

OPERATING & FINANCIAL REVIEW

Paddy Power is a multi-channel, multi-national betting and gaming group. Operations are divided across Online, Retail and Telephone channels. Betting and gaming services are provided predominantly to consumers, mainly in the UK, Ireland and Australia, but also to business-to-business clients globally.

The online channel has grown rapidly in recent years and generated 85% of trading profits in the second half of 2009 following the acquisition of online businesses in Australia. Geographically the Group has diversified significantly from its original Irish customer base. Revenue from UK customers has increased significantly, notwithstanding the recent weakness in sterling, and accounted for 44% of Group operating profit in 2009. Based on the trading profits consolidated last year, profit from Australian customers would be approximately 20% of Group profit on an annualised basis.

Operating Profit by Division (€m)	2009	% of Group	2008	% of Group
Online (ex Australia)	45.7	69%	42.8	57%
Irish Retail	16.3	24%	28.3	37%
UK Retail	1.3	2%	1.2	2%
Australian Online and Telephone	4.6	7%	-	0%
Telephone (ex Australia)	(1.2)	-2%	3.4	4%
Group	66.7	100%	75.7	100%

Operating Profit by Geography (€m)	2009	% of Group	2008	% of Group
UK	29.4	44%	29.1	38%
Australia	4.6	7%	-	0%
Ireland and Rest of World	32.7	49%	46.6	62%
Group	66.7	100%	75.7	100%

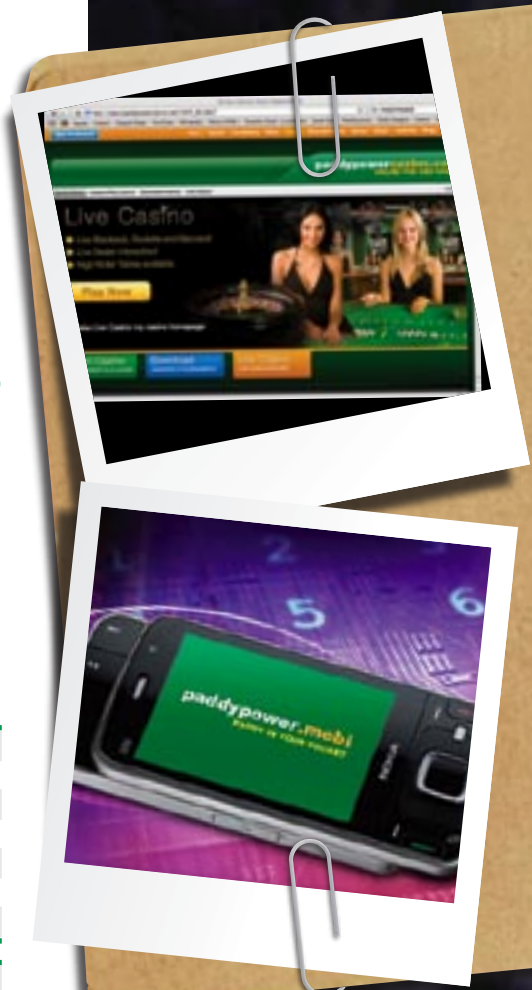
(Online and Telephone operating profit allocated by geography based on average divisional profit margins applied to gross win)

Sporting Results and Trading

When it rains, it pours.....at least that's the way it seemed last year for bookies. Along with something called economic growth, 'upsets' in sport seem to have become as rare as team-mates inviting John Terry around to dinner with the missus. Thus while we would have expected a reduction in gross win, pre any 'recycling', of some €10m in 2009 with a return to a normal run of sporting results versus 2008, the actual reduction due to sporting results was approximately €29m.

We did okay in the early shadow boxing at the start of the year, but it's Cheltenham when the punters really get their gloves off and this year we took a proper pounding. We stepped up bravely for the first race with a signature Money-Back Special – a refund of all losing bets if the race was won by the hot favourite, Cousin Vinny – and we survived, but should have thrown in the towel there and then. A subsequent run of nine Irish winners (just one short of the record), plus a record seven winners for Ruby Walsh, proved very costly.

Things were no better away from the track. In the Six Nations, the favourites won every match, bar France's narrow win over Wales which was the one match where our punters decided to back the underdog! The 'Big 4' were proving equally predictable for punters in the Premier League, winning 26 out of their final 27 matches against the 'Would-Like-To-Be-Bigger 16'. The one first-half bright spot was 100/1 outsider, Mon Mome's win in the Grand National.



NAME

No.

MISSION 04

EMBRACE TECHNOLOGY

Technical and product innovation was, as always, something we grasped firmly with both hands in 2009.

Unlike the Crazy Frog phenomenon, we finally found a good use for the mobile phone with the release of an optimised version of paddypower.com for the mobile platform. Other new initiatives in 2009 included tweeting, facebook fan pages and an online 'Last Man Standing' competition. On the product front, we introduced our new 'Banker Builder' product to help our online customers build an accumulator of short priced favourites - now Arsenal trying to walk the ball into the net should be the most frustrating part of backing short odds multiples. Such achievements by our dedicated IT department in 2009 were all the more remarkable considering we're talking about the same year in which a new Star Trek movie was released.



OPERATING & FINANCIAL REVIEW

CONTINUED

Based on the last two years, we really should consider closing up for our summer holidays! In July, 11 of 18 (or 61%) of Group 1 races were won by the favourite (compared to about 34% normally). In August, it actually got worse with what seemed like an unending run of favourable sporting results for punters, particularly in football. In the Premier League, draws suddenly became as unusual as 'Big 4' defeats, with just 4 draws in the first 66 matches. The national press covered theories of what might have changed - was it the extra points for a win, bigger gaps between team budgets or the way the new football flies through the air? In fact, it appears draws are like Jordan's weddings - you wait ages for one and then several come along at once - with 18 draws over the subsequent 51 games.

In racing, Sea The Stars was a scourge for us winning six Group 1 races over a perfect six months - the only good news for bookies was that at least he went off to stud afterwards for a well earned, eh, rest. We'll take a big sigh of relief now because we may not feel so chuffed with ourselves when all the baby Sea The Stars start popping up at racecourses in a couple of years time. We hoped for better luck with the National Hunt season which kicked off as usual in November with the Paddy Power Gold Cup at Cheltenham. We offered a bumper special - money back on all losing bets if a Paul Nicholls' trained horse won the race. We thereby successfully attracted lots of new and returning Paddy Power punters, onto everything but the champion trainer's horses - in the end we would have actually been better off if Nicholls had won (rather than Tranquil Sea, which went off as favourite).

Still, that's what it's all about. While gross win percentages will always be subject to the vagaries of sporting results, we strive, day in and day out, to deliver great value, product and entertainment for our customers. We went about this with gusto in 2009. This consistency pays both in terms of the strength of our brand, and measurable financial performance such as the 55% increase in our online sportsbook bet volumes and the growth in our Irish Retail market share from a steady 25%-26% pre the downturn to 32% in the second half of 2009.

**amounts
staked online
increased
by 31% (CC)**

ONLINE DIVISION (Excluding Australia)

€m	2009	2008	% Change	% Change in CC
Amounts staked	856.4	694.9	+23%	+31%
Sportsbook gross win	55.3	58.6	-6%	0%
<i>Sportsbook gross win %</i>	6.9%	9.1%		
Gaming & other gross win	52.5	47.1	+11%	+16%
Total gross win	107.8	105.7	+2%	+7%
Gross profit	94.6	91.1	+4%	+9%
Operating costs	(48.9)	(48.3)	+1%	+6%
Operating profit	45.7	42.8	+7%	+13%

Online activities are by some distance the largest and fastest growing part of Paddy Power. Online operating profit (excluding Australia) increased by €2.9m to €45.7m last year, despite a significantly worse run of sporting results and a net negative impact from foreign currency fluctuations of approximately €2.1m. Our operating profit as a percentage of gross win at 42% remained amongst the highest in the industry, benefiting from the strength of our brand, synergies with Retail, scale and operational expertise. This profitability enables us to continue to invest in product, value and brand to drive future success in what is a highly competitive industry.

Both the sportsbook and gaming grew strongly. Active sportsbook customers increased by 21% year on year and by 26% in the last quarter versus the last quarter of 2008, with equivalent percentages for gaming of 18% and 27% respectively. We see our strength in sports betting as a significant asset, as it is the largest individual segment in online gambling, and also has the highest potential for product differentiation and hurdles for new entrants. A strong sportsbook position can also enhance gaming profitability and growth through cross selling. The fastest growing part of our customer base was multi-product users, which grew by 28% in the year and 47% in the last quarter.

Online Channel Active Customers	2009	2008	% Change
UK	304,301	249,138	+22%
Ireland and Rest of World	142,100	129,101	+10%
Total	446,401	378,239	+18%

Online Customers Product Usage	2009	2008	% Change
Sportsbook only	253,233	214,581	+18%
Gaming only	62,108	61,151	+2%
Multi-product customers	131,060	102,507	+28%
Total	446,401	378,239	+18%

(Active customers have been re-defined as those who have bet in the reporting period)

(A) Sportsbook

The amounts staked on the online sportsbook increased by 32% in constant currency to €804m. Within this, bet volumes grew 55% to 42.5m while the average stake per bet decreased by 15% in constant currency to €18.91. The reduction in average stake per bet is due to a combination of factors, including the significant growth in active customers and more challenging economic circumstances. Gross win in the sportsbook was flat in constant currency at €55.3m due to a significantly lower gross win percentage.

We introduced a major step up in our 'everyday value' from the middle of 2008, but that hasn't reduced our appetite in the right circumstances to give that special type of value you can only get with Paddy Power. So when Tiger Woods had a four shot lead with two rounds remaining in the USPGA, we paid out early on him as the winner (we might have reconsidered if we'd known just how exhausting Tiger's typical week on Tour was at that point). The payout created headlines all over the world that night, and even more over the subsequent days, as YE Yang, ranked 102nd in the world, came charging at Tiger like Elin with a nine iron and claimed a shock victory. At the other end of the spectrum, we also introduced individually targeted one-on-one generosity with our 'This One's on Us' campaign, surprising customers by paying for their bet after they'd placed it. Both initiatives showcase the Paddy Power difference which generates unique awareness, fun and loyalty amongst punters, more than recouping its cost.

Product innovation was, as always, a key priority. Unfazed by declining reputations in the financial and property developments sectors, we introduced a 'Banker Builder' product to streamline the process of selecting short priced favourites for a football accumulator bet. For those feeling more risk averse since the crash, we added the unique option of 'fallers insurance' on all Irish and UK jumps races. Mobile phone betting has been reenergised by advances in handset technology for which we have optimised a version of paddy.com with encouraging results.



OPERATING & FINANCIAL REVIEW CONTINUED

Our sports risk management business (Airton Risk Management), targets companies with exposure to sporting results from marketing or player bonus arrangements. It missed the revenue generated from the UEFA European Championships and a strong run of results in 2008 but made good progress on client acquisition, retention and deal conversion rates.

(B) Gaming & Other

Gaming and other revenue increased by 16% in constant currency to €52.5m. This was driven by strong revenue growth in Games, Bingo and Financial Spread Betting, which more than offset the impact of a difficult Poker market. Year on year growth in constant currency accelerated significantly in the second half of 2009 to 25%, as compared to 7% in the first half, with higher growth in all the major product lines.

Many sportsbook bettors also enjoy casino games and thus strong growth in sportsbook customers provided an opportunity for Casino and Games which was maximised through significant expansion of the product and enhanced promotions. The Games channel maintains relationships with 12 suppliers to optimise its selection of over 130 games. Similarly, the Casino offers a choice of three different casino formats (flash, download and live) across two different brands. New technology has significantly enhanced the range of possible promotions with our marketing gurus working overtime to dream up numerous sophisticated and witty campaigns such as 'Win Slots of Money!' and 'Go Luck Yourself!'.

The Poker market continues to be challenging due to the advantages enjoyed by certain operators taking play from the U.S. Against this backdrop, a sportsbook led position is a strength and we were pleased to grow our active Poker customers and profitability. Our sponsorship of the Irish Open Poker Tournament, the oldest tournament in Europe, continues to be a strong point of differentiation.

Our Bingo business was boosted by a successful migration to a hosted network model with Virtue Fusion which had a positive impact on revenues and costs. Paddy Power Trader benefited from further product development including a 'Trading Edge' tool (which highlights markets hitting predefined trading signals), daily reports of broker recommendation changes and extended live 'News & Views' updates via text and audio. As well as direct profit uplift, such ongoing development better informs our assessment of the options to take that business to the next level.

We concluded our first business-to-business deal in November with the announcement of a five-year agreement with PMU, the French pari-mutuel horse racing operator. Paddy Power will supply PMU with risk management and pricing expertise for an online sports betting business under the new French regulatory environment. The market is expected to be launched this year, with just modest up-front revenue and costs recorded in 2009. An established operation with such a prestigious first client creates an alternative route for Paddy Power to access new geographies, on a risk reward basis which may in certain circumstances be more attractive than direct market entry.



NAME

No.

MISSION 05

THINK ORGANIC

Our retail businesses continued to grow organically in 2009 with the opening of 25 new shops in the UK and seven in Ireland.

We also expanded the estate in Great Britain outside of London for the first time, opening shops in several other cities including Glasgow, Bradford, Leicester and Manchester. To celebrate our arrival into Scotland we purchased the toilet belonging to former Glasgow Celtic winger, Shunsuke Nakamura, on eBay, filled it full of Japanese Yen and gave it away to whoever guessed closest to the correct amount. One lucky punter's guess of ¥100,000 was literally right on the money and netted him a cool £800 and signaled our launch into Scotland in typical style.



OPERATING & FINANCIAL REVIEW

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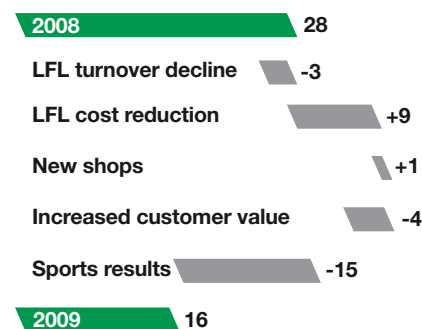
RETAIL

We continue to evolve innovative and differentiating ways to give the extra value, service and choice fundamental to Paddy Power within retail. While trying to place bets on a race 'after the off' is likely to see you barred from the shops of our competitors, we actively introduced such a facility last year. Starting prices are now available on all races after the off until a 'No More Bets' message appears on shop screens, ensuring Paddy Power punters get those extra seconds of deep analysis, reflection and meditation required to pick the winner.

Our enormous range of online product is also fully available within our shops, with customer terminals enabling punters to review markets and prices at their leisure (with the added bonus of avoiding the mortification of having to ask a real person for odds on Dancing On Ice). In addition, investment in our information screen system has enabled us to seamlessly display from our huge range of bets those most likely to be of interest to retail customers. The screens also highlight the enhanced prices and other extra value 'Powerplays' throughout the day that guarantee our customers the best price in the industry on many popular selections. There's so much of interest going on you'd hardly be bothered watching the racing!

Our online and offline activities complement each other. The biggest single benefit is the maximisation of scale to fund investment in marketing, product and other areas. We also experience stronger relative online growth in UK regions where we have been opening shops. At an operational level, a system for customers to complete paddy.com account withdrawals and deposits in shops was introduced and will be rolled out this year across our current estate of almost 300 shops.

Irish Retail Operating Profit Bridge (€m)



IRISH RETAIL DIVISION

€m	2009	2008	% Change
Amounts staked	949.1	935.4	+1%
Gross win	106.0	124.3	-15%
Gross win %	11.2%	13.3%	
Gross profit	96.2	114.4	-16%
Operating costs	(79.9)	(86.1)	-7%
Operating profit	16.3	28.3	-42%
Shops at year end	198	191	+4%

The amounts staked within Irish Retail increased by 1% to €949m, while gross win fell by 15% to €106m, driven by a significantly lower gross win percentage. Excluding the seven shops we opened last year, like-for-like amounts staked were down 3% and gross win was down 18%. The reduction in stake was due to a fall in average stake per slip of 5% to €20.37, with like-for-like slips increasing by 2%.

We continued to manage our costs aggressively in response to the challenging economic conditions and achieved a 10% reduction in like-for-like costs. Savings were achieved across the board driven by more efficient staffing and tight control of overheads and capital expenditure. Only seven units required redevelopment last year with the quality materials and equipment previously invested in the estate all wearing well.

**Like-for-like
EBITDA
per GB shop
up 7% to
£120,000**

UK RETAIL DIVISION

€m	2009	2008	% Change	% Change in CC
Amounts staked	198.3	173.6	+14%	+28%
OTC gross win	21.3	20.1	+6%	+18%
<i>Sportsbook gross win %</i>	<i>11.6%</i>	<i>12.5%</i>		
Machine gross win	14.1	12.4	+14%	+27%
Total gross win	35.4	32.5	+9%	+22%
Gross profit	30.0	27.0	+11%	+24%
Operating costs	(28.7)	(25.8)	+11%	+22%
Operating profit	1.3	1.2	+5%	+152%
Shops at year end	93	68	+37%	+37%

UK Retail increased its profits by €0.1m to €1.3m. We achieved increased profitability of €1.1m in constant currency from the 60 shops we had in London at the start of 2009 and an additional contribution of €0.5m from the eight shops acquired in Northern Ireland in May 2008. This performance offset the upfront central costs of opening new units of €0.8m and an adverse impact from weaker sterling of approximately €0.7m.

In constant currency, turnover grew 28% to €198m, with a 1% increase in the average stake per slip to €15.62, and gross win increased by 22%. Like-for-like gross win grew 0.4% in constant currency comprised of machine growth of 5.8% and an over-the-counter (OTC) decline of 2.9% (on unchanged OTC amounts staked). There were 368 machines installed at the end of 2009, an increase of 37% compared to the end of 2008. The average gross win per machine per week including VAT was £862. For the like-for-like estate in Great Britain, this amount was £959, an increase of 4% compared to 2008.

Operating costs grew 22% in constant currency driven by a 26% increase in average shop numbers and the additional infrastructure required to support shop openings outside of London. Like-for-like costs (including development) increased by 1%. Improved operational arrangements were also achieved in July 2009 with the implementation of new terms and conditions for the majority of staff which, amongst other things, eliminates premium rate overtime. These arrangements will generate net cost savings, post implementation costs, from early this year.

We expect operating profit from UK Retail to increase significantly as we benefit from increased estate profitability from new and maturing shops, lower per shop depreciation and increased scale to cover central overheads and facilitate further cost reductions. Average EBITDA per shop for the 60 shops we opened in London pre 2009 was €133,000 (£120,000) last year, up 7% in constant currency. We opened 25 new shops in the UK last year at an average capital cost per unit, of €297,000 (£265,000) including lease premia, or €254,000 (£227,000) excluding lease premia.

€m	2009	2008	% Change	% Change in CC
Shop estate EBITDA	9.8	9.1	+8%	+24%
Shop estate depreciation	(4.5)	(4.2)	+8%	+8%
Shop estate operating profit	5.3	4.9	+7%	+42%
Central overheads	(4.0)	(3.7)	+7%	+20%
Operating profit	1.3	1.2	+5%	+152%

OPERATING & FINANCIAL REVIEW CONTINUED

We await a decision from the Treasury on the likely replacement of the existing VAT regime for machine taxation with a gross profits tax ('GPT'). While the Treasury have stated that their objective is for any change to be tax neutral, it could adversely impact efficient machine and expanding operators such as Paddy Power depending on the percentage GPT rate set, with each 1% increase in GPT over VAT costing approximately €150,000 per annum at 2009 machine revenue levels.

AUSTRALIA DIVISION

The Group entered the attractive Australian betting market last year by acquiring 51% of Sportsbet Pty Limited ('Sportsbet'), for a final initial consideration of €26.3m (AUD45.7m). Sportsbet subsequently acquired 100% of International All Sports Limited ('IAS'), funding the acquisition via bank debt of AUD20m and shareholder loans of AUD12m, 51% of which or €3.8m (AUD6.1m) was provided by Paddy Power. These transactions were completed on schedule on 1 July and 1 October respectively, from which dates the results of the companies have been fully consolidated. Sportsbet and IAS are 'corporate' (i.e. non pari-mutuel) bookmakers, licensed to take sportsbook bets via their online and telephone channels throughout Australia. On 12 February 2010, Paddy Power increased its shareholding in Sportsbet to 60.8% through the buyout of a minority shareholder who had no executive involvement in the business. The consideration for the 9.8% shareholding acquired was €8.5m (AUD13.0m). Paddy Power has a call option, exercisable in either 2012 or 2013, to acquire the minority interest in Sportsbet at an exercise price to be determined based on an EBITDA multiple of 4 to 7 times, depending on the level of EBITDA.

€m	2009
Amounts staked	450.3
Gross win	31.8
Gross win %	7.1%
Gross profit	22.3
Operating costs, recurring	(15.5)
Trading profit	6.8
Once-off costs	(2.2)
Operating profit	4.6
Active Customers	92,820

(Active customers above are defined as customers who have bet with Sportsbet or IAS in the last three months)

Australia generated strong financial results last year, in line with our expectations upon acquisition. In constant currency versus pro-forma comparatives, the amounts staked grew by 19% overall and by 40% online, while gross win increased by 41% overall and by 42% online. The sportsbook gross win percentage of 7.1% was ahead of the comparative period and our expectations, boosted by favourable sporting results in November and December. The online channel accounted for some 80% of gross win and a higher percentage again of operating profit.

Last summer the Group relocated two senior Paddy Power executives with extensive e-commerce, marketing, risk and product expertise to work with the Sportsbet team. The significant project to integrate Sportsbet and IAS is now close to completion, with staff from both businesses integrated in unified departments in the same physical locations. Once-off costs in 2009 related to the associated acquisition and integration expenses, including non-cash accelerated amortisation of €0.8m. The IAS brand continues to be promoted online as a specialist brand for horseracing aficionados, while Sportsbet is positioned as a mass market brand, promoted heavily both online and offline.



NAME

No.

MISSION 06

BE DIFFERENT - STAND OUT

At Paddy Power we embrace diversity. Inherited wisdom is there to be challenged and flipping convention is an element in pretty much everything we do.

This way of thinking led to the introduction of our 'Bet After the Off' facility where we actively encourage our shop customers to place bets on horse racing after the official start of the race, as opposed to our competitors who would throw you out for that sort of behaviour!



OPERATING & FINANCIAL REVIEW CONTINUED

Notwithstanding the acquisition and integration work, the two brands increased their active customers by 76% in the final quarter of 2009 as compared to the equivalent period in 2008. The combined brands hold a strong leadership position within the online corporate bookmaking market; however when the online share of the TABs (i.e. the licensed retail monopolies) are included, our share is lower, leaving substantial scope for growth. In addition, we expect the online market to grow strongly, driven by the same macro drivers we have seen in the UK, plus the attraction of the better value and choice available online compared to the offering of the retail monopolies.

TELEPHONE DIVISION (Excluding Australia)

€m	2009	2008	% Change	% Change in CC
Amounts staked	297.4	297.1	+0%	+5%
Gross win and gross profit	14.9	21.1	-29%	-26%
Gross win %	5.0%	7.1%		
Operating costs	(16.1)	(17.7)	-9%	-7%
Operating profit / (loss)	(1.2)	3.4	n/a	n/a

Our telephone business experienced a substantial decline in its gross win percentage in 2009. Adverse sporting results, exacerbated by weak sterling (costing €0.5m year-on-year) and recessionary headwinds, contributed to a loss of €1.2m. Nonetheless key underlying profitability drivers such as customer numbers, bet volumes, amounts staked and overhead costs all moved positively.

The amounts staked grew by 5% in constant currency. Bet volumes grew 37% to 4.5m, driven by growth in active customers of 23% and increased bets per customer. The average stake per bet decreased by 23% in constant currency to €66.50, driven by the weak economic conditions and the impact of attracting incremental but smaller than average sized bets from customers. Customer acquisition increased significantly, particularly in the UK where active customers in 2009 were up 41% versus 2008. Many of these customers will also bet online with Paddy Power over time, contributing to online profitability.

Operating costs were reduced by 7% in constant currency through overhead renegotiations, implementation of new technologies and processes, plus reduced consumption of shared central resources by the Telephone channel. One cost that wasn't reduced was the payout on winning bets – our gross win percentage fell by 2.1% to 5.0%. While the exceptional value we offer, plus the addition of the high stakes unit, has lowered our expectation for the telephone gross win percentage to approximately 6.5%, we would nonetheless expect a normal run of results to restore the channel to profitability.

Telephone Channel Active Customers	2009	2008	% Change
UK	40,849	29,062	+41%
Ireland and Rest Of World	23,107	22,830	+1%
Total	63,956	51,892	+23%

(Active customers have been re-defined as those who have bet in the reporting period)

**UK telephone
active customers**

**up 41% to
40,849**

Trading & Risk Management

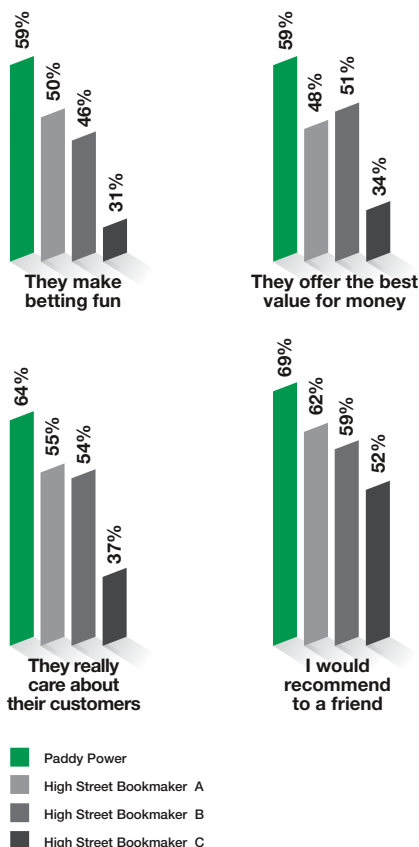
Investment in our Trading & Risk Management function continues, aimed at both product development and operational efficiency. This facilitated the handling last year of up to 6,000 events per week, comprised of over 30,000 markets, across an expanded range of 72 sports.

Within the pivotal football market, we added 27 additional leagues from around the world - a level of service smaller competitors find hard to match. This gives our customers betting opportunities on over 300 domestic competitions from as far a field as South Africa, Costa Rica, Estonia and Guatemala –chants of ‘come on you Club Social y Deportivo Comunicaciones’ are now frequently heard coming from the trading department.

Betting-in-running (‘BIR’) is the fastest growing part of our sportsbook and a segment where Paddy Power has long been a pioneer. We doubled the BIR team last year to expand our offer to cover all major sports and increase the depth of coverage. Within football we offer BIR on over 1,000 matches per month, more than double 2008 levels. The customer appetite for BIR on other sports has also grown, with the result that we now offer, for example, BIR on 500 tennis matches per month and all live cricket events from the southern hemisphere. And in the unlikely event there isn’t some live sport on somewhere in the world, there’s always financial betting. Here we expanded our fixed odds betting to include currencies, commodities and betting on the FTSE every 2 minutes.

Customers Notice The Difference

Survey of Online Customers



(Source: TNS, September 2009)

Brand

Just as important as any of the financial results each year is reporting on our greatest asset, the Paddy Power brand. Our focus on product and value also differentiates us, and indeed reinforces our brand, but it’s our brand – and brand values of fun, occasional irreverence and putting the customer first – that really separates us from the rest of the pack and is perhaps the hardest thing for others to replicate.

Bookies sponsoring racing is not unusual, but the 2009 Paddy Power Irish Wife Carrying Championship was a new take on that theme. As well as being different, we like our marketing to strike a chord with the public so after Ireland’s World Cup qualifier against France, we proudly ran our views on the carousel advertising at Dublin Airport - ‘Paddy Power welcomes you to Ireland - unless you’re called Thierry’. Such cost effective marketing has always been a Paddy Power mainstay but our scale now supports our use of all media. Last year, we ran our first UK terrestrial TV campaign to highlight to a broader public that some bookmakers are different and give money back (we also successfully used naked people and animals without attracting censure). Mr. Paddy Power has also of course been busy online - tweeting, making new friends and sharing embarrassing videos of himself – we’re hoping this year he’ll have time to do some of that stuff for the company!

The ongoing investment in the brand highlighted throughout this statement is of course not just done because it’s fun, it continues because it delivers measurable cost effective results. This is illustrated in the financial performance but equally in market research. For example, research last year showed that amongst UK online users of the major High Street bookmakers, Paddy Power customers rated us significantly higher for making betting fun and for caring about our customers and were therefore more likely to recommend us to a friend, compared to the customers of other brands when rating their provider.

OPERATING & FINANCIAL REVIEW CONTINUED

Taxation

The corporation tax charge for the year was €8.7m. This represents an effective tax rate of 13.0%, a reduction of 3.0% compared to 2008, driven by Irish retail betting tax being allowed as a tax deductible expense from January 2009 and a credit related to prior years. A deferred tax asset has not been recognised in respect of accumulated losses in Great Britain given, amongst other factors, the potential up-front costs of expansion. The Group's effective tax rate is above the standard rate of Irish corporation tax primarily due to the impact of non-deductible expenses and profits taxable in Australia at 30%.

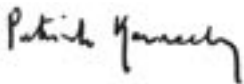
As a result of tax and related developments which became effective in September 2007, we significantly reduced the cost of deductions between gross win and gross profit within the Online and Telephone divisions. The reduced costs apply from that date and beyond so long as this situation remains unchanged. In January 2010, the Department for Culture, Media and Sport in the UK announced proposals, subject to a consultation, to introduce new license requirements for overseas-based online firms providing services to UK consumers. While the proposals are currently centred on ensuring overseas firms operate, and pay towards, an appropriate regulatory regime to protect consumers, they could ultimately lead to higher costs.

Cash Balances and Cash Flow

As at 31 December 2009, the Group had net cash of €75m (2008: €77m) including cash balances held on behalf of customers of €33m (2008: €17m) comprised of:

- Cash of €70m within the wholly owned Group, including cash held on behalf of customers of €18m;
- Net cash of €5m within Australian operations, being gross cash of €21m and third party debt, primarily related to the acquisition of IAS by Sportsbet of €16m. Australian cash balances held on behalf of customers were €15m.

Net cash generated from operating activities was €85m in 2009, down €10m compared to 2008, driven by the reduction in profit after tax of the same amount. Capital expenditure was €19m, mainly connected with the organic opening and upgrading of retail outlets. Expenditure on acquisitions was €30m, primarily related to Australian expansion. Given the highly cash generative nature of the business, notwithstanding these significant investments for the future and cash returns to shareholders of €26m, the Group maintained a strong cash balance at year end.



Patrick Kennedy
Chief Executive



Jack Massey
Finance Director

1 March 2010



NAME

No.

MISSION 07

BE GENEROUS

We believe that what goes around comes around, so in 2009 we made sure that all our customers felt some love.

Whether it was daily 'Powerplay' price enhancements, paying five places on the Grand National, seven places on the British Open or our 'This One's on Us' campaign, where we surprised customers by paying for their bet after they'd placed it, we redefined the meaning of generosity. In fact such was the extent of our generosity that the gross win percentage in our UK shops was 11.6% in 2009, whereas our two quoted competitors averaged 16.8%. Put more simply, that's 45% more value for Paddy Power customers for them to be generous with to somebody else!

