

# 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 the first page of this Annual Report.

The consolidated financial statements of the Group for the year ended 31 December 2008 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 27 February 2009.

## 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 for accounting periods ending on or before 31 December 2008. 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 consolidated financial statements are those that were effective for accounting periods ending on or before 31 December 2008. The IASB and the International Financial Reporting Interpretations Committee ('IFRIC') have issued the following standards and interpretations which were effective for the Group in the year ended 31 December 2008:

- IFRIC Interpretation 14 IAS 19, 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. This had no impact on Group reporting.
- IAS 39, 'Reclassification of Financial Assets and related IFRS 7 amendments'. This had no significant impact on Group reporting.
- IFRIC Interpretation 12, 'Service Concession Arrangements'. This had no impact on Group reporting.

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' introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segmental information in respect of its business and geographical segments (see Note 4). The directors believe that the implementation of this standard will increase the number of segments for which information is presented from the current classification of non retail and retail, and the current geographical segment information will no longer be required. The standard focuses on disclosure and will have no impact on recognition and measurement.
- IFRIC Interpretation 13, 'Customer Loyalty Programmes' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IAS 23, 'Borrowing Costs' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Amendments to IAS 1, 'Presentation of Financial Statements: A Revised Presentation' (effective for the Group's 2009 consolidated financial statements). This amendment will result in some presentational changes to the Group financial statements.

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

- Amendments to IFRS 2, 'Share-based Payments: Vesting Conditions and Cancellations' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have a material impact on Group reporting.
- Amendments to IAS 32 and IAS 1, 'Puttable Financial instruments and Obligations arising on Liquidation' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC Interpretation 15, 'Agreements for the Construction of Real Estate' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC Interpretation 16, 'Hedges of a Net Investment in a Foreign Operation' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC Interpretation 17, 'Distributions of Non-cash Assets to Owners' (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Revised IFRS 3, 'Business Combinations (2008)' (effective for the Group's 2010 consolidated financial statements) will impact on the amounts recorded in goodwill and in the income statement for business combinations, and incorporates the following changes that are likely to be relevant to the Group's operations:
  - o The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - o Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - o Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - o Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - o Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement': Eligible Hedged Items (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on 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 32:

- Note 14 – measurement of the recoverable amounts of cash-generating units containing goodwill and indefinite life licence intangible assets.
- Note 15 – business combinations.
- Note 20 – measurement of share-based payments.
- Note 21 – utilisation of UK tax losses.

# 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, peer to peer games including online poker and bingo, and financial spread betting. 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 and financial spread betting on which commission income and tournament fees are earned, are classified as derivative financial instruments.

Income from retail, online sportsbook and telephone betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end.

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

Income from peer to peer games and financial spread betting 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 financial statements.

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 non retail and retail are the primary reporting segments.

### Foreign currency

#### *Functional and presentation currency*

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

#### *Foreign currency transactions*

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

#### *Financial statements of foreign operations*

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

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

### 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.

### 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 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 relationships, are capitalised at cost and amortised over their estimated useful economic lives on a straight line basis, with the exception of customer relationships 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 relationships represent the fair value of customer lists acquired as part of purchases of other businesses.

# Notes to the Consolidated Financial Statements

(continued)

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

### Intangible assets (continued)

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

Computer software	3 - 5 years
Licences - shop licences and EPOS software licences	5 - 20 years
Customer relationships	5 years

The licences intangible assets recognised on the acquisition of the D McGranaghan Limited business are not amortised for the reasons set out in Note 13.

### 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 or that have an indefinite life 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.

### Non-derivative financial instruments

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

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

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

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

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

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.

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

### 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.

#### *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 and/ or future service periods. 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.

# Notes to the Consolidated Financial Statements

(continued)

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

### Share capital

#### *Ordinary shares*

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

#### *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 31.

### 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.

### 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 23 to 28.

### 3. Financial risk management (continued)

#### 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. 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.

#### 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 within 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 under 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 sportsbook 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. The profits and losses recorded on sportsbook hedging activities are recorded in 'income' in the income statement.

#### *Foreign currency risk*

The Group is exposed to currency risk in respect of income, expenses, receivables, cash 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. Subject to Investment Committee approval, the Group may make use of forward contracts, planned imbalances between foreign currency denominated liabilities and assets, and derivatives to manage foreign currency risks on expected future net cash flows. During the years ended 31 December 2008 and 2007, the Group did not utilise either foreign currency forward contracts or derivatives.

While the Group maintained a hedged balance sheet, as described in the preceding paragraph, during the year ended 31 December 2008, its foreign currency denominated income and expense remained un-hedged during the year. The average GBP exchange rate against the euro fell by approximately 14% in 2008 versus 2007, while the USD exchange rate fell by approximately 7%. The appreciation in the value of the euro against these two currencies adversely impacted the Group's profit for the year ended 31 December 2008 by approximately €5.0m, contributed primarily from the decrease in the value of the GBP.

The loss on retranslation of cash and cash equivalent balances in the year ended 31 December 2008 was €3,605,000 (2007: €1,279,000). This loss has been included within 'other expenses' in the income statement rather than as a financial expense, as the directors consider that the loss relates to operations as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised (as described above). Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the cash flow statement.

#### *Interest rate risk*

The Group had no borrowings at either 31 December 2008 or 2007, and consequently there has been no requirement to manage interest rate risk on borrowings. Excess cash funds are 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 on the terms over which cash can be placed on deposit. As a consequence of the financial market instability in 2008 and to minimise the credit risk of cash deposits, the Group at times reduced the average maturity period of deposits placed. This has some adverse impact on the interest rate earned on deposits. While the Group was able to take advantage of the higher interest rate premiums being offered by banks during 2008, significant reductions in both the European Central Bank (euro) and Bank of England (GBP) interest rates in the second half of the year negatively impacted interest earned. The Group was however able to maintain an average interest rate on its cash deposits in 2008 that was broadly in line with that earned in 2007.

# 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 suppliers.

#### *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 Aa2 or higher and a Moody's (or equivalent) short term credit rating of P1, unless otherwise specifically approved (as at the date of this report there are specific approvals for a number of Aa3 rated banks). A list of approved counterparties is maintained by the Group. There are also limits on the percentage of total cash on deposit that can be invested with an individual counterparty. Management does not expect any counterparty to fail to meet its obligations as of the balance sheet date and the date of this report. There are also restrictions on the types of cash products that can be invested in.

During 2008, in response to the turmoil in the financial markets, the Group at certain times restricted its cash deposit investments to counterparties that had AAA or Aa1 long term credit ratings and shortened the maturities of deposits placed. The Group continues to closely monitor counterparty risk, using rating agency credit ratings, traded Credit Default Swap ('CDS') spread prices and other public information, and to take action to mitigate such risks as are identified.

#### *Guarantees*

The Group policy is to only provide guarantees in respect of certain commitments of wholly-owned subsidiaries of the Group. The guarantees entered into are generally in respect of certain third party obligations of subsidiaries, such as overdraft facilities. As of 31 December 2008, there were no amounts outstanding in the consolidated financial statements under these guarantees (2007: €nil).

During 2008, the Group put in place certain third party bank guarantees in favour of the Isle of Man and Maltese gambling regulatory bodies. These guarantees (which are more fully described in Note 28) are required by the terms of gambling licences and cover the value of player funds held by certain Group companies.

### 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 2008 and 2007 is set out in Note 17. It is the directors' belief that the Group's cash deposit balances can be withdrawn without significant penalty.

The Group has the following lines of credit:

- Unsecured bank overdraft facilities for working capital purposes totalling €7.5m. Interest is payable thereon at the bank's prime overdraft rate. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of Allied Irish Banks plc.
- Unsecured bank overdraft facility for working capital purposes totalling Stg£6.5m (euro equivalent €6.8m). Interest is payable thereon at the bank's sterling base rate plus 0.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of AIB Group (UK) plc.

At 31 December 2008, none of these facilities were being utilised.

### 3. Financial risk management (continued)

#### 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 financing and capital structure is kept under review by the Board. The Board is committed to capital discipline, however in the current environment a strong cash balance gives Paddy Power financial strength and flexibility for expansion organically or via acquisition, thereby creating more opportunity for the Group. While the Board does not rule out further share buybacks, retention of cash has therefore become more attractive.

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. During 2008, the Group acquired 1,484,000 Paddy Power plc ordinary shares (2007: 2,389,443 ordinary shares) (see Note 18). Shares bought back may either be cancelled or held in treasury. Since the start of the Group's share buyback programme, a total of 3,873,443 of the Company's own shares have been bought back, of which 2,139,443 were cancelled and the remaining 1,734,000 are 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.

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

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

In the year ended 31 December 2008, the Group earned a return on capital of 56% and a return of 55% when the exceptional item is excluded (2007: 51%). Capital is defined by the Group as total shareholders' equity.

### 4. Segmental information

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 2008 and 2007 is analysed as follows:

	2008 €'000	2007 €'000
Income in respect of sportsbook and gaming activities	270,370	265,582
Other commission revenue (included in non retail income)	13,287	13,370
<b>Total income</b>	<b>283,657</b>	<b>278,952</b>

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 financial spread betting and, as these activities do not involve customers taking a direct position against the Group, such revenue is not classified as income from derivative financial instruments.

#### (a) By business segment

The Group considers its primary business segments to be 'non retail' and 'retail'. The non retail business segment comprises the Group's online and telephone sports betting businesses and its online gaming businesses, primarily casino, games, poker, bingo and financial spread betting. The retail business segment comprises the Group's Irish and UK (including Northern Ireland) licensed bookmaking shops.

# Notes to the Consolidated Financial Statements

(continued)

## 4. Segmental information (continued)

Business segment information for the year ended 31 December 2008:

	Non retail 31/12/08 €'000	Retail 31/12/08 €'000	Other unallocated 31/12/08 €'000	Total 31/12/08 €'000
Income	126,829	156,828	-	283,657
Direct betting costs before exceptional item	(14,574)	(15,401)	-	(29,975)
Gross profit before exceptional item	112,255	141,427	-	253,682
Depreciation and amortisation	(2,718)	(14,105)	(96)	(16,919)
Other operating expenses	(58,691)	(95,821)	(6,556)	(161,068)
Operating profit before exceptional item	50,846	31,501	(6,652)	75,695
Exceptional item	-	2,735	-	2,735
Operating profit	50,846	34,236	(6,652)	78,430
Financial income	-	-	3,297	3,297
Profit before tax	50,846	34,236	(3,355)	81,727
Total assets	15,658	104,541	78,003	198,202
Segment liabilities	30,933	25,706	14,323	70,962
Capital expenditure	4,068	13,097	4	17,169

Business segment information for the year ended 31 December 2007:

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

The amounts shown in the 'other unallocated' category above, representing items that cannot be allocated to either the non retail or 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 (Great Britain and Northern Ireland) retail bookmaking businesses, online and telephone sports betting from UK customers, and online gaming from UK customers.

	Ireland & other 31/12/08 €'000	Ireland & other 31/12/07 €'000	UK 31/12/08 €'000	UK 31/12/07 €'000	Total 31/12/08 €'000	Total 31/12/07 €'000
Income	186,953	188,407	96,704	90,545	283,657	278,952
Segment assets	148,660	128,331	49,542	48,976	198,202	177,307
Capital expenditure	11,324	11,787	5,845	1,434	17,169	13,221

#### 4. Segmental information (continued)

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

	2008 €'000	2007 €'000
<b>Amounts staked by customers</b>		
Online	694,884	629,671
Retail – Ireland	935,383	930,005
Retail – UK	173,546	171,497
Telephone	297,113	296,604
	<b>2,100,926</b>	<b>2,027,777</b>
<b>Income</b>		
Online (including commission revenue)	105,695	94,794
Retail – Ireland	124,276	126,086
Retail – UK	32,552	31,029
Telephone	21,134	27,043
	<b>283,657</b>	<b>278,952</b>
<b>Gross profit before exceptional item</b>		
Online	91,151	75,394
Retail – Ireland	114,433	116,451
Retail – UK	26,994	25,784
Telephone	21,104	24,789
	<b>253,682</b>	<b>242,418</b>
<b>Operating profit before exceptional item</b>		
Online	42,806	31,962
Retail – Ireland	28,275	34,607
Retail – UK	1,197	(904)
Telephone	3,417	6,441
	<b>75,695</b>	<b>72,106</b>

#### 5. Direct betting costs

Direct betting costs comprise:

	2008 €'000	2007 €'000
Betting taxes	12,862	18,263
Software supplier costs	10,534	8,711
Other direct betting costs	6,579	9,560
Direct betting costs before exceptional item	29,975	36,534
Less: Exceptional item – refund of VAT relating to British Horseracing Board levies (see below)	(2,735)	-
Direct betting costs after exceptional item	27,240	36,534

Betting taxes comprise taxes levied on gross win and tax levied on Irish retail amounts staked. The reduction in betting taxes paid in 2008 as compared to 2007 is due to a restructuring of certain of the Group's non retail operations in 2007.

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

Other direct betting costs comprise payments to third parties for new online customers acquired, data rights which mainly comprise costs incurred in respect of British Horseracing Board and UK statutory levies, prize and tournament costs and other miscellaneous direct betting costs.

##### Exceptional item – refund of VAT relating to British Horseracing Board levies

The exceptional item relates to a refund received of Irish value added tax ('VAT'), originally paid to the Irish Revenue Commissioners in respect of prior periods, on certain British Horseracing Board levies charged by BHB Enterprises plc to the Irish retail business segment. The refund follows a determination that Irish VAT was not in fact due on those levies.

# Notes to the Consolidated Financial Statements

(continued)

## 6. Employee expenses and numbers

	2008 €'000	2007 €'000
Wages and salaries	66,029	60,585
Social security costs	6,315	5,639
Defined contribution pension and life assurance costs	2,007	1,672
Share-based payments (Note 20)	6,874	6,216
Other staff costs	4,375	4,778
	<b>85,600</b>	<b>78,890</b>

	2008	2007
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	<b>1,787</b>	1,536

## 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 2008 €'000	Total 2007 €'000
<b>Executive</b>							
Patrick Kennedy	-	668	200	40	485	1,393	1,334
Breon Corcoran	-	452	68	16	283	819	704
Jack Massey	-	292	58	29	172	551	488
<b>Non-executive</b>							
Fintan Drury (1)	200	-	-	-	-	200	160
Tom Grace (2)	90	-	-	-	-	90	65
Stewart Kenny	70	-	-	-	-	70	55
Nigel Northridge	70	-	-	-	-	70	55
Pádraig Ó Ríordáin (3)	37	-	-	-	-	37	-
David Power (4)	90	-	-	-	-	90	75
Brody Sweeney	70	-	-	-	-	70	55
	<b>627</b>	<b>1,412</b>	<b>326</b>	<b>85</b>	<b>940</b>	<b>3,390</b>	2,991
Cost of shares vested from Long Term Incentive Plan	-	-	-	-	-	<b>1,918</b>	294
	<b>627</b>	<b>1,412</b>	<b>326</b>	<b>85</b>	<b>940</b>	<b>5,308</b>	3,285

- Fintan Drury was Chairman of the Company during the years ended 31 December 2008 and 2007.
- Tom Grace is Chairman of the Audit Committee.
- Pádraig Ó Ríordáin was appointed to the Board on 8 July 2008 and was appointed as Chairman of the Remuneration Committee on 21 August 2008.
- David Power was Chairman of the Remuneration Committee until 21 August 2008 and is Chairman of the Risk Committee.
- Patrick Kennedy was appointed as a non-executive director of Elan Corporation, plc in May 2008 for which he received fees of €25,000 in the year ended 31 December 2008. He was also conditionally awarded 20,000 options over Elan Corporation, plc shares, whose earliest and latest exercise dates are 22 May 2009 and 21 May 2018, respectively.

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 20). 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 27.

### 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 27. 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.

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

In addition to the directors' emoluments disclosed above, in the year ended 31 December 2008 directors were paid the amounts set out below:

Stewart Kenny received €80,000 (2007: €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 winning €93,700 (2007: losing €8,505) with Richard Power On-Course Bookmakers and that firm placed bets with the Group losing €74,426 (2007: losing €15,809).

The Group paid rent of €38,727 (2007: €38,727) during the year for retail properties owned by David Power and occupied by the Group under long term leases.

Pádraig Ó Ríordáin is Managing Partner of Arthur Cox. During the year ended 31 December 2008 and since his appointment as a director on 8 July 2008, the Group incurred fees of €58,000 relating to legal and taxation advice received from Arthur Cox.

### *Transactions with key management personnel comprising executive and other senior management*

Key management personnel compensation is as follows:

	2008 €'000	2007 €'000
Wages and salaries	4,388	4,260
Social security costs	678	577
Defined contribution pension and life assurance costs	550	588
Provision for executive director long term incentive bonus plan (1)	-	601
Share-based payments	4,173	3,579
Other staff costs	209	227
	<b>9,998</b>	<b>9,832</b>

	2008 €'000	2007 €'000
Executive directors (excluding share-based payments)	2,763	2,526
Other key management personnel	2,384	2,549
Provision for executive director long term incentive bonus plan (1)	-	601
Social security costs	678	577
Share-based payments	4,173	3,579
	<b>9,998</b>	<b>9,832</b>

(1) An amount of €601,000, accrued by the Group 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 54. No further accrual was made for liabilities under this plan during the year ended 31 December 2008. As set out in the Remuneration Committee Report on page 34, 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. Financial income and expense

	2008 €'000	2007 €'000
Recognised in profit or loss:		
Financial income:		
Interest income on short term bank deposits	3,297	3,722

# Notes to the Consolidated Financial Statements

(continued)

## 9. Statutory and other information

	2008 €'000	2007 €'000
Directors' emoluments	5,308	3,285
Auditor's remuneration for audit services (including value added tax)	165	165
Depreciation	14,214	15,445
Impairment charges – property, plant and equipment	643	1,940
Impairment reversals – property, plant and equipment	(595)	-
Amortisation of intangible assets	2,660	3,161
Impairment charges – intangible assets	43	302
Impairment reversals – intangible assets	(46)	-
Loss on disposal of property, plant and equipment and intangible assets	418	211
Operating lease rentals, principally premises	13,255	11,678
Operating lease income (representing sub-lease income)	(182)	(164)

Amounts paid to the auditor in respect of non-audit services, comprising tax and advisory fees and including value added tax, were €454,000 (2007: €147,000).

## 10. Income tax expense

	2008 €'000	2007 €'000
Recognised in the income statement:		
Current tax charge	13,771	13,336
Prior year under / (over) provision	84	(117)
	13,855	13,219
Deferred tax (credit)	(573)	(169)
Prior year (over) provision	(372)	-
(Decrease) in deferred tax (Note 21)	(945)	(169)
Total income tax expense in income statement	12,910	13,050

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:

	2008 €'000	2007 €'000
Profit before tax	81,727	75,828
Tax on Group profit before tax at the standard		
Irish corporation tax rate of 12.5% (2007: 12.5%)	12.5% 10,216	12.5% 9,479
Depreciation on non-qualifying property, plant and equipment	1.5% 1,246	2.1% 1,576
Betting duty	1.4% 1,180	1.5% 1,165
Effect of different statutory tax rates in overseas jurisdictions	(0.6%) (475)	0.0% -
Other differences	0.9% 709	0.6% 475
Interest income taxable at the higher rates	0.4% 322	0.6% 472
(Over) provision in prior year	(0.3%) (288)	(0.1%) (117)
Total income tax expense	15.8% 12,910	17.2% 13,050

No corporation tax is payable in respect of the Group's retail operations in Great Britain due to the availability of tax losses. A deferred tax asset of €2,380,000 (2007: €2,646,000) 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 or the UK.

## 11. Earnings per share

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

	2008	2007
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	<b>68,817</b>	62,778
Numerator in respect of adjusted earnings per share (€'000):		
Profit attributable to equity holders of the Company	<b>68,817</b>	62,778
Less: Exceptional item - BHB VAT refund after tax (Note 5)	<b>(2,467)</b>	-
Profit for adjusted earnings per share calculation	<b>66,350</b>	62,778
Denominator in respect of basic earnings per share:		
Ordinary shares in issue at beginning of year	<b>48,975,752</b>	51,238,437
Adjustments for weighted average number of:		
- ordinary shares issued during year	<b>4,703</b>	65,971
- ordinary shares purchased and cancelled or held in treasury	<b>(793,104)</b>	(1,317,283)
- ordinary shares held by long term incentive plan trust	<b>(957,798)</b>	(727,302)
Weighted average number of ordinary shares	<b>47,229,553</b>	49,259,823
Basic earnings per share	<b>€1.457</b>	€1.274
Adjusted earnings per share	<b>€1.405</b>	n/a
Denominator in respect of diluted earnings per share:		
Basic weighted average number of ordinary shares in issue during year	<b>47,229,553</b>	49,259,823
Adjustments for dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and share award schemes	<b>921,123</b>	871,785
Weighted average number of ordinary shares	<b>48,150,676</b>	50,131,608
Diluted earnings per share	<b>€1.429</b>	€1.252
Adjusted diluted earnings per share	<b>€1.378</b>	n/a

# Notes to the Consolidated Financial Statements

(continued)

## 12. Property, plant and equipment

	Land, buildings & leasehold improvements €'000	Fixtures & fittings €'000	Computer equipment €'000	Motor vehicles €'000	Total €'000
<b>Cost</b>					
Balance at 1 January 2007	45,757	63,240	15,158	1,106	125,261
Additions	2,495	5,677	2,088	200	10,460
Additions – business combinations (Note 15)	208	238	-	-	446
Disposals	(170)	(485)	(6)	(383)	(1,044)
Balance at 31 December 2007	48,290	68,670	17,240	923	135,123
Additions	2,780	8,696	1,793	372	13,641
Additions – business combinations (Note 15)	-	36	-	-	36
Disposals	(238)	(1,031)	(3)	(132)	(1,404)
Foreign currency retranslation adjustment	(50)	(271)	(29)	-	(350)
Balance at 31 December 2008	<b>50,782</b>	<b>76,100</b>	<b>19,001</b>	<b>1,163</b>	<b>147,046</b>
<b>Accumulated depreciation</b>					
Balance at 1 January 2007	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
Depreciation charges	2,115	9,156	2,765	178	14,214
Impairment charges / (credits)	(51)	100	(1)	-	48
Disposals	(52)	(782)	(3)	(87)	(924)
Foreign currency retranslation adjustment	(1)	(21)	(2)	-	(24)
Balance at 31 December 2008	<b>16,240</b>	<b>46,291</b>	<b>16,031</b>	<b>443</b>	<b>79,005</b>
<b>Net book value</b>					
At 31 December 2008	<b>34,542</b>	<b>29,809</b>	<b>2,970</b>	<b>720</b>	<b>68,041</b>
At 31 December 2007	34,061	30,832	3,968	571	69,432

The net book value of land, buildings and leasehold improvements at 31 December 2008 includes €30.1m (2007: €29.5m) in respect of leasehold improvements.

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. Assets relating to the closure are not classified as held for sale on grounds of immateriality. The pre-tax discount rate used to determine value in use was 10% (2007: 10%). The impairment charge of €48,000 recorded in the year ended 31 December 2008 includes €643,000 relating to new impairment charges and is stated net of impairment reversals of €595,000. 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.

### 13. Intangible assets

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

	Computer software €'000	Licences €'000	Customer relationships €'000	Total €'000
<b>Cost</b>				
Balance at 1 January 2007	12,452	3,815	-	16,267
Additions	2,539	222	-	2,761
Additions – business combinations (Note 15)	-	-	1,455	1,455
Transfer to goodwill (Note 14)	-	-	(1,455)	(1,455)
Disposals	(172)	(31)	-	(203)
Balance at 31 December 2007	14,819	4,006	-	18,825
Additions	3,188	340	-	3,528
Additions – business combinations (Note 15)	-	22,258	-	22,258
Disposals	-	-	-	-
Foreign currency retranslation adjustment	(2)	(8)	-	(10)
Balance at 31 December 2008	<b>18,005</b>	<b>26,596</b>	-	<b>44,601</b>
<b>Amortisation</b>				
Balance at 1 January 2007	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
Amortisation charges	2,270	544	(154)	2,660
Impairment charges / (credits)	3	(6)	-	(3)
Disposals	-	-	-	-
Foreign currency retranslation adjustment	-	(1)	-	(1)
Balance at 31 December 2008	<b>11,322</b>	<b>1,667</b>	-	<b>12,989</b>
<b>Net book value</b>				
At 31 December 2008	<b>6,683</b>	<b>24,929</b>	-	<b>31,612</b>
At 31 December 2007	5,770	2,876	(154)	8,492

IFRS 3, 'Business Combinations' permits fair values relating to business combinations to be finalised with 12 months of the acquisition date. The customer relationships intangible asset amounting to €1,455,000 recognised in the financial statements in respect of the year ended 31 December 2007 was deemed to have a €nil value on finalisation of the fair value accounting for 2007 licensed bookmaking shop acquisitions. Accordingly, the value of the customer relationships intangible asset has been transferred to goodwill and the year end 31 December 2007 balances have been restated accordingly (see also Note 14). Amortisation charged in respect of the customer relationships in the year ended 31 December 2007 of €154,000 has not been restated in 2007 on grounds of immateriality and the adjustment has been included as a credit against the depreciation and amortisation charge in respect of the year ended 31 December 2008.

The value of betting shop licences acquired as a result of the purchase of D McGranaghan Limited (see Note 15) are not being amortised as the directors consider these licences to have an indefinite life because:

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

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

Included in the impairment charges / (credits) in respect of the year ended 31 December 2008 is a credit of €3,000 (2007: charge of €157,000) relating to the retail business segment and €nil (2007: charge of €145,000) relating to the non retail business segment. The impairment credit in the year ended 31 December 2008 is comprised of new impairment charges of €43,000 and the reversal of previously recorded charges of €46,000. 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. Assets relating to the closure are not classified as held for sale on grounds of immateriality. 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% (2007: 10%). The impairment charges are included in 'depreciation and amortisation' in the consolidated income statement.

# Notes to the Consolidated Financial Statements

(continued)

## 14. Goodwill

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

	Irish retail restated €'000	UK retail €'000	Total restated €'000
Balance at 1 January 2007	904	976	1,880
Arising on acquisitions during the year (Note 15)	3,593	-	3,593
Transfer from intangible assets (Note 13)	1,455	-	1,455
Balance at 31 December 2007	5,952	976	6,928
Arising on acquisitions during the year (Note 15)	-	8,104	8,104
Other final fair value adjustments relating to 2007 acquisitions	(29)	-	(29)
Balance at 31 December 2008	<b>5,923</b>	<b>9,080</b>	<b>15,003</b>

As stated in Note 13 and in accordance with IFRS 3, 'Business Combinations', comparatives for the year ended 31 December 2007 have been restated to reflect the finalisation of fair values relating to 2007 business combinations.

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 15).

Goodwill on UK retail properties arose from the acquisition of two London bookmaking businesses in 2004 and the acquisition of a retail bookmaking company in Northern Ireland in May 2008 (see Note 15).

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

In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2008.

The retail divisions in Ireland and the UK include the following amounts in respect of goodwill and indefinite life intangible assets (comprising licences acquired as part of the purchase of the D McGranaghan Limited business in the year ended 31 December 2008 – see Notes 13 and 15):

	31 December 2008 €'000	31 December 2007 restated €'000
Irish retail – amalgamation of three bookmaking businesses in 1988	904	904
Irish retail – acquisition of three bookmakers in 2007	5,019	5,048
UK retail – 2004 acquisitions	976	976
UK retail – Northern Ireland acquisition 2008	8,104	-
Total	<b>15,003</b>	6,928
UK retail – Northern Ireland acquisition 2008	22,258	-
Total	<b>37,261</b>	6,928

The details of the impairment reviews in respect of the businesses above as of 31 December 2008 are presented below:

	31 December 2008 €'000	31 December 2007 €'000
Irish retail – amalgamation of three bookmaking businesses in 1988	<b>904</b>	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 flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2007: 3%) per annum and is based on an weighted average income growth rate of 3% (2007: 4%) and a gross win of 14% (2007: 14%), 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. 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% (2007: 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.

## 14. Goodwill (continued)

	31 December 2008 €'000	31 December 2007 <i>restated</i> €'000
Irish retail – acquisition of three bookmakers in 2007	<b>5,019</b>	5,048

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 flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2007: 2%) per annum and is based on a weighted average income growth rate of 3% (2007: 4%) and a gross win of 13% (2007: 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. 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% (2007: 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.

	31 December 2008 €'000	31 December 2007 €'000
UK retail – 2004 acquisitions	<b>976</b>	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 flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2007: 3%) per annum and is based on a weighted average income growth rate of 3% (2007: 4%) and a gross win of 13% (2007: 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. 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% (2007: 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.

	31 December 2008 €'000	31 December 2007 €'000
UK retail – Northern Ireland acquisition 2008	<b>30,362</b>	-

The recoverable amount of the D McGranaghan Limited 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 flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% per annum and is based on a weighted average income growth rate of 4% and a gross win of 12%, which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10%, 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 D McGranaghan Limited goodwill and licences recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

# Notes to the Consolidated Financial Statements

(continued)

## 14. Goodwill (continued)

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 - 1988 amalgamation	Irish retail - 2007 acquisitions	UK retail - 2004 acquisitions	UK Retail - NI acquisition 2008
Growth in number of bets per annum (on compound annual growth rate basis)	1%	1%	0%	2%
Growth in average stake per bet per annum (on compound annual growth rate basis)	1%	1%	1%	1%
Gross win % (average and as percentage of amounts staked)	14%	13%	12% - 13%	12%
Cost of sales % (of amounts staked)	2%	2%	4%	2%
Cost inflation per annum	2%	1% - 3%	1% - 3%	2% - 3%

The assumptions above are based on past experience, management's expectations for market development, growth in market share, gross win margin percentages 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 market conditions applicable to the Group and to the particular cash generating units being reviewed.

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

## 15. Business combinations

### D McGranaghan Limited

In May 2008, the Group acquired 100% of the share capital of D McGranaghan Limited, a company operating eight retail licensed betting shops and a telephone betting business, primarily in the Belfast area of Northern Ireland.

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

	Book value on acquisition €'000	Fair value adjustments €'000	Fair values 31 December 2008 €'000
Identifiable net assets acquired:			
Property, plant and equipment	468	(432)	36
Intangible assets - licences	-	22,258	22,258
Cash and cash equivalents	2,427	-	2,427
Other net current liabilities	(663)	-	(663)
Deferred income tax liability	(38)	(6,232)	(6,270)
	2,194	15,594	17,788
Goodwill arising on acquisition			8,104
Consideration (including associated purchase costs)			25,892

The net cash consideration is analysed as:

Cash consideration before acquisition expenses	25,493
Acquisition expenses	399
Cash consideration	25,892
Cash acquired	(2,427)
Net cash outflow	23,465

**15. Business combinations** (continued)

The value attributed to goodwill reflects both the low fair values of the property, plant and equipment acquired as part of the purchase due to the required post-acquisition re-branding of the shops, and the deferred tax liability arising on the value of the licences intangible assets recognised on application of fair value accounting to the business combination.

Since the date of acquisition to 31 December 2008, the acquired business contributed €22.1m, €2.7m and €0.7m to amounts staked, income and operating profit, respectively.

Since the date of acquisition to 31 December 2008, the acquired business contributed a cash inflow of €0.7m to net cash from operating activities and a cash outflow of €2.0m to net cash used in investing activities.

If the acquisition had occurred on 1 January 2008, then its contribution to income for the year ended 31 December 2008 would have been €4.9m (including the €2.7m actually contributed) and its contribution to operating profit (excluding sale and other related costs) for the year ended 31 December 2008 would have been €1.4m (including the €0.7m actually contributed).

**Final fair value adjustments relating to 2007 acquisitions**

The following adjustments were made to the fair value of net assets acquired in 2007 in the year ended 31 December 2008, following finalisation of the fair valuation of those acquisitions:

	Cost on acquisition €'000	Final fair value adjustments €'000	Final fair values 31 December 2008 €'000	Final fair values 31 December 2007 €'000	Provisional fair values 31 December 2007 €'000
Identifiable net assets acquired:					
Property, plant and equipment	800	(354)	446	446	446
Intangible assets – customer relationships	-	-	-	-	1,455
	800	(354)	446	446	1,901
Goodwill arising on acquisition – provisional					3,593
Goodwill arising on acquisition - final			5,019	5,048	
Consideration (including associated purchase costs)			5,465	5,494	5,494

On finalisation of the fair value accounting for the Irish retail bookmaking shops acquired in the year ended 31 December 2007, the customer relationships intangible asset relating to a telephone betting business acquired as part of the purchase of a retail bookmaking chain, provisionally valued at €1,455,000 at 31 December 2007, was valued at €nil.

**Net cash outflow from purchase of businesses and acquisition expenses for the purposes of the cash flow statement:**

	2008 €'000	2007 €'000
Cash consideration – acquisitions in year	25,493	5,155
Acquisition expenses paid	399	260
Foreign currency translation adjustment	65	-
Less: cash and cash equivalents acquired – acquisitions in year	(2,427)	-
	23,530	5,415
Payments made in respect of expenses accrued for 2007 acquisitions	50	-
Purchase of businesses	23,580	5,415
Analysed for the purposes of the cash flow statement as:		
Purchase of businesses, net of cash acquired	23,181	5,155
Acquisition expenses paid	399	260
	23,580	5,415

## Notes to the Consolidated Financial Statements

(continued)

### 16. Trade and other receivables

	31 December 2008 €'000	31 December 2007 €'000
Other receivables	1,015	894
Prepayments and accrued income	4,626	3,312
	<b>5,641</b>	<b>4,206</b>

Trade and other receivables are non-interest bearing.

### 17. Cash and cash equivalents

	31 December 2008 €'000	31 December 2007 €'000
Cash at bank and on hand	10,414	5,922
Short term bank deposits	66,247	81,963
Cash and cash equivalents in the cash flow statement	<b>76,661</b>	<b>87,885</b>

The effective interest rate on short term bank deposits was 3.31% (2007: 4.76%); these deposits have an average original maturity date of 50 days (2007: 43 days). The short term bank deposits have an average maturity date of 39 days from 31 December 2008 (2007: 17 days).

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

Short term bank deposits are analysed by currency as follows:

	31 December 2008 €'000	31 December 2007 €'000
Euro	58,449	72,864
GBP	6,625	8,146
USD	1,173	953
	<b>66,247</b>	<b>81,963</b>

## 18. Share capital and reserves

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'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 2007	51,238,437	5,124	10,163	1	922	-	(8,137)	5,613	114,445	128,131
Shares issued (Note 20)	126,758	13	656	-	-	-	-	-	-	669
<i>Own shares acquired:</i>										
By the long term incentive plan trust - 325,000 ordinary shares (Note 20)	-	-	-	-	-	-	(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 - expense recorded in income statement	-	-	-	-	-	-	-	6,216	-	6,216
Equity-settled transactions - vestings	-	-	-	-	-	-	1,763	(1,687)	(43)	33
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	-	(129)	129	-
Dividends to shareholders (Note 19)	-	-	-	-	-	-	-	-	(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
Shares issued (Note 20)	44,990	4	499	-	-	-	-	-	-	503
<i>Own shares acquired:</i>										
By the long term incentive plan trust - 599,000 ordinary shares (Note 20)	-	-	-	-	-	-	(11,582)	-	-	(11,582)
By the Group - 1,484,000 ordinary shares	-	-	-	-	-	(28,202)	-	-	(352)	(28,554)
Total recognised income and expense	-	-	-	(346)	-	-	-	-	68,817	68,471
Equity-settled transactions - expense recorded in income statement	-	-	-	-	-	-	-	6,874	-	6,874
Equity-settled transactions - vestings	-	-	-	-	-	-	3,145	(3,033)	(44)	68
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	-	(121)	121	-
Dividends to shareholders (Note 19)	-	-	-	-	-	-	-	-	(25,902)	(25,902)
Balance at 31 December 2008	49,270,742	4,927	11,318	(346)	1,136	(34,177)	(21,526)	13,733	152,175	127,240

# Notes to the Consolidated Financial Statements

(continued)

## 18. Share capital and reserves (continued)

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2007: 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, 44,990 ordinary shares of €0.10 each (2007: 126,758 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for a total consideration of €503,000 (2007: €669,000), giving rise to a share premium of €499,000 (2007: €656,000).

During 2008, the Group also purchased 1,484,000 (2007: 2,389,443) of the Company's own shares on the market at prices ranging from €13.50 to €22.39 and at an average price of €19.00 (2007: prices ranged from €21.40 to €23.90 and at an average price of €22.42). The total cost of the shares purchased was €28,554,000, comprised of €28,202,000 for the shares themselves and a further €352,000 for other purchase related costs (2007: €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 in 2007 and 2008, a total of 2,139,443 shares were subsequently cancelled and the remaining 1,734,000 shares (which include all of the shares purchased in 2008) were held in treasury at 31 December 2008. All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to €34,177,000 as of 31 December 2008 (2007: €5,975,000). The value of treasury shares held by the Company at 31 December 2008 was €5,975,000 (2007: €5,975,000), with the remaining €28,202,000 of shares being held by Paddy Power Isle of Man Limited (2007: €nil).

At 31 December 2008, the Company held a further 1,166,855 of its own shares (2007: 796,028), which were acquired at a total cost of €21,526,000 (2007: €13,089,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan (see Note 20). The Company's distributable reserves at 31 December 2008 are further restricted by this cost amount. In the year ended 31 December 2008, 228,173 shares originally valued at €3,145,000 were transferred from the long term incentive plan trust to beneficiaries of the Trust consequent to the vesting thereof (2007: 183,472 shares originally valued at €1,763,000).

The foreign exchange translation reserve at 31 December 2008 was a deficit of €346,000 (2007: €nil) which arose from the retranslation of the Group's net investment in GBP functional currency subsidiary companies. Other reserves comprise a capital redemption reserve fund and a capital conversion reserve fund. The capital redemption reserve fund of €876,000 (2007: €876,000) 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 issued share capital to the capital redemption reserve fund. The capital conversion reserve fund of €260,000 (2007: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In 2008, an amount of €121,000 (2007: €129,000) 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 €70.5m (2007: €38.4m), which includes a €40.0m dividend receivable from a subsidiary company.

## 19. Dividends paid on equity shares

	2008 €'000	2007 €'000
Ordinary shares:		
- final paid of 35.00 cent per share (2007: 22.77 cent)	<b>17,054</b>	11,674
- interim paid of 18.60 cent per share (2007: 16.00 cent)	<b>8,848</b>	7,833
	<b>25,902</b>	19,507
Proposed final dividend of 35.40 cent (2007: 35.00 cent) per share (see Note 31)	<b>16,830</b>	17,054

## 20. 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:

	2008 €'000	2007 €'000
Share option schemes	488	453
Sharesave scheme	279	268
Long Term Incentive Plan	5,899	4,035
Managers' Deferred Share Award Scheme	208	1,460
<b>Total</b>	<b>6,874</b>	<b>6,216</b>

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 2008 was 1,322,687 (2007: 1,025,043). These options had exercise prices ranging from €8.15 to €24.17 (2007: €8.15 to €24.17).

For the year ended 31 December 2008:

	Options outstanding at 1 January 2008	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2008
Share option scheme	676,435	-	(35,500)	(4,000)	636,935
Sharesave scheme	348,608	452,585	(74,451)	(40,990)	685,752
<b>Total</b>	<b>1,025,043</b>	<b>452,585</b>	<b>(109,951)</b>	<b>(44,990)</b>	<b>1,322,687</b>

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
<b>Total</b>	<b>946,684</b>	<b>241,428</b>	<b>(36,311)</b>	<b>(126,758)</b>	<b>1,025,043</b>

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 2008 (2007: nil).

During 2007, 18,000 options were exercised at an exercise price of €1.16 when the market price ranged from €17.15 to €20.47 and 39,000 options were exercised at an exercise price of €1.16 when the market price ranged from €17.15 to €25.22.

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

# Notes to the Consolidated Financial Statements

(continued)

## 20. Share schemes (continued)

### 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 2008, 13,758 ordinary shares (2007: 36,283) owned by employees were held on their behalf by Power Leisure Employee Benefit Trust. The movement in ordinary shares held is due to shares being granted to beneficiaries by the 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.

Since November 2000, options over 772,171 shares have been exercised and options over 191,366 shares have lapsed. Options over 636,935 shares were outstanding at 31 December 2008 (2007: 676,435), of which 225,635 were exercisable at 31 December 2008 (2007: 100,635). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2007	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2008	Earliest exercise date*	Exercise price	Market price at date of exercise
<i>Granted after 7 November 2002</i>							
45,951	-	-	-	45,951	February 2007	€8.15	-
41,000	-	-	(4,000)	37,000	June 2007	€9.43	€13.40
13,684	-	-	-	13,684	September 2007	€9.80	-
138,000	-	(9,000)	-	129,000	September 2008	€14.80	-
21,000	-	(6,000)	-	15,000	March 2009	€12.55	-
240,000	-	(10,000)	-	230,000	September 2009	€14.40	-
176,800	-	(10,500)	-	166,300	September 2010	€24.17	-
<b>676,435</b>	<b>-</b>	<b>(35,500)</b>	<b>(4,000)</b>	<b>636,935</b>			

\* Share options lapse ten years after date of grant.

During 2007, 176,800 options at an exercise price of €24.17 were granted. In 2007, options over 10,000 shares were exercised at an exercise price of €5.25 when the market price per share was between €21.73 and €27.05, options over 8,000 shares were exercised at an exercise price of €8.15 when the market price was €17.15, options over 8,000 shares were exercised at an exercise price of €8.90 when the market price was €22.40, and options over 43,000 shares were exercised at an exercise price of €9.43 when the market price per share was between €21.80 and €24.95. During 2007, options in respect of 3,000 shares at an exercise price of €14.40 per share lapsed.

## 20. Share schemes (continued)

There were no options granted under this scheme in the year ended 31 December 2008. The fair value of share options granted under the above scheme during the year ended 31 December 2007 was determined using a Black Scholes model and amounted to €669,000. The significant inputs into the model were the share price at the grant date of €24.17, the exercise price of €24.17, the standard deviation of expected share price returns of 25%, the expected term as disclosed above, and an annual risk free rate of 4.06%. 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 €500.

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.

Options outstanding at 31 December 2007	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2008	Earliest exercise date*	Exercise price	Market price at date of exercise
<i>Granted after 7 November 2002</i>							
197,000	-	(11,035)	(40,990)	144,975	November 2008	€11.60	€11.40 - €14.06
82,193	-	(18,073)	-	64,120	December 2009 & December 2011	€11.29	-
5,534	-	(1,960)	-	3,574	December 2009 & December 2011	€12.04	-
57,385	-	(38,598)	-	18,787	December 2010 & December 2012	€19.26	-
6,496	-	(2,009)	-	4,487	December 2010 & December 2012	€20.54	-
-	433,313	(2,776)	-	430,537	December 2011 & December 2013	€9.45	-
-	19,272	-	-	19,272	December 2011 & December 2013	€10.08	-
<b>348,608</b>	<b>452,585</b>	<b>(74,451)</b>	<b>(40,990)</b>	<b>685,752</b>			

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

In 2007, options over 57,999 shares at an exercise price of €19.26 and options over 6,629 shares at an exercise price of €20.54 were granted. Options over 758 shares were exercised during 2007 when the market price ranged from €21.94 to €23.79. During 2007, options in respect of 17,526 shares at an exercise price of €11.60 per share, options in respect of 14,004 shares at an exercise price of €11.29 per share, options in respect of 1,034 shares at an exercise price of €12.04 per share, options in respect of 614 shares at an exercise price of €19.26 per share and options in respect of 133 shares at an exercise price of €20.54 per share lapsed.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €1,533,000 (2007: €403,000). The significant inputs into the model were the share price of €11.70 (2007: €27.10) at the grant date, the exercise prices of €9.45 and €10.08 (2007: €19.26 and €20.54), the standard deviations of expected share price returns of 33% and 40% (2007: 26%), the option lives disclosed above and annual risk free rates of 3.95% and 4.23% (2007: 4.09%). 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.

# Notes to the Consolidated Financial Statements

(continued)

## 20. Share schemes (continued)

### 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 2006, 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 122,900 shares, 97,100 shares and 263,750 shares (2007: 260,000 shares and 59,000 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €21.60, €24.25 and €13.79, respectively (2007: €17.15 and €24.17). The total cost of this grant is €8,646,000 (2007: €5,885,000) if the testing performance targets are achieved along with the other conditions for vesting. The cost is being expensed in the Group income statement over the expected vesting period of the grant. The operating profit for the year ended 31 December 2008 is stated after an LTIP charge of €5,899,000 (2007: €4,035,000).

During 2008, a total of 225,179 shares (2007: 183,472 shares) in respect of 2005 awards and related dividends were vested from the Trust to senior management.

### 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.

During 2008, a further 3,457 ordinary shares were conditionally granted to employees under the Share Award Scheme when the Company's share price was €24.00, a total of 2,994 ordinary shares were vested from the Trust to beneficiaries of the scheme and 1,555 share awards lapsed. At 31 December 2008, there were 85,129 share awards outstanding under the Share Award Scheme (2007: 86,221).

The total cost of the grant is estimated at €1,943,000 (2007: €1,895,000). Of this amount, the estimated bonus element of the grant cost of €1,460,000 was expensed in the year ended 31 December 2007, a further €208,000 of the grant cost was expensed in the year ended 31 December 2008, with the remaining €275,000 (being the remaining estimated unrecognised value of the staff retention element of the grant cost) to be expensed in the Group income statement over the remaining two year vesting period of the grant.

## 20. Share schemes (continued)

### Paddy Power plc Employee Benefit Trust

The Paddy Power plc Employee Benefit Trust (the 'Trust') was established to manage the Long Term Incentive Plan and also manages the Managers' Deferred Share Award Scheme. Purchases of Paddy Power plc ordinary shares from 1 January 2007 to 31 December 2008, and shares vested from the Trust during that period, are shown below:

	Number of Paddy Power plc ordinary shares	Cost of purchase €'000
Shares held by the Trust at 1 January 2007	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
Purchased 3 March 2008	250,000	5,440
Purchased 16 May 2008	85,000	2,091
Purchased 1 September 2008	264,000	4,051
	1,395,028	24,671
Vested from the Trust in 2008	(228,173)	(3,145)
Shares held by the Trust at 31 December 2008	1,166,855	21,526

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 18).

### 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.

## 21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2008			31 December 2007		
	Assets	Liabilities	Total	Assets	Liabilities	Total
	2008	2008	2008	2007	2007	2007
	€'000	€'000	€'000	€'000	€'000	€'000
Property, plant and equipment	332	-	332	-	(265)	(265)
Purchase of business – licence intangible assets (Note 15)	-	(6,232)	(6,232)	-	-	-
Lease premiums – income element	-	(114)	(114)	-	(98)	(98)
Employee benefits	1,048	-	1,048	713	-	713
Other	12	-	12	14	-	14
Net assets / (liabilities)	1,392	(6,346)	(4,954)	727	(363)	364
Analysed by Irish and UK corporation tax:						
Irish corporation tax	1,358	(114)	1,244	727	(363)	364
UK corporation tax	34	(6,232)	(6,198)	-	-	-
Net assets / (liabilities)	1,392	(6,346)	(4,954)	727	(363)	364

The above deferred tax balances are in respect of Irish and UK corporation tax. The deferred tax assets and liabilities have been offset at 31 December 2008 as there is a legally enforceable right to such set-off. The net balances as of 31 December 2008 comprised an Irish corporation tax net deferred tax asset of €1,244,000 (2007: €364,000) and a UK corporation tax net deferred tax liability of €6,198,000 (2007: €nil).

# Notes to the Consolidated Financial Statements

(continued)

## 21. Deferred tax assets and liabilities (continued)

### Unrecognised deferred tax assets:

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

	31 December 2008 €'000	31 December 2007 €'000
UK tax losses	2,380	2,646

A deferred tax asset has not been recognised in respect of the tax losses related to the Group's retail operations in Great Britain as it is not certain when taxable profits will be generated against which to offset these losses (see also Note 32).

Movement in temporary differences during the year:

	Balance at 1 January 2007 €'000	Recognised in income 2007 €'000	Balance at 31 December 2007 €'000	Recognised in income 2008 €'000	Purchase of business 2008 €000	Foreign currency retranslation 2008 €'000	Balance at 31 December 2008 €'000
Property, plant and equipment	99	(364)	(265)	628	(38)	7	332
Intangible assets – licences (Note 15)	-	-	-	-	(6,232)	-	(6,232)
Lease premiums – income element	(196)	98	(98)	(16)	-	-	(114)
Employee benefits	292	421	713	335	-	-	1,048
Other	-	14	14	(2)	-	-	12
	195	169	364	945	(6,270)	7	(4,954)

## 22. Trade and other payables and derivative financial instruments

### Current liabilities

	31 December 2008 €'000	31 December 2007 €'000
<b>Trade and other payables</b>		
Trade payables	6,357	6,110
Customer balances	16,584	15,326
PAYE and social security	1,611	1,399
Value added tax	878	654
Betting duty and data rights	2,906	4,200
Employee benefits	8,168	8,628
Accruals and other liabilities	17,438	15,533
	53,942	51,850
<b>Derivative financial instruments</b>		
Sports betting open positions	3,658	3,556

### Non current liabilities

	31 December 2008 €'000	31 December 2007 €'000
<b>Trade and other payables</b>		
PAYE and social security	142	-
Employee benefits	4,031	3,057
Accruals and other liabilities	1,484	628
	5,657	3,685
<b>Derivative financial instruments</b>		
Sports betting open positions	11	187

**22. Trade and other payables and derivative financial instruments** (continued)**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.

**23. 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	
	2008 €'000	2007 €'000
Other receivables	1,015	894
Cash and cash equivalents	76,661	87,885
	<b>77,676</b>	<b>88,779</b>

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

	2008 €'000	2007 €'000
Ireland	165	144
United Kingdom	226	25
Other	624	725
	<b>1,015</b>	<b>894</b>

**24. Liquidity risk**

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

	31 December 2008						
	Carrying amount €'000	Contractual cash flows €'000	6 months or less €'000	6-12 months €'000	1-2 years €'000	3-4 years €'000	4 years and over €'000
<b>Non-derivative financial liabilities</b>							
Trade and other payables	59,599	60,632	53,609	341	3,661	389	2,632
<b>Derivative financial liabilities</b>							
Sports betting open positions	3,669	3,669	3,595	63	11	-	-
	<b>63,268</b>	<b>64,301</b>	<b>57,204</b>	<b>404</b>	<b>3,672</b>	<b>389</b>	<b>2,632</b>

# Notes to the Consolidated Financial Statements

(continued)

## 24. Liquidity risk (continued)

	31 December 2007						
	Carrying amount €'000	Contractual cash flows €'000	6 months or less €'000	6-12 months €'000	1-2 years €'000	3-4 years €'000	4 years and over €'000
<b>Non-derivative financial liabilities</b>							
Trade and other payables	55,535	56,194	51,782	67	537	2,673	1,135
<b>Derivative financial liabilities</b>							
Sports betting open positions	3,743	3,743	3,181	375	187	-	-
	59,278	59,937	54,963	442	724	2,673	1,135

## 25. Currency risk

### Currency risk exposure

As of 31 December 2008 and 31 December 2007, the Group's foreign currency risk exposure in respect of the principal foreign currencies in which the Group operates was as follows:

	31 December 2008				31 December 2007			
	Euro €'000	GBP €'000	USD €'000	Total Euro €'000	Euro €'000	GBP €'000	USD €'000	Total Euro €'000
Other receivables	252	139	624	1,015	144	25	725	894
Cash and cash equivalents	64,432	11,056	1,173	76,661	76,360	10,572	953	87,885
Trade payables	(2,806)	(3,512)	(39)	(6,357)	(3,523)	(2,207)	(380)	(6,110)
Customer balances	(7,670)	(7,305)	(1,609)	(16,584)	(6,598)	(7,531)	(1,197)	(15,326)
Other payables (excluding accruals)	(3,860)	(1,677)	-	(5,537)	(3,751)	(2,502)	-	(6,253)
Gross balance sheet exposure	50,348	(1,299)	149	49,198	62,632	(1,643)	101	61,090

The Group had no forward foreign currency contracts or derivatives that are cash flow hedges in place at either 31 December 2008 or 2007.

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

To 1 Euro:	Average rate		31 December (mid-spot rate)	
	2008	2007	2008	2007
1 GBP	0.7963	0.6843	0.9525	0.7366
1 USD	1.4708	1.3705	1.3917	1.4709

### Sensitivity analysis

A ten percent strengthening and weakening of the euro against the following currencies at 31 December 2008 and 2007 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		Other equity	
	10 % increase €'000	10% decrease €'000	10 % increase €'000	10% decrease €'000
<b>31 December 2008</b>				
GBP	103	(126)	-	-
USD	(12)	15	-	-
<b>31 December 2007</b>				
GBP	131	(160)	-	-
USD	(8)	10	-	-

## 26. Interest rate risk

### Profile

At 31 December 2008 and 31 December 2007, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	2008 €'000	2007 €'000
<b>Variable rate instruments</b>		
Financial assets – cash at bank and on hand	10,414	5,922
Financial assets – short term bank deposits	66,247	81,963
	<b>76,661</b>	<b>87,885</b>

The Group had no fixed rate financial instruments at either 31 December 2008 or 2007.

### Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points ('bps') in interest rates at 31 December 2008 and 2007 would have increased / (decreased) profit for a full year and equity by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	Profit		Other equity	
	50 bps increase €'000	50 bps decrease €'000	50 bps increase €'000	50 bps decrease €'000
<b>31 December 2008</b>				
Variable rate instruments	294	(294)	-	-
<b>31 December 2007</b>				
Variable rate instruments	307	(307)	-	-

## 27. 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 2008		31 December 2007	
	Carrying amount €'000	Fair value €'000	Carrying amount €'000	Fair value €'000
Other receivables	1,015	1,015	894	894
Cash and cash equivalents	76,661	76,661	87,885	87,885
Derivative financial instruments	(3,669)	(3,669)	(3,743)	(3,743)
Trade and other payables	(59,599)	(59,599)	(55,535)	(55,535)
	<b>14,408</b>	<b>14,408</b>	<b>29,501</b>	<b>29,501</b>

### Basis for determining fair values

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

#### Trade and other receivables

The fair value of trade and other receivables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

#### 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, which is not significant.

#### 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.

# Notes to the Consolidated Financial Statements

(continued)

## 28. Commitments and contingencies

### (a) Guarantees

The Group has working capital overdraft facilities of €14.3m with Allied Irish Banks plc. These facilities are secured by a Letter of Guarantee from Paddy Power plc.

The Group has a bank guarantee in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by Paddy Power Isle of Man Limited to its customers. This guarantee is required as part of Paddy Power Isle of Man Limited's Online Gambling Licence. The maximum amount of the guarantee at 31 December 2008 was £12,000,000 (euro equivalent of €12,598,000) (2007: €nil). No claims had been made against the guarantee as of 31 December 2008 (2007: €nil). The fair value accounting impact of this guarantee is deemed to be immaterial.

The Group has a bank guarantee in favour of the Lotteries & Gaming Authority - Malta as security for player funds owed by Paddy Power Bookmakers (Malta) Limited to its customers. This guarantee is required as part of Paddy Power Bookmakers (Malta) Limited's Remote Gaming Licence. The maximum amount of the guarantee at 31 December 2008 was €300,000 (2007: €nil). No claims had been made against the guarantee as of 31 December 2008 (2007: €nil). The fair value accounting impact of this guarantee is deemed to be immaterial.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other 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 2008 €'000	31 December 2007 €'000
Property, plant and equipment	1,742	569
Intangible assets	-	-
	<b>1,742</b>	<b>569</b>

### (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 2008		31 December 2007	
	Annual commitment €'000	Total commitment €'000	Annual commitment €'000	Total commitment €'000
Within 1 year	1,264	1,264	854	854
Between 2 and 5 years	1,328	3,721	1,377	4,102
After 5 years	9,421	145,664	9,386	153,128
	<b>12,013</b>	<b>150,649</b>	<b>11,617</b>	<b>158,084</b>

## 29. Related parties

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

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

### 30. Group entities

The Company had the following subsidiary undertakings (all of which are 100% equity owned) carrying on businesses which principally affect the profits and assets of the Group at 31 December 2008:

Name	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited	United Kingdom	Bookmaker	5th Floor, Crowne House, 56-58 Southwark St, London, SE1 1UN
Paddy Power Isle of Man Limited	Isle of Man	Bookmaker	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
D McGranaghan Limited	Northern Ireland	Bookmaker	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU
Paddy Power Financials Limited	Ireland	Marketing services	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Paddy Power Luxembourg s.à.r.l.	Luxembourg	Treasury services	16 Avenue Pasteur, L-2310, Luxembourg
Paddy Power Northern Ireland Limited	Northern Ireland	Holding company	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU

The above subsidiary undertakings have the same year end date as the Company and have been included in the Group consolidated financial statements.

In addition to the above subsidiary undertakings, 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.

### 31. Events after the balance sheet date

In respect of the current year, the directors propose that a final dividend of 35.40 cent per share (2007: 35.00 cent per share) will be paid to shareholders on 22 May 2009. 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 13 March 2009. The total estimated dividend to be paid amounts to €16,830,000 (2007: €17,054,000).

# Notes to the Consolidated Financial Statements

(continued)

## 32. Accounting estimates and judgements

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

Goodwill of €15,003,000 (2007: €6,928,000) 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. During the year ended 31 December 2008, the acquisition of the D McGranaghan Limited business in Northern Ireland contributed additional goodwill of €8,104,000, including €6,232,000 of deferred tax on the value of licences intangible assets recognised on the application of fair value accounting to the acquisition. The directors believe that this goodwill and the licences intangible assets of €22,258,000 have not been impaired as of 31 December 2008. The key assumptions made in respect of goodwill are set out in Note 14.

The share-based payment reserve, which includes amounts in relation to the share award schemes and various share option schemes, amounted to €13,733,000 at 31 December 2008 (2007: €10,013,000). 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 20.

The fair value of the Group's sports betting open positions amounted to €3,669,000 at 31 December 2008 (2007: €3,743,000) and the Group considers such arrangements to be derivatives. 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 2008 and 2007, all retail premises leases qualify as operating leases.

A potential deferred tax asset of €2,380,000 (2007: €2,646,000) relating to the Great Britain retail business (see Note 21) has not been recognised as of 31 December 2008. Management continue to believe that there is considerable uncertainty as to the future profitability of the Great Britain retail business and the timing of that profitability due to future business expansion plans. Management therefore deem it prudent to continue to not recognise the potential deferred tax asset as at 31 December 2008.