

25 August 2010

Paddy Power plc

2010 Interim Results Announcement

Paddy Power plc today announces interim results for the six months ended 30 June 2010 ('the period').

Highlights:

- Profit before tax growth of 54% to €52.5m and underlying diluted EPS growth of 31% to 82.2 cent;
- Substantially increased online scale with gross win up 117% to €12m and operating profit up 66% to €6.1m (73% of Group operating profit);
- Strong organic growth online (excluding Australia) with gross win up 45% to €75m and operating profit up 33% to €29m;
- Strong Australian performance with online gross win up 45% and operating profit of €7.9m (EBITDA AUD14.0m);
- Successful commencement of B2B activities in France;
- A six-fold increase in UK Retail operating profit to €3.0m with like-for-like EBITDA per shop in Great Britain up 27% to £71,000 and 22 shops opened in the year to date;
- Continued geographic diversification with 43% of Group operating profit from UK customers, 39% from Irish customers and 16% from Australian customers;
- A 28% increase in the interim dividend to 25.0 cent per share, supported by a strong balance sheet with net cash of €110m at period end;
- An exceptional World Cup tournament generating total gross win of €18m (€2m in the period), a more than four-fold increase versus Euro 2008 and World Cup 2006.

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

"It has been a great first half for Paddy Power, marking significant strategic and financial progress.

The Group's strengths - product innovation, better value for customers and brand differentiation - position us well for further growth. We have significantly strengthened our online market position, ending the period with greater scale, more customers and enhanced capabilities, as well as substantially higher profits, compared to a year previously. At the same time, we continued to expand internationally, whilst increasing market share in retail.

Since 30 June, our online businesses and UK Retail have continued to grow strongly while our Irish Retail and Telephone channels have performed solidly. Accordingly, we expect to exceed the current market consensus forecast for the year."

ENDS

25 August 2010

Issued on behalf of Paddy Power plc by Drury.

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Analyst Briefing:

The Company will host an analyst presentation at 9:00am this morning at the Merrion Hotel, Upper Merrion St, Dublin 2. A conference call facility will also be available. To dial into the presentation, participants in the UK should dial 0208 974 7900, all other participants should dial +44 208 974 7900. The passcode is 629097.

A presentation replay facility will be available for 21 days. To dial into the replay, callers from the UK should dial 0800 032 9687; all other callers should dial +44 207 136 9233. The passcode is 69363353.

2010 Interim Financial Highlights
For the six months ended 30 June 2010

	Six months ended 30 June 2010 (<i>unaudited</i>)	Six months ended 30 June 2009 (<i>unaudited</i>)	% Change	Constant Currency ('CC') % Change *
	€m	€m		
Amounts staked by customers **				
Online (ex Australia)	540	431	+25%	+23%
Online Australia ***	593	-	na	na
Irish Retail	476	475	+0%	+0%
UK Retail	132	91	+45%	+41%
Telephone (ex Australia)	151	151	-1%	-2%
Total amounts staked	1,892	1,148	+65%	+63%
Income **				
Online (ex Australia)	74,911	51,595	+45%	+42%
Online Australia ***	41,824	-	na	na
Irish Retail	55,475	56,643	-2%	-2%
UK Retail	23,999	16,838	+43%	+38%
Telephone (ex Australia)	9,398	7,615	+23%	+21%
Total income	205,607	132,691	+55%	+53%
Operating profit / (loss)				
Online (ex Australia)	29,034	21,815	+33%	+28%
Online Australia ***	7,856	-	na	na
Irish Retail	9,040	11,697	-23%	-22%
UK Retail	2,956	460	+543%	+339%
Telephone (ex Australia)	568	(446)	na	na
Total operating profit	49,454	33,526	+48%	+43%
Underlying diluted earnings per share				
****	82.2c	62.6c	+31%	na

* The constant currency % change is calculated on the basis of the foreign currency content in 2009 translated at 2010 rates.

** Amounts staked by customers (or 'turnover') represents bets placed on sporting events that occurred during the period and net winnings, commission income and fee income earned on gaming and other activities. Income (or 'gross win') represents the net gain on sports betting transactions (stake less payout) plus the gain or loss on the revaluation of open positions at period end plus net winnings, commission income and fee income earned on gaming and other activities.

*** Australia also includes legacy telephone operations accounting for less than 10% of gross and operating profit in H1'10.

**** H1'10 excluding gains re Sportsbet buyout call option valuation (€3.1m) and UK deferred tax asset recognition (€0.9m).

Interim Statement

Introduction

I am pleased to report on an excellent first half of 2010 ('the period') for Paddy Power with the following highlights:

- Profit before tax growth of 54% to €2.5m and underlying diluted EPS growth of 31% to 82.2 cent;
- Substantially increased online scale with gross win up 117% to €12m and operating profit up 66% to €6.1m (73% of Group operating profit);
- Strong organic growth online (excluding Australia) with gross win up 45% to €75m and operating profit up 33% to €29m;
- Strong Australian performance with online gross win up 45% and operating profit of €7.9m (EBITDA AUD14.0m);
- Successful commencement of B2B activities in France;
- A six-fold increase in UK Retail operating profit to €3.0m with like-for-like EBITDA per shop in Great Britain up 27% to £71,000 and 22 shops opened in the year to date;
- Continued geographic diversification with 43% of Group operating profit from UK customers, 39% from Irish customers and 16% from Australian customers;
- A 28% increase in the interim dividend to 25.0 cent per share, supported by a strong balance sheet with net cash of €10m at period end;
- An exceptional World Cup tournament generating total gross win of €18m (€12m in the period), a more than four-fold increase versus Euro 2008 and World Cup 2006.

Sporting Results and Trading

The one constant with the impact of sporting results is that it's never constant. As ever, our financial performance is subject to the glorious unpredictability of sport. Overall though, we finished up a little ahead of our normal expectations and certainly a good deal better than where we were last year.

The first race of the Cheltenham festival was almost sure to go in favour of Paddy Power punters – Dinguib was the unbeatable Irish banker of the week and we were offering money-back on all losing bets in the race if - as expected - he romped merrily home. A win for Dinguib, or indeed any other fancied horse in the race, therefore was going to hurt – it was just going to be a question of how much. Miraculously, victory for the relatively unfancied 12/1 Menorah saw us escape pretty much unscathed and set the tone for a great week for bookies. Other favourable results around the same time included the Sydney Autumn Racing Carnival where only four of the 18 Group 1 races were won by the favourite.

The ebb and flow of sports results continued. After suffering last year as a result of Irish rugby's clean sweep of Northern Hemisphere silverware, we managed to keep a few shillings in the biscuit tin this season as Irish teams lost their Grand Slam, Heineken Cup and Magners League titles.

In June, we had simultaneous swings and roundabouts, as money rolled in from unexpected results in the World Cup and rolled out to Royal Ascot punters. Thankfully for us the World Cup is longer than posh week at Ascot and we came out net ahead, taking stakes of €86m on the tournament (€60m in the period) and gross win of €18m (€12m in the period). If it hadn't been for the constant drone of the vuvuzelas and – even worse – Mark 'Lawro' Lawrenson, we'd have really enjoyed it.

While marquee sporting events create potential volatility, they represent great opportunities to give full expression to Paddy Power's brand values. So whether it was through an uber-generous Money-Back Special, a 50 foot 'Hollywood style' Paddy Power sign on the Cheltenham hill or going 'best-price' England for World Cup games, Paddy Power's commitment to value, fun and entertainment was showcased. This approach pays back handsomely as evidenced by our UK brand awareness breaking into a Top 3 position and the 52% growth in our active UK online customers.

ONLINE

Online activities account for approximately three quarters of Paddy Power's operating profit. The Group has a consistent track record of growing online profits in regulated markets, organically within Ireland and the UK, and more recently through acquisitions in Australia and B2B expansion in France. We will continue to leverage our experience and capabilities to exploit the substantial opportunities for growth within our existing markets and new opportunities, for example as further markets regulate. Worldwide the Group generated the following results online:

€m	H1 2010	H1 2009	% Change	% Change in CC
Sportsbook gross win	77.3	26.6	+190%	+184%
Gaming & other gross win	34.4	25.0	+38%	+36%
Total gross win	111.7	51.6	+117%	+112%
Operating profit	36.1	21.8	+66%	+59%
% of Group operating profit	73%	65%		
Active customers	588,050	337,579	+74%	

(Active customers are defined as those who have bet in the reporting period, excluding indirect B2B customers)

ONLINE DIVISION (Excluding Australia)

€m	H1 2010	H1 2009	% Change	% Change in CC
Amounts staked	540.5	430.9	+25%	+23%
Sportsbook gross win	40.5	26.6	+52%	+49%
<i>Sportsbook gross win %</i>	<i>8.0%</i>	<i>6.6%</i>		
Gaming & other gross win	34.4	25.0	+38%	+36%
Total gross win	74.9	51.6	+45%	+42%
Gross profit	65.1	44.2	+47%	+44%
Operating costs	(36.1)	(22.4)	+61%	+60%
Operating profit	29.0	21.8	+33%	+28%

The online division (excluding Australia) grew its profits by 33% in the period to €29m (or by 28% in constant currency excluding a €0.9m benefit from positive exchange rate movements). An improvement in sports results contributed to this increased profit but sportsbook stakes and gaming gross win also grew substantially by 23% and 36% respectively in constant currency. Active customers increased by 41% with particularly significant acquisition in June which bodes well for the second half of the year. After negligible operating cost growth in 2009, costs have increased by 61% as a result of revenue growth and investment in a wide range of areas to drive future growth. These include:

- Increased investment in proven initiatives such as streamed live sports online, terrestrial TV advertising in the UK and enhanced gaming promotions;
- Exploiting new opportunities such as the potential from pay-per-click advertising, smart phone usage and newly regulating geographies;
- People costs linked to direct volume growth, a step-up in our infrastructure in areas such as B2B and IT, and performance related pay.

Overall, we have significantly strengthened our market position, ending the period with more customers, more scale and more capabilities, as well as significantly higher profits, compared to a year previously.

Online Channel Active Customers	H1 2010	H1 2009	% Change
UK	343,811	226,670	+52%
Ireland and Rest Of World	132,330	110,909	+19%
Total	476,141	337,579	+41%

Online Customers Product Usage	H1 2010	H1 2009	% Change
Sportsbook only	286,686	210,004	+37%
Gaming only	52,609	44,609	+18%
Multi product customers	136,846	82,966	+65%
Total	476,141	337,579	+41%

(Active customers are defined as those who have bet in the reporting period, excluding indirect B2B customers)

(A) Sportsbook

The amounts staked on the sportsbook increased by 23% in constant currency to €506m. Within this, bet volumes grew 46% to 30.8m while the average stake per bet decreased by 16% in constant currency to €16.45. The reduction in average stake per bet is due to the significant growth in active customers and more challenging economic conditions. Sportsbook gross win increased by 49% in constant currency.

This growth was helped by a rebound in the gross win percentage to 8.0%, the upper end of our normal expected range of 7.0% to 8.0%. This improvement was despite our biggest ever Money-Back Special refund being triggered in the period when England drew 0:0 with Algeria. This was actually topped only a few weeks later (ouch!) when Spain and Holland finished 0:0 and over 25,000 online customers received their losing stakes back (and over 50,000 customers across the Group). We thought it was a good idea at the time, but looking back now it seems as well-judged as the Capello Index! The upside, of course, is the cementing of customer loyalty and generation of further brand awareness.

We continue to leverage our scale and expertise to enhance our product offering. In the period, we invested heavily in sports product development and infrastructure, maintaining a product offering at the forefront of the industry, whilst producing robust margins with relatively low volatility. Live betting was further enhanced by the extension of live streaming pictures to our UK customers and a customisable view of in-running betting markets. For mobile phone betting, we added an iPhone web application and mobile games, achieving a ten-fold increase in mobile sports bets during the World Cup as compared to Euro 2008.

Our leadership of non-traditional betting markets generated unusual opportunities for punters to test their predictive powers or hedge themselves against adverse events such as flight disruption from volcanic ash, ITV showing an ad during a World Cup match or David Cameron becoming Prime Minister. We paid out early on the latter market, projecting a 100 square foot announcement onto the Houses of Parliament in Westminster, adding to the chatter and press coverage that such entertaining and differentiated betting markets generate.

(B) Gaming & Other

Gaming and other revenue increased by 36% in constant currency to €34m driven primarily by Games, Casino and Bingo. Significant enhancement to the quality of our gaming offer and promotions expertise encouraged us to conduct more direct customer acquisition for gaming with TV advertisements run for the first time for both Games and Bingo in June.

Growth in the sportsbook is a key potential driver for Games and Casino growth. To leverage that opportunity, significant investments have been made in expertise, analysis and technology to tailor cross-selling, ongoing promotional offers and product presentation to the preferences of players, both initially and as they may evolve over time. Progress in this area is highlighted by the 65% increase in active multi product customers.

Game choice is also a keen consideration and 51 games were added in the period to give a selection of 171. Paddy Power benefited from a competitive market amongst technology suppliers with over a dozen suppliers used across Games and Casino, helping us to achieve 'best of breed' product for our customers and flexible competitively priced supply. The Paddy Power creative stamp is also applied to customised themed slots throughout the year with 'Political Spin' available during the UK general election, 'WAGS to Riches' during the World Cup and 'Tiger's Birdies' during the British Open.

Our Poker business continues to perform well relative to its peers but faces ongoing challenges from sites taking play from the U.S. In this context, we were pleased to grow active player numbers helped by our sportsbook growth, an enhanced site and another successful Irish Open Poker Tournament which attracted record player numbers.

Our Bingo business continues to make significant strides with successful TV and Facebook marketing campaigns, as well as the launch of the first Ezine in the UK Bingo market. Paddy Power Trader also grew revenues and profits despite the challenge of tightening spreads in a competitive UK market.

Our B2B agreement to supply sportsbook risk management and pricing expertise to PMU for the French market went live on schedule on 9 June. Successful live operation further enhances our credentials established by winning such a prestigious first client. We continue to engage on other appropriate opportunities to access new geographies on an attractive risk reward profile via B2B arrangements.

ONLINE AUSTRALIA DIVISION

€m	H1 2010
Amounts staked	593.1
Gross win	41.8
Gross win %	7.1%
Gross profit	31.0
Operating costs	(23.1)
Operating profit	7.9
Active Customers	113,641

(Active customers are defined as customers who have bet with Sportsbet or IAS in the reporting period)

(The division also includes legacy telephone operations accounting for less than 10% of gross and operating profit in the period)

Australia generated strong financial results in the period.

In constant currency versus pro-forma comparatives, the amounts staked grew by 21% overall and by 29% online, on bet volumes up 41% overall and 43% online. Gross win increased by 21% overall and by 45% online. The sportsbook gross win percentage of 7.1% was marginally ahead of 7.0% in the comparative period and our expectations. Active customers were up 56% in the period as compared to the equivalent period in 2009, with growth of 84% in active customers of our mass market online brand, sportsbet.com.au.

The Sportsbet brand holds a clear leadership position versus other online corporate bookmakers; however when the online share of the TABs (the licensed retail monopolies) are added, our share is lowered, leaving substantial scope for growth. In addition, we expect the online market to continue to grow strongly, driven by the same macro drivers we have seen elsewhere, plus the attraction of the better value and choice available online compared to the offering of the retail monopolies.

June saw the publication of the Productivity Commission ('PC') Final Report on Gambling and a judgement in the Sportsbet versus Racing New South Wales ('RNSW') case. The PC is an independent research and advisory body tasked with helping the Australian government create better policies. It recommended that the Government legalise and regulate online poker, although the Government did not support the recommendation. The report also recommended that 'TAB retail exclusivity should not be renewed' and Sportsbet is continuing its evaluation of the Sportsbet 'Betbox' branded online access terminals.

In the RNSW case, Sportsbet successfully argued that the 'product fees' as payable to the NSW racing industry were protectionist and therefore constitutionally invalid. This judgement, together with related PC recommendations, significantly strengthen Sportsbet's calls for product fees to be calculated as a percentage of gross win (rather than turnover) and to be paid by all betting providers. RNSW has lodged an appeal.

In February, Paddy Power acquired a further 9.8% of Sportsbet, increasing its shareholding to 60.8%, through the buyout of a minority shareholder who had no executive involvement in the business. Earlier this month, reflective of the strong performance of the Australian business since acquisition, we paid the maximum contingent consideration of AUD10m (€7.0m) to the minority shareholders.

RETAIL

Both our Irish and UK businesses are well positioned, despite the challenging retail environment. Both businesses have grown their market share during the downturn as more price and brand conscious consumers respond to the value and quality of our offer. At the same time, the businesses are managing their own costs extremely tightly and using the downturn as an opportunity to negotiate savings from suppliers.

In Irish Retail, this strategy is deployed against a backdrop of a particularly difficult market where the recession is severe and the supply of shops had grown very substantially up to 2008. This is of course challenging for performance in the short term but the strength of the Paddy Power offer puts us in an excellent position to emerge from this recession with a stronger market position. We estimate that our competitors have closed 155 shops over the last two years and that there are currently approximately 1,200 shops in the industry.

In UK Retail, Paddy Power's market position is very different and its growth prospects are strong. We have a less than 2% share in a market of almost 9,000 shops. We continue to grow our estate selectively and steadily, opening 14 shops in the period and a further eight since, taking our estate to 115 today. Given the economic downturn, we continue to benefit from an exceptional choice of locations for organic openings and on occasion, attractive acquisition opportunities, with six shops bought over two transactions in the year to date. We remain on track to achieve our target of at least 150 shops in the UK in 2011. As projected, UK Retail profits have now started to grow significantly, up €2.5m to €3.0m in the period compared to last year, and we expect further benefits over time from new and maturing shops, lower per shop depreciation and increased scale to cover central overheads.

Product enhancement and innovation continues across our estates. All our shops now offer the facility for online and telephone customers to deposit or withdraw cash from their Paddy Power account.

IRISH RETAIL DIVISION

€m	H1 2010	H1 2009	% Change
Amounts staked	475.9	474.7	+0%
Gross win	55.5	56.6	-2%
<i>Gross win %</i>	<i>11.7%</i>	<i>11.9%</i>	
Gross profit	50.6	51.7	-2%
Operating costs	(41.6)	(40.0)	+4%
Operating profit	9.0	11.7	-23%
Shops at period end	203	195	+4%

The amounts staked within Irish Retail increased marginally to €476m. Gross win fell by 2% to €55m, with a gross win percentage of 11.7%, just slightly below the 12.0% mid-point of the expected range, reflecting retail's higher racing (Ascot) and lower football (World Cup) content within its mix versus online. We opened five new shops in the period, including one acquisition. Excluding the impact of new shops, like-for-like amounts staked were down 3%, gross win was down 5% and operating costs up 1%. The reduction in stake was driven entirely by a fall in average stake per slip of 10% to €18.61 with an encouraging 7% increase in like-for-like bet volumes.

UK RETAIL DIVISION

€m	H1 2010	H1 2009	% Change	% Change in CC
Amounts staked	131.9	91.2	+45%	+41%
OTC gross win	14.0	10.6	+32%	+28%
<i>Sportsbook gross win %</i>	<i>11.5%</i>	<i>12.5%</i>		
Machine gross win	10.0	6.2	+60%	+55%
Total gross win	24.0	16.8	+43%	+38%
Gross profit	20.4	14.1	+45%	+40%
Operating costs	(17.4)	(13.6)	+28%	+26%
Operating profit	3.0	0.5	+543%	+339%
Shops at period end	107	80	+34%	

(Machine gross win above and throughout this statement excludes VAT at 17.5% in 2010 and 15% in 2009)

UK Retail profits increased six-fold to €3.0m in the period. Shop openings were, as expected, the key driver of this growth but we also had a strong end to the period from the introduction of new 'Storm' FOBT machines, the World Cup and stronger sterling (which added approximately €0.2m to profit in the period).

In constant currency, turnover grew 41% to €132m, while gross win increased by 38%. Like-for-like gross win grew 6% in constant currency. This comprised machine growth of 14% and over-the-counter ('OTC') growth of 0.4% on like-for-like OTC turnover up 6%. The average OTC stake per bet was broadly unchanged in constant currency at €15.82.

There were 424 machines installed at 30 June, an increase of 108 compared to 30 June last year as a result of new shop openings. The average gross win per machine per week including VAT was £992, an increase of 17% compared to the first six months of 2009.

Operating costs grew 26% in constant currency driven by a 34% increase in average shop numbers. Like-for-like costs were up 0.7% including development and other central overheads.

The 14 new shops opened in the period, including one acquisition, averaged a capital cost per unit of €63,000 (£229,000) including lease premia. EBITDA per shop in Great Britain (excluding current period openings and central overheads) averaged €80,000 (£71,000) in the period, an increase of 27% in constant currency.

The increase in UK VAT to 20% from January 2011 will reduce the Group's profits by approximately €1.0m at current levels of activity. Approximately €0.5m of this amount arises within UK Retail.

TELEPHONE DIVISION (Excluding Australia)

€m	H1 2010	H1 2009	% Change	% Change in CC
Amounts staked	150.6	151.5	-1%	-2%
Gross win	9.4	7.6	+23%	+21%
<i>Gross win %</i>	<i>6.2%</i>	<i>5.0%</i>		
Gross profit	9.3	7.6	+23%	+20%
Operating costs	(8.7)	(8.0)	+9%	+8%
Operating profit / (loss)	0.6	(0.4)	na	na

The Telephone channel remains an integral part of our full service offer to customers.

A closer to normal gross win percentage restored the channel to profitability. The amounts staked decreased by 2% in constant currency. Bet volumes grew strongly by 21% to 2.7m, driven by growth in active customers of 14% and increased bets per customer of 6%. The average stake per bet decreased by 19% in constant currency to €6.45 due to the weak economic conditions and the impact of attracting incremental but smaller than average sized bets from some customers.

Operating costs grew by 8% in constant currency driven by the 21% growth in bet volumes and new customer acquisition costs, particularly in the UK market where active customers increased by 23%. Many new phone customers go on to also bet with Paddy Power online boosting the overall return on acquisition spending.

The strong performance in the UK kept turnover broadly flat despite an extremely difficult Irish market. Turnover from Irish customers was down 15% in the period versus the first half of 2009 and 34% versus the first half of 2007, driven by reductions in average stake per bet.

Telephone Channel Active Customers	H1 2010	H1 2009	% Change
UK	36,260	29,505	+23%
Ireland and Rest Of World	19,025	19,062	0%
Total	55,285	48,567	+14%

(Active customers are defined as those who have bet in the reporting period)

Corporation Tax

Following the strong performance in UK Retail, a deferred tax asset in respect of accumulated losses in Great Britain was recognised in the period. This reduced the tax charge by €85,000 in the period with an expectation that a similar credit will arise in the second half of 2010. Excluding this credit and the €3,106,000 gain on the valuation of the Sportsbet buyout call options, the underlying effective tax rate was 15.8% as compared to 13.3% in the first half of 2009. The increased rate is a result of the addition of Australian profits to the mix which are subject to corporation tax at 30%.

Betting Tax

Last year, the Irish Government postponed its planned doubling of the retail betting tax to 2% of turnover. This postponement was to allow the Government to carry out a study into the potential taxation of online and telephone betting, while, in its own words, 'protecting Irish jobs'. In May, the Taoiseach stated that the Government will introduce legislation to extend betting tax to all those providing online and telephone betting and so underpin funding for the racing industry. We have consistently said that we do not have an issue paying betting tax on Irish internet betting. Our issue is the likelihood that such a betting tax will in practice be difficult to enforce against foreign operators, thereby giving them a competitive advantage and creating in effect a tax on Irish 'smart economy' jobs. We also question the flimsy link which has been made between funding for Irish racing, primarily for prize money for owners, and betting tax – flimsy, because 86% of the amount bet by Irish customers online and over the telephone in the period had nothing to do with Irish racing. We employ 700 people in our online, telephone and head office activities in Tallaght, West Dublin, and these activities contributed €19m in taxes to the Irish Exchequer in 2009; this contribution is potentially threatened by any new betting tax which is not effectively enforced on all internet bookmakers and betting exchanges providing services to the Irish market.

In the UK, tax and related developments which became effective in September 2007 significantly reduced the cost of betting tax and other deductions in the Online and Telephone divisions. The reduced costs apply from that date and beyond so long as this situation remains unchanged. The consultation by the Department for Culture, Media and Sport in the UK to introduce new license requirements for overseas-based online firms providing services to UK consumers was completed in June. This initiative was launched by the previous UK Government and no formal updates have been announced by the new administration.

Financial Position and Dividend

At the end of the period, the Group had net cash of €110m. This was net of non-recourse debt of €15m in our Australian subsidiaries. Customer balances reflected within net cash were €39m.

The Group has retained a prudent capital structure in order to be in a strong position to exploit the investment opportunities available to it. These include the option to buy out the minority shareholders in Australia in 2012 or 2013 at an EBITDA multiple of 4 to 7 times, subject to a maximum payment of AUD196m (€137m).

The Board also recognises the value to shareholders of increasing dividends. Accordingly, notwithstanding the substantial growth in profits in the period, the Board intends to maintain an underlying dividend payout ratio towards the top of our 40% to 50% payout range in the current year. It has therefore decided to pay an interim dividend of 25.0 cent, an increase of 28% compared to last year. The total expected interim dividend is €12.0m payable on 24 September to shareholders on the register at the close of business on 3 September.

Principal Risks and Uncertainties for the remainder of the period

The principal risks and uncertainties facing the Group remain those disclosed within the Directors' Report on page 34 of the Group's 2009 Annual Report. The most relevant risks and uncertainties for the remainder of the period are:

- A material change in betting tax or payments to horseracing bodies in the UK, Ireland or Australia;
- A materially adverse run of sporting results and/or fixture cancellations;
- A material worsening of economic conditions and/or an increase in their impact on our businesses;
- A very significant weakening of sterling against the euro.

Outlook

Since 30 June, sportsbook gross win percentages have been above the mid-point of the expected ranges. In addition, our online businesses and UK Retail activities have continued to grow strongly as a consequence of investment and momentum in the first half of the year. Our Irish Retail and Telephone business have continued to perform solidly. Accordingly, we would expect to exceed the current market consensus forecasts and achieve underlying diluted EPS growth in 2010 of up to 30% versus 2009, subject, as ever, to the volatility that could arise from sporting results over the remainder of the year.

The Group remains well positioned across its businesses and looks to the future with confidence.

Nigel Northridge
Chairman

24 August 2010

Directors' Responsibility Statement in respect of the Half Yearly Financial Report For the six months ended 30 June 2010

Each of the directors, whose names and functions are listed in the 2009 Annual Report and William Reeve who joined as a non-executive director on 19 May 2010, confirm our responsibility for preparing the half yearly financial report in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland's Financial Regulator and with IAS 34 'Interim Financial Reporting' as adopted by the EU, and that to the best of our knowledge:

- a) the condensed consolidated interim financial statements comprising the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in equity and related Notes 1 to 24 have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland's Financial Regulator and with IAS 34 'Interim Financial Reporting' as adopted by the EU.
- b) the interim management report includes a fair review of the information required by:
 - i) Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - ii) Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

24 August 2010

Condensed Consolidated Interim Income Statement
For the six months ended 30 June 2010

		Six months ended 30 June 2010 <i>(unaudited)</i>			Six months ended 30 June 2009 <i>(unaudited)</i>	Year ended 31 December 2009 <i>(audited)</i>
		Before exceptional item	Exceptional item	Total	Total	Total
	<i>Note</i>	€000	€000	€000	€000	€000
Amounts staked by customers		1,892,154	-	1,892,154	1,148,373	2,751,537
Continuing Operations						
Income		205,607	-	205,607	132,691	295,928
Direct betting costs	5	(29,122)	-	(29,122)	(15,100)	(37,954)
Gross profit		176,485	-	176,485	117,591	257,974
Employee costs		(55,451)	-	(55,451)	(38,541)	(90,146)
Property expenses		(14,697)	-	(14,697)	(11,978)	(25,222)
Marketing expenses		(24,754)	-	(24,754)	(12,838)	(28,973)
Technology and communications		(10,351)	-	(10,351)	(7,333)	(16,185)
Depreciation and amortisation		(11,293)	-	(11,293)	(8,273)	(18,113)
Other expenses, net		(10,485)	-	(10,485)	(5,102)	(12,641)
Total operating expenses		(127,031)	-	(127,031)	(84,065)	(191,280)
Operating profit		49,454	-	49,454	33,526	66,694
Financial income – financial assets at amortised cost	6	693	-	693	560	900
Financial income – derivative financial instruments at fair value through profit or loss (Sportsbet buyout call options)	6	-	3,106	3,106	-	-
Financial expense	6	(761)	-	(761)	-	(402)
Profit before tax		49,386	3,106	52,492	34,086	67,192
Income tax expense	7	(6,913)	-	(6,913)	(4,544)	(8,717)
Profit for the period		42,473	3,106	45,579	29,542	58,475
Attributable to:						
Equity holders of the Company		40,107	3,106	43,213	29,542	56,946
Non-controlling interest		2,366	-	2,366	-	1,529
		42,473	3,106	45,579	29,542	58,475
Basic earnings per share	8			€0.926	€0.634	€1.219
Diluted earnings per share	8			€0.906	€0.626	€1.207

Condensed Consolidated Interim Statement of Comprehensive Income
For the six months ended 30 June 2010

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
	<i>(unaudited)</i> €000	<i>(unaudited)</i> €000	<i>Restated</i> <i>(audited)</i> €000
Changes in fair value of available-for-sale financial assets	-	-	236
Foreign exchange translation differences in respect of foreign operations	7,233	193	1,050
Deferred tax on the changes in fair value of available-for-sale financial assets	-	-	(71)
Comprehensive income recognised directly in equity	7,233	193	1,215
Profit for the period	45,579	29,542	58,475
Total comprehensive income for the period	52,812	29,735	59,690
Attributable to:			
Equity holders of the Company	49,387	29,735	57,455
Non-controlling interest	3,425	-	2,235
Total comprehensive income for the period	52,812	29,735	59,690

Note

6

Condensed Consolidated Interim Statement of Financial Position
As at 30 June 2010

		30 June 2010	30 June 2009	31 December 2009
	<i>Note</i>	<i>(unaudited)</i> €000	<i>(unaudited)</i> €000	<i>Restated</i> <i>(audited)</i> €000
Assets				
Property, plant and equipment	9	74,483	68,417	76,727
Intangible assets	10	51,210	31,198	45,450
Goodwill	11	68,514	16,048	62,137
Financial assets	13	4,413	-	1,581
Deferred tax assets		5,264	1,296	3,284
Total non current assets		203,884	116,959	189,179
Trade and other receivables	14	21,542	8,740	16,319
Financial assets – restricted cash	15	18,034	4,700	9,025
Cash and cash equivalents	15	105,863	81,856	80,576
Total current assets		145,439	95,296	105,920
Total assets		349,323	212,255	295,099
Equity				
Issued share capital		4,981	4,939	4,977
Share premium		18,682	12,619	18,009
Treasury shares		(34,177)	(34,177)	(34,177)
Shares held by long term incentive plan trust		(31,474)	(17,791)	(31,858)
Other reserves		21,018	12,080	16,439
Retained earnings		201,547	165,271	184,177
Total equity – attributable to equity holders of the Company		180,577	142,941	157,567
Non-controlling interest		10,643	-	9,288
Total equity		191,220	142,941	166,855
Liabilities				
Trade and other payables	19	109,307	55,211	90,552
Derivative financial instruments	19	14,432	3,176	5,448
Provisions	20	1,096	-	1,170
Borrowings	21	7,900	-	5,023
Current tax payable		3,291	883	978
Total current liabilities		136,026	59,270	103,171
Trade and other payables	19	3,830	3,743	3,003
Derivative financial instruments	19	22	16	154
Provisions	20	1,611	-	1,713
Borrowings	21	7,047	-	11,498
Deferred tax liabilities		9,567	6,285	8,705
Total non current liabilities		22,077	10,044	25,073
Total liabilities		158,103	69,314	128,244
Total equity and liabilities		349,323	212,255	295,099

Condensed Consolidated Interim Statement of Cash Flows
For the six months ended 30 June 2010

	Note	Six months ended 30 June 2010 (unaudited) €000	Six months ended 30 June 2009 (unaudited) €000	Year ended 31 December 2009 (audited) €000
Cash flows from operating activities				
Profit before tax		52,492	34,086	67,192
Financial income	6	(3,799)	(560)	(900)
Financial expense	6	761	-	402
Depreciation and amortisation (including impairments)		11,293	8,273	18,113
Cost of employee share-based payments		4,448	1,159	5,841
Other adjustments		80	-	-
Foreign currency exchange loss		395	172	228
Loss on disposal of property, plant and equipment and intangible assets		122	66	75
Cash from operations before changes in working capital		65,792	43,196	90,951
Increase in trade and other receivables		(4,187)	(1,899)	(1,498)
Increase / (decrease) in trade and other payables, derivative financial instruments and provisions		23,806	(3,226)	6,652
Cash generated from operations		85,411	38,071	96,105
Income taxes paid		(6,393)	(5,153)	(10,685)
Net cash from operating activities		79,018	32,918	85,420
Cash flows from investing activities				
Purchase of property, plant and equipment		(9,427)	(6,223)	(15,196)
Purchase of intangible assets		(2,644)	(1,160)	(3,658)
Purchase of businesses, net of cash acquired	12	(9,161)	(1,000)	(27,984)
Acquisition expenses paid in respect of acquisitions completed in the period	12	(80)	(64)	(2,437)
Other acquisition expenses paid	12	(172)	(952)	-
Proceeds from disposal of property, plant and equipment and intangible assets		91	-	295
Interest received		680	610	907
Net cash used in investing activities		(20,713)	(8,789)	(48,073)
Cash flows from financing activities				
Proceeds from the issue of new shares		1,026	1,238	4,648
Purchase of shares by long term incentive plan trust		(6,586)	-	(14,067)
Dividends paid	16	(18,750)	(16,864)	(26,158)
Movements in current and non current restricted cash balances		(8,713)	(4,700)	(9,267)
Proceeds from secured non-recourse bank loan		-	-	11,878
Proceeds from non-controlling shareholder loans		-	-	3,492
Non-controlling shareholder loan repayments	21	(750)	-	-
Secured non-recourse bank loan repayments		(2,288)	-	(1,041)
Finance lease repayments		(444)	-	(316)
Interest paid		(576)	-	(373)
Net cash used in financing activities		(37,081)	(20,326)	(31,204)
Net increase in cash and cash equivalents		21,224	3,803	6,143
Cash and cash equivalents at start of period		80,576	76,661	76,661
Foreign exchange gain / (loss) in cash and cash equivalents		4,063	1,392	(2,228)
Cash and cash equivalents at end of period	15	105,863	81,856	80,576

**Condensed Consolidated Interim Statement of Changes in Equity
For the six months ended 30 June 2010**

Attributable to equity holders of the Company

<i>(unaudited)</i>	Number of ordinary shares in issue	Issued share capital €000	Share premium €000	Foreign exchange translation €000	Fair value reserve €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	Non- controlling interest €000	Total equity €000
Balance at 1 January 2010	49,767,339	4,977	18,009	79	-	1,392	(34,177)	(31,858)	14,968	184,177	157,567	9,288	166,855
Shares issued (<i>Note 17</i>)	47,416	4	673	-	-	-	-	-	(134)	134	677	-	677
Own shares acquired:													
By the long term incentive plan trust – 272,000 ordinary shares (<i>Note 17</i>)	-	-	-	-	-	-	-	(6,586)	-	-	(6,586)	-	(6,586)
Total comprehensive income – income statement	-	-	-	-	-	-	-	-	-	43,213	43,213	2,366	45,579
Total comprehensive income – foreign exchange retranslation	-	-	-	6,174	-	-	-	-	-	-	6,174	1,059	7,233
Acquisition of non- controlling interest – Sportsbet (<i>Note 12</i>)	-	-	-	-	-	39	-	-	-	(6,499)	(6,460)	(2,021)	(8,481)
Discount on loan from non-controlling interest (<i>Note 17</i>)	-	-	-	22	-	(38)	-	-	-	16	-	-	-
Repayment of non- controlling interest loan	-	-	-	-	-	(47)	-	-	-	-	(47)	(49)	(96)
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	-	4,448	-	4,448	-	4,448
Equity-settled transactions – vestings (<i>Note 18</i>)	-	-	-	-	-	-	-	6,970	(5,885)	(744)	341	-	341
Dividends to shareholders (<i>Note 16</i>)	-	-	-	-	-	-	-	-	-	(18,750)	(18,750)	-	(18,750)
Balance at 30 June 2010	49,814,755	4,981	18,682	6,275	-	1,346	(34,177)	(31,474)	13,397	201,547	180,577	10,643	191,220

Condensed Consolidated Interim Statement of Changes in Equity (continued)
For the six months ended 30 June 2009

	Attributable to equity holders of the Company											Non-controlling interest €000	Total equity €000
	Number of ordinary shares in issue	Issued share capital €000	Share premium €000	Foreign exchange translation €000	Fair value reserve €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		
<i>(unaudited)</i>													
Balance at 1 January 2009	49,270,742	4,927	11,318	(346)	-	1,136	(34,177)	(21,526)	13,733	152,175	127,240	-	127,240
Shares issued (<i>Note 17</i>)	117,807	12	1,301	-	-	-	-	-	(561)	561	1,313	-	1,313
Total comprehensive income – income statement	-	-	-	-	-	-	-	-	-	29,542	29,542	-	29,542
Total comprehensive income – foreign exchange retranslation	-	-	-	193	-	-	-	-	-	-	193	-	193
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	-	3,177	-	3,177	-	3,177
Equity-settled transactions – credit taken in respect of revision of LTIP vesting period (<i>Note 18</i>)	-	-	-	-	-	-	-	-	(2,018)	-	(2,018)	-	(2,018)
Equity-settled transactions – vestings (<i>Note 18</i>)	-	-	-	-	-	-	-	3,735	(3,234)	(143)	358	-	358
Dividends to shareholders (<i>Note 16</i>)	-	-	-	-	-	-	-	-	-	(16,864)	(16,864)	-	(16,864)
Balance at 30 June 2009	49,388,549	4,939	12,619	(153)	-	1,136	(34,177)	(17,791)	11,097	165,271	142,941	-	142,941

Condensed Consolidated Interim Statement of Changes in Equity (continued)
For the year ended 31 December 2009

<i>Restated</i> <i>(audited)</i>	<i>Attributable to equity holders of the Company</i>												
	Number of ordinary shares in issue	Issued share capital €000	Share premium €000	Foreign exchange translation €000	Fair value reserve €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	Non- controlling interest €000	Total equity €000
Balance at 1 January 2009	49,270,742	4,927	11,318	(346)	-	1,136	(34,177)	(21,526)	13,733	152,175	127,240	-	127,240
Shares issued (<i>Note 17</i>)	496,597	50	6,691	-	-	-	-	-	(1,372)	1,372	6,741	-	6,741
Own shares acquired: By the long term incentive plan trust – 540,000 ordinary shares (<i>Note 17</i>)	-	-	-	-	-	-	-	(14,067)	-	-	(14,067)	-	(14,067)
Total comprehensive income – income statement	-	-	-	-	-	-	-	-	-	56,946	56,946	1,529	58,475
Total comprehensive income – foreign exchange retranslation	-	-	-	425	-	-	-	-	-	-	425	625	1,050
Total comprehensive income - fair value changes	-	-	-	-	84	-	-	-	-	-	84	81	165
Business combinations – Sportsbet (<i>Note 12</i>)	-	-	-	-	-	-	-	-	-	-	-	6,903	6,903
Business combinations – IAS	-	-	-	-	(84)	-	-	-	-	(15)	(99)	(95)	(194)
Discount on loan from non-controlling interest (<i>Notes 17 & 21</i>)	-	-	-	-	-	256	-	-	-	-	256	245	501
Equity-settled transactions – expense recorded in income statement	-	-	-	-	-	-	-	-	5,841	-	5,841	-	5,841
Equity-settled transactions – vestings (<i>Note 18</i>)	-	-	-	-	-	-	-	3,735	(3,234)	(143)	358	-	358
Dividends to shareholders (<i>Note 16</i>)	-	-	-	-	-	-	-	-	-	(26,158)	(26,158)	-	(26,158)
Balance at 31 December 2009	49,767,339	4,977	18,009	79	-	1,392	(34,177)	(31,858)	14,968	184,177	157,567	9,288	166,855

Notes to the Condensed Consolidated Interim Financial Statements

1. General information

Paddy Power plc ('the Company') is a company incorporated in the Republic of Ireland. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as 'the Group'). The condensed consolidated interim financial statements are unaudited but have been reviewed by the auditor, whose report is set out on page 47.

The financial information presented herein does not comprise full statutory financial statements and therefore does not include all of the information required for full annual financial statements. Full statutory financial statements for the year ended 31 December 2009, prepared in accordance with International Financial Reporting Standards as adopted by the EU together with an unqualified audit report thereon under Section 193 of the Companies Act 1990, will be annexed to the annual return and filed with the Registrar of Companies. They are available from the Company, from the website www.paddypowerplc.com and from the Registrar of Companies.

The condensed consolidated interim financial statements were approved by the Board of Directors of Paddy Power plc on 24 August 2010.

2. Basis of preparation and accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland's Financial Regulator and with IAS 34 'Interim Financial Reporting' as adopted by the EU. The condensed consolidated interim financial statements are prepared on the historical cost basis except for betting transactions (which are recorded as derivative financial instruments), derivative financial instruments (call options), available-for-sale financial assets and certain share-based payments, all of which are stated at fair value (grant date fair value in the case of share-based payments). The condensed consolidated interim financial statements are presented in euro, the Company's functional currency, rounded to the nearest thousand.

The financial information contained in the condensed consolidated interim financial statements has been prepared in accordance with the accounting policies set out in the Company's last annual financial statements in respect of the year ended 31 December 2009 (except as set out below).

Changes in accounting policies

Revised IFRS 3, 'Business Combinations (2008)'

From 1 January 2010, the Group has applied IFRS 3, 'Business Combinations (2008)' in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no impact on earnings per share in the current reporting period.

The revised standard impacts 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 is measured at fair value, with subsequent changes therein recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, are expensed as incurred.
- Any pre-existing interest in the acquiree is measured at fair value with the gain or loss recognised in profit or loss.
- Any non-controlling interest is 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.

Revised IAS 27, 'Consolidated and Separate Financial Statements (2008)'

From 1 January 2010, the Group has applied IAS 27, 'Consolidated and Separate Financial Statements (2008)' in accounting for acquisitions of non-controlling interests. The change in accounting policy has been applied prospectively and there was no impact on earnings per share in the current reporting period.

From 1 January 2010, acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised. Previously, goodwill arising on the acquisition of non-controlling interests in a subsidiary would have been recognised, and represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

2. Basis of preparation and accounting policies (continued)

See Note 12 for the application of the new policy to the acquisition of non-controlling interests that occurred during the reporting period.

Other accounting policy changes

The following are the new or revised texts of the other accounting policies that have been added or amended since the Company's last annual financial statements in respect of the year ended 31 December 2009:

New accounting policy

Exceptional items

The Group has applied an income statement format which seeks to highlight exceptional items within Group profit or loss for the period. Exceptional items are those that in management's judgement need to be disclosed by virtue of their size or incidence. Such items are included within the income statement caption to which they relate, and are separately disclosed either on the face of the consolidated income statement or in the notes thereto.

Amendments to existing accounting policies

Financial expense

Financial expense comprises interest expense on borrowings (except in respect of borrowing costs relating to qualifying assets), interest on guarantee contracts entered into with third parties, the unwinding of the discount on provisions and other non current liabilities, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised in respect of financial assets.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Previously, the Group would have immediately recognised all borrowing costs as an expense.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Previously, the Group would have immediately recognised all borrowing costs as an expense.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within 'total operating expenses' in profit or loss.

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight line basis over their useful lives; the estimated useful lives of leasehold improvements are the unexpired terms of the leases, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease when it is reasonably certain that the Group has the intention of renewing the lease. Land is not depreciated. The estimated useful lives are as follows:

Buildings: Freehold	50 years
Fixtures and fittings	3 - 7 years
Computer equipment	3 - 5 years
Motor vehicles	3 - 5 years

Assets in the process of construction are stated at cost less impairment losses. Depreciation of these assets begins when the assets are ready for their intended use.

The residual value of property, plant and equipment, if not insignificant, is reassessed annually.

2. Basis of preparation and accounting policies (continued)

Financial assets

Available-for-sale investments

Available-for-sale investments (representing the Group's 19.98% investment in IAS between 1 July 2009 and 1 October 2009) are recognised initially at their cost value and subsequently at fair value based on their quoted bid price at the reporting date. Changes in the fair value of available-for-sale investments are recognised directly in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in profit or loss for the period. Where an investment previously classified as available-for-sale and measured at fair value has been transferred to the cost of investment in a subsidiary, amounts recorded in other comprehensive income will be treated as if the previously held equity interest had been disposed of. This is in accordance with IFRS 3, Revised.

3. Judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements as at and for the year ended 31 December 2009, with the exception of changes in estimate of the recoverability of unused tax losses (see Note 7) and adjustments to provisional fair value accounting for acquisitions (see below).

Restatement of prior year financial information

As permitted by IFRS 3 'Business Combinations' and as a result of (1) the finalisation of fair value accounting for the acquisition of the 51% share of Sportsbet Pty Limited ('Sportsbet') and (2) adjustments made to the provisional fair value accounting for the Group's acquisition of the 100% interest in International All Sports Limited ('IAS'), a number of adjustments have been made to the Group's 31 December 2009 comparative financial information. Where adjustments have been made to comparative information in respect of the year ended 31 December 2009 the relevant financial statement or note is headed up as 'Restated'. The principal adjustments made are summarised below:

<i>Note (see below)</i>	Deferred tax on Sportsbet brand intangible	Sportsbet buyout call option finalisation	Step acquisition of IAS	IAS acquisition balance sheet	Foreign currency retranslation and other	Total
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	
	€000	€000	€000	€000	€000	€000
Intangible assets - computer software	-	-	-	354	12	366
Goodwill	1,464	1,055	(731)	(165)	(389)	1,234
Financial assets	-	(917)	-	-	-	(917)
Current assets - other receivables	-	-	-	(109)	(4)	(113)
Total assets	1,464	138	(731)	80	(381)	570
Current liabilities - trade and other payables	-	-	-	80	19	99
Non current liabilities – derivative financial liabilities	-	138	-	-	-	138
Non current liabilities – deferred tax	2,871	-	-	-	257	3,128
Foreign exchange translation reserve	-	-	83	-	(522)	(439)
Retained earnings	-	-	(467)	-	-	(467)
Non-controlling interest	(1,407)	-	(347)	-	(135)	(1,889)
Total equity and liabilities	1,464	138	(731)	80	(381)	570

3. Judgements and estimates (continued)

- (1) The recognition of deferred tax at the relevant Australian tax rate of 30% on the value of the brands intangible assets recognised on the acquisition of Sportsbet.
- (2) A revision in the net fair value of the Sportsbet buyout call options from a financial asset of €17,000 to a financial liability of €38,000 on finalisation of the valuation of these derivative financial instruments.
- (3) A change in the consolidation accounting for the IAS acquisition to properly reflect the acquisition of IAS being completed in two stages, an initial 19.98% acquisition by the Group on 1 July 2009 and the final 80.02% acquisition on 1 October 2009.
- (4) Changes to the 1 October 2009 IAS acquisition balance sheet to reflect subsequent information about conditions affecting balances at that date.
- (5) Primarily relates to foreign currency retranslation adjustments as of 31 December 2009 in respect of the above.

The impact on previously reported balances is as follows:

	As previously reported €000	Adjustment €000	As restated €000
Intangible assets	45,084	366	45,450
Goodwill	60,903	1,234	62,137
Financial assets	2,498	(917)	1,581
Trade and other receivables	16,432	(113)	16,319
Trade and other payables	(90,453)	(99)	(90,552)
Derivative financial liabilities	(16)	(138)	(154)
Non current deferred tax	(5,577)	(3,128)	(8,705)
Foreign exchange translation reserve	(518)	439	(79)
Retained earnings	(184,644)	467	(184,177)
Non-controlling interest	(11,177)	1,889	(9,288)

4. Operating segments

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

(a) Reportable business segment information

The Group considers that its reportable segments are as follows:

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

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

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies set out in the Company's last annual financial statements in respect of the year ended 31 December 2009. Central operating expenses are allocated to reportable segments based on internal management allocation methodologies. Any expenses that are not directly allocated to reportable segments in internal management reports are shown in the reconciliation of reportable segments to Group totals. The Group does not allocate income tax expense or interest. Treasury management is centralised for the online (ex Australia), Irish retail, UK retail and telephone (ex Australia) segments. The Australia segment manages its own treasury function. Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

Reportable business segment information for the six months ended 30 June 2010:

	Online (ex Australia) €000	Australia €000	Irish retail €000	UK retail €000	Telephone (ex Australia) €000	Total reportable segments €000
Income from external customers, being total income	74,911	41,824	55,475	23,999	9,398	205,607
Direct betting costs	(9,758)	(10,805)	(4,901)	(3,603)	(55)	(29,122)
Gross profit	65,153	31,019	50,574	20,396	9,343	176,485
Depreciation and amortisation	(1,509)	(1,619)	(4,701)	(2,968)	(496)	(11,293)
Other operating costs	(34,610)	(21,544)	(36,833)	(14,472)	(8,279)	(115,738)
Reportable segment profit	29,034	7,856	9,040	2,956	568	49,454

4. Operating segments (continued)

Reportable business segment information for the six months ended 30 June 2009:

	Online (ex Australia) €000	Australia €000	Irish retail €000	UK retail €000	Telephone (ex Australia) €000	Total reportable segments €000
Income from external customers, being total income	51,595	-	56,643	16,838	7,615	132,691
Direct betting costs	(7,405)	-	(4,958)	(2,735)	(2)	(15,100)
Gross profit	44,190	-	51,685	14,103	7,613	117,591
Depreciation and amortisation	(1,086)	-	(4,594)	(2,185)	(408)	(8,273)
Other operating costs	(21,289)	-	(35,394)	(11,458)	(7,651)	(75,792)
Reportable segment profit / (loss)	21,815	-	11,697	460	(446)	33,526

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

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

4. Operating segments (continued)

Reconciliation of reportable segments to Group totals:

	Six months ended 30 June 2010 €000	Six months ended 30 June 2009 €000	Year ended 31 December 2009 €000
Income			
Total income from reportable segments, being total Group income (1)	205,607	132,691	295,928
Profit or loss			
Total profit or loss from reportable segments	49,454	33,526	66,694
<i>Unallocated amounts</i>			
Financial income – non-Australia (2)	151	560	723
Financial income – Australia	542	-	177
Financial income – Australia – Sportsbet buyout call options (3)	3,106	-	-
Financial expense – non-Australia (2)	(135)	-	(126)
Financial expense – Australia	(626)	-	(276)
Total profit before tax	52,492	34,086	67,192

(1) There are no inter-segment revenues or profits requiring elimination in any of the reporting periods.

(2) The non-Australia segment comprises the online (ex Australia), Irish retail, UK retail and telephone (ex Australia) operating segments. Financial expense relating to this segment is primarily in respect of guarantee fees payable.

(3) Included in financial income in respect of the Australia segment is €3,106,000 of income relating to the increase in the fair value of the Sportsbet buyout call options – see Notes 6 and 13.

(b) Geographical segment information

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

Group revenues by geographical segment are as follows:

	Six months ended 30 June 2010 €000	Six months ended 30 June 2009 €000	Year ended 31 December 2009 €000
UK	74,510	49,178	103,131
Australia	41,986	-	32,012
Ireland and rest of world	89,111	83,513	160,785
Total	205,607	132,691	295,928

(a) Revenues are attributed to geographical location on the basis of the customer's location.

(b) Revenues from any single customer do not amount to ten per cent or more of the Group's revenues.

4. Operating segments (continued)

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

Non current assets

	30 June 2010	30 June 2009	31 December 2009
	€000	€000	<i>Restated</i> €000
UK	63,009	59,844	60,450
Australia	81,382	-	70,469
Ireland and rest of world	54,229	55,819	54,976
Total	198,620	115,663	185,895

Seasonality

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

5. Direct betting costs

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
	€000	€000	€000
Betting taxes	10,863	6,945	16,903
Software supplier costs	5,522	4,567	9,178
Other direct betting costs	12,737	3,588	11,873
Direct betting costs	29,122	15,100	37,954

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

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

6. Financial income and expense

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009 <i>Restated</i> €000
	€000	€000	
Recognised in profit or loss			
Financial income			
<i>On financial assets at amortised cost:</i>			
Interest income on short term bank deposits	693	560	900
	693	560	900
<i>On derivative financial instruments at fair value through profit or loss:</i>			
Increase in fair value of Sportsbet buyout call options (Note 13)	3,106	-	-
	3,106	-	-
Financial income	3,799	560	900
Financial expense			
<i>On financial liabilities at amortised cost:</i>			
Bank loans	425	-	247
Bank guarantees	73	-	113
Finance leases	110	-	29
Unwinding of the discount on provisions and other non current liabilities	153	-	13
Financial expense	761	-	402
Recognised in equity			
Foreign exchange gain on revaluation of the net assets of foreign currency denominated subsidiaries *	7,233	193	1,050
	7,233	193	1,050

* The foreign exchange gain on revaluation of the net assets of foreign currency denominated subsidiaries for the year ended 31 December 2009 has been restated from €1,476,000 to €1,050,000 (see Note 3).

7. Taxation

Income tax is accrued for the interim reporting period using the tax rate that is expected to be applicable to estimated total annual earnings. This expected annual effective income tax rate is applied to the taxable income of the interim period.

The Group's effective tax rate for the period was 13.2% (six months ended 30 June 2009: 13.3% and year ended 31 December 2009: 13.0%), which compares to the standard Irish corporation tax rate of 12.5%. The primary reasons for the difference in the effective tax rate versus the standard tax rate are: Australian operating segment profits taxable at 30%, Northern Ireland retail profits taxable at 28%, depreciation on certain items of property, plant and equipment that do not qualify for capital allowances and the taxation of certain interest income at tax rates higher than the standard corporation tax rate. The effect of these items has been partially offset by the recognition of a previously unrecognised deferred tax asset in respect of the Group's Great Britain retail operations (see below) and the exemption from tax of the increase in the fair value of the Sportsbet buyout call options in the period.

Unrecognised deferred tax assets

In previous reporting periods, a deferred tax asset was not recognised in respect of tax losses related to the Group's retail operations in Great Britain ('GB retail') as it was not certain whether taxable profits would be generated against which to offset these losses. The value of this unrecognised deferred tax asset at 31 December 2009 was €1,770,000. Given the improved profitability performance of the GB retail business in 2010, the directors believe that it is now appropriate to begin recognising this deferred tax asset. In accordance with IAS 34, the effective tax rate used to estimate the tax for the interim period reflects the recognition of these tax assets and accordingly 50% (€885,000) has been credited to the income statement in the six months ended 30 June 2010.

8. Earnings per share

The Group presents basic and diluted earnings per share ('EPS') data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which include awards under share award schemes and share options granted to employees.

The calculation of basic and diluted EPS is as follows:

	Six months ended 30 June 2010	Six months ended 30 June 2009	Year ended 31 December 2009
<i>Numerator in respect of basic and diluted earnings per share (€'000):</i>			
Profit attributable to equity holders of the Company	43,213	29,542	56,946
<i>Denominator in respect of basic earnings per share (in '000s):</i>			
Weighted average number of shares in issue during the period	46,670	46,583	46,732
<i>Adjustments to derive denominator in respect of diluted earnings per share:</i>			
Dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and share award schemes	1,038	574	429
Adjusted weighted average number of shares in issue during the period	47,708	47,157	47,161
Basic earnings per share	€0.926	€0.634	€1.219
Diluted earnings per share	€0.906	€0.626	€1.207

The basic weighted average number of shares excludes shares held by the Paddy Power Employee Benefit Trust. The effect of this is to reduce the average number of shares in the six months ended 30 June 2010 by 1,387,793 shares (six months ended 30 June 2009: 987,599 shares and year ended 31 December 2009: 978,296 shares).

9. 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 2009	50,782	76,100	19,001	1,163	147,046
Additions	5,207	8,343	4,624	69	18,243
Additions – business combinations (<i>Note 12</i>)	887	248	3,333	38	4,506
Disposals	(90)	(211)	(215)	(10)	(526)
Foreign currency retranslation adjustment	209	159	255	3	626
Balance at 31 December 2009	56,995	84,639	26,998	1,263	169,895
Additions	1,506	4,012	2,157	46	7,721
Additions – business combinations (<i>Note 12</i>)	-	99	-	-	99
Disposals	(10)	(160)	(17)	(175)	(362)
Reclassifications	215	(178)	(1,350)	-	(1,313)
Foreign currency retranslation adjustment	315	124	481	5	925
Balance at 30 June 2010	59,021	88,536	28,269	1,139	176,965
Accumulated depreciation					
Balance at 1 January 2009	16,240	46,291	16,031	443	79,005
Depreciation charges	2,514	9,069	2,686	186	14,455
Impairment credits	(82)	(215)	(13)	-	(310)
Disposals	(22)	(134)	(20)	-	(176)
Foreign currency retranslation adjustment	55	42	95	2	194
Balance at 31 December 2009	18,705	55,053	18,779	631	93,168
Depreciation charges	1,571	4,718	2,140	176	8,605
Impairment charges	216	273	20	-	509
Disposals	(3)	(11)	(8)	(55)	(77)
Foreign currency retranslation adjustment	85	35	155	2	277
Balance at 30 June 2010	20,574	60,068	21,086	754	102,482
Net book value					
At 30 June 2010	38,447	28,468	7,183	385	74,483
At 31 December 2009	38,290	29,586	8,219	632	76,727

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.

At 30 June 2010, included in fixtures and fittings are assets held under finance leases with a cost value of €2,407,000 (31 December 2009: €2,097,000), accumulated depreciation of €646,000 (31 December 2009: €367,000) and net book value of €1,761,000 (31 December 2009: €1,730,000). At 30 June 2010, included in computer equipment are assets held under finance leases with a cost value of €1,619,000 (31 December 2009: €1,457,000), accumulated depreciation of €751,000 (31 December 2009: €452,000) and net book value of €868,000 (31 December 2009: €1,005,000).

The impairment credits and charges relate to the Irish retail and UK retail operating segments and have arisen from regular reviews of the carrying value of shop properties. The recoverable amounts used in the calculation of Irish retail and UK retail operating segment impairment credits and charges are based on value in use. The pre-tax discount rate used to determine value in use was 10% (2009: 10%). The impairment charge of €509,000 (2009: credit of €310,000) recorded in the period ended 30 June 2010 includes €850,000 relating to new impairment charges (comprised of €660,000 relating to the UK retail operating segment and €190,000 relating to the Irish retail operating segment) and is stated net of impairment reversals of €341,000 relating to the Irish retail operating segment (2009: €384,000 relating to new impairment charges and stated net of impairment reversals of €694,000). The impairment credits and charges are included in 'depreciation and amortisation' in the consolidated income statement.

10. Intangible assets

The movements during the prior year and current period in respect of intangible assets were as follows:

	Computer software Restated €000	Licences €000	Brands €000	Total Restated €000
Cost				
Balance at 1 January 2009	18,005	26,596	-	44,601
Additions	2,725	596	-	3,321
Additions – business combinations (<i>Note 12</i>)	1,965	-	13,743	15,708
Disposals	(20)	-	-	(20)
Foreign currency retranslation adjustment	99	(2,280)	999	(1,182)
Balance at 31 December 2009	22,774	24,912	14,742	62,428
Additions	2,986	11	-	2,997
Disposals	(17)	(23)	-	(40)
Reclassifications	1,414	(101)	-	1,313
Foreign currency retranslation adjustment	331	1,730	1,644	3,705
Balance at 30 June 2010	27,488	26,529	16,386	70,403
Accumulated amortisation				
Balance at 1 January 2009	11,322	1,667	-	12,989
Amortisation charges	2,669	496	-	3,165
Impairment charges	803	-	-	803
Disposals	-	-	-	-
Foreign currency retranslation adjustment	21	-	-	21
Balance at 31 December 2009	14,815	2,163	-	16,978
Amortisation charges	1,832	322	-	2,154
Impairment (credits) / charges	(3)	28	-	25
Disposals	(9)	(23)	-	(32)
Foreign currency retranslation adjustment	67	1	-	68
Balance at 30 June 2010	16,702	2,491	-	19,193
Net book value				
At 30 June 2010	10,786	24,038	16,386	51,210
At 31 December 2009	7,959	22,749	14,742	45,450

As explained in Note 3, the provisional accounting for the acquisition of IAS on 1 October 2009 has been adjusted in the comparative financial information for the year ended 31 December 2009. Accordingly, the value of the computer software intangible asset acquired was increased by €354,000 to €1,965,000 to correct previously overstated accumulated amortisation and the associated foreign currency retranslation adjustment has been increased by €12,000 to €9,000.

The value of betting shop licences amounting to €21,702,000 (31 December 2009: €19,975,000) acquired as a result of the purchase of D McGranaghan Limited in 2008 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
- the Group has a track record of renewing its betting permits and licences at minimal cost.

The value of brands intangible assets recognised on application of fair value accounting to the purchase of Sportsbet and IAS (amounting to €16,386,000 at 30 June 2010 and €14,742,000 at 31 December 2009 – see Note 12) are not being amortised as the directors consider that the relevant brands have indefinite lives because:

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

10. Intangible assets (continued)

The Group reviews the carrying value of licences and brands for impairment semi-annually (or more frequently if there are indications that the value of the licences and brands may be impaired) by comparing the carrying values of these assets with their recoverable amounts (being the higher of value in use and fair value less costs to sell). Management performed such an impairment review at 30 June 2010 and, on the basis of this review, are satisfied that the carrying amount of the Group's licences and brands at 30 June 2010 is not less than their recoverable amount.

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

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

11. Goodwill

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

	Irish retail	UK retail	Australia <i>Restated</i>	Total <i>Restated</i>
	€000	€000	€000	€000
Balance at 1 January 2009	5,923	9,080	-	15,003
Arising on acquisition (<i>Note 12</i>)	1,144	-	44,372	45,516
Foreign currency retranslation adjustment	-	(832)	2,450	1,618
Balance at 31 December 2009	7,067	8,248	46,822	62,137
Arising on acquisition (<i>Note 12</i>)	513	18	-	531
Foreign currency retranslation adjustment	-	628	5,218	5,846
Balance at 30 June 2010	7,580	8,894	52,040	68,514

Goodwill on Irish retail properties arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, the acquisition of three retail bookmaking businesses in 2007 and the acquisition of a retail bookmaking shop property in both 2009 and 2010.

Goodwill on UK retail properties arose from the acquisition of two London bookmaking businesses in 2004, the acquisition of a retail bookmaking company in Northern Ireland in 2008 and the acquisition of a retail bookmaking shop property in 2010.

The Australia segment goodwill amount arose from the acquisition by the Group of a 51% interest in Sportsbet Pty Limited ('Sportsbet') on 1 July 2009 and the acquisition of International All Sports Limited ('IAS') by Sportsbet on 1 October 2009 (see Note 12).

The Group reviews the carrying value of goodwill for impairment semi-annually (or more frequently if there are indications that the value of goodwill 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). Management performed such an impairment review at 30 June 2010 and, on the basis of this review, are satisfied that the carrying amount of the Group's goodwill at 30 June 2010 is not less than its recoverable amount.

12. Business combinations

Six months ended 30 June 2010

Acquisition of additional 9.8% of Sportsbet Pty Limited

On 12 February 2010, the Company increased its shareholding in Sportsbet to 60.8% through the buyout of a non-controlling shareholder who had no executive involvement with the business. The consideration for the 9.8% shareholding acquired amounted to AUD13.0m (€8.5m) in cash. The Company also acquired that shareholder's loan to Sportsbet as part of the transaction.

	€000
Purchase consideration - cash	8,481
Net assets acquired from non-controlling interest	(2,021)
Change in Group share of discount on loans from non-controlling shareholders	39
Cost of business combination transferred to retained earnings	<u>6,499</u>

Net cash outflow from purchase of non-controlling interest for the purposes of the statement of cash flows:

Purchase of businesses, net of cash acquired	8,481
Acquisition expenses paid	80
	<u>8,561</u>

Shop property business acquisitions

In May and June 2010, the Group, in the absence of available comparable sites for organic shop openings, acquired one retail licensed bookmaking business in Ireland and one in Great Britain.

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

	Total provisional fair values 30 June 2010 €000
Identifiable net assets acquired:	
Property, plant and equipment	<u>99</u>
	99
Goodwill arising on acquisition – Irish retail	<u>513</u>
Goodwill arising on acquisition – UK retail	18
Goodwill arising on acquisition – total	<u>531</u>
Consideration	<u>630</u>
Satisfied by:	
Cash consideration	580
Deferred purchase consideration	50
	<u>630</u>
Net cash outflow from purchase of businesses for the purposes of the statement of cash flows	
Purchase of businesses, net of cash acquired	580
Acquisition expenses paid	-
	<u>580</u>

The principal factors contributing to the goodwill balance above are the well established nature of the acquired businesses within the locations in which they operate and the potential synergies, rebranding opportunities and operational efficiencies achievable for the acquired businesses within the Paddy Power group.

Information in respect of amounts staked, income, operating profit and cash flows for the acquired shops in respect of the period from acquisition and for the six months ended 30 June 2010 has not been presented on the basis of immateriality.

12. Business combinations (continued)

Six months ended 30 June 2009 and year ended 31 December 2009

Australia acquisitions

Acquisition of Sportsbet Pty Limited

On 1 July 2009, the Group completed the purchase of a 51% shareholding in Sportsbet, a provider of internet and telephone sports betting services in Australia. The initial purchase consideration for this acquisition amounted to €6.3m, comprised of a cash payment of €4.6m and the granting of 100,000 ordinary shares of the Company valued at €1.7m. An additional payment of AUD10.0m (€6.2m) could be payable in 2010 if certain profitability targets were achieved by Sportsbet in respect of the financial year ended 30 June 2010. Under the terms of the acquisition, certain call options were granted to the Company and to the non-controlling interest in Sportsbet (see Note 13). The net fair value of these options was added to the purchase consideration in the calculation of the goodwill arising on acquisition of Sportsbet.

Details of the net assets acquired and the goodwill arising on this acquisition under IFRS are as follows (restated – see Note 3):

Finalisation of provisional accounting:

	Book values on acquisition	Provisional fair value adjustments	Final fair value adjustments	Final fair values 31 December 2009 <i>Restated</i> €000
	€000	€000	€000	€000
Identifiable net assets acquired:				
Property, plant and equipment	1,753	-	-	1,753
Intangible assets	272	10,374	-	10,646
Financial assets	5,201	-	-	5,201
Deferred tax asset (net)	365	-	-	365
Current assets (excluding cash and cash equivalents)	6,134	-	-	6,134
Cash and cash equivalents	6,846	-	-	6,846
Customer balances	(5,412)	-	-	(5,412)
Current liabilities	(5,594)	-	-	(5,594)
Sports betting open positions – current	(1,311)	-	-	(1,311)
Corporation tax payable	(694)	-	-	(694)
Non current liabilities	(594)	-	-	(594)
Deferred tax liabilities	-	(241)	(2,871)	(3,112)
Provisions – non current	(140)	-	-	(140)
	6,826	10,133	(2,871)	14,088
Less: non-controlling interest arising on acquisition				(6,903)
Goodwill arising on acquisition				27,748
Consideration (including associated purchase costs)				34,933
The consideration is analysed as:				
Cash consideration (including associated purchase costs paid and accrued)				26,931
Ordinary shares issued to vendors (Note 17)				1,648
Deferred purchase consideration				6,216
Embedded derivative – Sportsbet buyout call options (Note 19 and Restated per Note 3)				138
				34,933
The net cash consideration is analysed as:				
Cash consideration before acquisition expenses				24,627
Acquisition expenses				2,172
Cash consideration				26,799
Cash acquired				(6,846)
Net cash consideration for acquisition of Sportsbet				19,953

12. Business combinations (continued)

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

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

Acquisition of International All Sports Limited

On 1 October 2009, Sportsbet completed the acquisition of a 100% shareholding in another Australian internet and telephone sports betting company, IAS. At 1 July 2009, and upon acquisition by the Company, Sportsbet owned a 19.98% interest in IAS (see Note 13). IAS was a publicly quoted company whose shares were listed on the Australian Stock Exchange and the acquisition was implemented via a Scheme of Arrangement. The acquisition valued the entire issued share capital of IAS at AUD40.0m (€24.2m). The Company and Sportsbet's non-controlling shareholders provided shareholder loans to Sportsbet to part fund the acquisition, with the Company providing a loan of €3,833,000 (AUD6,135,000) and the 49% non-controlling shareholders in Sportsbet providing a loan of €3,682,000 (AUD5,895,000) (see Note 21). A secured bank loan of €12,494,000 (AUD20,000,000) was also taken out by Sportsbet to part fund the acquisition (see Note 21).

Details of the net assets acquired and the goodwill arising on this acquisition under IFRS are as follows (restated – see Note 3):

	Provisional book values on acquisition <i>Restated</i> €000	Provisional step acquisition adjustments <i>Restated</i> €000	Provisional fair value adjustments €000	Provisional fair values 31 December 2009 <i>Restated</i> €000
Identifiable net assets acquired:				
Property, plant and equipment	2,733	(128)	-	2,605
Intangible assets	1,359	152	3,703	5,214
Financial assets	618	(124)	-	494
Deferred tax asset (net)	1,417	-	-	1,417
Current assets (excluding cash and cash equivalents)	2,527	(197)	-	2,330
Cash and cash equivalents	10,164	276	-	10,440
Customer balances	(6,978)	81	-	(6,897)
Current liabilities	(5,230)	(50)	-	(5,280)
Sports betting open positions – current	(448)	54	-	(394)
Provisions – current	(1,034)	-	-	(1,034)
Corporation tax payable	(738)	(35)	-	(773)
Non current liabilities	(686)	-	-	(686)
Provisions – non current	(341)	-	-	(341)
	3,363	29	3,703	7,095
Goodwill arising on acquisition				16,624
Consideration (including associated purchase costs)				23,719
The consideration is analysed as:				
Cash consideration (including associated purchase costs paid and accrued)				19,604
Fair value of existing 19.98% holding in IAS at date of acquisition (<i>Note 13</i>)	4,818	(241)		4,577
Deferred tax on movements in fair value of existing 19.98% holding in IAS at date of acquisition	(552)	90		(462)
	4,266	(151)		23,719
The net cash consideration is analysed as:				
Cash consideration before acquisition expenses				19,367
Acquisition expenses				201
Cash consideration				19,568
Cash acquired				(10,164)
Net cash consideration for acquisition of IAS				9,404

12. Business combinations (continued)

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

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

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

Since the date of acquisition to 31 December 2009, the acquired Australia businesses contributed a cash inflow of €5.3m to net cash from operating activities, a cash outflow of €1.4m to net cash used in investing activities (including the purchase of IAS) and a cash inflow of €3.5m to net cash used in financing activities (including debt taken on to part fund the acquisition of IAS).

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

Shop property business acquisition

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

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

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

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

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

12. Business combinations (continued)

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

	Six months ended 30 June 2010 €000	Six months ended 30 June 2009 €000	Year ended 31 December 2009 €000
Cash consideration - acquisitions in period	9,061	1,000	44,994
Cash consideration - acquisitions in previous period (deferred consideration)	100	-	-
Acquisition expenses paid – acquisitions in period	80	1,016	2,437
Acquisition expenses paid – acquisitions in previous period	172	-	-
Less: cash and cash equivalents acquired	-	-	(17,010)
Purchase of businesses and acquisition expenses paid	9,413	2,016	30,421
Analysed for the purposes of the statement of cash flows as:			
Purchase of businesses, net of cash acquired	9,161	1,000	27,984
Acquisition expenses paid in respect of acquisitions completed in the period	80	64	2,437
Other acquisition expenses paid	172	952	-
	9,413	2,016	30,421

13. Financial assets (non current)

	30 June 2010 €000	31 December 2009 <i>Restated</i> €000
Derivative financial assets:		
Embedded derivatives – Sportsbet buyout call options	2,968	-
	2,968	-
Other financial assets:		
Restricted cash (<i>Note 15</i>)	1,445	1,581
	1,445	1,581
Total	4,413	1,581

Movements in financial assets in respect of the six months ended 30 June 2010 were as follows:

	Sportsbet buyout call options €000	Restricted cash €000	Total €000
Balance at 1 January 2010	-	1,581	1,581
Movements in fair value of derivative financial instruments (<i>see also Note 19</i>)	2,968	-	2,968
Other movements	-	(296)	(296)
Foreign currency retranslation adjustment	-	160	160
Balance at 30 June 2010	2,968	1,445	4,413

13. Financial assets (non current) (continued)

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

	Restricted cash	Available-for- sale investments	Total <i>Restated</i> €000
	€000	€000	€000
Balance at 1 January 2009	-	-	-
Business combinations – acquisition of Sportsbet	862	4,339	5,201
Movements in fair value of available-for-sale investments	-	241	241
Foreign currency retranslation adjustment	101	238	339
Business combinations – acquisition of IAS	618	(4,818)	(4,200)
Balance at 31 December 2009	1,581	-	1,581

Sportsbet buyout call options

Under the terms of the agreement to purchase 51% of Sportsbet on 1 July 2009, the Company was granted certain options to purchase the equity interests of the non-controlling interest in Sportsbet. In the event that the combined Sportsbet and IAS earnings before interest, taxation, depreciation and amortisation ('EBITDA') for either of the years ending 30 June 2011 or 2012 is less than AUD22.0m (€15.3m), the Company has the right to claw equity from Sportsbet's existing shareholders on a proportionate basis to the shortfall in profitability. In addition, the Company has a call option, exercisable in either 2012 or 2013, to acquire all of the outstanding shares in Sportsbet that it does not own, with the exercise price to be determined based on an EBITDA multiple of 4 to 7 times, depending on the level of EBITDA, and subject to a maximum payment of AUD196m (€137m). In the event that the Company elects not to exercise the 2013 call option, the non-controlling shareholders in Sportsbet will have the option to acquire the Company's shareholding. The exercise price for this option is to be determined on the same basis as the call option that the Company holds. The net value ascribed to the embedded derivatives in these option contracts (which have been designated on initial recognition as at fair value through profit or loss) was a net financial liability of €138,000 as at the date of acquisition, and was included in derivative financial liabilities (see Note 19). In accordance with the requirements of accounting standards, a valuation exercise was performed in respect of the options as of 30 June 2010 which indicated a total net financial asset of €2,968,000. The value ascribed to the Sportsbet business in this valuation was based on the Company's 12 February 2010 acquisition of an additional 9.8% shareholding in Sportsbet. The change in the valuation between 31 December 2009 and 30 June 2010 of €3,106,000 has been included in financial income in profit or loss (see Note 6).

14. Trade and other receivables

	30 June 2010	31 December 2009 <i>Restated</i>
	€000	€000
Trade receivables	7,993	6,391
Other receivables	1,724	3,378
Value added tax and general sales tax recoverable	597	-
Prepayments and accrued income	11,228	6,550
	21,542	16,319

Trade and other receivables are non-interest bearing.

15. Cash and cash equivalents and financial assets

	30 June 2010	31 December 2009
	€000	€000
Cash at bank and on hand	24,034	13,772
Short term bank deposits	101,308	77,410
	125,342	91,182
Less: Financial assets – current restricted cash deposits (see below)	(18,034)	(9,025)
Less: Financial assets – non current restricted cash deposits (see below)	(1,445)	(1,581)
Cash and cash equivalents in the statement of cash flows	105,863	80,576

The directors believe that, other than the financial assets, all short term bank deposits can be withdrawn without significant penalty.

Short term bank deposits are analysed by currency as follows:

	30 June 2010	31 December 2009
	€000	€000
Euro	64,490	53,836
GBP	15,053	10,137
AUD	19,717	12,610
USD	2,048	827
	101,308	77,410

The gain on retranslation of cash and cash equivalent balances in the six months ended 30 June 2010 was €4,063,000 and reflects the strengthening of the GBP, AUD and USD against the euro in the period (six months ended 30 June 2009: gain of €1,392,000 and year ended 31 December 2009: loss of €2,228,000). Of this gain and loss, a gain of €1,599,000 in respect of the six months ended 30 June 2010 (six months ended 30 June 2009: gain of €1,371,000 and year ended 31 December 2009: loss of €3,605,000) has been included within ‘other expenses’ in the consolidated income statement rather than as financial income or expense, as the directors consider that the gain or loss relates to operations, as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised. Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. A net loss in respect of these latter items of €1,994,000 was recorded in the six months ended 30 June 2010 (six months ended 30 June 2009: loss of €1,543,000 and year ended 31 December 2009: gain of €3,377,000). Gains and losses on foreign currency retranslation are separately analysed into their components in the statement of cash flows.

Financial assets

Included in short term bank deposits at 30 June 2010 is an amount of €1,803,000 (31 December 2009: €902,000 (GBP8,015,000)) which was restricted at that date and up to 30 September 2010 as it formed part of a guarantee issued in favour of the Isle of Man Gambling Supervision Commission in respect of player funds held by the Group (see Note 22). This balance has been shown as a current financial asset in the consolidated statement of financial position.

Included in short term bank deposits at 30 June 2010 is an amount of €1,445,000 (AUD2,081,000) (31 December 2009: €1,581,000 (AUD2,531,000)) which was restricted at that date and for the foreseeable future. The bank deposits (1) form part of a number of guarantees issued in favour of Australian state racing authorities as required by gambling licenses totaling €278,000 (31 December 2009: €31,000), (2) are in respect of certain obligations entered into by the Group for office accommodation held under operating leases totalling €1,028,000 (31 December 2009: €25,000) and (3) are in respect of certain other services provided to the Group totalling €39,000 (31 December 2009: €125,000). This balance has been shown as a non current financial asset in the consolidated statement of financial position (see Note 13).

16. Dividends paid

	Six months ended 30 June 2010 €000	Six months ended 30 June 2009 €000	Year ended 31 December 2009 €000
Final dividend of 35.4 cent per share for year ended 31 December 2008	-	16,864	16,864
Interim dividend of 19.5 cent per share for period ended 30 June 2009	-	-	9,294
Final dividend of 38.9 cent per share for year ended 31 December 2009	18,750	-	-
	18,750	16,864	26,158

The directors have declared an interim dividend of 25.0 cent per share which will be paid on 24 September 2010 to shareholders on the Company's register of members at the close of business on the record date of 3 September 2010. This dividend, which is estimated to be approximately €12,028,000, has not been included as a liability at 30 June 2010.

17. Changes in equity

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (30 June 2009 and 31 December 2009: 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.

As part of the purchase of 51% of Sportsbet on 1 July 2009, 100,000 ordinary shares of €0.10 each, valued in total at €1,648,000, were issued to the vendors of Sportsbet on 1 July 2009 (see Note 12). All other ordinary shares issued during the six months ended 30 June 2010 and 30 June 2009 and the year ended 31 December 2009 were in respect of the exercise of share options granted to employees of the Group under the terms of the Share Option and Sharesave Schemes (see Note 18). In the six months ended 30 June 2010, an amount of €134,000 (six months ended 30 June 2009: €561,000 and year ended 31 December 2009: €1,372,000) in respect of share options exercised during the period was transferred from the share-based payment reserve to retained earnings.

No purchases of the Company's own shares on the market were made by the Group during either the six months ended 30 June 2010 or 30 June 2009 or the year ended 31 December 2009. A total of 1,734,000 shares were held in treasury as of 30 June 2010 (30 June 2009 and 31 December 2009: 1,734,000). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to €34,177,000 as of 30 June 2010 (30 June 2009 and 31 December 2009: €34,177,000).

At 30 June 2010, the Company held a further 1,376,032 of its own shares (30 June 2009: 898,711 shares and 31 December 2009: 1,438,711 shares), which were acquired at a total cost of €31,474,000 (30 June 2009: €17,791,000 and 31 December 2009: €1,858,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan and Managers' Deferred Share Award Scheme (collectively referred to as the 'Share Award Schemes'). The Company's distributable reserves at 30 June 2010, 30 June 2009 and 31 December 2009 are further restricted by these respective amounts. The Long Term Incentive Plan Trust ('the Trust') purchased 272,000 of the Company's ordinary shares in the six months ended 30 June 2010 at a cost of €6,586,000 (six months ended 30 June 2009: nil ordinary shares and year ended 31 December 2009: 540,000 ordinary shares at a cost of €14,067,000).

The foreign exchange translation reserve at 30 June 2010 was a balance of €6,275,000 (30 June 2009: deficit of €153,000 and 31 December 2009: balance of €79,000) which arose primarily from the retranslation of the Group's net investment in GBP and AUD functional currency subsidiary companies. The movement in the six months to 30 June 2010 reflects the strengthening of the AUD and GBP against the euro in the period.

17. Changes in equity (continued)

Other reserves comprise a capital redemption reserve fund, a capital conversion reserve fund and a capital contribution reserve. The capital redemption reserve fund of €876,000 (30 June 2009 and 31 December 2009: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (30 June 2009 and 31 December 2009: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. The capital contribution reserve balance of €210,000 (30 June 2009: €nil and 31 December 2009: €256,000) arose on initial recognition of the Group's share of the discount on the non-controlling shareholder loans (which are non-interest bearing – see Note 21).

18. Share schemes

Share Option Schemes

No share options were awarded to employees and 38,000 options were exercised during the six months ended 30 June 2010 (six months ended 30 June 2009: no share options awarded and 57,635 options exercised; year ended 31 December 2009: no share options awarded and 306,635 options exercised).

Sharesave Scheme

During the six months ended 30 June 2010, 9,416 options previously granted under this scheme were exercised (six months ended 30 June 2009: 60,172 options exercised). In the year ended 31 December 2009, 110,939 options were granted and 89,962 options were exercised.

Long Term Incentive Plan

During the six months ended 30 June 2010, the Company granted 272,000 (six months ended 30 June 2009: 250,000 and year ended 31 December 2009: 541,000) share awards under the Long Term Incentive Plan ('LTIP') to management (including executive directors). The share price on the date of grant was €23.76 (six months ended 30 June 2009: €17.84 and year ended 31 December 2009: ranged from €17.84 to €24.74). The total cost of this grant is estimated at €6,463,000 and is being expensed in the Group consolidated income statement over the expected term of the grant of three years.

A total of 334,679 shares in respect of 2007 LTIP awards and related dividends were vested from the Long Term Incentive Plan Trust to senior management during the six months ended 30 June 2010 (six months ended 30 June 2009 and year ended 31 December 2009: 268,144 shares relating to 2006 LTIP awards).

During the six months ended 30 June 2009, the directors revised their vesting expectations in respect of the 2008 Long Term Incentive Plan share grants and this resulted in a credit to the income statement in that period for those grants.

19. Trade and other payables and derivative financial instruments

Current liabilities

	30 June 2010	31 December 2009
	€000	<i>Restated</i> €000
Trade and other payables		
Trade payables	11,482	9,712
Customer balances	39,274	33,231
PAYE and social security	2,224	2,268
Value added tax and general sales tax	645	848
Betting duty, data rights and product fees	10,236	7,296
Employee benefits	8,068	9,142
Deferred consideration – business combinations	6,993	6,329
Accruals and other liabilities	30,385	21,726
	109,307	90,552
Derivative financial instruments		
Sports betting open positions	14,432	5,448

Non current liabilities

	30 June 2010	31 December 2009
	€000	<i>Restated</i> €000
Trade and other payables		
PAYE and social security	136	90
Employee benefits	3,694	2,913
	3,830	3,003
Derivative financial instruments		
Sports betting open positions	22	16
Sportsbet buyout call options (<i>Note 13</i>)	-	138
	22	154

Derivative financial instruments - sports betting open positions

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

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.

20. Provisions

Current liabilities

	30 June 2010 €000	31 December 2009 €000
Employee benefits	114	-
Accruals and other liabilities	982	1,170
	<u>1,096</u>	<u>1,170</u>

Non current liabilities

	30 June 2010 €000	31 December 2009 €000
Employee benefits	126	234
Accruals and other liabilities	1,485	1,479
	<u>1,611</u>	<u>1,713</u>

The movements in provisions during the six months ended 30 June 2010 were as follows:

Current liabilities

	Long service leave €000	Lease reinstatement €000	Onerous contracts €000	Total €000
Balance at 1 January 2010	-	519	651	1,170
Transferred from non current liabilities	129	-	-	129
Charged / (credited) to the income statement:				
- Additional provisions recognised	40	-	6	46
- Unused amounts reversed	(60)	-	-	(60)
Amounts used during the period	-	-	(299)	(299)
Foreign currency retranslation adjustment	5	58	47	110
Balance at 30 June 2010	<u>114</u>	<u>577</u>	<u>405</u>	<u>1,096</u>

Non current liabilities

	Long service leave €000	Lease reinstatement €000	Onerous contracts €000	Total €000
Balance at 1 January 2010	234	441	1,038	1,713
Transferred to current liabilities	(129)	-	-	(129)
Charged / (credited) to the income statement:				
- Additional provisions recognised	-	26	-	26
- Unused amounts reversed	-	-	(3)	(3)
Amounts used during the period	-	-	(17)	(17)
Foreign currency retranslation adjustment	21	-	-	21
Balance at 30 June 2010	<u>126</u>	<u>467</u>	<u>1,018</u>	<u>1,611</u>

Long service leave

This provision represents the amounts provided to 30 June 2010 in respect of the long service leave entitlements of Australia employees under the provisions of relevant Australian state legislation. The long service leave liability is measured as the present value of expected future payments to be made in respect of services rendered up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows. The timing and amount of long service leave cash outflows are primarily dependent on when staff employed at the balance sheet date avail of their entitlement to leave and their expected salaries at that time. As of 30 June 2010 and 31 December 2009, it was expected that cash outflows would occur primarily within the following three years.

20. Provisions (continued)

Lease reinstatement

Included in this category are amounts provided by the Group for the reinstatement of properties held under operating leases to their original condition when the leases were taken out. These costs are generally provided for over the period of the relevant leases. The timing and amount of lease reinstatement cash outflows is dependent on the expected dates on which leased premises will be exited and the existence of provisions in the lease contracts requiring reinstatement. Approximately half of the lease reinstatement cash flows are expected to occur within one year and the bulk of the remaining cash outflows over the following two years, with some cash flows expected to occur over the next 30 years as longer term leases are not renewed.

Onerous contracts

The onerous contracts provision primarily relates to operating leases where the Group is not occupying properties for which it still has a present and future obligation to make lease payments. The provision represents the future expected net cash outflows under these leases discounted at an interest rate appropriate to the timing of the expected net cash outflows. Future cash outflows in respect of onerous contracts are dependent on the relevant lease expiry dates and the timing of break provisions in the lease contracts. It is expected that the provisions will unwind over a 25 year period.

21. Borrowings

The Group had the following borrowings at 30 June 2010:

Current liabilities

	30 June 2010	31 December 2009
	€000	€000
Secured non-recourse bank loan	4,629	4,165
Loans from Sportsbet non-controlling shareholders	2,296	-
Finance leases	975	858
	<u>7,900</u>	<u>5,023</u>

Non current liabilities

	30 June 2010	31 December 2009
	€000	€000
Secured non-recourse bank loan	5,786	7,288
Loans from Sportsbet non-controlling shareholders	601	3,181
Finance leases	660	1,029
	<u>7,047</u>	<u>11,498</u>

In accordance with the Shareholders' Deed between the Company and the non-controlling shareholders of Sportsbet and the Shareholder Loan Deed between Sportsbet and the non-controlling shareholders, an amount of €2,296,000 of the loans due from the Sportsbet non-controlling shareholders was repaid in August 2010.

21. Borrowings (continued)

The borrowings at 30 June 2010 are further analysed as follows:

	Currency	Nominal interest rate (including facility fee)	Counterparty	Year taken out	Year of maturity	Face value €000	Carrying amount €000
Secured non-recourse bank loan	AUD	9.05%	National Australia Bank	2009	2012	10,415	10,415
Loans from Sportsbet non-controlling shareholders	AUD	Nil	Non-controlling shareholders holding 39.2% of the share capital of Sportsbet	2009	2016	3,274	2,897
						13,689	13,312

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

	Currency	Nominal interest rate (including facility fee)	Counterparty	Year taken out	Year of maturity	Face value €000	Carrying amount €000
Secured non-recourse bank loan	AUD	7.89%	National Australia Bank	2009	2012	11,453	11,453
Loans from Sportsbet non-controlling shareholders	AUD	Nil	Non-controlling shareholders holding 49.0% of the share capital of Sportsbet	2009	2016	3,682	3,181
						15,135	14,634

Both the secured non-recourse bank loan and the non-controlling shareholder loans were taken out by the Group to part fund the acquisition of IAS. The loans from the 39.2% (31 December 2009: 49.0%) non-controlling shareholders in Sportsbet are non-interest bearing. A discount of €377,000 (31 December 2009: €501,000), representing the difference between the nominal value of the loans of €3,274,000 (31 December 2009: €3,682,000) and their fair value, has been included in the capital contribution reserve in the amount of €210,000 (31 December 2009: €256,000) and in non-controlling interest in the amount of €167,000 (31 December 2009: €245,000). A discount rate of 5.0% was used in the calculation of the fair value.

On 12 February 2010, an amount of €750,000 (AUD1,179,000) was repaid by the Group to a non-controlling shareholder of Sportsbet upon the Group's acquisition of that shareholder's 9.8% interest in Sportsbet. The loan was replaced by a loan from Paddy Power plc to Sportsbet of the equivalent AUD amount.

Security and restrictions

The National Australia Bank loan is secured by a first ranking fixed and floating charge over all the assets of Sportsbet and is non-recourse to Sportsbet's shareholders.

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

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

21. Borrowings (continued)

Finance lease liabilities

The finance lease liability obligations at 30 June 2010 are analysed as follows:

Payable	Future minimum	Interest	Present value of
	lease payments	payable	minimum lease
	€000	€000	payments
			€000
Within one year	1,117	142	975
Between one and five years	710	50	660
In more than five years	-	-	-
	1,827	192	1,635

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

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

22. Commitments and contingencies

(a) Guarantees

The Group has working capital overdraft facilities of €15.5m (31 December 2009: €14.8m) 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 30 June 2010 was £16,000,000 (euro equivalent of €19,573,000) (31 December 2009: £16,000,000 and euro equivalent of €18,016,000). No claims had been made against the guarantee as of 30 June 2010 (31 December 2009: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Isle of Man Limited, and is partly secured by a cash deposit of €18,034,000 (31 December 2009: £8,015,000 (euro equivalent €9,025,000)) over which the guaranteeing bank holds a floating charge (see also Note 15). 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 30 June 2010 was €300,000 (31 December 2009: €300,000). No claims had been made against the guarantee as of 30 June 2010 (31 December 2009: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Bookmakers (Malta) Limited. The fair value accounting impact of this guarantee is deemed to be immaterial.

The Australian corporate sports bookmaking licences issued to Sportsbet and IAS requires those companies to hold sufficient cash funds to cover monies owed to customers by those companies. At 30 June 2010, the total value of customer balances attributable to the Australia operating segment was €18,008,000 (AUD25,937,000) (31 December 2009: €15,008,000 (AUD24,025,000)) and the combined cash and cash equivalent balances held by Sportsbet and IAS at that date totalled €33,428,000 (AUD48,146,000) (31 December 2009: €19,114,000 (AUD30,598,000)).

The Australia operating segment had €1,445,000 (AUD2,081,000) of cash-backed bank issued guarantees outstanding at 30 June 2010 (31 December 2009: €1,581,000 (AUD 2,531,000)), comprised as follows:

- amounts of €278,000 (AUD400,000) guaranteed to the Northern Territory Racing and Gaming Authority. During the six months ended 30 June 2010, €17,000 (AUD600,000) of this guarantee (which stood at €500,000 (AUD800,000) at 31 December 2009) was released as a result of combining both Australian businesses under Sportsbet's license. An additional €139,000 (AUD200,000) was guaranteed to the Northern Territory Racing and Gaming Authority during the six months ended 30 June 2010; and
- guarantees of €1,028,000 (AUD1,481,000) (31 December 2009: €925,000 (AUD1,481,000)) outstanding in respect of rental and other property commitments and a €139,000 (AUD200,000) (31 December 2009: €125,000 (AUD200,000)) guarantee issued to Sportsbet's outsourced payroll services provider.

22. Commitments and contingencies (continued)

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

(b) Capital commitments

Capital expenditure contracted for at the statement of financial position date but not yet incurred (excluding expenditure on business combinations) was as follows:

	30 June 2010	31 December 2009
	€000	€000
Property, plant and equipment	2,211	3,055
Intangible assets	446	121
	2,657	3,176

(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:

	30 June 2010		31 December 2009	
	Annual commitment	Total commitment	Annual commitment	Total commitment
	€000	€000	€000	€000
Within 1 year	2,439	2,439	2,402	2,402
Between 2 and 5 years	1,548	4,457	1,487	4,758
After 5 years	12,436	171,095	11,236	158,432
	16,423	177,991	15,125	165,592

23. Related parties

There were no transactions with related parties during the six months ended 30 June 2010 or 30 June 2009 or the year ended 31 December 2009 that materially impacted the financial position or performance of the Group.

24. Events after the reporting date

Dividends

In respect of the current period, the directors have declared an interim dividend of 25.0 cent per share (2009: 19.5 cent per share) which will be paid to shareholders on 24 September 2010. This dividend has not been included as a liability in these condensed consolidated interim financial statements. The proposed dividend will be payable to all shareholders on the Company's register of members on 3 September 2010. The total estimated dividend to be paid amounts to €1,028,000 (2009: €9,294,000).

Purchase of licensed bookmaking business by GB retail

On 20 July 2010, the Group acquired five licensed bookmaking retail shops in the London area of the UK from the administrators of Roar Betting Limited.

Payment of deferred consideration for 51% acquisition of Sportsbet

On 18 August 2010, the Group paid the non-controlling shareholders of Sportsbet an amount of €7.0m (AUD10.0m) in respect of deferred consideration for the Group's initial 51% acquisition of Sportsbet (see Note 12). The payment followed confirmation that the relevant profitability target set for the financial year ended 30 June 2010 had been achieved by Sportsbet.

Independent Review Report to Paddy Power plc

Introduction

We have been engaged by the Company to review the condensed consolidated interim financial statements for the six months ended 30 June 2010 which comprise the condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of financial position, condensed consolidated interim statement of cash flows, condensed consolidated interim statement of changes in equity and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 ('the TD Regulations') and the Transparency Rules of the Republic of Ireland's Financial Regulator. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly report in accordance with the TD Regulations and the Transparency Rules of the Republic of Ireland's Financial Regulator.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements for the six months ended 30 June 2010 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Republic of Ireland's Financial Regulator.

KPMG

Chartered Accountants

Dublin

24 August 2010