

2 March 2009

Paddy Power plc

2008 Preliminary Results Announcement

Paddy Power plc today announces record preliminary results for the year ended 31 December 2008.

Highlights:

- Growth in earnings per share of 10% to 140.5 cent and in operating profit of 5% to €75.7m, despite a €m headwind due to adverse currency movements;
- Online operating profit growth of 34% to €12.8m, with online generating over 70% of Group operating profit in the second half of 2008;
- Growth in EBITDA per shop in Great Britain of 17% in constant currency to €140,000, with profits from UK customers across all channels c.50% of Group operating profit in the second half of 2008;
- Market share growth in Irish Retail, in spite of reduced operating profit of €6m as a result of less favourable sporting results and lower average turnover per shop;
- Ongoing investment in 15 shop openings, eight shops acquired in Northern Ireland, our newer online businesses and product development;
- Further squeezing of the cost base limiting cost growth in the second half of 2008 to just 6% in constant currency despite an 11% increase in average shop numbers;
- A strong cash balance of €77m at 31 December 2008, after €54m of cash returns to shareholders in 2008.

Commenting on the results Patrick Kennedy, Chief Executive, Paddy Power plc said:

"We have grown earnings per share by 10% in 2008 despite the challenging environment. Our online operations performed particularly strongly with a 48% increase in operating profit in constant currency. The results in the second half of 2008 also demonstrate the success of our strategy of geographic and channel expansion with online operating profit accounting for over 70% of Group profitability and profits from UK customers almost half of Group profitability.

The Group faces a number of headwinds again in 2009, as has already been reflected in consensus expectations. In that context, the year has got off to a satisfactory start and we remain confident of the Group's prospects."

ENDS

2 March 2009

Issued on behalf of Paddy Power plc by Drury Communications Ltd

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CHAIRMAN'S STATEMENT

Dear Shareholder,

I was honoured to take up the role of Chairman on January 1st last. My five years on the Board of Paddy Power convince me that the Group is well prepared for the demands of the current environment given the strength of its brand, management, market positions and balance sheet.

2008 Results

€m	2008	2007	% Change	% Change in Constant Currency ('CC')
Amounts staked	2,101	2,028	+4%	+9%
<i>Sportsbook gross win %</i>	<i>11.0%</i>	<i>11.5%</i>		
Gross win	283.7	279.0	+2%	+7%
Gross profit	253.7	242.4	+5%	+9%
Operating costs	(178.0)	(170.3)	+5%	+9%
Operating profit	75.7	72.1	+5%	+11%
Profit before tax	79.0	75.8	+4%	+14%
EPS, adjusted basic	140.5 cent	127.4 cent	+10%	
Dividends	54 cent	51 cent	+6%	
Cash balances	€7m	€8m		

(Percentage changes in constant currency reflect the foreign currency content in 2007 translated at 2008 exchange rates)

(Amounts staked or turnover represents amounts placed on sporting events and net winnings on gaming activities)

(Results above and throughout this statement exclude an exceptional gain of €2.7m pre-tax)

Despite challenging economic conditions and the adverse impact on profit from less favourable sporting results of €9m and from weaker sterling of €5m, 2008 was another year of growth for Paddy Power. Pre-tax profit increased by €3m to €79m and earnings per share was up by 10%. This growth was driven by an €1m or 34% increase in online operating profit to €43m. This online performance was by no means surprising in that it reflects the continued development of a proven online business model centred on Paddy Power's unique brand, 'best of breed' products and great value and service for customers. Our online profits have increased every reporting period since they moved into profit over five years ago and accounted for over 70% of Group operating profit in the second half of 2008.

Our retail business complements strongly this online success. The same relentless emphasis on brand, product and customer service, plus over twenty years retailing experience, underpin what Paddy Power represents in its different manifestations. In 2008, Irish Retail profits fell by €6m as a result of less favorable sporting results and lower average turnover per shop due to the growth in industry shop numbers over recent years and the weaker economic conditions. Nonetheless, our average turnover per shop in 2008 was still twice that of our competitors and we increased our market share. With our leading brand and market position, we are well placed to continue increasing market share on foot of any reduction in industry shop numbers. In Great Britain, EBITDA per shop of €140,000 in 2008 highlights the attractive investment opportunity we have in that market given a capital cost per new unit last year of less than €300,000.

Notwithstanding the strength of these online and retail market positions, the deteriorating economic conditions and intense competition in our markets required resolute and swift action throughout last year. While Paddy Power has always focused on providing the best value in the market, we took this to a new level as our customers faced tighter times over the course of 2008. We also further squeezed our cost base but without compromising the customer proposition. This limited cost growth in the second half of 2008 to just 6% in constant currency despite an 11% increase in average shop numbers. This focus on costs together with previously announced non retail tax developments also significantly reduced the cost of the deductions between gross win and gross profit.

Attention to this balance between remaining the customer's bookmaker of choice with a focus on efficiency of delivery in such difficult times will remain a constant for management and for your Board.

Taxation

Economic conditions have also weakened considerably the fiscal positions of relevant governments increasing the potential for higher taxation of our industry. Legislation has already been passed in Ireland to double the rate of betting tax payable on amounts staked in Irish Retail from 1% to 2% effective from May 2009. This will reduce our operating profit by €6-7m in 2009 and €9-10m in a full year. This increase will cause particular difficulties because of relatively low profit margins and recent declines in turnover. It is expected to lead to some shop closures amongst competitors with a resultant net adverse impact on government finances.

The Irish government has stated it will consider broadening the tax net to include non retail betting. However seven of both the top ten telephone betting providers and online betting providers into Ireland have no physical presence here. As a result, a 2% tax on the Irish business of the Irish located telephone businesses would yield only €5m of tax annually – and only if those companies opted to stay in Ireland. Therefore an attempt to tax non retail betting would result in a worse outcome for Irish employment and tax revenues because of the fundamental difficulties with the enforcement and collection of such a tax from operators with no activities in Ireland who would thereby be given a huge competitive advantage.

It is important to emphasise that Irish betting tax, which funds the horse and greyhound racing industry in Ireland, is completely out of line with the income that Irish betting shops derive from Irish racing. The fact is that Irish racing accounts for only some 15% of retail stakes yet the 2% tax is applied to *all* retail stakes and as a result our Irish shops will pay *more* than their entire revenue from Irish racing over to the Irish racing industry. We regard this as inequitable on a number of fronts.

At the same time we are cognisant of the immense challenges facing government and we are proposing a number of other solutions such as reviewing the resources allocated to the Irish racing industry and boosting tax levels by extending retail opening hours, taxing existing land based casinos and developing that sector through regulation.

The Board

We were very pleased to announce in July 2008 the appointment of Pádraig Ó Ríordáin as a non-executive director. Pádraig is Managing Partner of Arthur Cox, a leading Irish law firm and provides a wealth of legal and commercial experience to the Board. The Board has appointed Tom Grace as Senior Independent Director to fill the vacancy arising with the change in Chairman. Tom, a former partner with PricewaterhouseCoopers and a non-executive director of Paddy Power since 2006, brings great professionalism to this important position. I would also like to acknowledge the enormous contribution of our former Chairman, Fintan Drury. Fintan was the first non-founder to chair the Group, yet he always displayed an innate appreciation of the brand, culture and ethos of Paddy Power. I am delighted that Fintan has agreed to remain on the Board. We continue to search for quality non-executive directors who would further augment the Board.

The management team continued to develop under Patrick Kennedy's excellent leadership during 2008 and, in my view, we now have an exceptional team that consistently demonstrates the right balance between diligence, experience and entrepreneurial flair.

Dividends, Share Buyback Programme and Cash Balance

During 2008, we returned a total of €54.1m of cash to shareholders. This comprised total cash dividends of €25.9m, an increase of 33% over 2007, and €28.2m via a share buyback programme (being purchases of 1.48m shares or 3.0% of the Company's share capital at an average price of €19.00 in line with market prices at the time). The Board is proposing a final dividend of 35.4 cent per share, payable to shareholders on the register at 13 March 2009. This brings the total dividend in respect of 2008 to €25.7m or 54 cent per share, an increase of 6% on the 51 cent paid in respect of 2007.

Despite these significant cash returns to shareholders and an acquisition spend of €24m, the cash generative nature of the business meant that cash balances at the end of 2008 remained strong at €77m, as compared to €88m at the end of 2007. This cash balance gives Paddy Power financial strength and flexibility for expansion organically or via acquisition thereby creating more opportunity for the Group in the current environment. While the Board does not rule out further share buybacks, retention of cash has therefore become more attractive.

Outlook

The Group faces a number of headwinds in 2009 which are projected to reduce profits as has already been reflected in consensus market expectations.

In this more challenging environment, the Board is satisfied with the overall progress in the first two months of the year. In constant currency, non retail and retail sportsbook amounts staked have grown by 15% and declined by 5% respectively, influenced in part by increased racing cancellations. Non sportsbook gross win has increased by 9% in constant currency. The Board remains confident of the Group's prospects.

Nigel Northridge
Chairman

27 February 2009

CHIEF EXECUTIVE'S STATEMENT

In recent years the Group has expanded both its geographic and product range. While this remains "work-in-progress" our 2008 results demonstrate the success of the strategy:

- Online operating profit accounted for 57% of Group profitability;
- Operating profit from UK customers accounted for 38% of Group profitability.

The strategy was deployed to advance the Group's long term interests while retaining our traditional emphasis on the Irish marketplace. This approach has been successful to date as Paddy Power has taken advantage of growth opportunities, proven the strength of our proposition in these new markets, and at the same time continued to invest in Ireland.

In the last 12 months, our Irish shop business environment has been impacted both by a slowing economy and the government's decision to double betting tax. As our customers came under increasing pressure from the slowing economy, we responded by providing greater value – guaranteeing early and board prices, tightening football pricing, and more "specials" (enhanced odds, money back offers, early payouts) – and by increasing our product investment. This approach was not unique to our Irish shops: it was implemented across all channels, and accompanied by significant cost reduction initiatives in areas that would not impact customer experience.

We believe that the number of betting shops in Ireland will decline over the next number of years: a total of 40 closures have already been announced across all the major chains apart from Paddy Power, even though the tax increase does not take effect until May. We feel well placed to manage the business through such difficult times with average turnover per shop twice the average of the other players. We opened 13 new shops in Ireland this year and our aim is to increase our relative presence in the market.

This approach highlights our commitment to the Irish market. We have 191 shops in the Republic of Ireland and further strong Irish business through our online and telephone channels. As we have pushed forward with expanding the range of our business interests we have never lost focus on Ireland's importance to our growth. That will not change.

The fact remains however that the Group's fortunes over the next five years will, to a considerable extent, depend on how well we execute our expansion plans – in all channels – in the UK. There are potentially attractive opportunities for Paddy Power in a range of geographies, yet the UK is by some distance our most attractive market outside of Ireland because:

- It is a very substantial market, on our doorstep, which is forecast to continue growing: the UK sports betting market grew at 12% p.a. between 2003 and 2007, and is forecast to grow at 3% p.a. up to 2013. Furthermore, it is some three times bigger than the Italian, German and Spanish markets combined;
- Betting and gaming – in shops, online and by telephone – is legal, in contrast to the lack of clarity in many other international geographies;
- It has a sports betting culture, and customers bet on the same product that we are already pricing for our Irish customers;
- Our brand works well in the UK : our brand awareness is higher than that of all other betting providers – shop, online and exchanges – with the exception of the three large retail chains;
- Our progress to date in growing our online, shop and telephone businesses in the UK is reassuring.

A focus on brand, product quality and value has driven our very strong online growth in the UK, and our UK online customers now account for approximately two thirds of the revenues of our online division, the most profitable division in the Group. Given our strong track record, the hurdles to successful competitor entry and the expected continued structural market growth, we see this material online market position as one of our particular strengths.

The 2008 performance of our London shops highlights the attractive investment opportunity we have in the UK. The 60 shops generated EBITDA of €3.2m before central costs in 2008, or approximately €140,000 per shop, an increase of 17% in local currency over 2007. Meanwhile, the average capital cost per new unit in 2008 was below €300,000, or less than half the average cost in local currency of the units we opened in our first year in London. While cognisant of shifting economic conditions, we remain on track to grow our UK estate – in London, Scotland, the North West of England and Northern Ireland - from 68 shops to at least 150 by 2011, and are confident that this will provide very attractive medium term returns. While economic conditions pose a challenge to the initial trading of new shops, they also create an opportunity to secure attractive locations at the right cost for the long term. In the first nine weeks of 2009, we have opened our first three shops in Scotland and hope to have our first shops in Manchester open in the next two months.

Notwithstanding our strong performance, our share of these markets remains very small and therefore our growth potential is considerable – we have between 5% and 10% of the fragmented online betting and gaming market and less than 1% of the retail betting market in the UK. We intend to continue expanding our share in these growing markets. Furthermore, we believe a multi-channel strategy in the UK is the correct approach: it provides scale over single channel operators, and in addition research shows that a multi-channel operator – an operator with both shops and an online offering – boosts its online share in areas where it has a shop.

We will also continue to evaluate opportunities in other international geographies, in particular for our non retail activities where a local presence is not a prerequisite. Therefore, in summary, despite a more challenging environment, there remain many opportunities which we intend to progress over the next number of years in the UK, Ireland and further afield. Many of these will have the UK as one of, if not the, major market, as has been the case with recent initiatives such as online bingo, financial spread betting and sports risk management. In addition, successful expansion of our existing online, shop and telephone businesses in the UK will be a key driver of future success for Paddy Power.

Patrick Kennedy
Chief Executive

27 February 2009

OPERATING & FINANCIAL REVIEW

Introduction

Paddy Power is a multi-channel, multi-national betting and gaming group. Operations are divided between Online, Irish Retail, UK Retail and Telephone divisions which provide betting and gaming services to customers predominantly in Ireland and the UK. The Online division has grown rapidly in recent years and generated over 70% of Group operating profit in the second half of 2008. Revenue from UK customers has also increased significantly, notwithstanding the recent weakness in sterling, and accounted for almost 50% of Group operating profit in the second half of 2008.

Operating Profit by Division (€m)	2008	% of Group	2007	% of Group
Online	42.8	57%	32.0	44%
Irish Retail	28.3	37%	34.6	48%
UK Retail	1.2	2%	(0.9)	(1)%
Telephone	3.4	4%	6.4	9%
Group	75.7	100%	72.1	100%

Operating Profit by Geography (€m)	2008	% of Group	2007	% of Group
UK	29.1	38%	23.3	32%
Ireland and Rest of World	46.6	62%	48.8	68%
Group	75.7	100%	72.1	100%

(Online and telephone operating profit by geography based on average divisional profit margins applied to UK revenues)

Sporting Results and Trading

2008 was the proverbial rollercoaster ride in terms of sporting results. The year got off to a flyer with four months of favourable results in everything from the next Republic of Ireland Football Manager to the mainstream of National Hunt racing. As results went against the punters, we ran some of our most generous 'specials'. Yet we couldn't even give the money back. A special refunding fallers in the Cheltenham Gold Cup attracted a ton of money for the favourite Kauto Star, but he neither won (nor fell) and was beaten by Denman. In the golf majors, we were paying out on up to seven places for each-way bets and giving stand out value on the big names but it was little help for punters when the likes of 130/1 outsider Trevor Immelman was stepping up to beat Tiger in the Masters.

We needn't have worried. Over the summer, results, like a well balanced portfolio of blue chip shares, went pear-shaped. Euro 2008 went almost completely to form – 21 of the 31 matches won by the favourites and a final with the two shortest price starters, Spain and those ever reliable Germans, meant only thin pickings for bookies. In golf, carrying an injury seemed an actual advantage with brave wins in Majors by an injured Tiger and Harrington. Our belief in the mantra 'nice guys finish last' was again disproved as weeks later Harrington won his second major of the year. Meanwhile another fairy tale ending looked to be unfolding as Aidan O'Brien reached a record threatening (and Irish bookie bashing) 18 Group 1 race wins by the end of the summer.

Then at last some normality. Harrington showed some mercy by having a rare off week during the Ryder Cup. Aidan O'Brien proved human narrowly missing out in the Breeders' and Melbourne Cups and thereby the Group 1 record. All in all, things were good apart from the weather which resulted in abandoned race meetings in the second half of the year increasing from 34 in 2007 to 81 in 2008.

Overall, the year highlights the impact of the ebb and flow of sporting results on our short term profitability; 2008 gross win percentages were significantly below 2007 levels, but still above our normal expectations. However just as importantly, the year highlights Paddy Power's commitment to its tradition of being at the forefront of our markets in terms of value for customers through a range of very deliberate and targeted offers. Our experience has been that this approach pays in both short term and long term gains in market share, especially in challenging economic conditions.

ONLINE DIVISION

€m	2008	2007	% Change	% Change in CC
Amounts staked	694.9	629.7	10%	21%
Sportsbook gross win	58.6	54.1	8%	17%
<i>Sportsbook gross win %</i>	<i>9.1%</i>	<i>9.2%</i>		
Gaming gross win	47.1	40.7	16%	28%
Total gross win	105.7	94.8	11%	22%
Gross profit	91.1	75.4	21%	31%
Operating costs	(48.3)	(43.4)	11%	19%
Operating profit	42.8	32.0	34%	48%

The online channel continues to grow in importance and is expected to be the main engine of Paddy Power's profitability in 2009. Last year, online operating profit increased by €1 m or 48% in constant currency to €43m. Operating margins were also increased with operating profit as a percentage of gross win up from 34% to 41% notwithstanding increased value for customers and investment in our product and newer businesses.

While online gaming revenues showed the stronger growth, sports betting remains our bigger revenue stream. We see this as a positive in the intensely competitive online market given that sports betting is generally accepted as the largest individual segment, with 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.

Online Channel Active Customers	31 December 2008	31 December 2007	% Change
Ireland and Rest Of World	69,214	57,852	+20%
UK	111,102	87,723	+27%
Total	180,316	145,575	+24%

Online Customers Product Usage	31 December 2008	31 December 2007	% Change
Sportsbook only	101,263	80,578	+26%
Gaming only	36,791	29,957	+23%
Multi product customers	42,262	35,040	+21%
Total	180,316	145,575	+24%

(Active customers are defined as those who have bet in the last three months)

(A) Sportsbook

The amounts staked on the online sportsbook increased by 20% in constant currency to €646m. Within this, bet volumes grew 37% to 27.4m while the average stake per bet decreased by 20%, or 12% in constant currency, to €23.58. 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 increased by 17% in constant currency to €8.6m, on a slightly lower gross win percentage.

Paddy Power punters as always benefited from a range of early payouts. These covered everything from weighty political matters (Boris Johnson as Mayor of London, Barack Obama as President, an Irish 'Yes' vote in the Lisbon referendum – doh!) to snow on Christmas Day. Paying out on Stoke City to be relegated after the first match of the Premier League wasn't popular with their fans but it did galvanise them with chants of 'Are you watching Paddy Power?' heard on Sky when they beat West Ham in their next match. This trademark focus on early payouts and non-traditional betting markets, creates unique product, fun talking points and media interest which in turn drives incremental revenue.

When not scouring the internet for any crumb of gossip about the upcoming Star Trek movie, our techies and designers were busy with a range of site enhancements. New horse racing and soccer pages integrated form and other statistics, as well as being easier to use. A redesigned betting-in-running area improved the presentation of the many markets we offer and incorporated 'mini-games' plus a live picture service for over 4,000 events annually which we are currently trialling with Irish customers. Customers also got more payment options with the addition of Paypal.

Our sports risk management business, targeting companies with exposure to sporting results from marketing or player bonus arrangements, performed well in its first year and also benefited from a favourable run of results. The development of our Spanish language online betting business has been hampered by the absence of the expected legislative clarity.

(B) Gaming

Gaming revenue increased by 28% in constant currency to €47.1m. This was driven by a strong performance in Games and Casino, supplemented by growing gross win from our newer gaming businesses, Bingo and Financial Spread Betting. As expected, growth was strongest in early 2008 and moderated in late 2008 as a result of relatively low and then relatively high 2007 comparatives.

The root of the strong Games and Casino performance continues in part to be the market leading position of our sportsbook with many sportsbook customers going on to also enjoy online gaming, as illustrated by the 21% growth in multi-product customers. We reinforce this trend with a strong gaming product and highly effective cross selling activity. The Games channel now offers over 80 games with popular additions in 2008 including Winners Circle virtual racing, branded slots previously only available within our Casino channel and that old schoolyard favourite, Top Trumps. We wait with bated breath for the online incarnation of conkers and kiss-chasing.

Poker businesses generally had a challenging 2008 as a result of continued disruption to the industry landscape since the U.S. outlawed online gambling by U.S. residents in late 2006 (albeit this had no direct effect on Paddy Power) and a 7% depreciation in its U.S. dollar playing currency relative to the euro. In this context, we were pleased to be part of the large and growing iPoker network and to maintain our revenue in constant currency terms and grow our active customers and profitability. Operationally, we enhanced our player rewards programme and launched a 'No Download, Instant Play' option, ideal for that much needed break at work when the boss isn't looking.

We continue to develop our newer businesses to position them for future growth. Within Paddy Power Trader, we introduced a range of new educational and community initiatives. While exceptional market volatility and media interest also boosted trading in 2008, we continue to see an attractive underlying opportunity for Paddy Power.

Within Bingo, we were pleased to win Bullet Business' Best Bingo Newcomer Award in 2008. We continue to focus on refining our proposition to best fit this large potential new customer base for Paddy Power. Comprehensive input from customer focus groups in 2008 informed, amongst other things, a significant redesign of our bingo site which has got a positive reaction from customers.

RETAIL

During 2008, we made significant progress in expanding our Retail Division and laid the groundwork for further expansion in the UK this year:

- We grew our UK estate from 58 to 68 shops, with two new openings in London and the acquisition of eight shops in Northern Ireland, a new market for us;
- We established development teams in Glasgow, Manchester and Northern Ireland, which over time will enable us to expand in other locations in Scotland and the North West of England;
- We opened 13 new shops in the Republic of Ireland and redeveloped 12 others.

Our UK Retail expansion remains on track to achieve the increased target we announced in August to have at least 150 shops by 2011 and we recently announced the opening of our first three shops in Glasgow. Site finding and assessment procedures are well organised and an attractive pipeline of units is being progressed.

Within our recession busting range of promotions, there were some campaigns specific to Retail. Top of these was our free to enter Last Man Standing competition. You pick a different football team each week you think is going to win their match and you continue 'standing' if they do. The first run of the competition in August had a prize fund of €50,000, which could have bought you a small apartment. We definitely all needed more cheering up by the day of the Irish Budget in October so we ran it again with a prize fund of €500,000, which by then could have bought you a large apartment block. Retail punters shared our enthusiasm with the number of entrants also doubling in the second run.

As always, Paddy Power were committed to giving the punter the best possible product. There were many examples in 2008 including a second audio studio to customise commentary to different parts of the estate and add specialist coverage of greyhound racing, extended content and frequency of the Paddy Times and further development of our screen system complementing our unique horse racing markets.

IRISH RETAIL DIVISION

€m	2008	2007	% Change
Amounts staked	935.4	930.0	+1%
Gross win	124.3	126.1	-1%
<i>Gross win %</i>	<i>13.3%</i>	<i>13.6%</i>	
Gross profit	114.4	116.5	-2%
Operating costs	(86.1)	(81.9)	+5%
Operating profit	28.3	34.6	-18%
Shops at year end	191	178	+7%

The amounts staked within Irish Retail increased by 1% to €935m, while gross win fell by 1% to €124m. Excluding the impact of new shops, like-for-like amounts staked were down 5.3% and gross win was down 7.5%. The reduction in stake was primarily due to a fall in average stake per slip of 3.4% to €21.45, with like-for-like slip numbers proving more resilient. Like-for-like turnover grew in January to April but declined subsequently, falling 10.7% in the last quarter of 2008 when overall racing fixtures were broadly comparable.

A particular factor affecting growth in Irish Retail has been the significant increase in new shop openings across the industry in recent years which has materially impacted turnover per shop. In our estate, there is a difference of approximately 7% last year in the like-for-like turnover performance between the group of shops which have had a new competitor in the last three years and that group which has not. We expect more shop closures in the industry, further to some 40 closures already decided upon in the last couple of months by operators other than Paddy Power, as a result of the doubling in betting tax, economic conditions and highly competitive trading.

Operating cost growth was restricted to 5%, despite a 10% increase in the average number of shops, as we benefited from volume and other reductions successfully negotiated over a range of costs, an enlarged estate over which to spread relatively fixed central costs and the absence of some once-off depreciation charges incurred in 2007. Only 12 units required refurbishment last year with the quality materials used in the significant programme of redevelopment during 2003 to 2006 wearing well. Irish Retail realised an exceptional gain of €2.7m in 2008 (excluded from the table above and throughout this statement) related to a successful industry appeal for a refund of VAT.

We opened 13 new shops during 2008 taking our estate to 191 units at the end of last year. Since the Irish government's decision to double betting tax, we have withdrawn from a number of planned shop developments and our medium term guidance of six to ten new shops per annum is under review. Nonetheless, our shops on average can attract twice the turnover of our competitors' shops, and that leaves us well placed to take advantage of whatever opening opportunities will exist.

UK RETAIL DIVISION

€m	2008	2007	% Change	% Change in CC
Amounts staked	173.6	171.5	+1%	+18%
OTC gross win	20.1	20.2	0%	+16%
<i>Sportsbook gross win %</i>	<i>12.5%</i>	<i>12.6%</i>		
Machine gross win	12.4	10.8	+14%	+33%
Total gross win	32.5	31.0	+5%	+22%
Gross profit	27.0	25.8	+5%	+22%
Operating costs	(25.8)	(26.7)	-3%	+8%
Operating profit*	1.2	(0.9)		
Shops at year end	68	58	+17%	+17%

(* Operating profit in 2007 is shown after a €1.2m provision for shop closure costs included within operating costs)

UK Retail profitability continues to grow with trading profits increasing by €0.9m from €0.3m in 2007 (pre shop closure costs) to €1.2m in 2008. Excluding the impact of shops acquired, trading profits grew by €0.2m despite additional costs incurred in relation to our expansion and an adverse impact from weaker sterling of approximately €0.8m.

In constant currency, turnover grew 18% to €174m, helped by a 2% increase in the average stake per slip, and gross win increased by 22%. Like-for-like gross win grew 10% in constant currency comprised of machine growth of 28% and over-the-counter ('OTC') growth of 1%, the latter partially reflecting turnover in the comparative April to December period being boosted by a competitive advantage from Turf TV. There were 268 machines installed at the end of 2008, an increase of 16% compared to the end of 2007. The average gross win per machine per week including VAT was £881. Excluding Northern Ireland, this amount was £922, an increase of 27% compared to 2007, helped by longer opening hours and new content allowed by the Gambling Act.

Operating cost growth was 14% in constant currency, adjusting for once off shop closure costs in 2007. This was driven by an 11% increase in average shop numbers, longer evening opening hours and higher central overheads due to the additional infrastructure required to support shop openings in Glasgow and Manchester, as well as London.

Great Britain Estate (€m)	2008	2007	% Change	% Change in CC
Shop estate EBITDA	8.2	8.1	+1%	+22%
Shop estate depreciation	(4.0)	(4.1)	-2%	-2%
Shop estate operating profit	4.2	4.0	+5%	+60%
Central overheads	(3.7)	(3.7)	-1%	+16%
Trading profit	0.5	0.3		

(Great Britain refers to the UK excluding Northern Ireland)

EBITDA per shop in Great Britain averaged €140,000, an increase of 17% in constant currency versus 2007. We opened two shops in London in 2008 at an average capital cost per unit of under €300,000.

We acquired McGranaghan Racing, an eight shop Northern Irish bookmaking chain, for a net consideration of €23.6m at the end of May. These units represent Paddy Power's first betting shops in Northern Ireland where strict restrictions on new betting shops has kept shop numbers relatively unchanged for many years. We completed a refit of the shops in July and despite a challenging economic backdrop are encouraged at this early stage by strong profitability in the last quarter of 2008 and significantly increased non retail revenue from Northern Ireland customers.

TELEPHONE DIVISION

€m	2008	2007	% Change	% Change in CC
Amounts staked	297.1	296.6	+0%	+6%
Gross win	21.1	27.0	-22%	-18%
<i>Gross win %</i>	<i>7.1%</i>	<i>9.1%</i>		
Gross profit	21.1	24.8	-15%	-11%
Operating costs	(17.7)	(18.4)	-4%	-1%
Operating profit	3.4	6.4	-47%	-42%

The amounts staked within the telephone channel grew by 6% in constant currency. Within this, bet volumes grew 13% to 3.3m while the average stake per bet decreased by 6% in constant currency to €1.20. There was strong growth in active customers of 18% in the year overall and 12% during the last quarter driven in part by new reactivation and retention techniques.

The average active customer staked less in 2008 than 2007 due to the economic backdrop and increased net migration of spending from our telephone to our online channel. Nonetheless we mitigated these challenges during the year to achieve turnover growth in the second half of 14% in constant currency. The value conscious UK phone punter was attracted by guaranteed prices, a particularly strong offer within the telephone betting market. Customers wishing to bet to a higher stake were catered for by a new dedicated unit offering a tailored service.

Operating costs were reduced by 1% in constant currency. New technology and procedures were employed that reduced call waiting and duration times for customers, as well as costs. Other overheads were renegotiated at lower rates, leveraging in part overall non retail volume growth. Combined with the lower deductions between gross win and gross profit, overall costs fell by €2.9m. However as expected, operating profit was down compared to 2007 due to a 2.0% fall in the gross win percentage with a return to a more normal run of sporting results and sterling depreciation.

Telephone Channel Active Customers	2008	2007	% Change
Ireland and Rest Of World	11,876	11,417	+4%
UK	12,216	10,064	+21%
Total	24,092	21,481	+12%

(Active customers are defined as those who have bet in the last three months)

Trading & Risk Management

Trading and Risk Management are pivotal to our leadership position in sports betting and have benefited from significant investment in recent years. This has allowed us to manage better the volatility associated with sporting results and provide an ever increasing range of product.

In 2008, the benefits from ongoing improvements in risk processes and our EPOS system also helped us fund the cost of the significantly increased value offered to customers. As a result, the expected gross win percentage in our retail divisions was unchanged, while the reduction in our non retail divisions was limited to 0.5%.

Whilst tightly managing our costs, we invest in areas that can improve the customer experience and differentiate us versus our competitors. We increased our trading and risk team by 27% with 14 new roles in 2008 to offer ante-post and betting-in-running for over 20 new football leagues and many other markets, complementing the streaming pictures for over 4,000 events now available online. We continued to improve our leadership position in racing 'early prices', with almost all UK races priced by 10am and all weekend terrestrial TV races priced the previous day. If we were any more efficient we'd be saddling the horses!

Marketing

Our marketing department continues to excel at identifying unusual opportunities for betting entertainment. So when it was announced that President Obama would visit the UK in April, Paddy immediately issued a formal invite to the new President to attend Aintree that month as his special guest - "He's a busy man but even Presidents need to let their hair down and where better than at the Grand National - we'll treat him to a slap up meal, a rake of pints and a couple of free bets!"

With all the doom and gloom in 2008, they also tried to facilitate those that wanted to take it all a bit less seriously, try make a few quid or simply watch where the public's bets would drive the odds. Thus we ran markets on 'the next bank to go bust', 'the next airline to crash' and 'the first city to riot due to economic factors'. For those that really found themselves taking stock of it all in the midst of the crisis, we also offered betting on scientific proof of the existence of God emerging in 2009 (it's 4/1 by the way, the odds shortening after atheists announced an advertising campaign warning "There probably is no God").

As Paddy Power has grown online, it has combined the established strength of its brand and marketing creativity with an appreciation of new technologies and changing patterns of media usage. 'Eggycam' was a novelty betting opportunity streamed live on a dedicated website allowing people to bet on which of ten eggs in an incubator would hatch first, combined with the slightly lower tech promotional technique of Paddy dressing up in a chicken suit. Over 28,000 people visited the site, over 2,500 websites and blogs referencing the event and dozens of newspapers and radio stations covering the (eh) egg-citing story. Our spoof 'you've been selected for the Ryder Cup team' viral email and video had over 65,000 recipients (many claiming after the event that they could have actually improved the European team's performance).

The ongoing investment in the brand highlighted throughout this statement is of course not just done because it's fun, it continues because it pays back handsomely. This is illustrated in the financial results but equally in market research which for example last year highlighted:

- Paddy Power's UK online customers showed the highest brand loyalty, with the percentage of our customers that switched their main account in the previous 12 months the lowest of nine bookmakers;
- Paddy Power had the 4th highest brand awareness amongst regular UK online bettors at 73% (exceeded only by the 'big 3' retail operators) and was the only top 5 ranked operator growing its awareness.

Taxation

The corporation tax charge for the year excluding the exceptional item was €12.6m. This represents an effective tax rate of 16.0%, a reduction of 1.2% compared to 2007. Irish retail betting tax has been made a tax deductible expense from January 2009 which will lower the Group's effective corporation tax rate by approximately 2% to 14%. A deferred tax asset has not been recognised in respect of accumulated losses in Great Britain given the costs of the initial expansion into new cities. The Group's effective tax rate is above the standard rate of Irish corporation tax due to the impact of non-deductible expenses and some passive interest income which is taxed above the standard rate.

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.

Cash Flow and Cash Balances

Cash balances at the end of 2008 were €76.7m, a decrease of €1.2m compared to €87.9m at the end of 2007. This included cash balances held on behalf of customers of €6.6m compared to €15.3m at 31 December 2007. Net cash generated from operating activities was €5.3m in 2008 compared to €8.8m in 2007. While growth in the business again resulted in a working capital inflow, this was at a lower level than in 2007 driving lower net cash from operations. Capital expenditure on tangible and intangible assets was €17.3m, comprising primarily the organic opening and upgrading of retail outlets. Additional investment expenditure of €23.6m was incurred in relation to the McGranaghan acquisition. Cash returns to shareholders, including stamp duty and related costs, were €54.5m.

Foreign Exchange Risk and Impact of Sterling Weakness

The average sterling euro exchange rate in 2008 was 14% lower than in 2007 which reduced the converted value of UK Retail and approximately 60% of Online and 40% of Telephone Division gross win. After savings on the conversion of sterling denominated costs, this reduced operating profit by approximately €5m: €3.8m in Online, €0.8m in UK Retail and €0.4m in the Telephone Division.

Sterling denominated operating profit was approximately £30m in 2008. If such profits continued around that level in 2009, an average sterling euro exchange rate in 2009 of 0.90 (depreciation of 11% compared to last year's average rate of 0.80) would have a negative impact on Group operating profit of approximately €4m. A similar but smaller currency exposure arises in relation to the U.S. dollar's rate versus the euro as a result of poker activity being transacted in U.S. dollars. Again, if this income continued around 2008 levels in 2009, an average U.S. dollar euro exchange rate in 2009 of 1.30 (appreciation of 13% compared to last year's average rate) would offset sterling weakness by €1.0m to €1.5m.

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

27 February 2009

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2008

	<i>Note</i>	Before exceptional item 2008 €000	Exceptional item (<i>Note 4</i>) 2008 €000	Total 2008 €000	Total 2007 €000
Amounts staked by customers		2,100,926	-	2,100,926	2,027,777
Continuing operations					
Income	3	283,657	-	283,657	278,952
Direct betting costs	4	(29,975)	2,735	(27,240)	(36,534)
Gross profit		253,682	2,735	256,417	242,418
Employee expenses		(85,600)	-	(85,600)	(78,890)
Property expenses		(25,318)	-	(25,318)	(23,403)
Marketing expenses		(26,553)	-	(26,553)	(23,705)
Technology and communications		(13,742)	-	(13,742)	(13,685)
Depreciation and amortisation		(16,919)	-	(16,919)	(20,848)
Other expenses, net		(9,855)	-	(9,855)	(9,781)
Total operating expenses		(177,987)	-	(177,987)	(170,312)
Operating profit		75,695	2,735	78,430	72,106
Financial income		3,297	-	3,297	3,722
Profit before tax		78,992	2,735	81,727	75,828
Income tax expense	5	(12,642)	(268)	(12,910)	(13,050)
Profit for the year from continuing operations – all attributable to equity holders of the Company		66,350	2,467	68,817	62,778
Earnings per share					
Basic	6			€1.457	€1.274
Diluted	6			€1.429	€1.252

The profit for the year is entirely attributable to equity holders of the Company.

Notes 1 to 16 on pages 19 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
Year ended 31 December 2008

	2008	2007
	€000	€000
Profit for the year	68,817	62,778
Foreign exchange translation difference	(346)	(1)
Total recognised income and expense	68,471	62,777

The total recognised income and expense for the year is entirely attributable to equity holders of the Company.

Notes 1 to 16 on pages 19 to 35 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

	<i>Note</i>	31 December 2008	31 December 2007
		€000	<i>restated</i> €000
Assets			
Property, plant and equipment	7	68,041	69,432
Intangible assets	8	31,612	8,492
Goodwill		15,003	6,928
Deferred tax assets		1,244	364
Total non current assets		115,900	85,216
Trade and other receivables		5,641	4,206
Cash and cash equivalents		76,661	87,885
Total current assets		82,302	92,091
Total assets		198,202	177,307
Equity			
Issued share capital	10	4,927	4,923
Share premium	10	11,318	10,819
Treasury shares	10	(34,177)	(5,975)
Shares held by long term incentive plan trust	10	(21,526)	(13,089)
Other reserves	10	14,523	11,149
Retained earnings	10	152,175	109,535
Total equity		127,240	117,362
Liabilities			
Trade and other payables	12	53,942	51,850
Derivative financial instruments – sports betting open positions	12	3,658	3,556
Current tax payable		1,496	667
Total current liabilities		59,096	56,073
Trade and other payables	12	5,657	3,685
Derivative financial instruments – sports betting open positions	12	11	187
Deferred tax liabilities		6,198	-
Total non current liabilities		11,866	3,872
Total liabilities		70,962	59,945
Total equity and liabilities		198,202	177,307

Notes 1 to 16 on pages 19 to 35 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2008

	<i>Note</i>	2008	2007
		€000	<i>restated</i> €000
Cash flows from operating activities			
Profit before tax		81,727	75,828
Financial income		(3,297)	(3,722)
Depreciation and amortisation		16,919	20,848
Cost of employee share-based payments		6,874	6,216
Foreign currency exchange loss		110	117
Loss on disposal of property, plant and equipment and intangible assets		418	211
Cash from operations before changes in working capital		102,751	99,498
(Increase) / decrease in trade and other receivables		(1,516)	62
Increase in trade and other payables		7,159	13,412
Cash generated from operations		108,394	112,972
Income taxes paid		(13,107)	(14,144)
Net cash from operating activities		95,287	98,828
Cash flows from investing activities			
Purchase of property, plant and equipment		(14,334)	(12,466)
Purchase of intangible assets		(2,993)	(2,945)
Purchase of businesses, net of cash acquired	9	(23,181)	(5,155)
Acquisition expenses paid	9	(399)	(260)
Proceeds from disposal of property, plant and equipment and intangible assets		62	184
Interest received		3,474	3,712
Net cash used in investing activities		(37,371)	(16,930)
Cash flows from financing activities			
Proceeds from the issue of new shares		503	669
Purchase of treasury shares		(28,554)	(54,242)
Purchase of shares by long term incentive plan trust		(11,582)	(6,715)
Dividends paid		(25,902)	(19,507)
Net cash used in financing activities		(65,535)	(79,795)
Net (decrease) / increase in cash and cash equivalents		(7,619)	2,103
Cash and cash equivalents at start of year		87,885	87,061
Foreign currency exchange loss in cash and cash equivalents		(3,605)	(1,279)
Cash and cash equivalents at end of year		76,661	87,885

Notes 1 to 16 on pages 19 to 35 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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

The Company is a public limited company incorporated and domiciled in the Republic of Ireland and has its primary listing on the Irish Stock Exchange.

The consolidated financial statements of the Group for the year ended 31 December 2008 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 27 February 2009. The consolidated financial statements in respect of the years ended 31 December 2008 and 2007 have been audited and have received unqualified audit reports.

2. Basis of preparation and summary of significant accounting policies

The financial information set out in this document does not constitute full statutory financial statements for the years ended 31 December 2008 and 2007 but is derived from such full statutory financial statements.

The consolidated financial statements are prepared on the historical cost basis except for betting transactions, which are recorded as derivative financial instruments, and certain share-based payments, both of which are stated at fair value or grant date fair value, respectively. The consolidated financial statements are presented in euro, the Company's functional currency, rounded to the nearest thousand.

Further to IAS Regulation (EC1606/2002) ('Accounting standards adopted for use in the EU'), EU law requires that the annual consolidated financial statements of the Group be prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted by the European Union ('EU'). The consolidated financial statements have been prepared on the basis of IFRSs adopted by the EU and effective for accounting periods ending on or before 31 December 2008.

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently during the year and prior year. The accounting policies have been applied consistently by Group entities. The Group's accounting policies will be included in the Paddy Power plc Annual Report to be published in April 2009.

Recent accounting pronouncements

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

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

The following provides a brief outline of the likely impact on future financial statements of relevant IFRSs adopted by the EU which are not yet effective and have not been adopted early in these financial statements:

- IFRS 8, 'Operating Segments' introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segmental information in respect of its business and geographical segments (see Note 3). The directors believe that the implementation of this standard will increase the number of segments for which information is presented from the current classification of non retail and retail, and the current geographical segment information will no longer be required. The standard focuses on disclosure and will have no impact on recognition and measurement.
- IFRIC Interpretation 13, 'Customer Loyalty Programmes' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.

- IAS 23, 'Borrowing Costs' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Amendments to IAS 1, 'Presentation of Financial Statements: A Revised Presentation' (effective for the Group's 2009 consolidated financial statements). This amendment will result in some presentational changes to the Group financial statements.
- Amendments to IFRS 2, 'Share-based Payments: Vesting Conditions and Cancellations' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have a material impact on Group reporting.
- Amendments to IAS 32 and IAS 1, 'Puttable Financial instruments and Obligations arising on Liquidation' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC Interpretation 15, 'Agreements for the Construction of Real Estate' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC Interpretation 16, 'Hedges of a Net Investment in a Foreign Operation' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC Interpretation 17, 'Distributions of Non-cash Assets to Owners' (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Revised IFRS 3, 'Business Combinations (2008)' (effective for the Group's 2010 consolidated financial statements) will impact on the amounts recorded in goodwill and in the income statement for business combinations, and incorporates the following changes that are likely to be relevant to the Group's operations:
 - 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 (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement': Eligible Hedged Items (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.

Basis of consolidation

The Group's financial statements consolidate the financial statements of Paddy Power plc and its subsidiary undertakings based on accounts made up to the end of the financial year. A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation except to the extent that unrealised losses provide evidence of impairment.

Judgements and estimates

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in Note 16.

3. Segmental information

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

Income for the years ended 31 December 2008 and 2007 is analysed as follows:

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

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

(a) By business segment

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

Business segment information for the year ended 31 December 2008:

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

Business segment information for the year ended 31 December 2007:

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

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

(b) By geographic segment

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

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

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

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

4. Direct betting costs

Direct betting costs comprise:

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

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

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

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

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

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

5. Income tax expense

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

The difference between the total income tax expense shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax is as follows:

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

No corporation tax is payable in respect of the Group's retail operations in Great Britain due to the availability of tax losses. A deferred tax asset of €2,380,000 (2007: €2,646,000) relating to these losses forward has not been recognised in accordance with the Group's accounting policy for deferred tax. There is no expiry date in respect of these losses.

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

6. Earnings per share

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

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

7. Property, plant and equipment

	Land, buildings & leasehold improvements €000	Fixtures & fittings €000	Computer equipment €000	Motor vehicles €000	Total €000
Cost					
Balance at 1 January 2007	45,757	63,240	15,158	1,106	125,261
Additions	2,495	5,677	2,088	200	10,460
Additions – business combinations (Note 9)	208	238	-	-	446
Disposals	(170)	(485)	(6)	(383)	(1,044)
Balance at 31 December 2007	48,290	68,670	17,240	923	135,123
Additions	2,780	8,696	1,793	372	13,641
Additions – business combinations (Note 9)	-	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
Accumulated depreciation					
Balance at 1 January 2007	10,495	27,879	10,178	469	49,021
Depreciation charges	2,894	9,323	3,060	168	15,445
Impairment charges	909	993	38	-	1,940
Disposals	(69)	(357)	(4)	(285)	(715)
Balance at 31 December 2007	14,229	37,838	13,272	352	65,691
Depreciation charges	2,115	9,156	2,765	178	14,214
Impairment charges / (credits)	(51)	100	(1)	-	48
Disposals	(52)	(782)	(3)	(87)	(924)
Foreign currency retranslation adjustment	(1)	(21)	(2)	-	(24)
Balance at 31 December 2008	16,240	46,291	16,031	443	79,005
Net book value					
At 31 December 2008	34,542	29,809	2,970	720	68,041
At 31 December 2007	34,061	30,832	3,968	571	69,432

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

The impairment charges relate to the retail business segment and have arisen from a review of the carrying value of shop properties and the closure of a shop in the UK retail estate. The recoverable amounts used in the calculation of retail business segment impairment charges are based on value in use, with the exception of the shop closure which is based on fair value less costs to sell. Assets relating to the closure are not classified as held for sale on grounds of immateriality. The pre-tax discount rate used to determine value in use was 10% (2007: 10%). The impairment charge of €48,000 recorded in the year ended 31 December 2008 includes €643,000 relating to new impairment charges and is stated net of impairment reversals of €595,000. The impairment charges are included in 'depreciation and amortisation' in the consolidated income statement.

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

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

8. Intangible assets

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

	Computer software €000	Licences €000	Customer relationships €000	Total €000
Cost				
Balance at 1 January 2007	12,452	3,815	-	16,267
Additions	2,539	222	-	2,761
Additions – business combinations (Note 9)	-	-	1,455	1,455
Transfer to goodwill	-	-	(1,455)	(1,455)
Disposals	(172)	(31)	-	(203)
Balance at 31 December 2007	14,819	4,006	-	18,825
Additions	3,188	340	-	3,528
Additions – business combinations (Note 9)	-	22,258	-	22,258
Disposals	-	-	-	-
Foreign currency retranslation adjustment	(2)	(8)	-	(10)
Balance at 31 December 2008	18,005	26,596	-	44,601
Amortisation				
Balance at 1 January 2007	6,583	424	-	7,007
Amortisation charges	2,535	472	154	3,161
Impairment charges	66	236	-	302
Disposals	(135)	(2)	-	(137)
Balance at 31 December 2007	9,049	1,130	154	10,333
Amortisation charges	2,270	544	(154)	2,660
Impairment charges / (credits)	3	(6)	-	(3)
Disposals	-	-	-	-
Foreign currency retranslation adjustment	-	(1)	-	(1)
Balance at 31 December 2008	11,322	1,667	-	12,989
Net book value				
At 31 December 2008	6,683	24,929	-	31,612
At 31 December 2007	5,770	2,876	(154)	8,492

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

The value of betting shop licences acquired as a result of the purchase of D McGranaghan Limited (see Note 9) are not being amortised as the directors consider these licences to have an indefinite life because:

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

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

Included in the impairment charges / (credits) in respect of the year ended 31 December 2008 is a credit of €3,000 (2007: charge of €157,000) relating to the retail business segment and €nil (2007: charge of €145,000) relating to the non retail business segment. The impairment credit in the year ended 31 December 2008 is comprised of new impairment charges of €43,000 and the reversal of previously recorded charges of €46,000. The impairment charges have arisen from a review of the carrying value of shop properties, the closure of a shop in the UK retail estate and reviews of the carrying values of intangible assets used in the non retail business. Assets relating to the closure are not classified as held for sale on grounds of immateriality. The recoverable amounts used in the calculation of retail business segment impairment charges are based on value in use, with the exception of the shop closure which is based on fair value less costs to sell. The recoverable values of non retail business segment assets are based on their fair values less costs to sell. The pre-tax discount rate used to determine value in use was 10% (2007: 10%). The impairment charges are included in 'depreciation and amortisation' in the consolidated income statement.

9. Business combinations

D McGranaghan Limited

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

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

	Book value on acquisition €000	Fair value adjustments €000	Fair values at 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)
	<hr/> 2,194	<hr/> 15,594	<hr/> 17,788
Goodwill arising on acquisition			8,104
Consideration (including associated purchase costs)			<hr/> 25,892
The net cash consideration is analysed as:			
Cash consideration before acquisition expenses			25,493
Acquisition expenses			399
Cash consideration			<hr/> 25,892
Cash acquired			(2,427)
Net cash outflow			<hr/> 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 €2.1m, €2.7m and €0.7m to amounts staked, income and operating profit, respectively.

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

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

Final fair value adjustments relating to 2007 acquisitions

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

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

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

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

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

10. Share capital and reserves

	Number of ordinary shares in issue	Issued share capital €000	Share premium €000	Foreign exchange translation €000	Other reserves €000	Treasury shares €000	Shares held by long term incentive plan trust €000	Share- based payment reserve €000	Retained earnings €000	Total €000
Balance at 1 January 2007	51,238,437	5,124	10,163	1	922	-	(8,137)	5,613	114,445	128,131
Shares issued	126,758	13	656	-	-	-	-	-	-	669
<i>Own shares acquired:</i>										
By the long term incentive plan trust - 325,000 ordinary shares	-	-	-	-	-	-	(6,715)	-	-	(6,715)
By the Company - 2,389,443 ordinary shares	-	-	-	-	-	(53,573)	-	-	(669)	(54,242)
Cancellation of own shares acquired	(2,139,443)	(214)	-	-	214	47,598	-	-	(47,598)	-
Total recognised income and expense	-	-	-	(1)	-	-	-	-	62,778	62,777
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	6,216	-	6,216
Equity-settled transactions - vestings	-	-	-	-	-	-	1,763	(1,687)	(43)	33
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	-	(129)	129	-
Dividends to shareholders (Note 11)	-	-	-	-	-	-	-	-	(19,507)	(19,507)
Balance at 31 December 2007	49,225,752	4,923	10,819	-	1,136	(5,975)	(13,089)	10,013	109,535	117,362
Shares issued	44,990	4	499	-	-	-	-	-	-	503
<i>Own shares acquired:</i>										
By the long term incentive plan trust - 599,000 ordinary shares	-	-	-	-	-	-	(11,582)	-	-	(11,582)
By the Group - 1,484,000 ordinary shares	-	-	-	-	-	(28,202)	-	-	(352)	(28,554)
Total recognised income and expense	-	-	-	(346)	-	-	-	-	68,817	68,471
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	6,874	-	6,874
Equity-settled transactions - vestings	-	-	-	-	-	-	3,145	(3,033)	(44)	68
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	-	(121)	121	-
Dividends to shareholders (Note 11)	-	-	-	-	-	-	-	-	(25,902)	(25,902)
Balance at 31 December 2008	49,270,742	4,927	11,318	(346)	1,136	(34,177)	(21,526)	13,733	152,175	127,240

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2007: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

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

During 2008, the Group also purchased 1,484,000 (2007: 2,389,443) of the Company's own shares on the market at prices ranging from €13.50 to €22.39 and at an average price of €19.00 (2007: prices ranged from €21.40 to €23.90 and at an average price of €22.42). The total cost of the shares purchased was €28,554,000, comprised of €28,202,000 for the shares themselves and a further €352,000 for other purchase related costs (2007: €54,242,000, comprised of €53,573,000 for the shares themselves and a further €669,000 for other purchase related costs). The other purchase related costs have been written off directly to retained earnings. Of the shares purchased in 2007 and 2008, a total of 2,139,443 shares were subsequently cancelled and the remaining 1,734,000 shares (which include all of the shares purchased in 2008) were held in treasury at 31 December 2008. All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Company's distributable reserves are restricted by the value of the treasury shares, which amounted to €34,177,000 as of 31 December 2008 (2007: €5,975,000). The value of treasury shares held by the Company at 31 December 2008 was €5,975,000 (2007: €5,975,000), with the remaining €28,202,000 of shares being held by Paddy Power Isle of Man Limited (2007: €nil).

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

The foreign exchange translation reserve at 31 December 2008 was a deficit of €346,000 (2007: €nil) which arose from the retranslation of the Group's net investment in GBP functional currency subsidiary companies. Other reserves comprise a capital redemption reserve fund and a capital conversion reserve fund. The capital redemption reserve fund of €376,000 (2007: €376,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. During 2007, an amount of €14,000, representing the nominal value of the Company's own shares purchased by the Company and subsequently cancelled, was transferred from issued share capital to the capital redemption reserve fund. The capital conversion reserve fund of €260,000 (2007: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In 2008, an amount of €121,000 (2007: €129,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings.

11. Dividends paid on equity shares

	2008	2007
	€'000	€'000
Ordinary shares:		
- final paid of 35.00 cent per share (2007: 22.77 cent)	17,054	11,674
- interim paid of 18.60 cent per share (2007: 16.00 cent)	8,848	7,833
	25,902	19,507
Proposed final dividend of 35.40 cent (2007: 35.00 cent) per share (see Note 15 to the consolidated financial statements)	16,830	17,054

12. Trade and other payables and derivative financial instruments

Current liabilities:

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

Non current liabilities:

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

Sports betting open positions

Amounts received from customers on sportsbook events that have not occurred by the year end are derivative financial instruments and have been designated by the Group on initial recognition as financial liabilities at fair value through profit and loss.

The carrying amount of the liability is not significantly different from the amount that the Group is expected to pay out at maturity of the financial instruments.

Sports bets are non-interest bearing. There is no interest rate or credit risk associated with open sports bets. A currency risk may arise where such bets are denominated in a currency other than the euro. This currency risk is not considered significant as any payout on such bets is made in the same currency as that in which the bet was originally staked.

13. Commitments and contingencies

(a) Guarantees

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

The Group has a bank guarantee in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by Paddy Power Isle of Man Limited to its customers. This guarantee is required as part of Paddy Power Isle of Man Limited's Online Gambling Licence. The maximum amount of the guarantee at 31 December 2008 was £12,000,000 (euro equivalent of €2,598,000) (2007: €nil). No claims had been made against the guarantee as of 31 December 2008 (2007: €nil). The fair value accounting impact of this guarantee is deemed to be immaterial.

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

The Company enters into financial guarantee contracts to guarantee the indebtedness of other parties including companies within its Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(b) Capital commitments

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

	31 December 2008	31 December 2007
	€000	€000
Property, plant and equipment	1,742	569
Intangible assets	-	-
	1,742	569

(c) Operating lease commitments

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

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

14. 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 transactions with related parties during the years ended 31 December 2008 and 31 December 2007 that materially impacted the financial position or performance of the Group.

15. Events after the balance sheet date

In respect of the current year, the directors propose that a final dividend of 35.40 cent per share (2007: 35.00 cent per share) will be paid to shareholders on 22 May 2009. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 13 March 2009. The total estimated dividend to be paid amounts to €16,830,000 (2007: €17,054,000).

16. Accounting estimates and judgements

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

Goodwill of €15,003,000 (2007: €6,928,000) continues to be carried in the Group balance sheet as the directors believe that there has been no impairment in the fair value of the net identifiable assets of the acquired businesses. During the year ended 31 December 2008, the acquisition of the D McGranaghan Limited business in Northern Ireland contributed additional goodwill of €8,104,000, including €6,232,000 of deferred tax on the value of licences intangible assets recognised on the application of fair value accounting to the acquisition. The directors believe that this goodwill and the licences intangible assets of €22,258,000 have not been impaired as of 31 December 2008.

The share-based payment reserve, which includes amounts in relation to the share award schemes and various share option schemes, amounted to €13,733,000 at 31 December 2008 (2007: €10,013,000). The fair value of share options granted after 7 November 2002 has been determined using a Black Scholes valuation model. The significant inputs into the model include certain management assumptions with regard to the standard deviation of expected share price returns, expected option life and annual risk free rates.

The fair value of the Group's sports betting open positions amounted to €3,669,000 at 31 December 2008 (2007: €3,743,000) and the Group considers such arrangements to be derivatives. The Group performs a revaluation of sports betting open positions at each balance sheet date. The revaluation takes into account the expected probability of such open positions resulting in a gain or loss to the Group in the future, and is dependent on factors that cannot always be reliably predicted.

The majority of the Group's retail premises are held under operating leases. Under accounting standards there is a requirement for management to examine the buildings element within such operating leases to determine if the lease meets the definition of a finance lease and, if so, it should be accounted for as such. This review involves determining the fair value of each property at the inception of the lease and analysing the minimum lease payments between their 'land' and 'buildings' elements. Based on management's review of operating leases for the years ended 31 December 2008 and 2007, all retail premises leases qualify as operating leases.

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