

# Notes to the Company Financial Statements

## 1. Basis of preparation and accounting policies

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

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €70.5m (2007: €38.4m), which includes a dividend receivable from a subsidiary company, Paddy Power Isle of Man Limited, amounting to €40.0m.

### Financial assets

Interests in subsidiary undertakings are stated in the Company balance sheet as financial fixed assets, at cost less, where necessary, provisions for impairment.

Included within financial fixed assets are capital contributions representing share-based payment awards made to employees of certain of the Company's subsidiaries.

### Tangible assets and depreciation

Tangible assets are stated at historical cost less accumulated depreciation. Depreciation is calculated so as to write off the cost less estimated residual value of tangible assets on a straight line basis over their estimated useful lives, as follows:

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

The residual value, if not insignificant, is reassessed annually.

### Goodwill

Goodwill arising on the acquisition of a subsidiary or business, representing the excess of cost over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised by equal annual instalments against profit over its expected useful life, currently 20 years. Provision is made for any impairment in the value of goodwill held.

### Intangible assets

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

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business and licences for electronic point of sale ('EPOS') system software.

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

Licences - shop licences and EPOS software licences      5 years

### Leases

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

### Pensions

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

### Foreign currency

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

## 1. Basis of preparation and accounting policies (continued)

### Taxation

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

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

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

### Cash flow statement

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

### Related party transactions

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

### Financial assets and liabilities

Under the provisions of FRS 29, 'Financial Instruments: Disclosures' (paragraph 2D), the Company is exempt from disclosing the financial instruments in its single entity financial statements.

### Share-based payments

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

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

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

### Own shares held

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

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

### Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in Note 31 to the consolidated financial statements.

# Notes to the Company Financial Statements

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## 2. Employee expenses and numbers

	2008 €'000	2007 €'000
Wages and salaries	28,806	28,616
Social security costs	2,862	2,612
Defined contribution pension and life assurance costs	634	567
Share-based payments (see below)	2,097	1,670
Other staff costs	1,475	1,467
	<b>35,874</b>	<b>34,932</b>

	2008	2007
The average number of persons employed by the Company (including executive directors), all of whom were involved in the provision of betting services, during the year was	<b>839</b>	797

Details of transactions with directors are set out in Note 7 to the consolidated financial statements.

### Summary of share-based payments expense

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

	2008 €'000	2007 €'000
Share option schemes	7	2
Sharesave scheme	176	163
Long Term Incentive Plan	1,908	1,459
Managers' Deferred Share Award Scheme	6	46
Total	<b>2,097</b>	1,670

### Summary of options outstanding to employees of the Company

The total number of options outstanding at 31 December 2008 was 406,271 (2007: 249,881). These options had exercise prices ranging from €8.15 to €24.17 (2007: €8.15 to €24.17).

For the year ending 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	41,000	-	-	-	<b>41,000</b>
Sharesave scheme	208,881	220,516	(37,417)	(26,709)	<b>365,271</b>
Total	<b>249,881</b>	<b>220,516</b>	<b>(37,417)</b>	<b>(26,709)</b>	<b>406,271</b>

For the year ending 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	27,000	-	-	(27,000)	-
Share option scheme	37,000	4,000	-	-	41,000
Sharesave scheme	205,999	32,023	(29,051)	(90)	208,881
Total	<b>269,999</b>	<b>36,023</b>	<b>(29,051)</b>	<b>(27,090)</b>	<b>249,881</b>

Further details of the Company's employee share schemes are set out in Note 20 to the consolidated financial statements.

### 3. Intangible assets

The movements during the year in respect of intangible assets, which comprise licences, were as follows:

	Licences €'000	Total €'000
<b>Cost</b>		
Balance at 1 January 2008	1,490	1,490
Additions	-	-
Disposals	-	-
Balance at 31 December 2008	<b>1,490</b>	<b>1,490</b>
<b>Amortisation</b>		
Balance at 1 January 2008	456	456
Amortisation for year	320	320
Impairment credit	(5)	(5)
Disposals	-	-
Balance at 31 December 2008	<b>771</b>	<b>771</b>
<b>Net book value</b>		
At 31 December 2007	1,034	1,034
At 31 December 2008	<b>719</b>	<b>719</b>

The impairment credit in respect of the year ended 31 December 2008 relates to the retail business segment and has arisen from a review of the carrying value of shop properties. The impairment credit in the year ended 31 December 2008 is comprised of new impairment charges of €14,000 and the reversal of previously recorded charges of €19,000. The recoverable amounts used in the calculation of the impairment charge are based on value in use. The pre-tax discount rate used to determine value in use was 10% (2007: 10%).

### 4. Goodwill

	€'000
<b>Cost</b>	
Balance at 1 January 2008	6,014
Adjustments in respect of finalisation of fair values in respect of 2007 acquisitions (Note 5)	1,426
Balance at 31 December 2008	<b>7,440</b>
<b>Amortisation</b>	
Balance at 1 January 2008	1,805
Amortisation for year	395
Balance at 31 December 2008	<b>2,200</b>
<b>Net book value</b>	
At 31 December 2007	4,209
At 31 December 2008	<b>5,240</b>

The goodwill balance as of 1 January 2008 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and the acquisition of eight licensed bookmaking shops in Ireland in 2007.

# Notes to the Company Financial Statements

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## 5. Purchase of businesses

### Final fair value adjustments relating to 2007 acquisitions

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

	Acquired cost	Fair value adjustments	Fair values 2008	Provisional fair values 2007
	€'000	€'000	€'000	€'000
Net assets acquired:				
Tangible assets	800	(354)	446	446
Intangible assets (customer relationships)	-	-	-	1,455
	800	(354)	446	1,901
Goodwill arising on acquisition			5,019	3,593
Consideration (including associated purchase costs)			5,465	5,494
Less: Intangible asset (customer relationships) transferred to subsidiary company at cost			-	(1,455)
			5,465	4,039
Satisfied by:				
Cash consideration (including associated purchase costs)			5,465	5,415
Intangible asset transferred to subsidiary company			-	(1,455)
Accrued acquisition expenses			-	79
			5,465	4,039

A customer relationships intangible asset of €1,455,000 was provisionally recognised at 31 December 2007 in respect of certain 2007 acquisitions. On finalisation of the fair values for these acquisitions, the customer relationships were deemed to have a value of €nil. See Note 15 to the consolidated financial statements for further information.

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

## 6. Tangible assets

	Land, buildings & leasehold improvements	Fixtures, fittings & equipment	Computer equipment	Computer software	Motor vehicles	Total
	€'000	€'000	€'000	€'000	€'000	€'000
<b>Cost</b>						
At 1 January 2008	33,480	43,542	2,850	2,499	192	82,563
Additions	1,986	5,862	275	106	-	8,229
Disposals	(238)	(1,031)	(3)	-	-	(1,272)
At 31 December 2008	<b>35,228</b>	<b>48,373</b>	<b>3,122</b>	<b>2,605</b>	<b>192</b>	<b>89,520</b>
<b>Accumulated depreciation</b>						
At 1 January 2008	10,319	22,933	2,113	843	99	36,307
Charge for year	1,539	5,496	941	506	16	8,498
Impairment charges / (credits)	(51)	100	(1)	3	-	51
Disposals	(52)	(782)	(3)	-	-	(837)
At 31 December 2008	<b>11,755</b>	<b>27,747</b>	<b>3,050</b>	<b>1,352</b>	<b>115</b>	<b>44,019</b>
<b>Net book value</b>						
At 31 December 2007	23,161	20,609	737	1,656	93	46,256
At 31 December 2008	<b>23,473</b>	<b>20,626</b>	<b>72</b>	<b>1,253</b>	<b>77</b>	<b>45,501</b>

The net book value of land, buildings and leasehold improvements at 31 December 2008 includes €19.0m (2007: €21.1m) in respect of leasehold improvements.

The impairment charges / (credits) relate to the retail business segment and have arisen from a review of the carrying value of shop properties. The recoverable amounts used in the calculation of the impairment charges are based on value in use. The pre-tax discount rate used to determine value in use was 10% (2007: 10%). The impairment charge of €51,000 recorded in the year ended 31 December 2008 includes €673,000 relating to new impairment charges and is stated net of impairment reversals of €622,000.

**6. Tangible assets** (continued)

The directors do not consider the remaining useful lives of tangible fixed assets to be materially different from the period over which the assets are being depreciated.

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

**7. Financial assets**

	Unlisted investments in subsidiary companies €'000	Capital contributions €'000	Total €'000
Balance at 1 January 2008	103	8,206	8,309
Movement during year	94	4,777	4,871
Balance at 31 December 2008	<b>197</b>	<b>12,983</b>	<b>13,180</b>

In the opinion of the directors, the value to the Company of the unlisted investments in subsidiary companies is not less than the carrying amount of €197,000 (2007: €103,000). The Company's principal subsidiaries are listed in Note 30 to the consolidated financial statements.

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

**8. Trade and other receivables**

	31 December 2008 €'000	31 December 2007 €'000
Other debtors and prepayments	<b>298</b>	890
Amounts owed by fellow Group companies	<b>107,182</b>	20,480
Deferred tax (Note 11)	<b>692</b>	-
	<b>108,172</b>	21,370

All of the above debtors fall due within one year.

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

**9. Creditors (amounts falling due within one year)**

	31 December 2008 €'000	31 December 2007 €'000
Trade creditors	<b>4,851</b>	4,962
Accruals	<b>10,362</b>	11,381
Corporation tax	<b>566</b>	666
PAYE and social welfare	<b>1,262</b>	1,110
Betting duty	<b>2,253</b>	2,249
Sports betting open positions	<b>994</b>	697
Value added tax	<b>221</b>	260
Amounts owed to fellow Group companies	<b>65,955</b>	64,183
	<b>86,464</b>	85,508

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

# Notes to the Company Financial Statements

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

	31 December 2008 €'000	31 December 2007 €'000
Accruals	1,454	1,062
	<b>1,454</b>	<b>1,062</b>

## 11. Provision for liabilities

	2008 €'000	2007 €'000
<i>Deferred tax</i>		
<b>Cost</b>		
At beginning of year	271	(1,407)
(Credited) / charged to the profit and loss account for year	<b>(963)</b>	1,678
At end of year	<b>(692)</b>	271

Deferred tax at 31 December 2008 and 2007 is analysed by category as follows:

	31 December 2008 €'000	31 December 2007 €'000
Capital allowances	296	435
Employee benefits	(13)	(6)
Share schemes	(1,030)	(208)
Capitalised rents	59	50
Other	(4)	-
Deferred tax (asset) / liability	<b>(692)</b>	271

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

## 12. Called-up share capital

See Note 18 to the consolidated financial statements.

## 13. Share premium

See Note 18 to the consolidated financial statements.

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

See Note 18 to the consolidated financial statements.

## 15. Dividends paid on equity shares

	2008 €'000	2007 €'000
Ordinary shares:		
- final paid of 35.00 cent per share (2007: 22.77 cent)	17,054	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 to the consolidated financial statements)	<b>16,830</b>	17,054

## 16. Pension arrangements

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

Pension costs for the year were €565,000 (2007: €503,000) and the amount due to the schemes at 31 December 2008 amounted to €169,541 (2007: €150,000).

## 17. Commitments and contingencies

### (a) Guarantees

The Company has working capital overdraft facilities of €5.1m with Allied Irish Banks plc. These facilities are unsecured.

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. The Company has issued a letter of guarantee totalling €9.2m in favour of Allied Irish Banks plc in respect of working capital overdraft facilities provided to certain of the Company's subsidiaries.

### (b) Capital commitments

The Company has entered into commitments for capital expenditure not provided for in the financial statements amounting to €1,235,000 (2007: €535,000).

### (c) Operating lease commitments

The Company has annual commitments of €8,634,000 (2007: €7,899,000) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2008 €'000	31 December 2007 €'000
Within 1 year	1,083	817
Between 2 and 5 years	915	961
After 5 years	6,636	6,121
	<b>8,634</b>	<b>7,899</b>

## 18. Statutory information

	2008 €'000	2007 €'000
Directors' remuneration	5,308	3,285
Auditor's remuneration	100	110
Depreciation	8,498	8,192
Impairment charges – tangible fixed assets	673	1,246
Impairment reversals – tangible fixed assets	(622)	-
Amortisation of intangible assets	320	248
Impairment charges – intangible assets	14	34
Impairment reversals – intangible assets	(19)	-
Amortisation of goodwill	395	238
Operating lease rentals, principally premises	9,217	7,767

## 19. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2008 were approved for issue by the Board of Directors on 27 February 2009.