

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

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

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:

- 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:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - Any non-controlling 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.
- IFRIC 17, 'Distribution 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.
- Amendments to IFRS 5, 'Measurement of Non-current Assets Held for Resale and Discontinued Operations' (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 IAS 27, 'Consolidated and Separate Financial Statements' (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.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group equity therein. Non-controlling interest comprises the amount of such interests at the date of original business combination and the non-controlling interest's share of changes in equity since the date of original combination.

#### 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 35:

- Note 14 - measurement of the recoverable amounts of cash generating units containing goodwill and indefinite life licences and brands intangible assets.
- Note 15 - embedded derivative financial assets.
- Note 16 - business combinations.
- Note 21 - measurement of share-based payments.
- Note 22 - utilisation of UK tax losses.
- Note 23 - sports betting open positions.
- Note 26 - credit risk arising from trade and other receivables.

## 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, financial spread betting and business-to-business services. Income is stated exclusive of value added and general sales taxes and certain free bets, promotions and bonuses.

The Group's betting and gaming activities, with the exception of peer to peer games and financial spread betting on which commission income and tournament fees are earned and business-to-business services on which 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. Income from business-to-business services represents fees charged for the services provided in the period.

These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the income line as this represents the Group's principal activity. Commission and other fee 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.

### **Finance expense**

Finance expense comprises interest expense on borrowings, interest on guarantee contracts entered into with third parties, the unwinding of the discount on provisions and other non current liabilities, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised in respect of financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

### **Operating segment reporting**

Operating segments are distinguishable components of the Group that have been established 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. 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 operating segments of online (ex Australia), Irish retail, UK retail, telephone (ex Australia) and Australia are its reportable operating segments. The Group has also determined that its reportable geographic segments are UK, Australia and Ireland and rest of world. See Note 4 for further information on operating and geographic 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, pound sterling and Australian dollar.

#### *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 statement of financial position 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### *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 statement of financial position 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.

Gains and losses arising on the retranslation of cash and cash equivalent balances are included within 'other expenses' in the income statement rather than as a financial expense, as the directors consider that the gains or losses arising relate to operations, as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised. 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 statement of cash flows.

#### **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.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' percentage interest in the net fair value of the assets, liabilities and contingent liabilities recognised. Subsequent changes in the value of the non-controlling interest are recognised in the income statement and the statement of comprehensive income.

#### **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

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

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, brands 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.

Brands represent the fair value of brands and trade mark assets acquired in business combinations.

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

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

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

The licences intangible assets recognised on the acquisition of the D McGranaghan Limited business and the brands intangible assets recognised on the acquisition of Sportsbet Pty Limited and International All Sports Limited are not amortised for the reasons set out in Note 13.

### Impairment

#### *Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

### *Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash generating unit', or 'CGU'). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination. The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **Non-derivative financial instruments**

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable 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 and call deposits with an original maturity of three months or less.

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

### Financial assets

#### *Restricted cash*

Restricted cash represents cash held by the Group but which is ring fenced or used as security for specific financing arrangements (such as collateral for a bank guarantee), and to which the Group has restricted access for a period of time. Restricted cash is classified as held to maturity and carried at amortised cost. Restricted cash balances are further classified as current or non current depending on when the restriction first ends.

#### *Available-for-sale investments*

Available-for-sale investments (representing the Group's 19.98% investment in IAS between 1 July 2009 and 1 October 2009) are recognised initially at their cost value and subsequently at fair value based on their quoted bid price at the reporting date. Changes in the fair value of available-for-sale investments are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period. Where an investment previously classified as available-for-sale has been transferred to the cost of investment in a subsidiary the cumulative gain or loss previously recognised in equity is transferred to retained earnings.

### Derivative financial instruments

The Group holds certain derivative financial instruments which are recognised initially at fair value.

#### *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 or loss.

#### *Separable embedded derivatives*

The Group has certain Sportsbet buyout call options, which are characterised as embedded derivatives. Embedded derivatives are separated from their host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Separable embedded derivative financial assets and liabilities are netted where they relate to the same host contract. Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

### 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 statement of financial position.

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

### Income tax

Income tax in the income statement comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position 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 statement of financial position date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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

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.

### 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 considered 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.

#### *Long service leave*

The provision for long service leave (that arises under the provisions of Australian state legislation) is measured at the present value of expected future payments to be made in respect of services rendered by employees of the Australia segment up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### *Lease reinstatement*

Where there exists a legal obligation for properties held under operating leases to be reinstated to their original condition on expiry of the lease, a provision is established to recognise the estimated cost of such reinstatement work on a straight line basis over the term of the lease.

#### *Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived from a contract by the Group are lower than the unavoidable costs of meeting its obligations under the terms of the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### 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 statement of financial position 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.

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

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.

### 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 statement of financial position. 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 statement of financial position date are disclosed in Note 34.

### 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.

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 3. Financial risk management

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

- Market risk
- Interest rate 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 are for measuring and managing those risks. 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 25 to 31.

#### 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 (see also interest rate section below), 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 under the supervision of the Risk Committee and the Investment Committee and according to the guidelines approved by them. 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 for 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 sportsbook bet risks. Stake and loss limits are set by reference to individual sports, events and bet types. These limits are subject to formal approval by the Risk Committee. Risk management policies also require sportsbook bets to be hedged with third parties 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 and cash deposits, other financial assets 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, the pound sterling ('GBP'), the Australian dollar ('AUD') 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 (or the subsidiaries' functional currency) at spot rates. The Group's Australian activities are conducted by separate subsidiaries whose accounts are denominated in AUD. Foreign exchange impacts therefore arise on the retranslation of their income and expense into euro for Group reporting purposes. Subject to Investment Committee approval, the Group may make use of forward contracts, intentional imbalances between foreign currency denominated liabilities and assets, and derivatives to manage foreign currency exposures on expected future cash flows. During the years ended 31 December 2009 and 2008, the Group did not utilise either foreign currency forward contracts or derivatives.

### 3. Financial risk management (continued)

While the Group generally maintained a naturally hedged balance sheet, as described in the preceding paragraph, during the years ended 31 December 2009 and 2008, its expected future foreign currency denominated income and expense remained un-hedged. The average GBP exchange rate against the euro fell by approximately 11% in 2009 versus 2008 (14% in 2008 versus 2007), while the USD exchange rate increased by approximately 6% (2008: fell by 7%). The change in the value of the euro against these two currencies adversely impacted the Group's profit for the year ended 31 December 2009 by approximately €3.3m (2008: adversely impacted by approximately €5.0m), primarily from the decrease in the value of the GBP. The Group had no significant AUD exposure in 2008.

The loss on retranslation of cash and cash equivalent balances in the year ended 31 December 2009 was €2,228,000 (2008: €3,605,000). 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 statement of cash flows.

The Group's interests in its Australian subsidiaries, whose functional currency is the Australian dollar, are not hedged. Transactions by these subsidiary companies are primarily AUD denominated. Gains and losses on the retranslation of the Group's net investment in AUD and GBP functional currency subsidiaries are included in equity.

#### Interest rate risk

The Group had no borrowings at 31 December 2008. During 2009, the acquisition of Sportsbet and IAS resulted in borrowings being consolidated in the Group's statement of financial position. The Group acquired finance lease debt with the acquisition of a controlling interest in Sportsbet in July 2009. The acquisition of IAS resulted in the Group acquiring additional finance lease debt from IAS and also part funding the acquisition of IAS through a combination of secured bank debt and Sportsbet shareholder loans (both from the Paddy Power Group and from the 49% non-controlling shareholders in Sportsbet, according to their respective shareholdings). Finance lease debt, amounting to €1,887,000 at 31 December 2009 (2008: €nil), is subject to repayment at fixed rates of interest ranging from 8.7% to 15.0% and at a weighted average rate of interest of approximately 11.9%. The secured bank debt of €11,453,000 at 31 December 2009 (2008: €nil) is repayable on a quarterly basis up to 30 September 2012 and bears interest at the bank's base rate plus a margin (at 31 December 2009 the interest rate was 7.89%). The shareholder loans, which had a face value of €3,682,000 and a carrying value of €3,181,000 at 31 December 2009 (2008: €nil), are from the 49% non-controlling shareholders in Sportsbet and are non-interest bearing. No derivative financial instruments are used to manage the interest rate risk inherent in the Group's 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. The reductions in both the European Central Bank and Bank of England interest rates in the second half of 2008 and into 2009 negatively impacted interest earned during the year. Furthermore, as a consequence of the financial market instability in 2008 and 2009 and to minimise the credit risk of cash deposits, the Group has at times reduced the average maturity period of deposits placed and invested cash with financial institutions with only the highest credit standing. These actions also adversely impacted the interest rate earned on deposits.

#### 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, a trading partner or customers of the Australian businesses fail to meet their contractual obligations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 3. Financial risk management (continued)

#### *Trade and other receivables*

The Group's sports betting and gaming businesses (excluding Australia) 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. An option for customers to avail of credit is normal practice in the Australian online and telephone sports betting markets. Accordingly, the Australian sports betting business model is one where credit is sometimes granted to customers and the Group's acquisition of Sportsbet and IAS during the year has resulted in trade receivable balances being recorded in the Group's statement of financial position as at 31 December 2009. Trade receivables (after provisions for impairment) amounted to €6,391,000 at 31 December 2009 (2008: €nil). Credit lines are provided to customers on a case by case basis for higher value customers or based on credit ratings for smaller value customers. Individual credit limits are decided upon by the credit control function in the first instance after taking into account credit and background reference checks. The collectability of outstanding trade receivable balances is closely monitored by reference to aged receivables and other reports and any receivable balances considered to be uncollectible are provided against when identified. Trade and other receivables impairment allowances are established against individual receivable balances when there is objective evidence that such balances are likely to be uncollectible, either in full or in part. 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 by the Investment Committee (as at the date of this report there are specific approvals for a number of lower rated banks where they have been guaranteed by the Irish state or invested in by the UK government and are perceived by the Investment Committee to be systemically important).

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 statement of financial position date and the date of this report. There are also restrictions on the types of cash products that can be invested in.

During 2008 and 2009, in response to financial market instability, the Group at certain times restricted its cash deposit investments to counterparties that had higher long term credit ratings and shortened the maturities of deposits placed. The Group continues to carefully measure counterparty risk, by monitoring credit agency ratings, 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 2009, there were no amounts outstanding in the consolidated financial statements under these guarantees (2008: €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 31) are required by the terms of gambling licences and cover the value of player funds held by certain Group companies. In addition, our Australian businesses have a number of third party guarantees (see also Note 31 for further details). Certain of these guarantees have been partly or fully cash backed by cash deposits which have been classified as either non current or current financial assets depending on when the relevant restrictions first end (see Note 18).

The Australian corporate sports bookmaking licences issued to Sportsbet and IAS require those companies to hold sufficient liquid funds to cover monies owed to customers. At 31 December 2009, the total amount of customer balances attributable to the Australia operating segment was €15,008,000 (AUD24,025,000) (2008: €nil) and total cash balances totalled €19,114,000 (AUD30,598,000) at that date (2008: €nil).

#### **Liquidity risk**

This represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy for liquidity management is to ensure that there is sufficient liquidity in place to meet its liabilities as they fall due, both under normal or potential adverse conditions, and without resulting in undue loss or damage to the Group.

### 3. Financial risk management (continued)

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 short term 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 placement time periods are decided upon 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 2009 and 2008 is set out in Note 18. 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:

- Loan facility of €11.5m (AUD18.3m) from National Australia Bank secured on the assets of Sportsbet (on a non recourse to shareholders basis), which was fully drawn at 31 December 2009 (2008: €nil). This loan facility relates to the part funding of the acquisition of IAS by Sportsbet. The loan facility reduces and repayment is required in the amount of €1.0m (AUD1.6m) each quarter until 30 September 2012 at which time the facility expires. The original loan facility amount was €12.5m (AUD20.0m). The loan bears interest at the bank's base rate plus a margin of 3.0%.
- Shareholder loans from the non-controlling shareholders in Sportsbet with a face value of €3.7m (AUD5.9m) and a carrying value of €3.2m (AUD5.1m) which were fully drawn down at 31 December 2009 (2008: €nil). These loans part funded the acquisition of IAS by Sportsbet. The loans are non-interest bearing.
- 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 GBP6.5m (€7.3m). 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 2009, none of the bank overdraft facilities were being utilised.

#### Capital management

The Group has historically funded its operations through internally generated cash. Borrowings do not form part of its capital structure, apart from the consolidation of debt within its majority-owned subsidiaries in Australia during 2009. 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.

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. No shares were acquired under this authority in 2009. During 2008, the Group acquired 1,484,000 Paddy Power plc ordinary shares (see Note 19). Shares bought back may either be cancelled or held in treasury. Since its first share buybacks in 2007, 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 wholly-owned Group's approach to capital management during 2009.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, with the exception of certain restrictions placed on Sportsbet's ability to distribute profits under the terms of its secured loan agreement with National Australia Bank (see further in Note 25).

In the year ended 31 December 2009, the Group earned a return on capital of 40% (2008: 56%). Capital is defined by the Group as total equity attributable to equity holders of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 4. Operating segments

The income, operating profit and net assets of the Group relate to the provision of betting and gaming activities, the majority of which are conducted in the United Kingdom ('UK'), Australia and the Republic of Ireland.

### Income

Income for the years ended 31 December 2009 and 2008 is analysed as follows:

	2009 €'000	2008 €'000
Income in respect of sportsbook and gaming activities	<b>282,972</b>	270,370
Other commission and fee revenue (included in non retail income)	<b>12,956</b>	13,287
<b>Total income</b>	<b>295,928</b>	283,657

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 and fee revenue is earned from peer to peer gaming, financial spread betting and business-to-business services 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.

The Group's reportable segments are divisions that are managed separately, due to a combination of factors including method of service delivery (retail shops, telephone, online), geographical segmentation and the different services provided.

### (a) Reportable business segment information

The Group considers that its reportable segments are as follows:

- Online (ex Australia)
- Irish retail
- UK retail
- Telephone (ex Australia)
- Australia

The online (ex Australia), Irish retail, UK retail and telephone (ex Australia) segments all derive their revenues primarily from sports betting and gaming (gaming machines, casino, poker, games, bingo and financial spread betting). Online (ex Australia) services are delivered primarily through the internet, telephone (ex Australia) through the public telephony system and Irish and UK retail through licensed bookmaking shop estates. The online (ex Australia) and telephone (ex Australia) segments derive their revenues primarily from the UK and Ireland, the Irish retail segment from retail outlets in the Republic of Ireland and UK retail from retail outlets in Great Britain and Northern Ireland. The Australia segment earns its revenues primarily from sports betting services provided to Australian customers using both the internet and the public telephony system.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies set out in Note 2 above. Central operating expenses are allocated to reportable segments based on internal management allocation methodologies. Any expenses that are not directly allocated to reportable segments in internal management reports are shown in the reconciliation of reportable segments to Group totals. The Group does not allocate income tax expense or interest. Treasury management is centralised for the online (ex Australia), Irish retail, UK retail and telephone (ex Australia) segments. The Australia segment manages its own treasury function. Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

#### 4. Operating segments (continued)

Reportable business segment information for the year ended 31 December 2009:

	Online (ex Australia) €'000	Irish retail €'000	UK retail €'000	Telephone (ex Australia) €'000	Australia €'000	Total reportable segments €'000
Income from external customers, being total income	107,788	106,042	35,353	14,925	31,820	295,928
Direct betting costs	(13,202)	(9,814)	(5,411)	-	(9,527)	(37,954)
Gross profit	94,586	96,228	29,942	14,925	22,293	257,974
Depreciation and amortisation	(2,254)	(8,816)	(4,505)	(865)	(1,673)	(18,113)
Other operating expenses	(46,642)	(71,063)	(24,175)	(15,229)	(16,058)	(173,167)
Operating profit before exceptional item	45,690	16,349	1,262	(1,169)	4,562	66,694
Exceptional gain	-	-	-	-	-	-
Reportable segment profit / (loss)	45,690	16,349	1,262	(1,169)	4,562	66,694

Reportable business segment information for the year ended 31 December 2008:

	Online (ex Australia) €'000	Irish retail €'000	UK retail €'000	Telephone (ex Australia) €'000	Australia €'000	Total reportable segments €'000
Income from external customers, being total income	105,695	124,276	32,552	21,134	-	283,657
Direct betting costs	(14,544)	(9,843)	(5,558)	(30)	-	(29,975)
Gross profit	91,151	114,433	26,994	21,104	-	253,682
Depreciation and amortisation	(2,094)	(9,722)	(4,222)	(881)	-	(16,919)
Other operating expenses	(46,251)	(76,436)	(21,575)	(16,806)	-	(161,068)
Operating profit before exceptional item	42,806	28,275	1,197	3,417	-	75,695
Exceptional gain	-	2,735	-	-	-	2,735
Reportable segment profit	42,806	31,010	1,197	3,417	-	78,430

#### Reconciliation of reportable segments to Group totals:

	2009 €'000	2008 €'000
<b>Income</b>		
Total income from reportable segments, being total Group income (1)	295,928	283,657
<b>Profit and loss</b>		
Total profit and loss from reportable segments	66,694	78,430
<i>Unallocated amounts</i>		
Interest income (2)	900	3,297
Interest expense (3)	(402)	-
Profit before tax	67,192	81,727

- (1) There are no inter-segment revenues or profits requiring elimination in any of the reporting years.
- (2) Included in interest income in respect of 2009 is €723,000 (2008: €3,297,000) relating to the online (ex Australia), Irish retail, UK retail and telephone (ex Australia) ('non-Australia') segments and €177,000 (2008: €nil) relating to the Australia segment.
- (3) Included in interest expense is €126,000 (2008: €nil) relating to the non-Australia segments (primarily relating to guarantee fees) and €276,000 (2008: €nil) relating to the Australia segment.

The segment information reported previously in respect of the year ended 31 December 2008 provided financial information according to two business segments, 'non retail' and 'retail', and an 'other unallocated' segment. The non retail segment largely corresponds to the operating segments of online (ex Australia) and telephone (ex Australia). The retail segment largely corresponds to the Irish retail and UK retail operating segments. Certain central costs, primarily related to the central direction of the Group, that were previously included in the other unallocated category have now been allocated to operating segments as they are allocated in that manner in internal management reports.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 4. Operating segments (continued)

### (b) Geographical segment information

The Group considers that its primary geographic segments are 'UK', 'Australia' and 'Ireland and rest of world'. The UK geographic segment consists of the UK retail bookmaking business, online and telephone sports betting from UK customers, and online gaming from UK customers. The Australia geographic segment consists of online and telephone sports betting from Australian customers. The Ireland and rest of world geographic segment is composed of the Irish retail bookmaking business, online and telephone sports betting from Irish and rest of world customers, and online gaming from Irish and rest of world customers. Revenues from customers outside the UK, Australia and Ireland are not considered significant for separate reporting.

Group revenues by geographical segment are as follows:

Income	2009 €'000	2008 €'000
UK	103,131	96,704
Australia	32,012	-
Ireland and rest of world	160,785	186,953
Total	295,928	283,657

- (a) Revenues are attributed to geographical location on the basis of the customer's location.
- (b) Revenues from any single customer do not amount to ten per cent or more of the Group's revenues.
- (c) Revenues from Australian customers for the year ended 31 December 2008 have been included in the Ireland and rest of world geographic segment on the basis of immateriality.

Non current assets (excluding deferred tax balances) by geographical segment are as follows:

Non current assets	2009 €'000	2008 €'000
UK	60,450	56,215
Australia	69,786	-
Ireland and rest of world	54,976	58,441
Total	185,212	114,656

### Seasonality

The Group's sportsbook income is driven by a combination of the timing of sporting events and the Group's results derived from those sporting events. Gaming income is less seasonal in that it is not as dependent on the sporting calendar.

## 5. Direct betting costs

Direct betting costs comprise:

	2009 €'000	2008 €'000
Betting taxes	<b>16,903</b>	12,862
Software supplier costs	<b>9,178</b>	10,534
Other direct betting costs	<b>11,873</b>	6,579
Direct betting costs before exceptional item	<b>37,954</b>	29,975
Less: Exceptional item – refund of VAT relating to British Horseracing Board levies (see below)	-	(2,735)
Direct betting costs after exceptional item	<b>37,954</b>	27,240

Betting taxes comprise betting taxes levied on gross win, betting taxes levied on Irish retail and Australia segment amounts staked and general sales tax ('GST') on Australia segment gross win.

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, product fees payable to Australian state racing authorities, prize and tournament costs, customer bad debt charges 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 in 2008 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.

## 6. Employee expenses and numbers

	2009 €'000	2008 €'000
Wages and salaries	<b>70,949</b>	66,029
Social security costs	<b>6,995</b>	6,315
Defined contribution pension and life assurance costs	<b>2,338</b>	2,007
Share-based payments (Note 21)	<b>5,841</b>	6,874
Other staff costs	<b>4,023</b>	4,375
	<b>90,146</b>	85,600

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

	2009	2008
	<b>2,109</b>	1,787

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

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

Included in directors' emoluments are the following emoluments in respect of directors who were in office during the year:

	Fees €'000	Salary €'000	Pension costs €'000	Benefits €'000	Annual bonus €'000	Total 2009 €'000	Total 2008 €'000
<b>Executive</b>							
Patrick Kennedy (1)	-	678	203	41	500	1,422	1,393
Breon Corcoran	-	460	69	18	280	827	819
Jack Massey	-	300	60	27	168	555	551
<b>Non-executive</b>							
Nigel Northridge (2)	200	-	-	-	-	200	70
Tom Grace (3)	90	-	-	-	-	90	90
Fintan Drury (4)	70	-	-	-	-	70	200
Stewart Kenny	70	-	-	-	-	70	70
Jane Lighting (5)	23	-	-	-	-	23	-
Pádraig Ó Ríordáin (6)	82	-	-	-	-	82	37
David Power (7)	82	-	-	-	-	82	90
Brody Sweeney	70	-	-	-	-	70	70
	<b>687</b>	<b>1,438</b>	<b>332</b>	<b>86</b>	<b>948</b>	<b>3,491</b>	<b>3,390</b>
Cost of shares vested from Long Term Incentive Plan						<b>2,768</b>	<b>1,918</b>
	<b>687</b>	<b>1,438</b>	<b>332</b>	<b>86</b>	<b>948</b>	<b>6,259</b>	<b>5,308</b>

- Patrick Kennedy is a non-executive director of Elan Corporation, plc for which he received fees of €53,338 in the year ended 31 December 2009 (2008: €25,000). In 2009, he was also conditionally awarded 7,500 Restricted Stock Units over Elan Corporation, plc shares.
- Nigel Northridge was appointed Chairman of the Company on 1 January 2009.
- Tom Grace is Chairman of the Audit Committee.
- Fintan Drury was Chairman of the Company during the year ended 31 December 2008.
- Jane Lighting was appointed to the Board on 1 September 2009.
- 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.

Benefits provided to executive directors include provision of a company car or car allowance, life and medical insurance. Not included in the above table are accruals made in respect of the long term incentive bonus plan and share-based payment costs in respect of unvested shares in the Group's Long Term Incentive Plan (see Note 21). Details of the number and value of shares vested to executive directors from the Long Term Incentive Plan are set out in the Directors' Report on page 36.

#### 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 36. Other related party transactions between the Group and the directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

In addition to the directors' emoluments disclosed above, in the year ended 31 December 2009 directors were paid the amounts set out below:

Stewart Kenny received €80,000 (2008: €80,000) in respect of consulting fees.

Pádraig Ó Ríordáin is Managing Partner of Arthur Cox. During the year ended 31 December 2009, the Group incurred fees of €148,285 (2008 (from his appointment as a director on 8 July 2008): €58,000) relating to legal and taxation advice received from Arthur Cox.

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

The Group engages in transactions with David Power in his capacity as an on-course bookmaker. In aggregate, the Group placed bets winning €18,023 (2008: winning €93,700) with Richard Power On-Course Bookmakers and that firm placed bets with the Group winning €25,135 (2008: losing €74,426).

The Group paid rent of €38,727 (2008: €38,727) during the year for retail properties owned by David Power and occupied by the Group under long term leases.

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

Key management personnel compensation is as follows:

	2009 €'000	2008 €'000
Wages and salaries	4,434	4,388
Social security costs	569	678
Defined contribution pension and life assurance costs	562	550
Provision for executive director long term incentive bonus plan (1)	792	-
Share-based payments	3,015	4,173
Other staff costs	205	209
	<b>9,577</b>	<b>9,998</b>
	2009 €'000	2008 €'000
Executive directors (excluding share-based payments)	2,805	2,763
Other key management personnel	2,396	2,384
Provision for executive director long term incentive bonus plan (1)	792	-
Social security costs	569	678
Share-based payments	3,015	4,173
	<b>9,577</b>	<b>9,998</b>

- (1) An amount of €792,000, accrued by the Group in respect of Breon Corcoran's new long term incentive bonus plan for the year ended 31 December 2009 (2008: €nil), has not been included in the table of directors' emoluments on page 72. As set out in the Remuneration Committee Report on pages 44 and 45, no payment obligation has crystallised under the new plan at this point and payment is dependent on the online (ex Australia) and telephone (ex Australia) divisions, and the Australia division, achieving very challenging operating profit targets in the year ended 31 December 2012 and year ended 30 June 2012, respectively. However the provision represents the Group's best estimate of the most likely amount payable. The accrual as of 31 December 2008 for Breon Corcoran's previous long term incentive bonus plan of €1,201,000 (consisting of employee costs of €1,156,000 and interest of €45,000) was released in 2009 as the conditions for vesting were not met. The credit recorded in 2009 for this is not included in the table above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 8. Financial income and expense

	2009 €'000	2008 €'000
<b>Recognised in profit or loss:</b>		
Financial income:		
<i>On financial assets at amortised cost:</i>		
Interest income on short term bank deposits	900	3,297
Financial income	900	3,297
Financial expense:		
<i>On financial liabilities at amortised cost:</i>		
Bank loans	247	-
Bank guarantees	113	-
Finance leases	29	-
Unwinding of the discount on provisions and other non current liabilities	13	-
Financial expense	402	-
	2009 €'000	2008 €'000
<b>Recognised in equity:</b>		
Foreign exchange gain / (loss) on revaluation of the net assets of foreign currency denominated subsidiaries	1,476	(346)
	1,476	(346)

## 9. Statutory and other information

	2009 €'000	2008 €'000
Directors' emoluments	6,259	5,308
Auditor's remuneration for audit services	240	165
Depreciation - owned assets	14,201	14,214
Depreciation - leased assets	254	-
Impairment charges - property, plant and equipment owned	384	643
Impairment reversals - property, plant and equipment owned	(694)	(595)
Amortisation of intangible assets	3,165	2,660
Impairment charges - intangible assets	803	43
Impairment reversals - intangible assets	-	(46)
Loss on disposal of property, plant and equipment and intangible assets	75	418
Operating lease rentals, principally premises	13,269	13,255
Operating lease income (representing sub-lease income)	(141)	(182)

Amounts paid to the auditor in respect of non-audit services, comprising tax and advisory fees and including value added tax, were €375,000 (2008: €454,000).

## 10. Income tax expense

	2009 €'000	2008 €'000
<b>Recognised in profit or loss:</b>		
Current tax charge	9,120	13,771
Prior year (over) / under provision	(449)	84
	8,671	13,855
Deferred tax charge / (credit)	451	(573)
Prior year over provision	(405)	(372)
Increase / (decrease) in deferred tax (Note 22)	46	(945)
Total income tax expense in income statement	8,717	12,910

## 10. Income tax expense (continued)

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:

		2009 €'000		2008 €'000
Profit before tax		<b>67,192</b>		81,727
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5% (2008: 12.5%)	12.5%	<b>8,399</b>	12.5%	10,216
Depreciation on non-qualifying property, plant and equipment	1.3%	<b>834</b>	1.5%	1,246
Betting duty	-	-	1.4%	1,180
Effect of different statutory tax rates in overseas jurisdictions	0.1%	<b>59</b>	(0.6%)	(475)
Other differences	0.3%	<b>199</b>	0.9%	709
Interest income taxable at the higher rates	0.1%	<b>80</b>	0.4%	322
Over provision in prior year	(1.3%)	<b>(854)</b>	(0.3%)	(288)
Total income tax expense	13.0%	<b>8,717</b>	15.8%	12,910

On 1 January 2009, Irish betting duty expense, which in prior years was not deductible for Irish corporation tax purposes, became a corporation tax deductible expense.

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 €1,770,000 (2008: €2,380,000) relating to these losses forward has not been recognised in accordance with the Group's accounting policy for deferred tax due to the uncertainty surrounding the extent, timing and availability of profits against which to utilise these losses given, amongst other factors, the potential up-front costs of expansion. There is no expiry date in respect of these losses.

No significant changes are expected to statutory tax rates in Ireland, the UK or Australia.

## 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:

	2009	2008
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	<b>56,946</b>	68,817
Numerator in respect of adjusted earnings per share (€'000):		
Profit attributable to equity holders of the Company	<b>56,946</b>	68,817
Less: Exceptional item - BHB VAT refund after tax (Note 5)	-	(2,467)
Profit for adjusted earnings per share calculation	<b>56,946</b>	66,350
Denominator in respect of basic earnings per share:		
Ordinary shares in issue at beginning of year	<b>47,536,742</b>	48,975,752
Adjustments for weighted average number of:		
- ordinary shares issued during year	<b>173,731</b>	4,703
- ordinary shares purchased and cancelled or held in treasury	-	(793,104)
- ordinary shares held by long term incentive plan trust	<b>(978,296)</b>	(957,798)
Weighted average number of ordinary shares	<b>46,732,177</b>	47,229,553
Basic earnings per share	<b>€1.219</b>	€1.457
Adjusted earnings per share	<b>€1.219</b>	€1.405
Denominator in respect of diluted earnings per share:		
Basic weighted average number of ordinary shares in issue during year	<b>46,732,177</b>	47,229,553
Adjustments for dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and share award schemes	<b>429,425</b>	921,123
Weighted average number of ordinary shares	<b>47,161,602</b>	48,150,676
Diluted earnings per share	<b>€1.207</b>	€1.429
Adjusted diluted earnings per share	<b>€1.207</b>	€1.378

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 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 2008	48,290	68,670	17,240	923	135,123
Additions	2,780	8,696	1,793	372	13,641
Additions - business combinations (Note 16)	-	36	-	-	36
Disposals	(238)	(1,031)	(3)	(132)	(1,404)
Foreign currency retranslation adjustment	(50)	(271)	(29)	-	(350)
Balance at 31 December 2008	50,782	76,100	19,001	1,163	147,046
Additions	5,207	8,343	4,624	69	18,243
Additions - business combinations (Note 16)	887	248	3,333	38	4,506
Disposals	(90)	(211)	(215)	(10)	(526)
Foreign currency retranslation adjustment	209	159	255	3	626
Balance at 31 December 2009	<b>56,995</b>	<b>84,639</b>	<b>26,998</b>	<b>1,263</b>	<b>169,895</b>
<b>Accumulated depreciation</b>					
Balance at 1 January 2008	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	16,240	46,291	16,031	443	79,005
Depreciation charges	2,514	9,069	2,686	186	14,455
Impairment credits	(82)	(215)	(13)	-	(310)
Disposals	(22)	(134)	(20)	-	(176)
Foreign currency retranslation adjustment	55	42	95	2	194
Balance at 31 December 2009	<b>18,705</b>	<b>55,053</b>	<b>18,779</b>	<b>631</b>	<b>93,168</b>
<b>Net book value</b>					
At 31 December 2009	<b>38,290</b>	<b>29,586</b>	<b>8,219</b>	<b>632</b>	<b>76,727</b>
At 31 December 2008	34,542	29,809	2,970	720	68,041

The net book value of land, buildings and leasehold improvements at 31 December 2009 includes €33.8m (2008: €30.1m) in respect of leasehold improvements.

At 31 December 2009, included in fixtures and fittings are assets held under finance leases with a cost value of €1,008,000 (2008: €nil), accumulated depreciation of €223,000 (2008: €nil) and net book value of €785,000 (2008: €nil). At 31 December 2009, included in computer equipment are assets held under finance leases with a cost value of €449,000 (2008: €nil), accumulated depreciation of €229,000 (2008: €nil) and net book value of €220,000 (2008: €nil).

The impairment credits and charges relate to the Irish retail and UK retail operating segments and have arisen from a review of the carrying value of shop properties. The recoverable amounts used in the calculation of Irish retail and UK retail operating segment impairment credits and charges are based on value in use. The pre-tax discount rate used to determine value in use was 10% (2008: 10%). The impairment credit of €310,000 (2008: charge of €48,000) recorded in the year ended 31 December 2009 includes €384,000 relating to new impairment charges and is stated net of impairment reversals of €694,000 (2008: €643,000 relating to new impairment charges and is stated net of impairment reversals of €595,000). The impairment credits and 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.

### 13. Intangible assets

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

	Computer software €'000	Licences €'000	Brands €'000	Customer relationships €'000	Total €'000
<b>Cost</b>					
Balance at 1 January 2008	14,819	4,006	-	-	18,825
Additions	3,188	340	-	-	3,528
Additions - business combinations (Note 16)	-	22,258	-	-	22,258
Disposals	-	-	-	-	-
Foreign currency retranslation adjustment	(2)	(8)	-	-	(10)
Balance at 31 December 2008	18,005	26,596	-	-	44,601
Additions	2,725	596	-	-	3,321
Additions - business combinations (Note 16)	1,611	-	13,744	-	15,355
Disposals	(20)	-	-	-	(20)
Foreign currency retranslation adjustment	87	(2,280)	998	-	(1,195)
Balance at 31 December 2009	<b>22,408</b>	<b>24,912</b>	<b>14,742</b>	-	<b>62,062</b>
<b>Amortisation</b>					
Balance at 1 January 2008	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	11,322	1,667	-	-	12,989
Amortisation charges	2,669	496	-	-	3,165
Impairment charges	803	-	-	-	803
Disposals	-	-	-	-	-
Foreign currency retranslation adjustment	21	-	-	-	21
Balance at 31 December 2009	<b>14,815</b>	<b>2,163</b>	-	-	<b>16,978</b>
<b>Net book value</b>					
At 31 December 2009	<b>7,593</b>	<b>22,749</b>	<b>14,742</b>	-	<b>45,084</b>
At 31 December 2008	6,683	24,929	-	-	31,612

IFRS 3, 'Business Combinations' permits fair values relating to business combinations to be finalised within 12 months of the acquisition date. In the year ended 31 December 2008, the customer relationships intangible asset of €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 was transferred to goodwill and the year end 31 December 2007 balances were restated accordingly. Amortisation charged in respect of the customer relationships in the year ended 31 December 2007 of €154,000 was not restated in 2007 on grounds of immateriality and the adjustment was 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 of €19,975,000 (2008: €22,258,000) acquired as a result of the purchase of D McGranaghan Limited in 2008 (see Note 16) 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 value of brands intangible assets recognised on application of fair value accounting to the purchase of Sportsbet and IAS (amounting to €14,742,000 at 31 December 2009 - see Note 12) are not being amortised as the directors consider that the relevant brands have indefinite lives because:

- the directors intend to utilise the brands in the businesses for the foreseeable future; and
- substantial sums are invested annually in the form of marketing expenditure expensed through profit or loss to maintain and to enhance the value of these brands.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 13. Intangible assets (continued)

The Group reviews the carrying value of licences and brands for impairment annually (or more frequently if there are indications that the value of the licences and brands 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).

The impairment charge in respect of the year ended 31 December 2009 of €803,000 relates to certain computer software costs recognised on the acquisition of Sportsbet. The directors believe that the computer software will not be used on a long term basis by the Australia operating segment and that the recognition of an impairment charge for the full value of the computer software at 31 December 2009 is appropriate.

In 2008, an impairment net credit of €3,000 was recorded relating to the Irish retail and UK retail operating segments and was comprised of new impairment charges of €43,000 and the reversal of previously recorded charges of €46,000. The impairment charges and credits arose from a review of the carrying value of shop properties and the closure of a shop in the UK retail estate. Assets relating to the closure were not classified as held for sale on grounds of immateriality. The recoverable amounts used in the calculation of Irish retail and UK retail operating segment impairment charges were based on value in use, with the exception of the shop closure which was based on fair value less costs to sell. The pre-tax discount rate used to determine value in use was 10%.

The impairment charges and credits are included in 'depreciation and amortisation' in the consolidated income statement.

### 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 €'000	UK retail €'000	Australia €'000	Total €'000
Balance at 1 January 2008	5,952	976	-	6,928
Arising on acquisitions during the year (Note 16)	-	8,104	-	8,104
Other final fair value adjustments relating to 2007 acquisitions	(29)	-	-	(29)
Balance at 31 December 2008	5,923	9,080	-	15,003
Arising on acquisitions during the year (Note 16)	1,144	-	42,736	43,880
Foreign currency retranslation adjustment	-	(832)	2,852	2,020
Balance at 31 December 2009	<b>7,067</b>	<b>8,248</b>	<b>45,588</b>	<b>60,903</b>

Goodwill on Irish retail properties arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, from the acquisition of three retail bookmaking businesses in 2007 and from the acquisition of a retail bookmaking business in 2009 (see Note 16).

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 2008 (see Note 16).

The Australia segment goodwill amount arose from the acquisition by the Group of a 51% interest in Sportsbet Pty Limited ('Sportsbet') on 1 July 2009 and the acquisition of International All Sports Limited ('IAS') by Sportsbet on 1 October 2009 (see Note 16).

#### 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 2009.

#### 14. Goodwill (continued)

The Group's operating segments 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 2008 and brands acquired as part of the purchase of Sportsbet and IAS in 2009 – see Notes 13 and 16):

		31 December 2009 Total €'000	31 December 2008 Total €'000
Irish retail - amalgamation of three bookmaking businesses in 1988	Goodwill	904	904
Irish retail - acquisition of three bookmakers in 2007	Goodwill	5,019	5,019
Irish retail - acquisition of bookmaking business in 2009	Goodwill	1,144	-
UK retail - 2004 acquisitions	Goodwill	976	976
UK retail - Northern Ireland acquisition 2008	Goodwill	7,272	8,104
Australia - Sportsbet acquisition 2009	Goodwill	27,523	-
Australia - IAS acquisition 2009	Goodwill	18,065	-
<b>Total</b>	<b>Goodwill</b>	<b>60,903</b>	15,003
UK retail - Northern Ireland acquisition 2008	Intangible assets - licences	19,975	22,258
Australia - Sportsbet acquisition 2009	Intangible assets - brands	10,432	-
Australia - IAS acquisition 2009	Intangible assets - brands	4,310	-
<b>Total</b>	<b>Goodwill, licences and brands</b>	<b>95,620</b>	37,261

The details of the impairment reviews in respect of the businesses above as of 31 December 2009 are presented below:

	31 December 2009 €'000	31 December 2008 €'000
Irish retail - amalgamation of three bookmaking businesses in 1988	904	904

The recoverable amount of the Irish retail underlying cash generating units (relating to 37 retail units) was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2008: 2%) per annum and is based on a weighted average income growth rate of 3% (2008: 3%) and a gross win of 14% (2008: 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% (2008: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe 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 2009 €'000	31 December 2008 €'000
Irish retail - acquisition of three bookmakers in 2007	5,019	5,019

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% (2008: 2%) per annum and is based on a weighted average income growth rate of 3% (2008: 3%) and a gross win of 14% (2008: 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% (2008: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 14. Goodwill (continued)

	31 December 2009 €'000	31 December 2008 €'000
Irish retail - acquisition of bookmaking business in 2009	<b>1,144</b>	-

The recoverable amount of the Irish retail underlying cash generating units for the 2009 acquired business 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 3% and a gross win of 13%, which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in the location currently occupied by the underlying cash generating unit for the foreseeable future. A pre-tax discount rate of 10%, which reflects the specific risks relating to the underlying business segment, has been used in discounting the projected cash flows. Management believe 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 2009 €'000	31 December 2008 €'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% (2008: 2%) per annum and is based on a weighted average income growth rate of 2% (2008: 3%) and a gross win of 12% (2008: 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% (2008: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe 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 2009 €'000	31 December 2008 €'000
UK retail - Northern Ireland acquisition 2008	<b>27,247</b>	30,362

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% (2008: 2%) per annum and is based on a weighted average income growth rate of 3% (2008: 4%) and a gross win of 13% (2008: 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% (2008: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe 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.

#### 14. Goodwill (continued)

	31 December 2009 €'000	31 December 2008 €'000
Australia - Sportsbet acquisition 2009	<b>37,955</b>	-

The recoverable amount of the Sportsbet Pty 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 3% per annum and is based on a weighted average income growth rate of 3% and a gross win of 7%, 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. A pre-tax discount rate of 13%, which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Sportsbet Pty Limited goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

	31 December 2009 €'000	31 December 2008 €'000
Australia - IAS acquisition 2009	<b>22,375</b>	-

The recoverable amount of the International All Sports 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 3% and a gross win of 7%, 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. A pre-tax discount rate of 13%, which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the International All Sports Limited goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

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	Irish retail - 2009 acquisition	UK retail - 2004 acquisitions	UK retail - NI acquisition 2008	Australia - Sportsbet acquisition 2009	Australia - IAS acquisition 2009
Growth in number of bets per annum (on compound annual growth rate basis)	2%	2%	3%	0.5%	2%	n/a	n/a
Growth in average stake per bet per annum (on compound annual growth rate basis)	1%	1%	1%	1%	1%	n/a	n/a
Growth in amounts staked	n/a	n/a	n/a	n/a	n/a	5%	3%
Gross win % (average and as percentage of amounts staked)	14%	14%	13%	12% - 13%	13%	7%	7%
Cost of sales % (of amounts staked)	1% - 2%	1% - 2%	1% - 2%	5%	2%	3%	3%
Cost inflation per annum	2%	2%	2%	2%	2%	4%	4%

The assumptions above are based on past experience of the Group's businesses, 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 15. Financial assets (non current)

	31 December 2009 €'000	31 December 2008 €'000
<b>Derivative financial assets:</b>		
Sportsbet buyout call options	917	-
<b>Other financial assets:</b>		
Restricted cash (see Note 18)	1,581	-
Available-for-sale investments	-	-
	<b>1,581</b>	<b>-</b>
<b>Total</b>	<b>2,498</b>	<b>-</b>

Movements in financial assets in respect of the year ended 31 December 2009 were as follows:

	Sportsbet buyout call options €'000	Restricted cash €'000	Available- for-sale investments €'000	Total €'000
Balance at 1 January	-	-	-	-
Business combinations - acquisition of Sportsbet	917	862	4,339	6,118
Movements in fair value of available-for-sale investments	-	-	241	241
Foreign currency retranslation adjustment	-	101	238	339
Business combinations - acquisition of IAS	-	618	(4,818)	(4,200)
Balance at 31 December	<b>917</b>	<b>1,581</b>	<b>-</b>	<b>2,498</b>

### Sportsbet buyout call options

Under the terms of the agreement to purchase 51% of Sportsbet on 1 July 2009, the Company was granted certain options to purchase the equity interests of the non-controlling interest in the Sportsbet business. In the event that the combined Sportsbet and IAS earnings before interest, taxation, depreciation and amortisation ('EBITDA') for any of the years ending 30 June 2010, 2011 or 2012 is less than AUD22.0m (€13.7m), the Company has the right to claw equity from Sportsbet's existing shareholders on a proportionate basis to the shortfall in profitability. In addition, the Company has a call option, exercisable in either 2012 or 2013, to acquire all of the outstanding shares in Sportsbet that it does not own, with the exercise price to be determined based on an EBITDA multiple of 4 to 7 times, depending on the level of EBITDA. In the event that the Company elects not to exercise the call option, the non-controlling shareholders in Sportsbet will have the option to acquire the Company's shareholding. The exercise price for this option is to be determined on the same basis as the call option that the Company holds. The net value ascribed to the embedded derivatives in these option contracts (which have been designated on initial recognition as at fair value through profit or loss) amounted to €917,000 at 31 December 2009 (2008: €nil). There were no significant movements in the value of the Sportsbet buyout call options between the date of acquisition of Sportsbet and 31 December 2009.

### Available-for-sale investments

Sportsbet held a 19.98% interest in IAS on the date of its acquisition by the Company, valued at €4,339,000. This investment was classified as an available-for-sale investment. The fair value of this investment increased by €479,000 to €4,818,000 in the period from 1 July 2009 to the date of acquisition by Sportsbet of the remaining 80.02% of IAS that it did not already own, at which time the value of the investment was transferred to the cost of investment in IAS (see Note 16).

## 16. Business combinations

Year ended 31 December 2009

### Australia acquisitions

#### Acquisition of Sportsbet Pty Limited

On 1 July 2009, the Group completed the purchase of a 51% shareholding in Sportsbet, a provider of internet and telephone sports betting services in Australia. The initial purchase consideration for this acquisition amounted to €26.3m, comprised of a cash payment of €24.6m and the granting of 100,000 ordinary shares of the Company valued at €1.7m. An additional payment of AUD10.0m (€6.2m) may be payable in 2010 if certain profitability targets are achieved by Sportsbet in respect of the financial year ended 30 June 2010. Under the terms of the acquisition, certain call options were granted to the Company and to the non-controlling interest in Sportsbet (see Note 15 above). The net fair value of these options has been deducted from the purchase consideration in the calculation of the goodwill arising on acquisition of Sportsbet.

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

	Provisional book values on acquisition €'000	Provisional fair value adjustments €'000	Provisional fair values 31 December 2009 €'000
Identifiable net assets acquired:			
Property, plant and equipment	1,753	-	1,753
Intangible assets	272	10,374	10,646
Financial assets	5,201	-	5,201
Deferred tax asset (net)	365	(241)	124
Current assets (excluding cash and cash equivalents)	6,134	-	6,134
Cash and cash equivalents	6,846	-	6,846
Customer balances	(5,412)	-	(5,412)
Current liabilities	(5,594)	-	(5,594)
Sports betting open positions - current	(1,311)	-	(1,311)
Provisions - current	-	-	-
Corporation tax payable	(694)	-	(694)
Non current liabilities	(594)	-	(594)
Provisions - non current	(140)	-	(140)
	6,826	10,133	16,959
Less: non-controlling interest arising on acquisition			(8,310)
Goodwill arising on acquisition			25,251
Consideration (including associated purchase costs)			33,900
The consideration is analysed as:			
Cash consideration (including associated purchase costs)			26,953
Ordinary shares issued to vendors			1,648
Deferred purchase consideration			6,216
Embedded derivative - Sportsbet buyout call options (Note 15)			(917)
			33,900
The net cash consideration is analysed as:			
Cash consideration before acquisition expenses			24,627
Acquisition expenses			2,172
Cash consideration			26,799
Cash acquired			(6,846)
Net cash consideration for acquisition of Sportsbet			19,953

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 16. Business combinations (continued)

The intangible assets recognised on application of provisional fair value accounting to the acquisition were brands totalling €9,571,000 and computer software totalling €803,000. The valuations were performed by an independent advisor and used the relief of royalty method for the valuation of brands and the replacement cost method for the valuation of computer software.

The value attributed to goodwill reflects the future potential growth in the business acquired.

#### Acquisition of International All Sports Limited

On 1 October 2009, Sportsbet completed the acquisition of a 100% shareholding in another Australian internet and telephone sports betting company, IAS. At 1 July 2009, and upon acquisition by the Company, Sportsbet owned a 19.98% interest in IAS (see Note 15). IAS was a publicly quoted company whose shares were listed on the Australian Stock Exchange and the acquisition was implemented via a Scheme of Arrangement. The acquisition valued the entire issued share capital of IAS at AUD40.0m (€24.2m). The Company and Sportsbet's non-controlling shareholders provided shareholder loans to Sportsbet to part fund the acquisition, with the Company providing a loan of €3,833,000 (AUD6,135,000) and the 49% non-controlling shareholders in Sportsbet providing a loan of €3,682,000 (AUD5,895,000) (see Note 25). A secured bank loan of €12,494,000 (AUD20,000,000) was also taken out by Sportsbet to part fund the acquisition (see Note 25).

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

	Provisional book values on acquisition €'000	Provisional fair value adjustments €'000	Provisional fair values 31 December 2009 €'000
Identifiable net assets acquired:			
Property, plant and equipment	2,733	-	2,733
Intangible assets	1,006	3,703	4,709
Financial assets	618	-	618
Deferred tax asset (net)	1,417	-	1,417
Current assets (excluding cash and cash equivalents)	2,634	-	2,634
Cash and cash equivalents	10,164	-	10,164
Customer balances	(6,978)	-	(6,978)
Current liabilities	(5,149)	-	(5,149)
Sports betting open positions - current	(448)	-	(448)
Provisions - current	(1,034)	-	(1,034)
Corporation tax payable	(738)	-	(738)
Non current liabilities	(686)	-	(686)
Provisions - non current	(341)	-	(341)
	3,198	3,703	6,901
Goodwill arising on acquisition			17,485
Consideration (including associated purchase costs)			24,386
The consideration is analysed as:			
Cash consideration (including associated purchase costs)			19,568
Fair value of existing 19.98% holding in IAS at date of acquisition (Note 15)			4,818
			24,386
The net cash consideration is analysed as:			
Cash consideration before acquisition expenses			19,367
Acquisition expenses			201
Cash consideration			19,568
Cash acquired			(10,164)
Net cash consideration for acquisition of IAS			9,404

The intangible assets recognised on application of provisional fair value accounting to the acquisition were brands totalling €4,172,000 net of a fair valuation reduction in the value of computer software acquired of €469,000. The valuations were performed by an independent advisor and used the relief of royalty method for the valuation of brands and the replacement cost method for the valuation of computer software.

The value attributed to goodwill reflects the future potential growth in the business acquired.

## 16. Business combinations (continued)

Since the dates of acquisition to 31 December 2009, the acquired Australia businesses contributed €450.3m, €31.8m and €6.8m to amounts staked, income and operating profit (excluding sale and integration costs), respectively.

Since the date of acquisition to 31 December 2009, the acquired Australia businesses contributed a cash inflow of €5.3m to net cash from operating activities, a cash outflow of €11.4m to net cash used in investing activities (including the purchase of IAS) and a cash inflow of €13.5m to net cash used in financing activities (including debt taken on to part fund the acquisition of IAS).

If the Australia acquisitions had occurred on 1 January 2009, then their contribution to income for the year ended 31 December 2009 would have been €62.8m (including the €31.8m actually contributed) (AUD112m) and their contribution to operating profit (excluding sale and integration costs) for the year ended 31 December 2009 would have been approximately €12.3m (including the €6.8m actually contributed) (AUD22m).

### Shop property acquisition

In January 2009, the Group, in the absence of available comparable sites for an organic shop opening, acquired a retail licensed bookmaking business in Ireland.

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

	Provisional book values on acquisition €'000	Provisional fair value adjustments €'000	Provisional fair values 31 December 2009 €'000
Identifiable net assets acquired:			
Property, plant and equipment	100	(80)	20
	100	(80)	20
Goodwill arising on acquisition			1,144
Consideration (including associated purchase costs)			1,164
The consideration is analysed as:			
Cash consideration (including associated purchase costs)			1,064
Deferred purchase consideration			100
			1,164
The net cash consideration is analysed as:			
Cash consideration			1,000
Acquisition expenses			64
Net cash consideration for acquisition			1,064

The principal factors contributing to the goodwill balance above are the well established nature of the acquired business within the location in which it operates, the quality of its customer base and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired business within the Paddy Power group.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired shop in respect of the period from acquisition and for the year ended 31 December 2009 has not been presented on the basis of immateriality and commercial sensitivity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 16. Business combinations (continued)

Year ended 31 December 2008

#### 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 values 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 before foreign currency translation adjustment	23,465

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).

#### Net cash outflow from purchase of businesses and acquisition expenses paid in respect of the above business combinations for the purposes of the statement of cash flows

	2009 €'000	2008 €'000
Cash consideration	44,994	25,608
Acquisition expenses paid	2,437	399
Less: cash and cash equivalents acquired	(17,010)	(2,427)
Purchase of businesses and acquisition expenses paid	30,421	23,580
Analysed for the purposes of the statement of cash flows as:		
Purchase of businesses, net of cash acquired	27,984	23,181
Acquisition expenses paid	2,437	399
	30,421	23,580

## 17. Trade and other receivables

	31 December 2009 €'000	31 December 2008 €'000
Trade receivables	6,391	-
Other receivables	3,491	1,015
Prepayments and accrued income	6,550	4,626
	<b>16,432</b>	<b>5,641</b>

Trade and other receivables are non-interest bearing.

## 18. Cash and cash equivalents

	31 December 2009 €'000	31 December 2008 €'000
Cash	13,772	10,414
Short term bank deposits	77,410	66,247
	<b>91,182</b>	<b>76,661</b>
Less: Financial asset - current restricted cash deposit (see below)	(9,025)	-
Less: Financial asset - non current restricted cash deposits (see below)	(1,581)	-
Cash and cash equivalents in the statement of cash flows	<b>80,576</b>	<b>76,661</b>

The effective interest rate on short term bank deposits was 1.06% (2008: 3.31%); these deposits have an average original maturity date of 51 days (2008: 50 days). The short term bank deposits also have an average maturity date of 26 days from 31 December 2009 (2008: 39 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 2009 €'000	31 December 2008 €'000
Euro	53,836	58,449
GBP	10,137	6,625
AUD	12,610	-
USD	827	1,173
	<b>77,410</b>	<b>66,247</b>

### Financial assets

Included in short term bank deposits at 31 December 2009 is an amount of €9,025,000 (GBP8,015,000) (2008: €nil) which was restricted at that date and up to 5 January 2010 as it formed part of a guarantee issued in favour of the Isle of Man Gambling Supervision Commission in respect of player funds held by the Group (see Note 31). This balance has been shown as a current financial asset in the consolidated statement of financial position.

Included in short term bank deposits at 31 December 2009 are amounts totalling €1,581,000 (AUD2,531,000) (2008: €nil) which are restricted at that date and beyond 31 December 2010. The bank deposits (1) form part of a number of guarantees issued in favour of Australian state racing authorities as required by gambling licences (€531,000), (2) are in respect of certain obligations entered into by the Group for office accommodation held under operating leases (€925,000) and (3) are in respect of certain other services provided to the Group (€125,000). The balance has been shown as a non current financial asset in the consolidated statement of financial position (see Note 15). See also Note 31.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 19. Share capital and reserves

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2008: 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, 396,597 ordinary shares of €0.10 each (2008: 44,990 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for a total consideration of €5,093,000 (2008: €503,000), giving rise to a share premium of €5,053,000 (2008: €499,000). As part of the consideration for the purchase of Sportsbet (see Note 16), the Company issued 100,000 ordinary shares to the vendors of Sportsbet on 1 July 2009. The total value of these shares on the date of issue amounted to €1,648,000, of which €1,638,000 represented the share premium on issue.

In 2009, the Group made no purchases of the Company's own shares. During 2008, the Group purchased 1,484,000 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. 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. The other purchase related costs were written off directly to retained earnings. All of the shares purchased in 2008 were held in treasury at 31 December 2009 and 2008; the total number of shares held in treasury at 31 December 2009 was 1,734,000 shares (2008: 1,734,000 shares). 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 2009 (2008: €34,177,000). The value of treasury shares held by the Company at 31 December 2009 was €5,975,000 (2008: €5,975,000), with the remaining €28,202,000 of shares being held by Paddy Power Isle of Man Limited (2008: €28,202,000).

At 31 December 2009, the Company held a further 1,438,711 of its own shares (2008: 1,166,855), which were acquired at a total cost of €31,858,000 (2008: €21,526,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan and Managers' Deferred Share Award Scheme (see Note 21). The Company's distributable reserves at 31 December 2009 are further restricted by this cost amount. In the year ended 31 December 2009, 268,144 shares originally valued at €3,735,000 were transferred from the long term incentive plan trust ('the Trust') to beneficiaries of the Trust consequent to the vesting thereof (2008: 228,173 shares originally valued at €3,145,000).

The foreign exchange translation reserve at 31 December 2009 was a balance of €518,000 (2008: deficit of €346,000) which arose from the retranslation of the Group's net investment in GBP and AUD functional currency subsidiary companies. Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund and a capital contribution reserve. The capital redemption reserve fund of €876,000 (2008: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2008: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. The capital contribution reserve balance of €256,000 (2008: €nil) arose on initial recognition of the Group's share of the discount on the non-controlling shareholder loans (which are non-interest bearing – see Note 25).

During 2009, an unrealised after-tax gain of €381,000 (2008: €nil) arose on revaluation of the Group's 19.98% available-for-sale investment in IAS between the date the Group acquired its 51% interest in Sportsbet (1 July 2009) and the date that Sportsbet acquired the remaining 80.02% interest in IAS (1 October 2009). The Group's share of this gain was €194,000 (2008: €nil). This gain, together with the Group's share of the write back of deferred tax previously accounted for on the gain of €258,000 (2008: €nil), together totalling €452,000 (2008: €nil), was transferred from the fair value reserve to retained earnings upon Sportsbet acquiring a 100% interest in IAS.

In 2009, an amount of €1,372,000 (2008: €121,000) 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 €67.8m (2008: €70.5m), which includes a €50.0m (2008: €40.0m) dividend receivable from a subsidiary company.

## 20. Dividends paid on equity shares

	2009 €'000	2008 €'000
Ordinary shares:		
- final paid of 35.40 cent per share (2008: 35.00 cent)	16,864	17,054
- interim paid of 19.50 cent per share (2008: 18.60 cent)	9,294	8,848
	<b>26,158</b>	25,902
Proposed final dividend of 38.90 cent (2008: 35.40 cent) per share (see Note 34)	<b>18,686</b>	16,830

## 21. Share schemes

### Summary of share-based payments expense

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

	2009 €'000	2008 €'000
Share option scheme	358	488
Sharesave scheme	435	279
Long Term Incentive Plan ('LTIP')	4,930	5,899
Managers' Deferred Share Award Scheme	118	208
	<b>5,841</b>	6,874

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.

### 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.

### Summary of options outstanding

The total number of options outstanding at 31 December 2009 was 859,512 (2008: 1,322,687). These options had exercise prices ranging from €8.15 to €24.17 (2008: €8.15 to €24.17).

#### For the year ended 31 December 2009:

	Options outstanding at 1 January 2009	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2009
Share option scheme	636,935	-	(13,500)	(306,635)	316,800
Sharesave scheme	685,752	110,939	(164,017)	(89,962)	542,712
Total	<b>1,322,687</b>	<b>110,939</b>	<b>(177,517)</b>	<b>(396,597)</b>	<b>859,512</b>

#### 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
Total	1,025,043	452,585	(109,951)	(44,990)	1,322,687

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 21. Share schemes (continued)

The Group has the following employee share schemes:

#### 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 2009, 18 ordinary shares (2008: 13,758) 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 1,078,806 shares have been exercised and options over 204,866 shares have lapsed. Options over 316,800 shares were outstanding at 31 December 2009 (2008: 636,935), of which 164,000 were exercisable at 31 December 2009 (2008: 225,635). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 1 January 2009	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2009	Earliest exercise date *	Exercise price	Market price at date of exercise
45,951	-	-	(25,951)	20,000	February 2007	€8.15	€17.40 - €21.37
37,000	-	-	(27,000)	10,000	June 2007	€9.43	€16.55 - €21.85
13,684	-	-	(13,684)	-	September 2007	€9.80	€17.40
129,000	-	-	(99,000)	30,000	September 2008	€14.80	€20.33 - €24.75
15,000	-	-	(12,000)	3,000	March 2009	€12.55	€18.62 - €18.85
230,000	-	-	(129,000)	101,000	October 2009	€14.40	€17.00 - €25.49
166,300	-	(13,500)	-	152,800	September 2010	€24.17	-
<b>636,935</b>	<b>-</b>	<b>(13,500)</b>	<b>(306,635)</b>	<b>316,800</b>			

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

There were no options granted under this scheme in the years ended 31 December 2009 or 2008.

In 2008, options over 4,000 shares were exercised at an exercise price of €9.43 when the market price per share was €13.40. During 2008, options in respect of 9,000 shares at an exercise price of €14.80 per share lapsed, options in respect of 6,000 shares at an exercise price of €12.55 per share lapsed, options in respect of 10,000 shares at an exercise price of €14.40 per share lapsed and options in respect of 10,500 shares at an exercise price of €24.17 per share lapsed.

## 21. Share schemes (continued)

### 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 is €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 1 January 2009	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2009	Earliest exercise date *	Exercise price	Market price at date of exercise
<i>Granted after 7 November 2002</i>							
144,975	-	(83,463)	(61,512)	-	November 2008	€11.60	€11.25 - €20.95
64,120	-	(12,419)	(26,682)	25,019	December 2009 & December 2011	€11.29	€25.00 - €25.75
3,574	-	(694)	(1,156)	1,724	December 2009 & December 2011	€12.04	€25.00 - €25.75
18,787	-	(3,874)	-	14,913	December 2010 & December 2012	€19.26	-
4,487	-	(801)	-	3,686	December 2010 & December 2012	€20.54	-
430,537	-	(59,197)	(612)	370,728	December 2011 & December 2013	€9.45	€17.00 - €22.30
19,272	-	(2,880)	-	16,392	December 2011 & December 2013	€10.08	-
-	104,390	(689)	-	103,701	December 2012 & December 2014	€14.90	-
-	6,549	-	-	6,549	December 2012 & December 2014	€14.13	-
<b>685,752</b>	<b>110,939</b>	<b>(164,017)</b>	<b>(89,962)</b>	<b>542,712</b>			

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

In 2008, options over 433,313 shares at an exercise price of €9.45 and options over 19,272 shares at an exercise price of €10.08 were granted. Options over 40,990 shares at an exercise price of €11.60 were exercised during 2008 when the market price ranged from €11.40 to €14.06. During 2008, options in respect of 11,035 shares at an exercise price of €11.60 per share, options in respect of 18,073 shares at an exercise price of €11.29 per share, options in respect of 1,960 shares at an exercise price of €12.04 per share, options in respect of 38,598 shares at an exercise price of €19.26 per share, options in respect of 2,009 shares at an exercise price of €20.54 per share and options in respect of 2,776 shares at an exercise price of €9.45 per share lapsed.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €538,257 (2008: €1,533,000). The significant inputs into the model were the share price of €17.66 (2008: €11.70) at the grant date, the exercise prices of €14.90 and €14.13 (2008: €9.45 and €10.08), the standard deviations of expected share price returns of 36% and 41% (2008: 33% and 40%), the option lives disclosed above and annual risk free rates of 2.4% and 3.3% (2008: 4.0% and 4.2%). 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

### 21. 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 Remuneration Committee 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.

In respect of the 2009 awards only, shareholders approved the adjustment of the growth target for the first year to the estimated consensus EPS for 2009 as at 6 April 2009 ('Consensus EPS'), of 106 cent, rather than an EPS determined off 2008 performance. For the full number of 2009 awards to vest, Consensus EPS must then be grown by not less than the compound growth in CPI plus 15% per annum in 2010 and 2011. These awards may vest after a three or four year period from award date only.

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 2007, 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 also receive a small number of additional shares in respect of dividends on those shares between the award and vesting dates, regarded as a de facto part of the original share award.

During the year, awards of 250,000 shares, 276,000 shares and 15,000 shares (2008: 122,900 shares, 97,100 shares and 263,750 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €17.84, €23.23 and €24.74, respectively (2008: €21.60, €24.25 and €13.79). The total cost of these grants is €11,243,000 (2008: €8,646,000) 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 2009 is stated after an LTIP charge of €4,930,000 (2008: €5,899,000).

During 2009, a total of 268,144 shares (2008: 225,179 shares) in respect of 2006 awards (2008: 2005 awards) and related dividends were vested from the Trust to senior management.

A credit of €779,000 was recorded in 2009 in respect of the 2008 grants (2008: expense of €2,882,000), which primarily reflects management's revised estimate of the likelihood of the grants vesting given the very challenging 2010 EPS target required for these awards to vest in the context of the current economic conditions.

#### Managers' Deferred Share Award Scheme

As a means of rewarding strong performance in 2007 and retaining some key members of staff, 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) in 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.

## 21. Share schemes (continued)

During 2009, no ordinary shares (2008: 3,457 ordinary shares when the Company's share price was €24.00) were conditionally granted to employees, no ordinary shares (2008: 2,994) were vested from the Trust to beneficiaries of the scheme and 5,274 share awards lapsed (2008: 1,555). At 31 December 2009, there were 79,855 share awards outstanding under the Share Award Scheme (2008: 85,129).

The total cost of the grant is estimated at €1,909,000 (2008: €1,943,000). Of this amount, the estimated performance bonus element of the grant cost of €1,460,000 was expensed in the year ended 31 December 2007, a further €208,000 and €118,000 of the grant cost was expensed in the years ended 31 December 2008 and 2009 respectively, with the remaining €123,000 (being the remaining estimated unrecognised value of the staff retention element of the grant cost) to be expensed in the Group income statement in 2010.

### 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 2008 to 31 December 2009, 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 2008	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
Purchased 8 December 2009	540,000	14,067
	1,706,855	35,593
Vested from the Trust in 2009	(268,144)	(3,735)
Shares held by the Trust at 31 December 2009	1,438,711	31,858

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

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 22. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2009			31 December 2008		
	Assets €'000	Liabilities €'000	Total €'000	Assets €'000	Liabilities €'000	Total €'000
Property, plant and equipment	563	-	563	332	-	332
Purchase of business - licence intangible assets (Note 16)	-	(5,593)	(5,593)	-	(6,232)	(6,232)
Lease premiums - income element	-	(114)	(114)	-	(114)	(114)
Available-for-sale investments	-	-	-	-	-	-
Employee benefits	1,270	-	1,270	1,048	-	1,048
Other	1,581	-	1,581	12	-	12
Net assets / (liabilities)	3,414	(5,707)	(2,293)	1,392	(6,346)	(4,954)

Analysed by Irish, UK and Australian corporation tax:

Irish corporation tax	1,405	(114)	1,291	1,358	(114)	1,244
UK corporation tax	16	(5,593)	(5,577)	34	(6,232)	(6,198)
Australian corporation tax	1,993	-	1,993	-	-	-
Net assets / (liabilities)	3,414	(5,707)	(2,293)	1,392	(6,346)	(4,954)

The above deferred tax balances are in respect of Irish, UK and Australian corporation tax. The deferred tax assets and liabilities have been offset at 31 December 2009 and 2008 as there is a legally enforceable right to such set-off. The net balances as of 31 December 2009 comprised an Irish corporation tax net deferred tax asset of €1,291,000 (2008: €1,244,000), a UK corporation tax net deferred tax liability of €5,577,000 (2008: €6,198,000) and an Australian corporation tax net deferred tax asset of €1,993,000 (2008: €nil). Included in the statement of financial position is a deferred tax asset of €3,284,000 (2008: €1,244,000) representing the Irish and Australian net deferred tax assets and a deferred tax liability of €5,577,000 (2008: €6,198,000) representing the UK net deferred tax liability.

### Unrecognised deferred tax assets

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

	31 December 2009 €'000	31 December 2008 €'000
UK tax losses	1,770	2,380

A deferred tax asset has not been recognised in respect of the tax losses related to the Group's retail operations in Great Britain ('GB') as it is not certain when taxable profits will be generated against which to offset these losses (see also Note 35). This uncertainty arises due, amongst other factors, to the potential up-front costs of expansion in GB.

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

### Movement in temporary differences during the year

	Balance at 1 January 2008 €'000	Recognised in income 2008 €'000	Purchase of businesses 2008 €'000	Foreign currency retranslation adjustment 2008 €'000	Balance at 31 December 2008 €'000	Recognised in compre- hensive income 2009 €'000	Transfer to retained earnings 2009 €'000	Purchase of businesses 2009 €'000	Foreign currency retranslation adjustment 2009 €'000	Balance at 31 December 2009 €'000
Property, plant and equipment	(265)	628	(38)	7	332	208	-	22	1	563
Intangible assets - licences and computer software (Note 16)	-	-	(6,232)	-	(6,232)	241	-	(241)	639	(5,593)
Lease premiums - income element	(98)	(16)	-	-	(114)	-	-	-	-	(114)
Available-for-sale investments	-	-	-	-	-	(98)	552	(438)	(16)	-
Employee benefits	713	335	-	-	1,048	(637)	-	816	43	1,270
Other	14	(2)	-	-	12	142	-	1,382	45	1,581
	364	945	(6,270)	7	(4,954)	(144)	552	1,541	712	(2,293)

## 23. Trade and other payables and derivative financial liabilities

### Current liabilities

	31 December 2009 €'000	31 December 2008 €'000
<b>Trade and other payables</b>		
Trade payables	9,712	6,357
Customer balances	33,231	16,584
PAYE and social security	2,268	1,611
Value added tax and general sales tax	848	878
Betting duty, data rights and product fees	7,296	2,906
Employee benefits	9,142	8,168
Deferred consideration - business combinations	6,329	-
Accruals and other liabilities	21,627	17,438
	90,453	53,942
<b>Derivative financial liabilities</b>		
Sports betting open positions	5,448	3,658

### Non current liabilities

	31 December 2009 €'000	31 December 2008 €'000
<b>Trade and other payables</b>		
PAYE and social security	90	142
Employee benefits	2,913	4,031
Accruals and other liabilities	-	1,484
	3,003	5,657
<b>Derivative financial liabilities</b>		
Sports betting open positions	16	11

### 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 or loss.

The carrying amount of the liabilities 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 24. Provisions

#### Current liabilities

	31 December 2009 €'000	31 December 2008 €'000
<b>Trade and other payables</b>		
Employee benefits	-	-
Accruals and other liabilities	1,170	-
	<b>1,170</b>	<b>-</b>

#### Non current liabilities

	31 December 2009 €'000	31 December 2008 €'000
<b>Trade and other payables</b>		
Employee benefits	234	-
Accruals and other liabilities	1,479	-
	<b>1,713</b>	<b>-</b>

The movements in provisions during the year ended 31 December 2009 were as follows:

#### Current liabilities

	Long service leave €'000	Lease reinstatement €'000	Onerous contracts €'000	Total €'000
Balance at 1 January	-	-	-	-
Other additions	-	-	113	113
Business combinations (Note 16)	-	518	516	1,034
Charged / (credited) to the income statement:				
- Additional provisions recognised	-	-	5	5
- Unused amounts reversed	-	(16)	-	(16)
Amounts used during the year	-	-	-	-
Foreign currency retranslation adjustment	-	17	17	34
Balance at 31 December	-	519	651	1,170

#### Non current liabilities

	Long service leave €'000	Lease reinstatement €'000	Onerous contracts €'000	Total €'000
Balance at 1 January	-	-	-	-
Other additions	-	388	1,054	1,442
Business combinations (Note 16)	426	55	-	481
Charged / (credited) to the income statement:				
- Additional provisions recognised	29	53	76	158
- Unused amounts reversed	(132)	(60)	-	(192)
Amounts used during the year	(109)	-	(92)	(201)
Foreign currency retranslation adjustment	20	5	-	25
Balance at 31 December	234	441	1,038	1,713

## 24. Provisions (continued)

### Long service leave

This provision represents the amounts provided to 31 December 2009 in respect of the long service leave entitlements of Australia employees under the provisions of relevant Australian state legislation. The long service leave liability is measured as the present value of expected future payments to be made in respect to services rendered up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

### Lease reinstatement

Included in this category are amounts provided by the Group for the reinstatement of properties held under operating leases to their original condition when the leases were taken out. These costs are generally provided for over the period of the relevant leases.

### Onerous contracts

The onerous contracts provision primarily relates to operating leases where the Group is not occupying properties for which it still has a present and future obligation to make lease payments. The provision represents the future expected net cash outflows under these leases discounted at an interest rate appropriate to the timing of the expected net cash outflows.

## 25. Borrowings

The Group had the following borrowings at 31 December:

### Current liabilities

	31 December 2009 €'000	31 December 2008 €'000
Secured bank loan	4,165	-
Finance leases	858	-
	<b>5,023</b>	-

### Non current liabilities

	31 December 2009 €'000	31 December 2008 €'000
Secured bank loan	7,288	-
Loans from Sportsbet non-controlling shareholders	3,181	-
Finance leases	1,029	-
	<b>11,498</b>	-

The borrowings at 31 December 2009 are further analysed as follows:

	Currency	Nominal interest rate	Counterparty	Year taken out	Year of maturity	Face value €'000	Carrying amount €'000
Secured bank loan	AUD	7.89%	National Australia Bank	2009	2012	11,453	11,453
Loans from Sportsbet non-controlling shareholders	AUD	Nil	Non-controlling shareholders holding 49% of the share capital of Sportsbet	2009	2016	3,682	3,181
						<b>15,135</b>	<b>14,634</b>

Both the secured bank loan and the non-controlling shareholder loans were taken out by the Group to part fund the acquisition of IAS. The loans from the 49% non-controlling shareholders in Sportsbet are non-interest bearing. A discount of €501,000 (2008: €nil), representing the difference between the nominal value of the loans (€3,682,000) and their fair value, has been included in the capital contribution reserve (€256,000) and in non-controlling interest (€245,000). A discount rate of 5.0% was used in the calculation of the fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 25. Borrowings (continued)

#### Security and restrictions

The National Australia Bank secured bank loan is secured by a first ranking fixed and floating charge over all the assets of Sportsbet.

Under the terms of the National Australia Bank loan agreement, Sportsbet is restricted from distributing in excess of 60% of its available annual net profit in respect of the financial years ending 30 June 2010 and 30 June 2011, and 100% of the annual net profit of the financial year ending 30 June 2012. The terms of the secured bank loan also preclude a distribution if the net tangible assets of Sportsbet (excluding amounts owing in respect of shareholder loans) are less than the facility limit at that date.

Under the terms of the Shareholder Loan Deed relating to the non-controlling shareholder loans, Sportsbet, in lieu of making dividend payments, must first make loan repayments in an amount equal to the dividend payment that each individual shareholder would have been entitled to.

#### Finance lease liabilities

The finance lease liability obligations at 31 December 2009 are analysed as follows:

Payable	Future minimum lease payments €'000	Interest payable €'000	Present value of minimum lease payments €'000
Within one year	1,032	174	858
Between one and five years	1,125	96	1,029
In more than five years	-	-	-
	<b>2,157</b>	<b>270</b>	<b>1,887</b>

The Group had no finance leases at 31 December 2008.

### 26. 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	
	31 December 2009 €'000	31 December 2008 €'000
Financial assets at fair value through profit or loss	917	-
Restricted cash	10,606	-
Trade receivables	6,391	-
Other receivables	3,491	1,015
Cash and cash equivalents	80,576	76,661
	<b>101,981</b>	<b>77,676</b>

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

	31 December 2009 €'000	31 December 2008 €'000
Ireland	973	165
United Kingdom	237	226
Australia	6,678	-
Other	1,994	624
	<b>9,882</b>	<b>1,015</b>

## 26. Credit risk (continued)

The maximum exposure to credit risk for trade and other receivables by type of counterparty at 31 December was:

	31 December 2009 €'000	31 December 2008 €'000
Sports betting customers	6,391	-
Other	3,491	1,015
	<b>9,882</b>	<b>1,015</b>

### Significant customers

There were no individual customers at 31 December 2009 or 2008 that represented over ten per cent of trade receivables.

### Impairment losses

The ageing of trade receivables (stated net of impairment provisions) at 31 December was as follows:

	31 December 2009 €'000	31 December 2008 €'000
Not past due	2,722	-
Past due 0-30 days	1,867	-
Past due 31-120 days	1,802	-
Past due 121 days to 365 days	-	-
More than one year	-	-
	<b>6,391</b>	<b>-</b>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2009 €'000	2008 €'000
Balance at 1 January	-	-
Business combinations	1,470	-
Impairment losses recognised	621	-
Impaired losses written off	(806)	-
Foreign currency retranslation adjustment	106	-
Balance at 31 December	<b>1,391</b>	<b>-</b>

### The impairment provision in respect of trade receivables has been established as follows:

Larger individual sports betting and other receivables balances are reviewed individually for collectability at the year end and provisions for impairment calculated based on management's assessment of what amounts are unlikely to be received. Provisions for the impairment of smaller balances are established based on the ageing of those receivables balances and the application of provision percentages to ageing buckets based on management's past experience of the likelihood of such receivables balances being collected.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 27. Liquidity risk

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

	Carrying amount €'000	Contractual cash flows €'000	6 months or less €'000	31 December 2009			
				6-12 months €'000	1-2 years €'000	2-3 years €'000	4 years and over €'000
<b>Non-derivative financial liabilities</b>							
Trade and other payables	87,127	87,127	84,123	-	172	2,223	609
Deferred consideration	6,329	6,347	100	6,247	-	-	-
Secured bank loan	11,453	12,538	2,448	2,370	4,533	3,187	-
Other loans	3,181	3,682	-	-	-	-	3,682
Finance leases	1,887	2,157	516	516	1,028	97	-
	<b>109,977</b>	<b>111,851</b>	<b>87,187</b>	<b>9,133</b>	<b>5,733</b>	<b>5,507</b>	<b>4,291</b>
<b>Derivative financial liabilities</b>							
Sports betting open positions	5,464	5,464	5,112	336	15	1	-
	<b>115,441</b>	<b>117,315</b>	<b>92,299</b>	<b>9,469</b>	<b>5,748</b>	<b>5,508</b>	<b>4,291</b>

	Carrying amount €'000	Contractual cash flows €'000	6 months or less €'000	31 December 2008			
				6-12 months €'000	1-2 years €'000	2-3 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
Deferred consideration	-	-	-	-	-	-	-
Secured bank loan	-	-	-	-	-	-	-
Other loans	-	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-	-
	<b>59,599</b>	<b>60,632</b>	<b>53,609</b>	<b>341</b>	<b>3,661</b>	<b>389</b>	<b>2,632</b>
<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>

### 28. Currency risk

#### Currency risk exposure

As of 31 December 2009 and 2008, the Group's foreign currency risk exposure in respect of the principal foreign currencies in which the Group operates was as follows:

	31 December 2009			31 December 2008		
	GBP €'000	AUD €'000	USD €'000	GBP €'000	AUD €'000	USD €'000
Financial assets non current - Sportsbet buyout call options	-	917	-	-	-	-
Financial assets non current - restricted cash	-	1,581	-	-	-	-
Trade receivables	53	6,244	1	-	-	-
Other receivables	187	1,712	699	139	-	624
Financial assets current - restricted cash	9,025	-	-	-	-	-
Cash and cash equivalents	3,117	18,489	1,194	11,056	-	1,173
Trade payables	(4,008)	(947)	(39)	(3,512)	-	(39)
Customer balances	(9,328)	(14,424)	(1,757)	(7,305)	-	(1,609)
Other payables (excluding accruals)	(715)	(5,474)	-	(1,677)	-	-
Deferred consideration	-	(6,229)	-	-	-	-
Secured bank loan	-	(11,453)	-	-	-	-
Other loans	-	(3,181)	-	-	-	-
Finance leases	-	(1,887)	-	-	-	-
Gross statement of financial position exposure	<b>(1,669)</b>	<b>(14,652)</b>	<b>98</b>	<b>(1,299)</b>	<b>-</b>	<b>149</b>

## 28. Currency risk (continued)

The Australian dollar exposure primarily relates to the Australia operating segment whose functional currency is the AUD. The above analysis excludes certain assets and liabilities that comprise the Group's net investment in Sportsbet and IAS.

The Group had no forward foreign currency contracts or derivatives that are cash flow hedges in place at either 31 December 2009 or 2008.

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

To 1 Euro:	Average rate		31 December (mid-spot rate)	
	2009	2008	2009	2008
1 GBP	<b>0.891</b>	0.796	<b>0.888</b>	0.953
1 AUD	<b>1.775</b>	1.742	<b>1.601</b>	2.027
1 USD	<b>1.393</b>	1.471	<b>1.441</b>	1.392

The average Euro-AUD exchange rate for the period from 1 July 2009 to 31 December 2009 was 1.671.

### Sensitivity analysis

A ten percent strengthening and weakening of the euro against the following currencies at 31 December 2009 and 2008 would have increased / (decreased) profit and other 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 2009</b>				
GBP	<b>116</b>	<b>(142)</b>	<b>(2,203)</b>	<b>2,692</b>
AUD	<b>(76)</b>	<b>93</b>	<b>(3,124)</b>	<b>3,819</b>
USD	-	<b>1</b>	-	-
<b>31 December 2008</b>				
GBP	103	(126)	-	-
AUD	-	-	-	-
USD	(12)	15	-	-

## 29. Interest rate risk

### Profile

At 31 December 2009 and 31 December 2008, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	31 December 2009 €'000	31 December 2008 €'000
<b>Variable rate instruments</b>		
Financial assets - non current restricted cash	<b>1,581</b>	-
Financial assets - current restricted cash	<b>9,025</b>	-
Financial assets - cash	<b>13,772</b>	10,414
Financial assets - short term bank deposits	<b>66,804</b>	66,247
Financial liabilities - secured bank loan	<b>(11,453)</b>	-
	<b>79,729</b>	76,661

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 29. Interest rate risk (continued)

	Carrying amount	
	31 December 2009	31 December 2008
	€'000	€'000
<b>Fixed rate instruments</b>		
Financial liabilities - finance leases	(1,887)	-
	<b>(1,887)</b>	-

#### Cash flow sensitivity analysis for variable rate instruments

A change of 50 (increase) and 25 (decrease) basis points ('bps') in interest rates at 31 December 2009 and a change of 50 bps in interest rates at 31 December 2008 would have increased / (decreased) profit for a full year and other equity by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant. The selection of 25 bps for the interest rate decrease assumption at 31 December 2009 reflects the low euro and GBP interest rates currently being earned.

	Profit		Other equity	
	50 bps increase	25 bps decrease	50 bps increase	25 bps decrease
	€'000	€'000	€'000	€'000
<b>31 December 2009</b>				
Variable rate instruments	320	(160)	-	-
	50 bps increase	50 bps decrease	50 bps increase	50 bps decrease
	€'000	€'000	€'000	€'000
31 December 2008				
Variable rate instruments	294	(294)	-	-

### 30. Fair values

#### Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities in the statement of financial position:

	31 December 2009		31 December 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
	€'000	€'000	€'000	€'000
<i>Available-for-sale</i>				
<b>Assets</b>				
19.98% investment in IAS	-	-	-	-
	-	-	-	-
<i>Carried at fair value</i>				
<b>Assets</b>				
Derivative financial assets - Sportsbet buyout call options	917	917	-	-
<b>Liabilities</b>				
Derivative financial liabilities - sports betting open positions	(5,464)	(5,464)	(3,669)	(3,669)
Net	<b>(4,547)</b>	<b>(4,547)</b>	<b>(3,669)</b>	<b>(3,669)</b>
<i>Carried at amortised cost</i>				
<b>Assets</b>				
Restricted cash - non current	1,581	1,581	-	-
Trade receivables	6,391	6,391	-	-
Other receivables	3,491	3,491	1,015	1,015
Restricted cash - current	9,025	9,025	-	-
Cash and cash equivalents	80,576	80,576	76,661	76,661
	<b>101,064</b>	<b>101,064</b>	<b>77,676</b>	<b>77,676</b>
<b>Liabilities</b>				
Trade and other payables	(93,456)	(93,456)	(59,599)	(59,599)
Secured bank loan	(11,453)	(11,453)	-	-
Other loans	(3,181)	(3,181)	-	-
Finance leases	(1,887)	(1,887)	-	-
	<b>(109,977)</b>	<b>(109,977)</b>	<b>(59,599)</b>	<b>(59,599)</b>
Net	<b>(8,913)</b>	<b>(8,913)</b>	<b>18,077</b>	<b>18,077</b>
Total	<b>(13,460)</b>	<b>(13,460)</b>	<b>14,408</b>	<b>14,408</b>

### 30. Fair values (continued)

#### Fair value hierarchy

Financial instruments at 31 December which are carried at fair value are analysed by valuation method below. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2009			Total €'000
	Level 1 €'000	Level 2 €'000	Level 3 €'000	
Available-for-sale financial assets	-	-	-	-
Derivative financial assets	-	-	917	917
	-	-	917	917
Derivative financial liabilities	-	-	(5,464)	(5,464)
	-	-	(4,547)	(4,547)

  

	31 December 2008			Total €'000
	Level 1 €'000	Level 2 €'000	Level 3 €'000	
Available-for-sale financial assets	-	-	-	-
Derivative financial assets	-	-	-	-
	-	-	-	-
Derivative financial liabilities	-	-	(3,669)	(3,669)
	-	-	(3,669)	(3,669)

#### 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 are 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 the Sportsbet buyout call options and sports betting open positions.

The Sportsbet buyout call options have been valued using a Black Scholes option pricing model. The key assumptions in the option pricing model are risk free rates of between 4.7% and 5.2%, share price volatility of 40% and expected option lives of 3.25 to 4.59 years.

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.

##### *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## CONTINUED

### 30. Fair values (continued)

#### Sensitivity analysis in respect of financial instruments carried at fair value

The following sensitivity analysis has been performed for the financial assets and liabilities carried at fair value at 31 December 2009 and 2008:

##### *Sportsbet buyout call options*

The fair value of the Sportsbet buyout call options is sensitive to both share price volatility assumptions and exercise price assumptions (which are a function of EBITDA in future years). If the share price volatility assumption increased by 20% to 60% and the expectation of achievement of the EBITDA projections used in the valuation model decreased from 100% to 90%, the fair value of the options would increase by €545,000.

##### *Sports betting open positions*

The fair value of sports betting open positions is primarily based on expectations as to the results of sporting and other events on which bets are placed. Changes in those expectations and ultimately the actual results when the events occur will result in changes in fair value. While it is unlikely that the results of all sporting events would vary against expectation in a similar linear manner, a 10% positive and negative (from the viewpoint of the results of the Group) movement in the overall probability estimate of relevant sporting event outcomes would result in a €410,000 decrease and increase, respectively, in the value of open sports bets at 31 December 2009 (2008: decrease and increase of €275,000, respectively).

#### Movements in year in respect of financial instruments carried at fair value

The movements in respect of the financial assets and liabilities carried at fair value in the year to 31 December are as follows:

	2009 Sportsbet buyout call options €'000	2009 Sports betting open positions €'000	2009 Total €'000	2008 Sportsbet buyout call options €'000	2008 Sports betting open positions €'000	2008 Total €'000
Balance at 1 January	-	(3,669)	(3,669)	-	(3,743)	(3,743)
Business combinations	917	(1,759)	(842)	-	-	-
Recognised in the income statement	-	(282,972)	(282,972)	-	(270,370)	(270,370)
Settlements	-	282,936	282,936	-	270,444	270,444
Balance at 31 December	917	(5,464)	(4,547)	-	(3,669)	(3,669)

The amounts recognised for business combinations in 2009 represent (1) the fair value of the Sportsbet buyout call options granted when Sportsbet was purchased on 1 July 2009 (asset of €917,000) and (2) the value of the sports betting open positions acquired as a result of the purchase of Sportsbet and IAS (liability of €1,759,000).

The amounts recognised in the income statement represent the Group's gross win in respect of sports betting positions and other derivatives included in income in the year (see Note 4). The settlements in the year are the net amounts received and receivable from customers in respect of those sports betting positions.

All gains and losses have been recognised in the income statement in 2009 and 2008.

### 31. Commitments and contingencies

#### (a) Guarantees

The Group has working capital overdraft facilities of €14.8m (2008: €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 2009 was GBP16,000,000 (euro equivalent of €18,016,000) (2008: GBP12,000,000 and euro equivalent of €12,598,000). No claims had been made against the guarantee as of 31 December 2009 (2008: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Isle of Man Limited, and is partly secured by a cash deposit of GBP8,015,000 (euro equivalent €9,025,000) (2008: €nil) over which the guaranteeing bank holds a floating charge. The fair value accounting impact of this guarantee is deemed to be immaterial.

### 31. Commitments and contingencies (continued)

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 2009 was €300,000 (2008: €300,000). No claims had been made against the guarantee as of 31 December 2009 (2008: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Bookmakers (Malta) Limited. The fair value accounting impact of this guarantee is deemed to be immaterial.

The Australian corporate sports bookmaking licences issued to Sportsbet and IAS requires those companies to hold sufficient cash funds to cover monies owed to customers by those companies. At 31 December 2009, the total value of customer balances attributable to the Australia business segment was €15,008,000 (AUD24,025,000) (2008: €nil) and the combined cash and cash equivalent balances held by Sportsbet and IAS at that date totalled €19,114,000 (AUD30,598,000) (2008: €nil).

The Australian operating segment had €1,581,000 (AUD2,531,000) of cash-backed bank issued guarantees outstanding at 31 December 2009 (2008: €nil), comprised as follows:

- an amount of €500,000 (AUD800,000) guaranteed to the Northern Territory Racing and Gaming Authority. Subsequent to the year end, €375,000 (AUD600,000) of this guarantee was released as a result of combining both Australian businesses under Sportsbet's license;
- IAS had a guarantee outstanding to the Queensland Thoroughbred Racing Board of €31,000 (AUD50,000). Subsequent to year end, this was also released following the amalgamation of the IAS and Sportsbet licences under Sportsbet's name; and
- guarantees of €925,000 (AUD1,481,000) outstanding in respect of rental and other property commitments and a €125,000 (AUD200,000) guarantee issued to Sportsbet's outsourced payroll services provider.

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 statement of financial position date but not yet incurred was as follows:

	31 December 2009 €'000	31 December 2008 €'000
Property, plant and equipment	3,055	1,742
Intangible assets	121	-
	<b>3,176</b>	<b>1,742</b>

#### (c) Operating leases

The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The leases typically run for a period of ten years, with a right of renewal after that date. Lease rentals are typically reviewed every five years to reflect market rental rates or changes in general inflation rates.

At 31 December, the Group had the following rent commitments in respect of non-cancellable operating leases on properties where the lease terms expire as follows:

	31 December 2009		31 December 2008	
	Annual commitment €'000	Total commitment €'000	Annual commitment €'000	Total commitment €'000
Within 1 year	2,402	2,402	1,264	1,264
Between 2 and 5 years	1,487	4,758	1,328	3,721
After 5 years	11,236	158,432	9,421	145,664
	<b>15,125</b>	<b>165,592</b>	<b>12,013</b>	<b>150,649</b>

The Group has a small number of shop properties that are sublet. Sublease payments of €168,000 are expected to be received during the year ended 31 December 2010.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## 31. Commitments and contingencies (continued)

During 2009, an amount of €13,525,000 was recognised in profit or loss in respect of operating leases (2008: €12,955,000). Contingent rent expense in profit or loss amounted to a credit of €256,000 (2008: charge of €300,000). Sublease income (netted against operating lease expense on the basis of immateriality) amounted to €141,000 in 2009 (2008: €182,000).

Operating leases for licensed betting and other offices are entered into as combined leases of land and buildings. Since the title to the land does not pass, the rent paid to the landlord of the building is increased to market rent at regular intervals and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the offices are with the landlord. As such, the Group determined that the leases are operating leases.

## 32. 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.

## 33. Group entities

The Company had the following subsidiary undertakings carrying on businesses which principally affect the profits and assets of the Group at 31 December 2009:

Name	Equity interest at 31 December 2009	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited	100%	England	Bookmaker	5th Floor, Crowne House, 56-58 Southwark Street, London, SE1 1UN
Paddy Power Isle of Man Limited	100%	Isle of Man	Bookmaker	14 Athol Street, Douglas, Isle of Man, IM1 1JA
Paddy Power Entertainment Limited	100%	Isle of Man	Gaming	14 Athol Street, Douglas, Isle of Man, IM1 1JA
D McGranaghan Limited	100%	Northern Ireland	Bookmaker	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU
Sportsbet Pty Limited	51%	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820, Australia
International All Sports Limited	51%	Australia	Bookmaker	Fannie Bay Racecourse, Playford Street, Fannie Bay, Darwin, Northern Territory 0820, Australia
Paddy Power Financials Limited	100%	Ireland	Marketing services	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Paddy Power Bookmakers (Malta) Limited	100%	Malta	Gaming	'Abacus', Suite 2, Psaila Street, St Venera, SVR 9017, Malta
Paddy Power Luxembourg s.à.r.l.	100%	Luxembourg	Treasury services	16 Avenue Pasteur, L-2310, Luxembourg
Paddy Power (Northern Ireland) Limited	100%	Northern Ireland	Holding company	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU

With the exception of Sportsbet and IAS that both have 30 June year ends, the above subsidiary undertakings have the same year end date as the Company. All subsidiary undertakings have been included in the Group consolidated financial statements. Accounts have been drawn up to 31 December 2009 in respect of both Sportsbet and IAS.

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.

### 34. Events after the statement of financial position date

#### *Dividend*

In respect of the current year, the directors propose that a final dividend of 38.90 cent per share (2008: 35.40 cent per share) will be paid to shareholders on 21 May 2010. 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 12 March 2010. The total estimated dividend to be paid amounts to €18,686,000 (2008: €16,830,000).

#### *Increased shareholding in Sportsbet*

On 12 February 2010, the Company increased its shareholding in Sportsbet to 60.8% through the buyout of a non-controlling shareholder who had no executive involvement with the business. The consideration for the 9.8% shareholding acquired amounted to AUD13.0m (€8.5m) in cash. The remaining 39.2% of Sportsbet's shares will remain subject to existing transaction arrangements, including unchanged contingent consideration of AUD10.0m (€6.6m) subject to EBITDA, as defined, exceeding AUD26.0m (€17.1m) and Paddy Power's call options to acquire any non-controlling shareholding in either 2012 or 2013. The Company also acquired the shareholder's loan to Sportsbet as part of the transaction.

### 35. Accounting estimates and judgements

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

Goodwill of €60,903,000 (2008: €15,003,000) continues to be carried in the Group statement of financial position 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 2009, the acquisition by the Group of 51% of Sportsbet and Sportsbet's subsequent acquisition of IAS contributed additional goodwill of €45,588,000 and brands intangible assets of €14,742,000. During 2008, the acquisition of the D McGranaghan Limited business in Northern Ireland contributed additional goodwill of €7,272,000 (2008: €8,104,000), including €5,593,000 (2008: €6,232,000) of deferred tax on the value of licences intangible assets recognised on the application of fair value accounting to the acquisition, and €19,975,000 (2008: €22,258,000) of licences intangible assets. The directors believe that this goodwill and the licences and brands intangible assets have not been impaired as of 31 December 2009. The key assumptions made in respect of goodwill and indefinite life intangible assets 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 €14,968,000 at 31 December 2009 (2008: €13,733,000). The fair value of share options granted after 7 November 2002 has been determined using a Black Scholes valuation model. The significant inputs into the model include certain management assumptions with regard to the standard deviation of expected share price returns, expected option life and annual risk free rates. These assumptions are set out in Note 21.

The fair value of the Group's sports betting open positions amounted to €5,464,000 at 31 December 2009 (2008: €3,669,000) and the Group considers such arrangements to be derivatives. The Group performs a revaluation of sports betting open positions at each statement of financial position 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 2009 and 2008, all retail premises leases qualify as operating leases.

A potential deferred tax asset of €1,770,000 (2008: €2,380,000) relating to the GB retail business (see Note 22) has not been recognised as of 31 December 2009. Management continue to believe that there is considerable uncertainty as to the future profitability of the GB retail business and the timing of that profitability given, amongst other factors, the potential up-front costs of expansion in Great Britain. Management therefore deem it prudent to continue to not recognise the potential deferred tax asset as at 31 December 2009.

Included in trade receivables at 31 December 2009 of €6,391,000 (2008: €nil) are gross receivable balances of €7,782,000 (2008: €nil), stated net of an impairment provision for bad and doubtful accounts of €1,391,000 (2008: €nil). Management believe that the impairment provision represents their best estimate of the value of receivable balances at 31 December 2009 that may not be recoverable from customers, and that the carrying value of trade receivables is their fair value.