapse ten years after date of grant.

During 2006, 56,300 options at an exercise price of €12.55 and 243,000 options at an exercise price of €14.40 were granted. In 2006, options over 302,466 shares were exercised at an exercise price of €3.59 when the market price was between €14.10 and €14.60, 65,000 shares were exercised at an exercise price of €5.25 when the market price was between €12.80 and €14.15, options over 85,000 shares were exercised at an exercise price of €5.00 when the market price per share was between €14.15 and €16.29, options over 51,415 shares were exercised at an exercise price of €8.15 when the market price per share was between €15.40 and €15.55, and options over 10,000 shares were exercised at an exercise price of €9.43 when the market price per share was €15.95. During 2006, options in respect of 15,741 shares at an exercise price of €12.89 per share, options in respect of 6,000 shares at an exercise price of €14.80 per share and options in respect of 35,300 shares at an exercise price of €12.55 per share lapsed.

The fair value of share options granted under the above scheme during the year has been determined using a Black Scholes model and amounts to €669,000 (2006: €786,000). The significant inputs into the model were the share price at the grant date of €24.17 (2006: share prices for two grant dates of €12.55 and €14.40), the exercise price shown above, the standard deviation of expected share price returns of 25% (2006: 26%), the expected term as disclosed above, and an annual risk free rate of 4.06% (2006: 3.61%). 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 years.

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 may not exceed €320.

Options granted before 7 November 2002 do not fall within the scope of IFRS 2 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

Notes to the Consolidated Financial Statements

(continued)

21. Share schemes (continued)

Options outstanding at 31 December 2006	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2007	Earliest exercise date*	Exercise price
<i>Granted after 7 November 2002</i>						
215,284	-	(17,526)	(758)	197,000	October 2008	€11.60
96,197	-	(14,004)	-	82,193	December 2009 & December 2011	€11.29
6,568	-	(1,034)	-	5,534	December 2009 & December 2011	€12.04
-	57,999	(614)	-	57,385	December 2010 & December 2012	€19.26
-	6,629	(133)	-	6,496	December 2010 & December 2012	€20.54
318,049	64,628	(33,311)	(758)	348,608		

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

During 2007, options over 758 shares were exercised when the market price ranged from €21.94 to €23.79.

In 2006, options over 98,457 shares at an exercise price of €11.29 and options over 6,568 shares at an exercise price of €12.04 were granted. Options over 388 shares were exercised during 2006 when the market price was €12.75. During 2006, options in respect of 672 shares at an exercise price of €4.95 per share, options in respect of 48,987 shares at an exercise price of €11.60 per share and options in respect of 2,260 shares at an exercise price of €11.29 lapsed.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €403,000 (2006: €374,000). The significant inputs into the model were the share price of €27.10 (2006: €15.05) at the grant date, the exercise prices of €19.26 and €20.54 (2006: €11.29 and €12.04), the standard deviation of expected share price returns of 26% (2006: 26%), the option life disclosed above, and an annual risk free rate of 4.09% (2006: 3.69%). The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's daily share price over the last three years.

Long Term Incentive Plan

On 22 June 2004, the 2004 Long Term Incentive Plan ('LTIP') for senior executives was adopted by the Shareholders, under which the directors can make conditional grants of a number of Company shares to each eligible executive. The grants are subject to the rules of the scheme. In accordance with the rules, the grant will vest if the growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) is achieved over the minimum vesting period of three years. To the extent the grant does not vest in full in respect of the minimum vesting period, the award will continue in effect in accordance with the rules and will vest if the growth target is met over the four year period measured from the commencement of the minimum vesting period. To the extent the award does not vest in full in respect of such four year period, the grant will continue in effect in accordance with the rules and will vest if the growth target is met over the five year period measured from the commencement of the minimum vesting period, provided, however, that to the extent the grant has not vested on or before the latest vest date specified above, the grant will automatically lapse in its entirety immediately following such date.

Until the vesting of the award in accordance with the rules of the scheme, the grantholder will have no rights over or in respect of the shares subject to the grant and on vesting, the grantholder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the scheme. The grants are not transferable. In relation to the awards of shares granted in 2005, the relevant growth target has been met and eligible awards are expected to vest. Upon the vesting of a share award, as part of the grantholders' rights they shall now receive a small number of additional shares purchased from the dividends received by the LTIP trustee in respect of those shares prior to the vesting date, regarded as a de facto part of the original share award.

During the year, awards of 260,000 and 59,000 shares (2006: 250,000 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €17.15 and €24.17, respectively (2006: €12.55 and €13.68). The total cost of this grant is estimated at €5,885,000 (2006: €3,234,000) and is expensed in the Group income statement over the minimum vesting period of the grant (being the expected term of the grant), i.e. three years. The operating profit for the year ended 31 December 2007 is stated after an LTIP charge of €4,035,000 (2006: €2,598,000).

Notes to the Consolidated Financial Statements

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21. Share schemes (continued)

During 2007, a total of 183,472 shares (2006: 55,500 shares) in respect of 2004 awards and related dividends were vested from the Trust to senior management. In 2006, as a result of the resignation of a director of the Company in 2005, an award of 30,000 shares granted in 2005 lapsed.

The Paddy Power plc Employee Benefit Trust (the 'Trust') was established to manage the Long Term Incentive Plan. Purchases of Paddy Power plc ordinary shares from the date of the establishment of the Trust to 31 December 2007 and shares vested from the Trust are shown below:

	Number of Paddy Power plc ordinary shares	Cost of purchase €'000
Purchased 28 June 2004	240,000	2,306
Purchased 18 May 2005 to 23 May 2005	190,000	2,623
Purchased 21 June 2006 to 28 June 2006	280,000	3,742
Total purchased to 31 December 2006	710,000	8,671
Vested from the Trust in 2006	(55,500)	(534)
Shares held by the Trust at 31 December 2006	654,500	8,137
Purchased 7 March 2007	260,000	5,138
Purchased 7 September 2007	65,000	1,577
	979,500	14,852
Vested from the Trust in 2007	(183,472)	(1,763)
Shares held by the Trust at 31 December 2007	796,028	13,089

The results of the Trust are included in the Paddy Power plc Company financial statements. The shares held by the Trust at the balance sheet date are shown as a deduction from equity in the consolidated balance sheet in accordance with the Group's accounting policy (see Note 19).

Managers' Deferred Share Award Scheme

As a means of rewarding strong performance in 2007 and retaining some key members of staff, in December 2007 the Board approved the establishment of the Managers' Deferred Share Award Scheme (the 'Share Award Scheme'). Under the Share Award Scheme, 86,221 ordinary shares were conditionally granted to a small number of key Group employees (not including directors) on 20 December 2007 when the Company's share price was €23.14. The award was conditional on the achievement of profitability targets in respect of 2007 and there is no further performance vesting condition under the scheme rules. Employees will only become entitled to receive these shares if they remain employed by the Group until March 2011. Until the vesting of the award in accordance with the rules of the scheme, the grantholder will have no rights over or in respect of the shares subject to the grant. The grants are not transferable.

The total cost of this grant is estimated at €1,895,000. Of this amount, the estimated bonus element of the grant cost of €1,460,000 has been expensed in the year ended 31 December 2007, with the remaining €435,000 (being the estimated value of the staff retention element of the grant cost) to be expensed in the Group income statement over the three year vesting period of the grant.

Paddy Power 2004 Second Tier Option Scheme

On 22 June 2004, the shareholders approved the establishment of the Paddy Power 2004 Second Tier Option scheme, which allows the Company to grant options to employees, exercisable after a five year performance period, upon the achievement by the Company of exceptional performance levels. To be exercisable, the Company's earnings per share must grow during the five year performance period by at least the percentage increase in the Consumer Price Index plus ten percent compounded and the Company's earnings per share growth must be in the top quarter in performance terms of a specified peer group.

No options have been granted to date under this scheme to any Group employees.

General

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

Notes to the Consolidated Financial Statements

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22. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2007			31 December 2006		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	2007	2007	2007	2006	2006	2006
	€'000	€'000	€'000	€'000	€'000	€'000
Property plant and equipment	-	(265)	(265)	99	-	99
Lease premiums – income element	-	(98)	(98)	-	(196)	(196)
Employee benefits	713	-	713	292	-	292
Other	14	-	14	-	-	-
Net assets / (liabilities)	727	(363)	364	391	(196)	195

All of the above deferred tax balances are in respect of Irish corporation tax. The deferred tax assets and liabilities have been offset at 31 December 2007 as there is a legally enforceable right to such set-off.

Unrecognised deferred tax assets:

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2007	31 December 2006
	€'000	€'000
UK tax losses	2,646	2,842

A deferred tax asset has not been recognised in respect of the UK tax losses as it is not certain when taxable profits will be generated against which to offset these losses (see also Note 33).

Movement in temporary differences during the year:

	Balance at 1 January 2006	Recognised in income 2006	Balance at 31 December 2006	Recognised in income 2007	Balance at 31 December 2007
	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	(783)	882	99	(364)	(265)
Lease premiums – income element	(60)	(136)	(196)	98	(98)
Freehold and leasehold interest	156	(156)	-	-	-
Employee benefits	11	281	292	421	713
Other	-	-	-	14	14
	(676)	871	195	169	364

Notes to the Consolidated Financial Statements (continued)

23. Trade and other payables and derivative financial instruments

Current liabilities:

	31 December 2007	31 December 2006
	€'000	€'000
Trade and other payables:		
Trade payables	6,110	6,261
Customer balances	15,326	13,410
PAYE and social security	1,399	1,659
Value added tax	654	582
Betting duty	4,200	3,647
Accruals and other liabilities	24,161	19,457
	51,850	45,016
Derivative financial instruments:		
Sports betting open positions	3,556	2,848

Non current liabilities:

	31 December 2007	31 December 2006
	€'000	€'000
Trade and other payables:		
Accruals and other liabilities	3,685	1,247
Derivative financial instruments:		
Sports betting open positions	187	29

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 and loss.

The carrying amount of the liability 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.

24. 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	
	2007	2006
	€'000	€'000
Trade receivables	850	1,183
Sundry receivables	301	271
Cash and cash equivalents	87,885	87,061
	89,036	88,515

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

	2007	2006
	€'000	€'000
Ireland	100	126
United Kingdom	25	49
Other	725	1,008
	850	1,183

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(continued)

25. Liquidity risk

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

31 December 2007							
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	3-4 years	4 years and over
Non-derivative financial liabilities:							
Trade and other payables	55,535	56,194	51,782	67	537	2,673	1,135
Derivative financial liabilities:							
Sports betting open positions	3,743	3,743	3,181	375	187	-	-
	59,278	59,937	54,963	442	724	2,673	1,135

31 December 2006							
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	3-4 years	4 years and over
Non-derivative financial liabilities:							
Trade and other payables	46,263	46,263	45,016	-	-	84	1,163
Derivative financial liabilities:							
Sports betting open positions	2,877	2,877	2,446	402	29	-	-
	49,140	49,140	47,462	402	29	84	1,163

26. Currency risk

Currency risk exposure

As of 31 December 2007 and 31 December 2006, the Group's foreign currency risk exposure in respect of the principal foreign currencies in which the Group operates was as follows:

	31 December 2007				31 December 2006			
	Euro €'000	GBP €'000	USD €'000	Total Euro €'000	Euro €'000	GBP €'000	USD €'000	Total Euro €'000
Trade receivables	100	25	725	850	1,134	49	-	1,183
Cash and cash equivalents	76,360	10,572	953	87,885	69,931	17,130	-	87,061
Trade payables	(3,523)	(2,207)	(380)	(6,110)	(2,692)	(3,206)	(363)	(6,261)
Customer balances	(6,598)	(7,531)	(1,197)	(15,326)	(6,276)	(7,134)	-	(13,410)
Other payables (excluding accruals)	(3,751)	(2,502)	-	(6,253)	(3,389)	(2,499)	-	(5,888)
Gross balance sheet exposure	62,588	(1,643)	101	61,046	58,708	4,340	(363)	62,685

The Group had no forward foreign currency contracts or derivatives that are cash flow hedges in place at either 31 December 2007 or 2006.

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

To 1 Euro	Average rate		31 December (mid-spot rate)	
	2007	2006	2007	2006
1 GBP	0.6843	0.6818	0.7366	0.6712
1 USD	1.3705	1.2557	1.4709	1.3185

Notes to the Consolidated Financial Statements

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26. Currency risk (continued)

Sensitivity analysis

A ten percent strengthening and weakening of the euro against the following currencies at 31 December 2007 and 2006 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	10% decrease	10 % increase	10% decrease
	€'000	€'000	€'000	€'000
31 December 2007				
GBP	131	(160)	-	-
USD	(8)	10	-	-
31 December 2006				
GBP	(345)	422	-	-
USD	29	(35)	-	-

27. Interest rate risk

Profile

At 31 December 2007 and 31 December 2006, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	2007	2006
	€'000	€'000
Variable rate instruments		
Financial assets – cash at bank and on hand	5,922	7,670
Financial assets – short term bank deposits	81,963	79,391
	87,885	87,061

The Group had no fixed rate financial instruments at either 31 December 2007 or 2006.

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points ('bps') in interest rates at 31 December 2007 and 2006 would have increased / (decreased) profit 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	50 bps decrease	50 bps increase	50 bps decrease
	€'000	€'000	€'000	€'000
31 December 2007				
Variable rate instruments	307	(307)	-	-
31 December 2006				
Variable rate instruments	298	(298)	-	-

Notes to the Consolidated Financial Statements

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28. Fair values

Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities in the balance sheet:

	31 December 2007		31 December 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
	€'000	€'000	€'000	€'000
Trade and sundry receivables	1,151	1,151	1,454	1,454
Cash and cash equivalents	87,885	87,885	87,061	87,061
Derivative financial instruments	(3,743)	(3,743)	(2,877)	(2,877)
Trade and other payables	(55,535)	(55,535)	(46,263)	(46,263)
	29,758	29,758	39,375	39,375

Basis for determining fair values

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

Trade and sundry receivables

The fair value of trade and sundry receivables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

Cash and cash equivalents

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

Derivative financial instruments

Derivative financial instruments comprise sports betting open positions. 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.

Trade and other payables

Fair value is calculated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

29. Commitments and contingencies

(a) Guarantees

The Group has working capital overdraft facilities of €2.7m 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

Capital expenditure contracted for at the balance sheet date but not yet incurred was as follows:

	31 December 2007	31 December 2006
	€'000	€'000
Property, plant and equipment	569	115
Intangible assets	-	-
	569	115

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29. Commitments and contingencies (continued)

(c) Operating lease commitments

The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group had the following commitments in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2007		31 December 2006	
	Annual	Total	Annual	Total
	commitment	commitment	commitment	commitment
	€'000	€'000	€'000	€'000
Within 1 year	854	854	501	501
Between 2 and 5 years	1,377	4,102	1,209	4,102
After 5 years	9,386	153,128	8,583	147,433
	11,617	158,084	10,293	152,036

30. Related parties

There were no related party transactions other than those disclosed in Note 7.

31. Group entities

The Company had the following subsidiaries, all of which are 100% equity owned, at 31 December 2007:

	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited	United Kingdom	Bookmaker	5th Floor, Crowne House, 56-58 Southwark St, London SE1 1UN
Leisurebet Limited	Ireland	Non-trading	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Zephyr Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
KOR Enterprises	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Rexbury Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
QC Holdings Limited	Ireland	Non-trading	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Pridepark Developments Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Paddy Power Financials Limited	Ireland	Marketing services	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Paddy Power Call Centre Services Limited	Isle of Man	Call centre administration	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power Entertainment Limited	Isle of Man	Poker and gaming	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power Isle of Man Limited	Isle of Man	Bookmaker	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power Games Limited	Isle of Man	Non-trading	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power BCI Limited	Alderney	Non-trading	York House, Victoria Street, Alderney, GY9 3TA
Paddy Power Alderney Limited	Alderney	Non-trading	York House, Victoria Street, Alderney, GY9 3TA
Paddy Power Bookmakers (Malta) Limited	Malta	Non-trading	'Abacus', Suite 2, Psaila Street, St Venera, SVR 9017, Malta

In addition to the above subsidiaries, the Group utilises two employee trusts. Power Leisure Employee Benefit Trustee Limited, a company with a registered office at Airton House, Airton Road, Tallaght, Dublin 24, holds the shares of the Restricted Share Scheme. Paddy Power plc Employee Benefit Trust, with a registered address at PO Box 76, Wests Centre, St Helier, Jersey, JE4 8PQ, holds the shares under the share award schemes.

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32. Events after the balance sheet date

In respect of the current year, the directors propose that a final dividend of 35.00 cent per share (2006: 22.77 cent per share) will be paid to shareholders on 23 May 2008. 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 2008. The total estimated dividend to be paid amounts to €17,142,000 (2006: €11,665,000).

33. Accounting estimates and judgements

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

Goodwill of €5,473,000 (2006: €1,880,000) continues to be carried in the Group balance sheet as the directors believe that there has been no impairment in the fair value of the net identifiable assets of the acquired businesses. The key assumptions made in respect of goodwill are set out in Note 15.

The share-based payment reserve, which includes amounts in relation to the share award schemes and various share option schemes, amounted to €10,013,000 at 31 December 2007 (2006: €5,613,000). The fair value of share options granted after 7 November 2002 has been determined using a Black Scholes valuation model. The significant inputs into the model include certain management assumptions with regard to the standard deviation of expected share price returns, expected option life and annual risk free rates. These assumptions are set out in Note 21.

The fair value of the Group's sports betting open positions amounted to €3,743,000 at 31 December 2007 (2006: €2,877,000) and the Group considers such arrangements to be derivative. The Group performs a revaluation of sports betting open positions at each balance sheet date. The revaluation takes into account the expected probability of such open positions resulting in a gain or loss to the Group in the future, and is dependent on factors that cannot always be reliably predicted.

The majority of the Group's retail premises are held under operating leases. Under accounting standards there is a requirement for management to examine the buildings element within such operating leases to determine if the lease meets the definition of a finance lease and, if so, it should be accounted for as such. This review involves determining the fair value of each property at the inception of the lease and analysing the minimum lease payments between their 'land' and 'buildings' elements. Based on management's review of operating leases for the years ended 31 December 2007 and 2006, all retail premises leases qualify as operating leases.

A potential deferred tax asset of €2,646,000 (2006: €2,842,000) relating to the UK retail business (see Note 22) has not been recognised as of 31 December 2007. Management continue to believe that there is considerable uncertainty as to the future profitability of the UK retail business and the timing of that profitability due to future business expansion plans. Management therefore deem it prudent not to recognise the potential deferred tax asset as at 31 December 2007.