Paddy Power plc

ANNUAL REPORT 2009

REPORTING ON A SHOESTRING!

RECESSIONARY WINDS CREATED CHALLENGES FOR BUSINESSES IN 2009. AMONGST MANY RESPONSES AT PADDY POWER, ORDERS WERE ISSUED TO MANAGE COSTS WITH MILITARY PRECISION. FOR THE ANNUAL REPORT, THIS KINDA RULED OUT OUR PLAN TO SHOWCASE OUR NEW AUSTRALIAN BUSINESS ON LOCATION WITH SUN DRENCHED MODELS ON BONDI BEACH. STILL, IF WE HAD TO DO SOMETHING ON A SHOESTRING BOOT CAMP STYLE, WE WERE STILL DETERMINED TO HAVE SOME FUN. A TRIP TO THE DUSTY TOY BOX IN THE PADDY POWER ATTIC SOLVED OUR PROBLEMS AND WE ENLISTED THE HELP OF OUR BRAVE PLASTIC ACTION HERO AND HIS COMPATRIOTS TO RECREATE SOME OF 2009'S MORE MEMORABLE MOMENTS, OR "2009'S SECRET SPECIAL MISSION ORDERS" AS OUR STAR WOULD SAY.

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DIRECTORS AND OTHER INFORMATION

Directors
Nigel Northridge *Chairman*
Patrick Kennedy *Chief Executive*
Breon Corcoran *Managing Director - Non Retail and Development*
Jack Massey *Finance Director*
Tom Grace *Non-executive Director*
Fintan Drury *Non-executive Director*
Stewart Kenny *Non-executive Director*
Jane Lighting *Non-executive Director*
Pádraig Ó Ríordáin *Non-executive Director*
David Power *Non-executive Director*
Brody Sweeney *Non-executive Director*

Company Secretary and Registered Office
David Johnston
Airton House, Airton Road, Tallaght, Dublin 24

Stockbrokers
Goodbody Stockbrokers
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Investec
2 Gresham Street, London, EC2V 7QP

Legal advisers
Arthur Cox
Earlsfort Centre, Earlsfort Terrace, Dublin 2

Auditor
KPMG
1 Stokes Place, St Stephen's Green, Dublin 2

Principal bankers
Allied Irish Banks plc
100-101 Grafton Street, Dublin 2

Lloyds TSB plc
Bailey Drive, Gillingham Business Park, Kent, ME8 0LS

Barclays Bank
Barclays House, Victoria Street, Douglas, Isle of Man, IM99 1AJ

Registrars
Computershare Investor Services (Ireland) Limited
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18

Registered number
16956

2009 GROUP FINANCIAL HIGHLIGHTS

TOTAL AMOUNTS STAKED*

€2,752m

+31%

2008: €2,101m

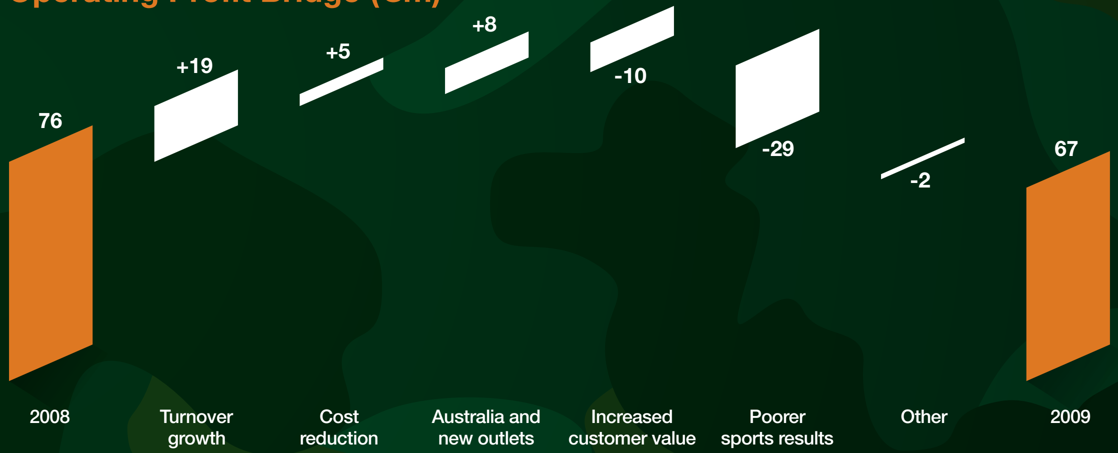
TOTAL INCOME

€295.9m

+4%

2008: €283.7m

Operating Profit Bridge (€m)



ADJUSTED EARNINGS PER SHARE**

€1.219

-13%

2008: €1.405

DIVIDENDS PER SHARE

58.40c

+8%

2008: 54.00c

* Amounts staked by customers represents amounts received in respect of bets placed on sporting events that occurred during the year 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 year end, net winnings on fixed odds and online casino gaming activities, and commission income and tournament fees earned from peer to peer games, financial spread betting and business-to-business services.

** Adjusted earnings per share in respect of 2008 is calculated excluding an exceptional gain of €2.5m post-tax.

CHAIRMAN'S STATEMENT

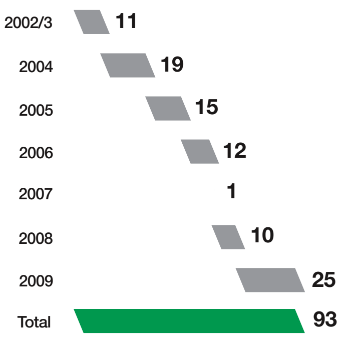
Dear Shareholder,

2009 Business Development

I am delighted to report on a highly successful year in the evolution of Paddy Power. In 2009 your Group made its first investments outside Europe, securing a number one position in the highly attractive Australian online corporate bookmaker market through two acquisitions. In addition, we opened 25 new shops in the UK, our largest ever number in a single year, and maintained positive momentum in UK Retail profits. Finally, we established an important new revenue stream from business-to-business activities with PMU, Europe's largest betting organisation, secured as our first client.

UK Retail Estate

Shops by year of opening



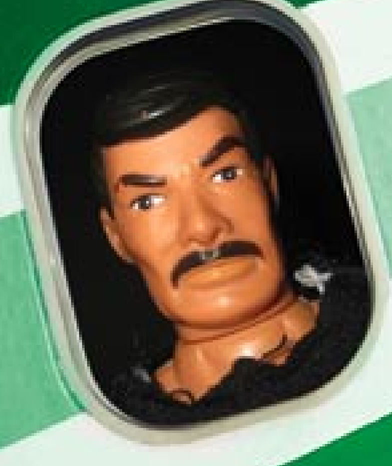
2009 Financial Results

From an operational perspective, as expected, the Group faced a number of headwinds in 2009. Further contraction in the UK and Irish economies impacted our customers. This led Paddy Power to step up its long standing focus on providing better value than the competition. Since mid-2008 we have traded more aggressively than ever before, with an additional range of 'stand out' offers at a gross cost of approximately €20m in a full year (or an incremental cost of approximately €10m in 2009 versus 2008). This was a key driver of organic turnover growth in 2009 of 14% in constant currency.

On top of our increased concessionary activity, our customers in the UK and Ireland enjoyed an exceptionally punter-friendly run of sporting results, particularly in comparison with 2008. This reduced the gross win percentage by a further 1.5% compared to 2008 and 0.9% below our normal expectations. A run of adverse results is a normal occupational hazard for bookmakers and accounted for substantially more than the €9m reduction in operating profit to €67m. The Group continues to be highly cash generative, maintaining a strong net cash balance of €75m at the year end, notwithstanding the significant investments (€49m) and cash returns to shareholders (€26m) made in 2009.

€m	2009	2008	% Change	% Change in Constant Currency ('CC')
Amounts staked	2,752	2,101	+31%	+36%
Sportsbook gross win %	*8.5%*	*11.0%*		
Gross win	**295.9**	**283.7**	**+4%**	**+8%**
Gross profit	258.0	253.7	+2%	+5%
Operating costs	(191.3)	(178.0)	+7%	+11%
Operating profit	**66.7**	**75.7**	**-12%**	**-8%**
Profit before tax	**67.2**	**79.0**	**-15%**	**-11%**
EPS, adjusted diluted	120.7 cent	137.8 cent	-12%	
Dividends	58.4 cent	54.0 cent	+8%	
Net cash	**€75m**	**€77m**		

(Percentage changes in constant currency reflect the foreign currency content in 2008 translated at 2009 exchange rates)
(2008 results above and throughout this statement, the Chief Executive's Review and the Operating & Financial Review exclude an exceptional gain of €2.7m pre-tax)

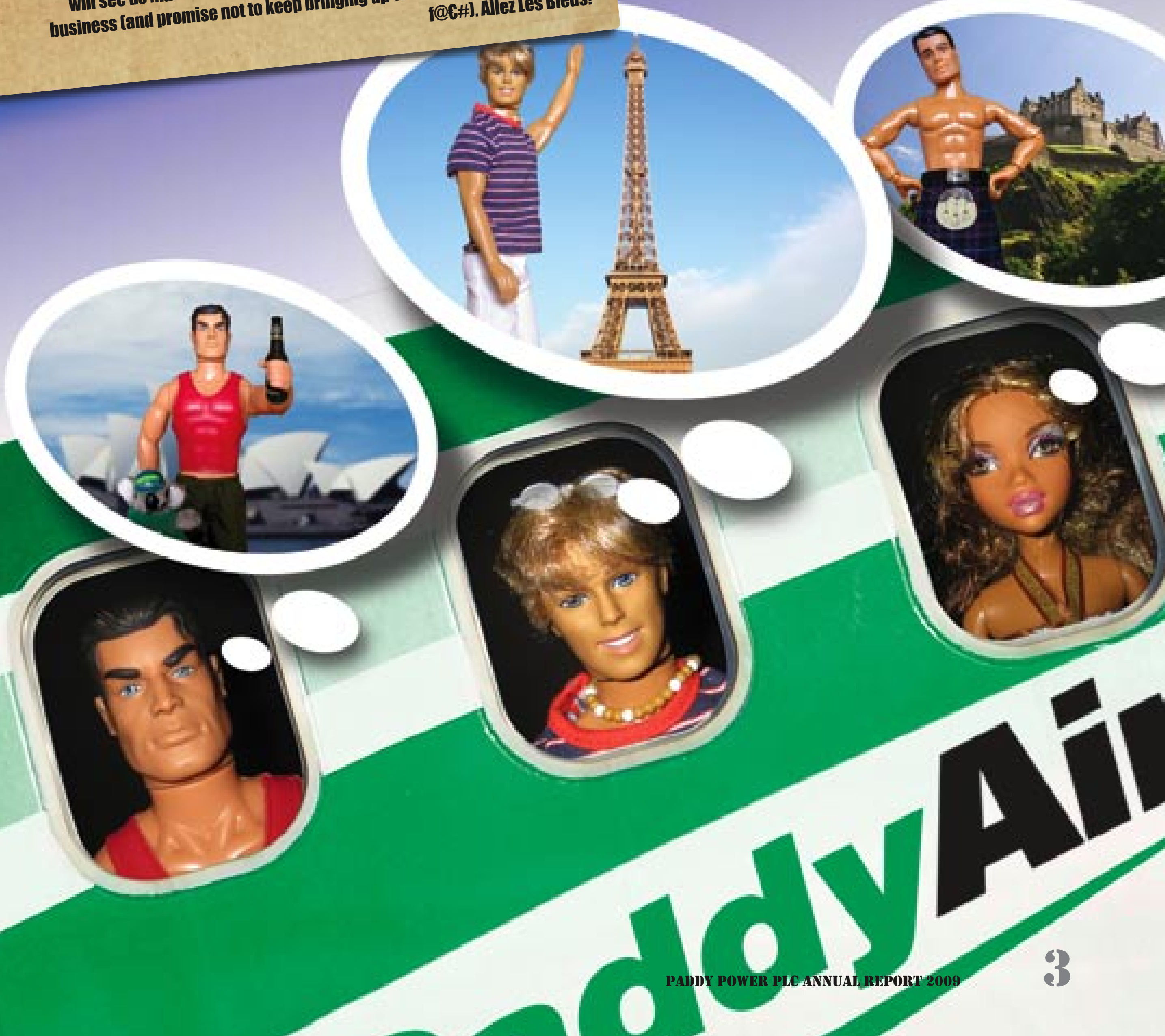


MISSION 01

SPREAD YOUR WINGS

Get ready for take off........In May, we announced our entry into the Australian online and telephone betting market through the acquisition of 51% of Sportsbet, the leading fixed odds bookie brand Down Under.

With hardly enough time to throw a shrimp on the barbie, Sportsbet acquired IAS, one of its leading competitors, which consolidated its position as Australia's biggest fixed odds bookie. In November, we announced our entry into the French online betting market through a partnership with PMU, which will see us manage risk and pricing for PMU's new online sports betting business (and promise not to keep bringing up Thierry Henry, the cheating f@€#). Allez Les Bleus!



strong net cash balance of €75m

Taxation

During 2009, the Irish government postponed its planned doubling of the retail betting tax to 2% of turnover. This postponement is 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'.

We have engaged with various Government departments involved in this study highlighting that:

- Online and telephone betting represent just a fifth of the total Irish bookmaking market;
- There are fundamental difficulties in successfully enforcing such a tax;
- As a result, a tax would materially disadvantage compliant indigenous operators.

Such a tax would therefore raise only modest revenue, would be costly to implement, would be very difficult to enforce effectively and could potentially lead to the loss of Irish jobs and tax revenues. Nonetheless, we recognise the challenges faced by the Government and never had an objection to paying tax on the internet betting of Irish customers, assuming that any tax is enforceable on all internet bookmakers and betting exchanges providing services to the Irish market.

The Board

Jane Lighting joined the board as a non-executive director last September. Jane is a former chief executive of Five, the UK's fifth terrestrial television channel, and a current non-executive director of Trinity Mirror Group plc. As Paddy Power continues to grow its business in the UK, Jane brings substantial knowledge and experience of that market, as well as specific media expertise.

Dividends

Despite the reduction in the Group's profitability due to adverse sports results, the Board is confident of the underlying performance of, and prospects for the Group. The Board is proposing to increase the final dividend by 10% to 38.9 cent per share. Further to the 5% increase in the interim dividend, this would bring the total dividend in respect of 2009 to €28.0m or 58.4 cent per share, an increase of 8% on the 54.0 cent paid in respect of 2008.

Outlook

Trading in the year to date has been satisfactory. Adverse weather in January led to racing cancellations and impacted turnover but this was offset by favourable sports results. The Board remains confident of the Group's prospects and I look forward to updating you on progress at our AGM in May.

Nigel Northridge
Chairman

1 March 2010

CHIEF EXECUTIVE'S REVIEW

acquisitions of Sportsbet and IAS in Australia

Non-Irish customer EBIT as a % of Group EBIT*

H2 2004 €2.4m 19%

H2 2009** €21.6m 61%

Online EBIT as a % of Group EBIT

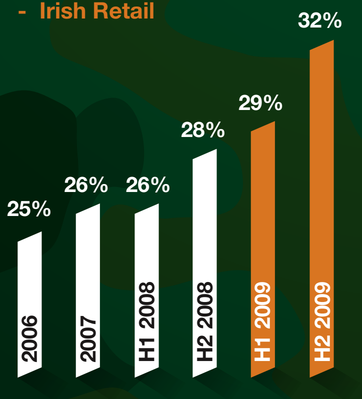
H2 2004 €5.2m 40%

H2 2009** €29.9m 85%

* *Online and telephone operating profit by geography based on average divisional profit margins*

** *Pre once-off costs in Australia*

Paddy Power Market Share - Irish Retail



Source: Irish Revenue Betting Duty Tax Return Data plus estimate for final Q4 2009 update

2009 has been a year of significant development for Paddy Power. Our continued investment in product, value and our unique brand saw us grow our turnover and market share across all of our channels. At the same time, we expanded the Group substantially on several fronts: the acquisitions of Sportsbet and IAS in Australia, the opening of 25 new shops in the UK and seven in Ireland, and the establishment of a new business-to-business revenue stream with PMU, the world's second largest betting organisation secured as the first client.

The shape and profile of the Group continues to change as a consequence, and over the last five years has moved dramatically. In the second half of 2004, 19% of Group operating profit was earned from customers outside Ireland, whilst 40% of Group profit came from the internet channel. These figures had jumped to 61% and 85% respectively by the second half of 2009.

Notwithstanding that success, however, the strategic focus and growth prospects of the Group are not confined to our international and internet activities: Paddy Power is today well positioned to grow its market share and ultimately its profitability across all of its business activities.

Our Irish and UK Retail businesses have met the challenges of the difficult economic conditions head-on over the last eighteen months with a clear strategy of compelling value for consumers, combined with tight cost management. Results in that period give us confidence that both businesses will emerge from the downturn stronger and with an increased market share. We have grown our share substantially in Ireland, to 32% in the second half of 2009 as compared to a steady 25%-26% in the years prior to the downturn. This has been driven by a more price conscious consumer responding to the value and quality of our offer, coupled with the closure of shops by our competitors.

The Irish Government's postponement of its planned doubling of the betting tax to 2% of turnover from May 2009 has helped some shops in the industry avoid closure and saved jobs. Nonetheless we expect the number of shops in the industry to reduce further as profits contract due to a tighter economy and the more competitive trading terms introduced in 2008 across the sector. We estimate that 120 shops have closed over the last 18 months leaving approximately 1,230 shops currently in Ireland. As a result of the standout value that we offer, along with great product and customer service, our turnover per shop is more than twice the average of our competitors, and we expect our share of the market to increase further.

CHIEF EXECUTIVE'S REVIEW
CONTINUED

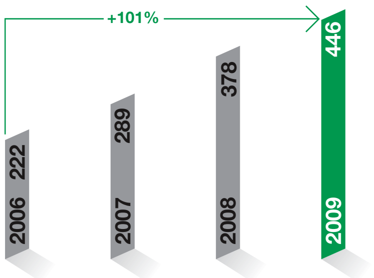
In the UK, we are taking advantage of the positive environment for investing on the High Street, in terms of both the choice and cost of locations, to develop a top quality chain for the long term. In addition to our development resources in London, which we further expanded during the year, we now also have development teams in both Glasgow and Manchester, enabling us to search out the best locations, not just in those cities but also across Scotland and the North West and Midlands of England. We opened 25 units in 2009, including units outside London for the first time, adding further to our knowledge for future opening and operating decisions, and taking our UK estate to 93 shops. However, we still only have 1% of the UK Retail market (by shop numbers), which indicates the extent of the opportunity for us. We remain on track to achieve our target of at least 150 shops in the UK by 2011, and don't intend to stop there!

We expect operating profit from UK Retail to increase significantly as we benefit from increased estate profitability from new and maturing shops, lower per shop depreciation and increased scale to cover central overheads and facilitate further cost reductions. The financial potential of this business is clear from last year's results: the 25 units we opened in 2009 were EBITDA positive, and the previously opened units generated an EBITDA per shop of £120,000, highlighting the very attractive and relatively fast returns on capital available, given an expected average capital cost per new unit of £250,000.

Our telephone business does face cannibalisation from the internet and pressure on the average stake per bet as a consequence of the economic slowdown. However, as in all of our businesses, we have further improved our value offering for our customers, as well as our product range and our cost efficiencies. As a result, although our Irish telephone business remains challenged, we are substantially increasing our share of the large UK market: very few telephone operators experienced any growth last year, let alone bet volume growth of 37%.

Strong structural fundamentals are driving and will continue to drive growth in the online market. Broadband penetration continues to grow, but has some way to go, and the roll out of super fast broadband in the UK and elsewhere over the next number of years – fast enough to watch live high definition TV – will drive further online participation. Meanwhile, despite the economic slowdown, recent research has shown that broadband is one of the very last items consumers are prepared to do without if they have to cut back. The overall market growth, coupled with increased market share for Paddy Power, is driving and will continue to drive strong growth in the size of our online business: our active customer base has more than doubled in the last three years.

Online Active Customers ('000)



We are also very excited by the potential for our new Australian operations. The acquisition of Sportsbet, coupled with the subsequent buyout of IAS, is a very attractive entry point for Paddy Power into the fast growing Australian online market.

NAME

No.

MISSION 02

BE FEARLESS (LIKE A TIGER)

Tiger Woods' luck ran out in November with the curious incident involving a 4x4 and a fire hydrant. For us it started a few months earlier.

In August, we took the recklessly courageous step of paying out over €1 million on Tiger Woods winning the USPGA at the half way point of the tournament. At that time Tiger was four shots clear at the top of the leader board and was the red-hot 1/5 favourite to retain the trophy. Unfortunately for us, Tiger failed to produce his trademark magic in the final two rounds, resulting in a record breaking seven-figure cock-up for Paddy Power and a very big smile on the face of Korean rookie, YE Yang. It pays to bet with Paddy Power. When we get it wrong - we get it *really* wrong.

CHIEF EXECUTIVE'S REVIEW
CONTINUED

Australia is a substantial regulated betting market, with a high gambling spend per capita amongst its population of 21 million. Online is growing fast, as it benefits from the same macro trends which we have witnessed in Ireland and the UK in recent years as well as positive regulatory changes. The recent interim report of the Productivity Commission recommended the repeal of the Interactive Gambling Act, and the managed liberalisation of online gaming. Whilst the final report has not yet been issued, similar recommendations would be likely to lead to the introduction of both online gaming and betting-in-running in the coming years.

In the existing marketplace, the corporate (i.e. non pari-mutuel) operators, of which Sportsbet has the best known brand and the largest market share, are more price aggressive, and are increasing their share of this growing market. The business has continued to experience very strong growth since we acquired it, and should continue to benefit from the combination of its strong brand, excellent management team, the expertise and experience provided by Paddy Power and a positive external backdrop.

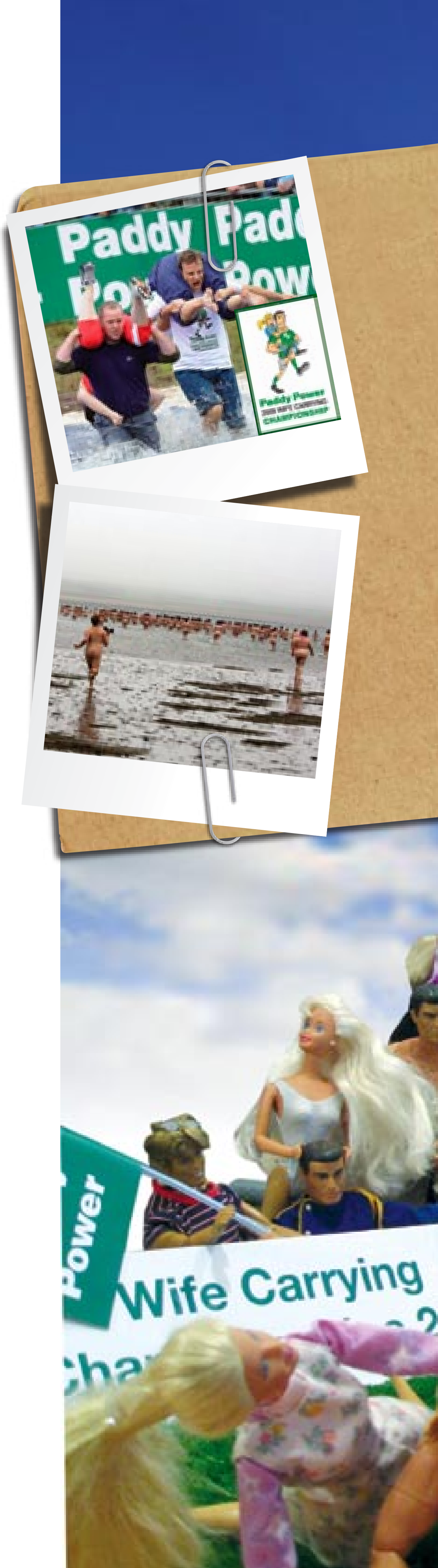
Our new business-to-business division, which we launched late last year with PMU as its first client, also has strong prospects. This provides us with an alternative route to enter a new market, in particular where our brand might be less well known, in a manner that puts less capital investment at risk. Online betting is likely to be licensed in additional international markets in the coming years, and we will seek to take advantage of such liberalisation, capitalising on our investment in people, expertise and particularly in our proprietary pricing and risk management technology.

Looking to 2010 and beyond, we will continue to invest in our brand, our product and in enhanced value for our customers, which in turn will lead to continued growth in the market share of our businesses. The businesses will also benefit from their particular market circumstances, as outlined above. Last, but definitely not least, the team at Paddy Power is rightly recognised as the best in the sector and the achievements in the last 12 months are further evidence of that. The calibre of our people, our ongoing investments and our strong market positions enable us to look forward to 2010 and beyond with confidence.

Patrick Kennedy

Patrick Kennedy
Chief Executive

1 March 2010



NAME

No.

MISSION 03

GET IN SHAPE

In July, we sponsored the 2009 Irish Wife Carrying Championship in the picturesque village of Sneem, Co. Kerry.

The fun race attracted a record number of entrants and was eventually won by the defending champions, John O'Shea and Aoife Desmond. We also found time during the summer to team up with the organizers of the 'Dip in the Nip', Ireland's first ever mass skinny dip. The location was kept a closely guarded secret, which prompted us to offer odds on which beach would host the charity swim in aid of Action Breast Cancer. In the end, 100 fearless women took part in the naked swim at Lissadell Strand, Co. Sligo helping to raise much needed funds and awareness for the deserving charity.

OPERATING & FINANCIAL REVIEW

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

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

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

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

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

Sporting Results and Trading

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

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

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

MISSION 04

EMBRACE TECHNOLOGY

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

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

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

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

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

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

ONLINE DIVISION (Excluding Australia)

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

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

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

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

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

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

55% increase in our online sportsbook bet volumes

(A) Sportsbook

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

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

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

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

(B) Gaming & Other

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

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

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

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

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

MISSION 05

THINK ORGANIC

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

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

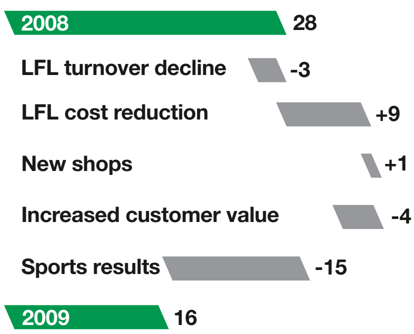
RETAIL

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

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

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

Irish Retail Operating Profit Bridge (€m)



IRISH RETAIL DIVISION

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

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

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

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

UK RETAIL DIVISION

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

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

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

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

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

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

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

AUSTRALIA DIVISION

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

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

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

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

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

sportsbet.com.au IASbet.com

NAME No.

MISSION 06

BE DIFFERENT - STAND OUT

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

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

UK telephone active customers up 41% to 40,849

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

TELEPHONE DIVISION (Excluding Australia)

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

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

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

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

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

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

Trading & Risk Management

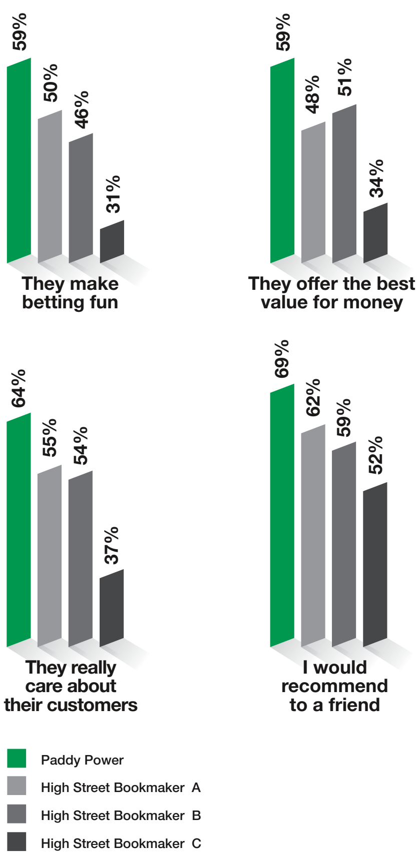
Investment in our Trading & Risk Management function continues, aimed at both product development and operational efficiency. This facilitated the handling last year of up to 6,000 events per week, comprised of over 30,000 markets, across an expanded range of 72 sports.

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

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

Customers Notice The Difference

Survey of Online Customers



(Source: TNS, September 2009)

Brand

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

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

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

OPERATING & FINANCIAL REVIEW
CONTINUED

Taxation

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

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

Cash Balances and Cash Flow

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

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

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

Patrick Kennedy	**Jack Massey**
Chief Executive	*Finance Director*

1 March 2010

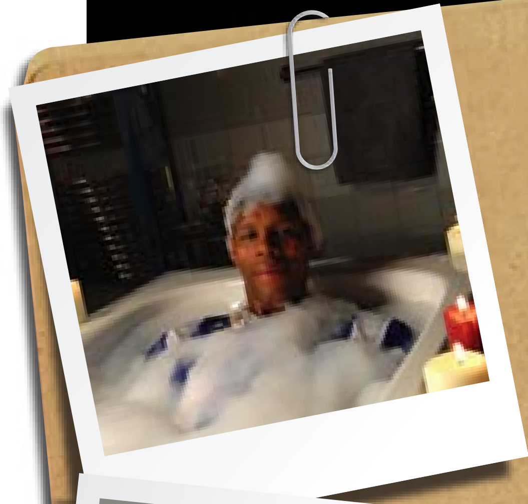
MISSION 07

BE GENEROUS

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

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

CORPORATE SOCIAL RESPONSIBILITY



Paddy Power appreciates that it has important responsibilities to its customers and the broader community, as well as to its employees and shareholders. The Group is committed to acting fairly and properly in its dealings with all stakeholders and the directors are cognisant of the significant impact that environmental, social and governance matters may have on our business. We have set out below brief overviews of some areas of particular focus for the Group.

Employees

Our people are pivotal to everything we do and we are fortunate to have such a range of talented people that epitomise our devotion to customer service, our dedication to product excellence and our brand values of 'fun, fair and friendly'.

The Group focuses heavily on employee communication, development and retention. In 2009, we continued to improve the employee appraisal process to bring greater focus to the personal development planning of employees, which saw an increase in targeted training for both junior and senior employees. We also want people to have a longer term stake in the Group's performance and have introduced schemes to encourage share ownership amongst employees. During 2009, we continued to focus on improving internal communications, by promoting usage of the staff intranet and increasing the frequency of meetings of our head office employee communications groups. In addition, we gather feedback from staff through employee surveys. We are committed to communications from the top down and our Chief Executive attends at employee consultation forums and at induction meetings for new head office staff.

We continued to invest heavily in our dedicated in-house recruitment function to source the next generation of management talent. In 2009, we improved our recruitment processes by increasing our adoption and usage of online and social networking recruitment tools and by continuing to enhance our dedicated careers website 'www.workwithpaddy.com'.

Opportunities for employment, training and development are determined on the basis of each individual's ability and performance record, irrespective of their gender, ethnic origin, nationality, age, religion, sexual orientation or disability. The number of staff employed in the Group increased by 21% over the course of the year to 2,276, including our Australian business. The growth of our retail estate in the UK in 2009, coupled with greater presence of non retail employees in our London offices, has seen the number of people working for the Group in the UK rise by 44% to 457 people. We anticipate that we will continue to grow our employee base as we aggressively expand our online, retail and business-to-business service offerings over the coming years.

MISSION 08

BROADCAST YOURSELF

It may have been a few years since Carlton Palmer's glory days at Sheffield Wednesday but, thanks to our new TV advertising campaign, the former striker was back on the box where he magically appeared in bathtubs on a quest to refund losing bets.

Carlton was joined by renowned jockey Richard Dunwoody and Liverpool legend, Bruce Grobbelaar, for a series of three TV commercials to promote our Money-Back Specials. The Carlton ad was voted by Football Punk magazine as being amongst the Top 20 most humorous events from the 2008/2009 football season.

Safety, Health and Welfare at Work Act 2005

Paddy Power is committed to the safety and well being of employees at work in compliance with the Safety, Health and Welfare at Work Act 2005. The Act imposes certain obligations on employers in respect of health and safety in the workplace. Appropriate measures have been taken to ensure that health and safety standards are complied with at all relevant locations and that all applicable Group companies meet the requirements of the Act. These measures include Safety Statements at all locations and training in health, fire and general safety for all new employees, conducted by our area trainers at the start of employees' induction training. All of our appointed contractors must submit an up to date Health and Safety Statement and proof of their public liability insurance before we award any contract. Prior to the commencement of any major works within the Group, the appointed contractor must submit a 'method statement' describing how the proposed works will be carried out safely. We service all of our essential emergency and fire alarm systems on a six-monthly basis to protect our staff and to ensure that we comply with relevant statutory regulations.

Responsible gambling

We strive to protect the small number of our customers who may have difficulties with gambling. For most people gambling is a harmless and fun leisure activity, however, if a customer does develop a problem with gambling, we actively refer them to the relevant experts who can help. Our close association with Gamcare, a registered UK charity and a leading authority on the provision of information, advice and practical help to promote responsible gambling, helps us to protect our customers. We also provide significant funding to Gamcare via agreed contributions to the Responsibility in Gambling Trust. All of our customer service agents are certified by Gamcare and undergo regular Gamcare training to ensure they offer the most professional service possible to those who might be suffering from a problem with gambling. We also display information about Gamcare in all of our shops.

We provide our customers with comprehensive information about problem gambling including recognising behaviour signs, the various forms of treatment available, relevant contact information, and advice on software to block access to gambling sites. This information is available in the responsible gambling section of all our websites, with a link to this section included on every page of the site.

We empower our customers to stay in control of their own gambling activity by allowing them to set limits on the maximum value and frequency of deposits to their account. In addition, we have strict processes in place to ensure that any customers who wish to go further and exclude themselves completely from transactions with us can do so. We offer this self exclusion option to our customers directly through our customer service agents and police it rigorously.

In Australia, we have implemented a Responsible Gambling Code of Conduct, which is continually reviewed to assist customers with difficulties that may arise from problem gambling.

moved from a ‘paper first’ to a ‘web first’ system

It is illegal for anyone under the age of 18 to bet with us and we take our responsibilities in this area very seriously. We use age verification software to carry out electronic checks whenever a potential customer is proposing to use a payment method that might be available to someone under 18 years of age and the public data infrastructure exists for us to complete such checks. We work closely with age verification software providers to help develop new and better ways of verifying the age of potential customers over the increasing range of payment methods available. We also recommend that our online customers install web filtering software if they share their computer with anyone under the age of 18. Staff in our betting shops are trained to be vigilant and not to accept bets from anyone under the age of 18, requesting reliable proof of age if they are in any doubt.

Environment

Paddy Power has a proactive approach to helping all its personnel conduct business in a manner that protects the environment. The Group encourages efficient use of resources, recycling wherever possible and is compliant with all relevant environmental legislation. The Group has introduced a complete waste management policy in its head office and retail shops and we now recycle almost 100% of all their waste. Examples of environmental initiatives in place during 2009 include:

- installation of long life energy efficient light bulbs in all new and refurbished shops and in place of old bulbs in other shops;
- use of more efficient, and lower cost, combined heat and power (‘CHP’) generated electricity in our shops;
- replacement of night storage heating in shops with lower electricity consumption split heating and cooling systems;
- ensuring that only eco-friendly cleaning products are used in our shops;
- reducing the level of packaging waste in respect of all cased goods and furniture;
- installation of more water efficient flushing systems in newly fitted shops to reduce water consumption; and
- running a charity-administered mobile phone and used inkjet cartridge re-cycling programme in our head office.

In addition, this year we joined the Carbon Disclosure Project, an investor sponsored scheme for collating company data on climate change issues. As part of the Group’s commitment to reduce its carbon footprint and to reduce the quantities of paper used, we also obtained shareholder approval in 2009 to move from a ‘paper first’ to a ‘web first’ system of shareholder communication.

CORPORATE SOCIAL RESPONSIBILITY CONTINUED

Community

Paddy Power believes that a responsible approach to developing relationships between companies and the communities they serve is a vital part of delivering business success. We maintain relationships with a large number of charitable organisations, ranging from those supporting the local communities in which our shops play a key role, through to national charities focusing on the welfare of specific groups. Our Charity Committee, which is comprised of employees from across the Group, has responsibility for maximising the effectiveness of the Group's charitable strategy and for the implementation and management of that strategy.

During the year, the Group spent a total of €321,564 on charitable donations (2008: €325,122) and was involved in a number of major charitable initiatives, some of which are further described below by the Charity Committee.

"At the start of 2009 we went back to school, well to college anyway. In January, we launched our partnership with Dublin City University Sports Academy through which we would help fund scholarship programmes for students with outstanding sporting talent and the potential to represent Ireland at the 2012 Olympics.

January was also the month we named the Irish Hospice Foundation as our 'Charity of the Year'. Numerous fund raising initiatives for them took place during the year, raising €100,000. The highlight was undoubtedly a sponsored parachute jump when 105 Paddy Power staff members took to the skies above Ireland and raised over €30,000. The Hospice Foundation also benefited from a very unusual race on Paddy Power Chase Day at Leopardstown when six leading national hunt jockeys traded their horses for space hoppers and bounced their way around the racecourse.

During the year, we also became involved with the organisers of the 'Dip in the Nip', the first ever national skinny dip. The original event, which was set up to raise funds for Breast Cancer Awareness, was abandoned due to concerns over Peeping Toms infiltrating the all female naked swim. The location of the new beach was kept a closely guarded secret and in the end 100 brave ladies dared to bear all in the secluded setting of Lissadell Strand in Co. Sligo.

In December 2009, we embarked on a crusade to clean up Dáil Éireann, the Irish parliament. The idea was sparked by the outpouring of 'most unparliamentary language' by Green Party backbencher Paul Gogarty during a heated discussion on social welfare cuts. We pledged to donate €1,000 to the Down Syndrome Centre each time the 'F word' is used in Dáil Éireann during 2010. It was only fair that we backdated the initiative to the beginning of the month and donated €2,000 to the Down Syndrome Centre in light of Mr Gogarty's indiscretions!

This is just a snapshot of some of our charity initiatives from last year. The bar was set high and we rose to the challenge. We believe we made a difference. Bring on 2010!"

MISSION 09

LAUGH IN THE FACE OF ADVERSITY

It seems just like yesterday that the dream of a place for Ireland in the 2010 World Cup Finals looked like becoming a reality.

That was until Thierry Henry with one wave of his Gallic hand smashed that dream into a million pieces. In typical Paddy Power fashion we immediately refunded all bets placed on Ireland to qualify for the World Cup and, proving that we don't hold a grudge, booked every poster site in the baggage hall in Dublin Airport where we ran advertisements welcoming all visitors to Ireland except for those called Thierry!

BOARD OF DIRECTORS

Executive directors

Patrick Kennedy (aged 40) is the Chief Executive. He joined the Group in an executive capacity in September 2005 and became Chief Executive on 1 January 2006. Patrick was already a Board member, having been appointed as a non-executive director in March 2004. Before joining Paddy Power, Patrick was Chief Financial Officer of Greencore Group plc, having previously been Group Development Director. Patrick has also worked with KPMG Corporate Finance both in Ireland and the Netherlands, and as a strategy consultant with McKinsey and Company Management Consultants in London, Dublin and Amsterdam. Patrick is also a non-executive director of Elan Corporation, plc.

Breon Corcoran (aged 38) is the Managing Director - Non Retail and Development. He joined the Group in April 2001 with responsibility for development of the non retail business. In May 2006, his role was expanded to include responsibility for new business development, strategy and acquisitions. He previously worked with JPMorgan and Bankers Trust. He is a graduate of Trinity College Dublin and holds an MBA from INSEAD. He was appointed to the Board in August 2004.

Jack Massey (aged 41) is the Finance Director. He joined the Group and was appointed to the Board in April 2006. He previously worked with ITG Europe, the European division of the NYSE quoted company, Investment Technology Group Inc., where he had been Chief Operating Officer since 2002. Jack joined ITG Europe in 1998 as Finance Director. Prior to that, he worked with Ulster Bank Markets as Head of Financial and Management Reporting and previous to that as a Manager with Arthur Andersen. He is a Fellow of Chartered Accountants Ireland and a graduate of University College Dublin.

Non-executive directors

Nigel Northridge (aged 54), Chairman, was appointed as a non-executive director in July 2003 and as Chairman from January 2009. Nigel spent 32 years with Gallaher Group plc in sales and marketing roles, becoming group chief executive in 2000, a position in which he oversaw significant growth in shareholder value, leading to the sale of the company in 2007 for £9.4 billion. Nigel is Chairman of Debenhams plc, Senior Independent Director of Aggreko plc and a non-executive director of Inchcape plc.

Tom Grace (aged 61) was appointed as a non-executive director in January 2006 and became senior independent director in January 2009. Tom was a partner with PricewaterhouseCoopers from 1983 to 2005, where he led the Insolvency Department from 1987 onwards. With 34 years experience in total at PricewaterhouseCoopers, Tom also worked in the audit and management consultancy divisions, principally in the area of financial advice. Tom is also well known as a former rugby international and is currently honorary treasurer of the Irish Rugby Football Union. He won 25 international rugby caps for Ireland between 1972 and 1978 and captained the side on eight occasions. He also toured as a British and Irish Lion in 1974.

Fintan Drury (aged 51) is Chairman of sports and conference management company PLATINUM ONE Ltd, of global renewable energy company, Mainstream Renewal Power and of OneVision, the provider of commercial Digital Television services in Ireland. Fintan founded Drury Communications in 1988 and grew the company into the market leader in corporate communications in Ireland prior to selling it in 1999. He joined the Board of Paddy Power in August 2002, and was Chairman of the Group from May 2003 to December 2008.

Stewart Kenny (aged 58) was a co-founder of Paddy Power in 1988. He has considerable experience in the betting industry, training with Ladbrokes in London for two years before establishing a chain of betting shops, Kenny O'Reilly Bookmakers. He sold that business to Coral in 1986 and subsequently re-entered the business, opening ten betting shops between 1986 and 1988. He was Group Chief Executive from 1988 to 2002, and Chairman from 2002 to 2003.

Jane Lighting (aged 53) was appointed as a non-executive director in September 2009. She was Chief Executive of Five, the UK's fifth terrestrial television channel, until 2008. Prior to joining Five in 2003, Jane was Chief Executive of Flextech plc. Jane is a Trustee and Fellow of the Royal Television Society and a Council Member of the British Screen Advisory Council and is a non-executive director of Trinity Mirror Group plc.

Pádraig Ó Ríordáin (aged 44) was appointed as a non-executive director in July 2008. Pádraig is Managing Partner of Arthur Cox, a leading Irish law firm. He studied law in the National University of Ireland and Harvard Law School and has practiced in New York and Dublin. In addition to his role in managing Arthur Cox, Pádraig advises a range of public companies, private companies and state related entities on their transactional and business issues and has a specialist expertise in regulated industries. In 2009, he was named European Managing Partner of the Year at the Lawyer European Awards and the British Legal Awards. He is also a non-executive director of TVC Holdings plc.

David Power (aged 63) co-founded Paddy Power in 1988 and has been a non-executive director since that date. He merged a significant proportion of the betting shops controlled by him and trading as Richard Power Bookmakers with Paddy Power in 1988. He is an on-course bookmaker.

Brody Sweeney (aged 49) was appointed as a non-executive director in February 2005. He is the founder of O'Brien's Irish Sandwich Bars and of Connect Ethiopia, the Irish business charity.

Secretary

David Johnston (aged 37) was appointed as the Company Secretary in March 2007. A solicitor, David was previously company secretary and chief legal counsel of Telefónica O2 Ireland, the mobile telecommunications operator, and prior to that was in private practice with McCann FitzGerald Solicitors.

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2009.

Principal activities
The Group provides sports betting services through a chain of licensed betting offices ('Paddy Power Bookmaker'), together with online interactive betting services ('paddypower.com') and telephone betting ('Dial-a-Bet'). It provides online gaming services principally through 'paddypower.com', 'paddypowercasino.com', 'paddypowerpoker.com' and 'paddypowerbingo.com', and financial spread betting services through 'paddypowertrader.com'. It provides these services principally in the United Kingdom and Ireland. In 2009, the Group entered the Australian internet and telephone sports betting markets with the acquisition of interests in Sportsbet Pty Limited ('Sportsbet') and International All Sports Limited ('IAS').

Results
The Group's profit for the year of €58.5m reflects a decrease of 15% on the 2008 profit figure of €68.8m. Basic earnings per share amounted to 121.9 cent compared with 145.7 cent in the previous year, a decrease of 16%. The financial results for the year are set out in the consolidated income statement on page 49. Total equity attributable to Company equity holders at 31 December 2009 amounted to €158.5m (2008: €127.2m).

Dividends
An interim dividend amounting to 19.50 cent per share was paid during 2009. The directors recommend that a final dividend of 38.90 cent per share (2008: 35.40 cent per share), amounting to €18.7m (2008: €16.8m), be paid on 21 May 2010 to shareholders registered at close of business on 12 March 2010. This would make a total distribution of profit to shareholders of €28.0m in respect of the year ended 31 December 2009 (2008: €25.7m).

Business review and key performance indicators
A detailed commentary incorporating key performance indicators by channel including like-for-like growth, active customers, average bet values, bet volumes, gross win and gross profit is contained in the Operating & Financial Review on pages 10 to 22.

NAME

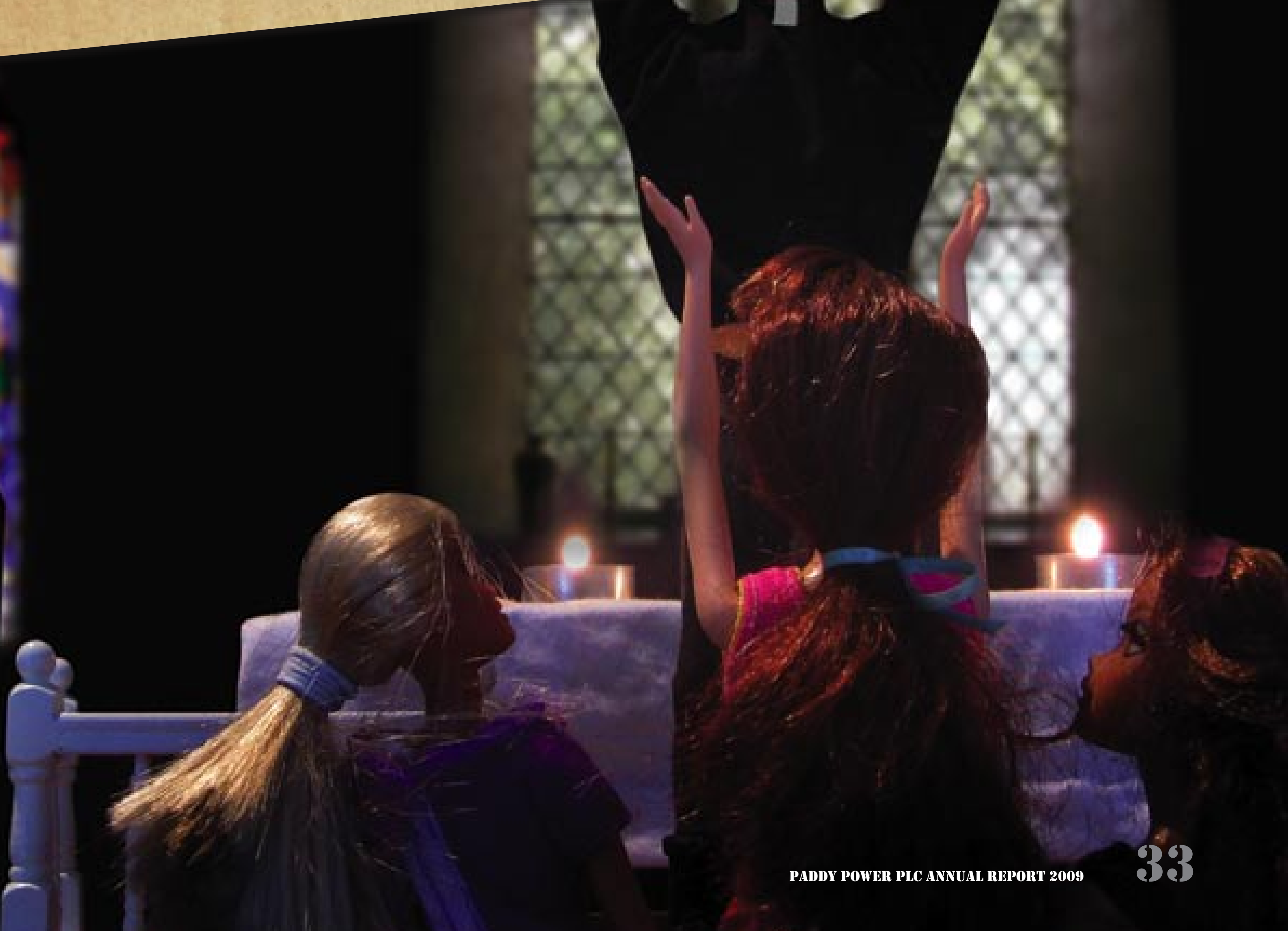
No.

MISSION 10

KEEP THE FAITH

In 2009, we entered a bidding war with a Canadian online casino to purchase the holy tree stump of Rathkeale which allegedly pictured the face of our Lord.

Probably not entirely unexpectedly the local Parish Priest told us both where to go (and it wasn't to heaven). Undeterred by our lack of success we instead opened a book on where the next sighting of the Blessed Virgin will take place. The Blessed Virgin's usual haunt, Knock Shrine, was our 5/1 favourite followed by holy mountain, Croagh Patrick, at 12/1. One month later, guess who apparently showed up at Knock threatening a sacred payout?



Principal risks and uncertainties

The principal risks and uncertainties facing the Group and Company include those that could arise from adverse developments in the following areas:

- the economic, demographic, technological and other macro factors affecting demand for the Group's products;
- the regulatory, taxation or legislative environment applicable to the Group's activities;
- changes in the exchange rates between the euro (the Group and Company's functional currency) and the foreign currencies in which the Group and Company transact business, primarily the pound sterling, the Australian dollar and the US dollar;
- the intensity of competition in the Group's markets;
- social, media or political sentiment towards the Group, its brands and its businesses;
- increased fiscal demands from governments, government authorities and sporting bodies;
- relationships with key suppliers, particularly those supplying software platforms to support the Group's products and data required for sports betting;
- disruption to the sporting calendar due to weather or other factors;
- the ability of the Group to attract and retain key employees;
- the ability of the Group to manage its bookmaking risk so as to achieve gross win margins within the percentage ranges that it has guided;
- the ability of the Group to manage credit risk arising from credit betting customers; and
- the ability of the Group to avoid disruption to its key information technology systems.

The Board regularly monitors all of the above risks and appropriate actions are taken to mitigate those risks or address their potential adverse consequences.

Further details in relation to the Group's trading risk function are included in the Trading & Risk Management section of the Operating & Financial Review on page 21. The composition and responsibilities of the Risk Committee are set out on pages 39 and 40. The Board has also established financial risk management objectives and policies which have been implemented by executive management, details of which are given in Note 3 to the consolidated financial statements on pages 64 to 67.

Research and development

The Group performs research and development activities to ensure that it continues to be a recognised innovator in the betting and gaming industry. These activities support the introduction of new products, the creation of new betting markets, improved online customer experience and the development of better processes and systems. Continued research and development contributes to the Group's future growth and profitability.

Market research

The Group undertakes market research across all business divisions in Ireland, the UK and Australia. In 2009, research undertaken included brand research and customer satisfaction surveys.

Events since the year end and future developments

The significant events affecting the Group since the year end are the recommendation to pay dividends to shareholders as noted above and the purchase of an additional 9.8% shareholding in Sportsbet Pty Limited on 12 February 2010 (see Note 34 to the consolidated financial statements). The directors do not anticipate any substantial changes in the nature of the business.

Amendment of Articles of Association

The Company's Articles of Association may only be amended with the approval of a special resolution of the shareholders.

Rights and obligations attaching to the Company's shares

As at 1 March 2010, the Company had 49,771,573 shares in issue, all of which are of the same class and carry the same rights and obligations (apart from 1,734,000 shares held by the Group as treasury shares which have no voting rights and no entitlement to dividends). With regard to the Company's shares: (i) there are no restrictions on their transfer; (ii) no person holds shares carrying special rights with regard to the control of the Company; (iii) there are no shares to which an employee share scheme relates carrying rights with regard to the control of the Company; (iv) there are no restrictions on the voting rights attaching to the Company's shares; and (v) there are no agreements between shareholders that are known to the Company that may result in restrictions on the transfer of securities or on voting rights. Further information on the Company's share capital is set out in Note 19 to the consolidated financial statements.

Own shares held

The Paddy Power plc Employee Benefit Trust (the 'Trust') was originally established to manage the Long Term Incentive Plan and also manages the Managers' Deferred Share Award Scheme (collectively referred to as the 'share award schemes'). Further information on these schemes is presented in the Remuneration Committee Report on pages 44 and 45. During the year ended 31 December 2009, the Trust purchased 540,000 (2008: 599,000) Paddy Power plc shares at a cost of €14.1m (2008: €11.6m). During 2009, the Trust transferred 268,144 (2008: 228,173) ordinary shares that had vested to beneficiaries of the Trust. At 31 December 2009, the Trust held 1,438,711 (2008: 1,166,855) ordinary shares in Paddy Power plc, representing 2.89% (2008: 2.37%) of the issued share capital. Further information is set out in Note 21 to the consolidated financial statements.

During 2009, the Group made no purchases of the Company's own shares (2008: purchased 1,484,000 shares). As of 31 December 2009 and 2008, the shares held in treasury totalled 1,734,000 shares and represented 3.48% (2008: 3.52%) of the issued share capital. The treasury shares have no voting rights and have no entitlement to dividends. Further information is set out in Note 19 to the consolidated financial statements.

Substantial holdings

As at 1 March 2010, details of interests of over three percent in the ordinary share capital carrying voting rights (excluding directors) which have been notified to the Company are:

	Holding	%
FMR LLC	3,228,897	6.72%
Standard Life Investments Limited	2,416,537	5.03%
Capital Research and Management Company	2,081,179	4.33%
Deutsche Bank AG	1,925,659	4.01%
John Corcoran	1,500,000	3.12%
William Blair & Company L.L.C.	1,452,747	3.02%

Directors' power to purchase and allot Company shares

With the approval of a special resolution of the shareholders, the directors may (i) allot shares for cash up to five percent of the nominal value of the Company's shares and (ii) make market purchases of the Company's shares up to ten percent of the nominal value of the Company's shares.

Board of Directors and Company Secretary

Jane Lighting was appointed to the Board on 1 September 2009 and is proposed for election by the shareholders at the AGM in May 2010. Nigel Northridge succeeded Fintan Drury as Chairman with effect from 1 January 2009. Fintan Drury, Tom Grace and Jack Massey were re-elected as directors by the shareholders at the AGM in May 2009 after retiring by rotation. Nigel Northridge, Patrick Kennedy, Stewart Kenny and David Power retire from the Board by rotation in 2010 and, being eligible, offer themselves for re-election.

Directors' remuneration

Details of directors' remuneration are given in the Remuneration Committee Report on pages 43 and 44 and in Note 7 to the financial statements on page 72. No director or employee is entitled to any compensation for loss of office or employment occurring as a result of a takeover of the Company.

Directors' and Secretary's interests

The interests of the directors and secretary who held office at 31 December 2009 in the share capital of Paddy Power plc, all of which were beneficially owned, were as follows:

	Number of ordinary shares of €0.10 each	
	31 December 2009	31 December 2008 (or date of appointment if later)
Patrick Kennedy	180,873	95,067
Breon Corcoran	177,363	100,174
Jack Massey	42,540	5,000
Nigel Northridge	6,000	3,000
Tom Grace	-	10,000
Fintan Drury	34,200	34,200
Stewart Kenny	444,440	438,505
Jane Lighting	-	-
Pádraig Ó Ríordáin	-	-
David Power	4,228,692	4,398,788
Brody Sweeney	5,550	5,550
David Johnston (Secretary)	-	-

There have been no changes in the above shareholdings between 31 December 2009 and the date the directors approved these financial statements.

The directors and the Company Secretary, who held office at 31 December 2009, had the following movements in share options during the year and held the following share options at 31 December 2009:

	Number of options at start of year	Options exercised during the year (a)	Options granted during the year	Options lapsed during the year	Number of options at end of year	Exercise price (b)	Exercise period
Patrick Kennedy	1,785	-	-	-	1,785	€11.29	4 December 2011 – 3 June 2012
	1,236	-	-	-	1,236	€9.45	4 December 2013 – 3 June 2014
Breon Corcoran	20,000	-	-	-	20,000	€8.15	24 February 2007 – 24 February 2011
	1,020	(1,020)	-	-	-	€11.60	9 November 2008 – 8 May 2009
	1,989	-	-	-	1,989	€9.45	4 December 2011 – 3 June 2012
Jack Massey	1,989	-	-	-	1,989	€9.45	4 December 2011 – 3 June 2012
David Johnston (Secretary)	4,000	-	-	-	4,000	€24.17	5 September 2010 – 5 September 2017
	1,989	-	-	-	1,989	€9.45	4 December 2011 – 3 June 2012

(a) The options exercised during the year were under the terms of the Company's Sharesave Scheme (see Note 21).

(b) The market price of the Company's shares at 31 December 2009 was €24.75 and, for the year then ended, the Company's daily closing share price ranged between €10.52 and €25.75 (2008: ranged between €9.60 and €24.25 and was €13.11 at year end).

During the year ended 31 December 2009, the executive directors and the Company Secretary had the following interests and were conditionally granted the following shares under the Long Term Incentive Plan scheme:

	Grants outstanding at start of year	Granted during year	Vested during year	Grants outstanding at end of year	Date shares granted	Weighted average share price at date of grant	Cost of shares vested to directors during the year €'000
Patrick Kennedy	240,000	5,806	(85,806)	160,000	2007 and 2008	€19.68	1,069
	-	110,000	-	110,000	12 June 2009 & 20 October 2009	€19.31	-
Breon Corcoran	215,000	6,169	(91,169)	130,000	2007 and 2008	€15.60	1,192
	-	75,000	-	75,000	12 June 2009 & 20 October 2009	€18.56	-
Jack Massey	90,000	2,540	(37,540)	55,000	2007 and 2008	€19.45	507
	-	30,000	-	30,000	12 June 2009 & 20 October 2009	€18.74	-
David Johnston (Secretary)	2,500	-	-	2,500	2008	€13.79	-
	-	3,000	-	3,000	20 October 2009	€23.23	-

The awards are subject to the rules of the scheme and will vest if testing growth performance targets are met over the allowable vesting period. Further details of the scheme are outlined in the Remuneration Committee Report and in detail in Note 21 to the consolidated financial statements. Included in current year grants and vestings are a small number of vested shares which relate to dividends earned over the vesting period in respect of the shares vested during the year. The cost of shares vested during the year included in the table above represent the value of shares at original cost vested from the Long Term Incentive Plan (see Note 21) to directors during the year. During 2008, 71,567 shares were vested to Patrick Kennedy at an original cost of €1,042,000 and 66,554 shares were vested to Breon Corcoran at an original cost of €876,000.

The Company Secretary has also been conditionally granted 2,721 shares under the Managers' Deferred Share Award Scheme. Further details of the scheme are outlined in the Remuneration Committee Report and in Note 21 to the consolidated financial statements.

Transactions with directors and parties related to them have been disclosed in Note 7 to the consolidated financial statements on pages 72 and 73. The directors and secretary have no interests in shares in any other Group companies.

Political donations

No political donations were made by the Group during the year that require disclosure in accordance with the Electoral Acts 1997 to 2002.

Books of account

The measures which the directors have taken to ensure that proper books of account are kept are: the appointment of suitably qualified personnel; the adoption of suitable policies for recording transactions, assets and liabilities; and the appropriate use of computers and documentary systems. The Group and Company books of account are kept at Airton House, Airton Road, Dublin 24.

Regulation 21 of SI 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006'

For the purpose of Regulation 21 of Statutory Instrument 255/2006 'European Communities (Takeover Bids Directive (2004/25/EC)) Regulations 2006', the information given under the following headings on page 88 (Share capital and reserves), pages 30 and 31 (Board of Directors), pages 43 to 45 (Performance bonus and Long term incentive bonus plan), pages 44 and 45 (Long Term Incentive Plan and Managers' Deferred Share Award Scheme), page 44 (Share options), page 45 (directors' service contracts) and pages 89 to 93 (Share schemes) is deemed to be incorporated in the Directors' Report. The Company's outsourcing contract with PMU can be terminated by PMU in some circumstances if there is a change of control in the Company.

SI 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2007'

As required by Statutory Instrument 277/2007 'Transparency (Directive 2004/109/EC) Regulations 2007', the following sections of the Company's Annual Report shall be treated as forming part of this report:

1. The Chairman's Statement on pages 2 to 4.
2. The Chief Executive's Review on pages 5 to 8.
3. The Operating & Financial Review on pages 10 to 22 which includes a review of the external environment, key strategic aims and financial and other key performance measures.
4. The Corporate Governance report on pages 38 to 42.
5. The Remuneration Committee Report on pages 43 to 45.
6. The Corporate Social Responsibility report on pages 24 to 28.
7. Details of earnings per share on page 75.
8. Details of shares purchased by the Company on page 88.
9. Details of derivative financial instruments on pages 102 to 104.

SI 450/2009 'European Communities (Directive 2006/46/EC) Regulations 2009'

For the purpose of Statutory Instrument 450/2009 'European Communities (Directive 2006/46/EC) Regulations 2009', the Corporate Governance report on pages 38 to 42 is deemed to be incorporated in the Directors' Report.

Auditor

In accordance with Section 160(2) of the Companies Act 1963, the auditor, KPMG, will continue in office.

Going concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

Patrick Kennedy

Patrick Kennedy **Jack Massey**

1 March 2010

CORPORATE GOVERNANCE

The Board is committed to maintaining the highest standards of corporate governance. This commentary describes how the Group applies the main and supporting principles of section 1 of the Combined Code on Corporate Governance (June 2008), which sets out principles of good governance and a code of best practice.

Our policy on corporate governance is as follows:

Board role and responsibilities

Your Board has overall responsibility for the leadership and control of the Group. Responsibility for the management of the Group has been delegated by the Board to executive management. This delegation is effected through the Chief Executive, who is accountable to the Board for its exercise. The functions of Chairman and Chief Executive are not combined and both roles' responsibilities are clearly divided. A number of responsibilities of the Board are delegated to committees of the Board.

Certain decisions of the Group are formally reserved to the Board. The Board has responsibility for approving Group strategy, annual budgets, major acquisitions and capital projects, and treasury policy. It sets governance policies and ensures implementation thereof. It defines the roles and responsibilities of the Chairman, Chief Executive, other directors and the Board sub-committees. In addition, the Board approves the interim and annual financial statements, reviews the Group's systems of internal control and approves any significant changes in accounting policies. It approves all resolutions and related documentation put before shareholders at general meetings. The Board sets the Group's dividend policy, approves the interim dividend and recommends the final dividend.

Individual directors may seek independent professional advice, at the expense of the Company, in the furtherance of their duties as a director. The Company has also arranged appropriate insurance cover in respect of legal action against the directors.

Board composition

The Board should comprise a mix of the necessary business skills required to provide oversight of the management of the business and to contribute to the development and advancement of business strategy. Paddy Power is a specialist business and should always retain the betting industry savvy that has been part of the fabric of its Board, both as a private and public company. The Board should also include high quality non-executives sourced from the different geographic markets in which the Group operates.

It is essential that all Board members have sufficient time to add real value to your Company. With this in mind and, reflecting the regulatory obligations and the wider demands of this Board, it has been agreed that, unless otherwise agreed by the Board, our non-executive directors should not hold more than three directorships of publicly quoted companies. We have also agreed that there should be no more than two Paddy Power directors on the Board of any one other listed company. Unless otherwise agreed by the Board, executive directors should hold non-executive directorships with no more than one other publicly quoted company.

As of the date of this Corporate Governance report, I am a member of the board of four other publicly listed companies, one of which I will step down from in March 2010 and another, Debenhams plc, I will become Chairman of in April 2010. The directors, led by the Senior Independent Director, have considered these appointments and are satisfied that, given that I no longer hold any executive roles, they shouldn't impact on my ability to give the required time commitment to the Company. In particular, it was felt that, my being chairman of another major retail company would be an advantage to the Company given the experience and insight that I will gain from the role.

Tenure and Election of Directors

The current Board comprises a mix of executive directors, founding directors and directors recruited for the particular skill and experience they would bring to Paddy Power. The Board expects to appoint one additional independent non-executive director in 2010. The standard terms of the letter of appointment of non-executive directors are available, on request, from the Company Secretary.

At each Annual General Meeting of the Company, every director who has been in office at the completion of each of three successive Annual General Meetings since he or she was last appointed or reappointed, shall retire from office. Any director appointed by the Board is subject to election by shareholders at the first opportunity after his or her appointment. Non-executive directors who have served longer than nine years (e.g. three three-year terms) are subject to annual re-election. Reappointment is not automatic. Directors who are seeking re-election are subject to a performance appraisal, which is overseen by the Nomination Committee.

Jane Lighting was appointed to the Board on 1 September 2009 and is obliged to seek election at the 2010 AGM.

Patrick Kennedy, Stewart Kenny, Nigel Northridge and David Power will retire at the 2010 AGM, and have indicated their willingness to be reappointed.

David Power and Stewart Kenny, both founder members of the Company, have now completed a third three year term. The Board has performed a rigorous review of the appropriateness of their continuing to serve as directors and believes that their experience of the industry continues to be central to your Company's continued development and success and hence that their continuance in office is in the best interests of the Company. Both David and Stewart will be subject to annual re-election.

Directors' independence

The Board has considered the independence of Mr Pádraig Ó Ríordáin, given his role as Managing Partner of Arthur Cox, one of the Group's legal advisors, and has concluded that notwithstanding this relationship, Pádraig is independent in character and judgement and is accordingly an independent non-executive director within the spirit and meaning of the Combined Code on Corporate Governance. He has a demonstrated record of such independence, including his appointment by the Minister for Finance to the Irish Government's Advisory Forum on Financial Legislation, on which he served as Independent Chairman, and the role of Managing Partner which he fulfils at his firm. The Board took account of the fees paid to Arthur Cox for its legal services and concluded that they are not material to Pádraig's independent judgement given the scale of the operations and financial results of Arthur Cox and the Group. Pádraig has not provided any legal services to the Group since his appointment to the Board.

The Chairman's role

I have been Chairman of the Group since January 2009. The Chairman is responsible for the leadership of the Board, ensuring its continued effectiveness in carrying out its duties and setting its agenda. The Chairman is also responsible for ensuring that all directors receive accurate, timely and clear information. The Chairman facilitates the effective contribution of his non-executive colleagues and ensures constructive relationships exist between executive and non-executive directors. He is the guarantor of effective communications with shareholders.

As Chairman, I also meet with the non-executive directors independently of the executive directors. I meet regularly with the Chief Executive to discuss all aspects of the business's performance and, on an occasional basis, we meet with other senior members of the management team together.

Directors' fees

As reported in the 2007 Annual Report, the standard non-executive fee was set at €70,000 in 2008. It was also agreed that the Audit Committee chair would receive an additional fee of €20,000, that chairs of other Committees would be paid an additional fee of €12,000 and that the Chairman would receive an annual fee of €200,000.

These fees were reviewed in January 2010 and it was agreed that they would remain unchanged.

Non-executive directors are not eligible to participate in the Group bonus schemes, option plans or share award schemes. None of the remuneration of the non-executive directors is performance related. The non-executive directors' fees are not pensionable and non-executive directors are not eligible to join any Group pension plans.

Board performance evaluation

As Chairman, it is my responsibility to ensure that the performance of all directors is at the levels required and I have met with all the directors individually to discuss their performance. The senior independent director has conducted a review of my performance with the non-executive directors, also taking into account the views of the executive directors, the results of which have been discussed with me.

The Board conducts an annual evaluation of its own performance. This involves the completion of assessment questionnaires by all directors covering the performance of the Board and its Committees. Other aspects that are reviewed include the effectiveness of the Chairman, executive and non-executive directors, the monitoring of operational performance, and corporate governance, as well as leadership and culture. A summary of the conclusions from the evaluation are considered by the Board and any appropriate actions are taken.

Board operations and committees

The Board holds at least eight full Board meetings each year and each non-executive member of the Board sits on at least one committee. I expect all Board members to be available to me between meetings.

The composition of the Board committees as at 1 March 2010 was as follows:

Audit
Tom Grace (Chair); Jane Lighting; Brody Sweeney.

Remuneration
Pádraig Ó Ríordáin (Chair); Jane Lighting; Nigel Northridge.

Nomination
Nigel Northridge (Chair); Fintan Drury; Pádraig Ó Ríordáin; Brody Sweeney.

Risk
David Power (Chair); Breon Corcoran; Patrick Kennedy; Stewart Kenny.

Audit Committee

The Audit Committee's responsibilities include:

- monitoring the integrity of the financial statements of the Company and Group;
- reviewing the Group's internal controls;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- making recommendations to the Board in relation to the appointment and removal of the Group's external auditor;
- approving the remuneration and terms of engagement of the external auditor;
- evaluating the performance of the external auditor, including their independence and objectivity;
- approving non-audit services provided by the auditor in accordance with the Group's policy on non-audit services;
- developing and ensuring compliance with the Group's policy on the provision of non-audit services;
- reviewing arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- ensuring that there are appropriate procedures in place to monitor and evaluate the general business risks to which the Group is exposed.

The Audit Committee has unrestricted access to the Group's external and internal auditors, with whom it meets at least twice a year, both with and without management. These meetings ensure that there are no restrictions on the scope of their audits, and allow discussion of any matters that the auditors did not wish to raise in the presence of management.

The Audit Committee is responsible for ensuring that external auditor objectivity and independence is safeguarded where the auditor also provides non-audit services to the Group. The Audit Committee reviewed the letter from the Group's external auditor confirming their independence and objectivity. During the year, the Committee also performed a review of the audit and non-audit services provided by the external auditor, and the fees charged for those services, to ensure there was no impairment of independence.

The Board has determined that Tom Grace, the Chairman of the Committee, has recent and relevant financial experience and therefore satisfies the requirements of the Combined Code.

Remuneration Committee

The Remuneration Committee is primarily responsible for making recommendations to the Board on remuneration policy for the Group's executive directors and selected senior management. The report of the Remuneration Committee is set out on pages 43 to 45.

Nomination Committee

The Nomination Committee is primarily responsible for recommending candidates to the Board for appointment as directors and ensuring that appropriate procedures are followed for all such appointments.

To facilitate the search for candidates to serve as non-executive directors, the Committee uses the services of independent consultants.

Risk Committee

The Risk Committee is responsible for ensuring that policies in respect of betting risk are appropriate to a group of Paddy Power's size, for monitoring that such policies are being correctly applied and that the expertise and systems within the organisation are consistent with the level of risk undertaken. The Committee also sets overall policy for betting risk. Limits are agreed with the Committee and set annually but are subject to review by the Committee at any time.

Attendance at Board and Committee meetings

There were eight full meetings of the Board in 2009.

The attendance at Board and committee meetings by the directors who held office in 2009 are set out below:

	Note	Board	Audit	Remuneration	Nomination	Risk
Number of meetings held in 2009		8	6	10	4	2
Attended by:						
N Northridge*		8		10	4	
T Grace*		8	6			
F Drury*		7			4	
S Kenny**	a)	8			3	2
J Lighting*	b)	2	1	3		
P Ó Ríordáin*	c)	8	5	10	1	
D Power**		8				2
B Sweeney*	d)	8	6		3	
P Kennedy***	e)	8			3	2
J Massey***		8				
B Corcoran***		8				2

* Independent non-executive director
** Non-executive director
*** Executive director

a) Stewart Kenny was a member of the Nomination Committee until 20 August 2009. There were three Nomination Committee meetings prior to that date, all of which he attended.
b) Jane Lighting was appointed as a director on 1 September 2009 and as a member of the Audit Committee and the Remuneration Committee on 6 October 2009. There were two Board meetings, one Audit Committee meeting and three Remuneration Committee meetings after her appointments, all of which she attended.
c) Pádraig Ó Ríordáin was a member of the Audit Committee until 6 October 2009. There were five Audit Committee meetings prior to that date, all of which he attended. He was appointed as a member of the Nomination Committee on 20 August 2009 and there was one Nomination Committee meeting after that date, which he attended.
d) Brody Sweeney was appointed as a member of the Nomination Committee on 24 February 2009. There were three Nomination Committee meetings after that date, all of which he attended.
e) Patrick Kennedy was a member of the Nomination Committee until 20 August 2009. There were three Nomination Committee meetings prior to that date, all of which he attended.

The number of independent non-executive directors is now six (including the Chairman) and there are five non-independent directors (including three executive directors). The Combined Code requires at least half the Board, excluding the Chairman, to be independent non-executive directors.

Until the appointment of Jane Lighting as a member of the Remuneration Committee on 6 October 2009, the Remuneration Committee was not populated in accordance with the Combined Code as the Committee did not consist of at least three independent directors. Since her appointment, the Remuneration Committee has been populated in accordance with the Combined Code.

Senior Independent Director

The Board has appointed Tom Grace as the Senior Independent Director. Tom is available to shareholders who have concerns that cannot be addressed through the Chairman, Chief Executive or Finance Director.

Company Secretary

The appointment and removal of the Company Secretary is a matter for the Board. All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with.

Internal control

The Combined Code on Corporate Governance states that:

1. The Board should maintain a sound system of internal control to safeguard the shareholders' investment and Group assets.
2. The directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls, and risk management systems.

The directors have overall responsibility for the Group's system of internal control and have delegated responsibility for the implementation of this system to executive management. This system includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records.

The Board has also established a process of compliance which addresses the Board's responsibility to maintain, review and report on all internal controls.

The principal processes comprising the system of internal control are that:

- budgets are prepared for approval by executive management and the Board;
- income and expenditure are regularly compared to budgets;
- the Board establishes appropriate treasury policies for implementation by executive management. Compliance with risk limits is reported on by the risk management department and reviewed by senior management and internal audit;
- all material commitments for expenditure and payments are compared to previously approved budgets and are subject to prior approval by personnel designated by the Board of Directors;
- regular financial results are submitted to and reviewed by the Board of Directors;
- the directors, through the Audit Committee, review the effectiveness of the Group's system of internal control; and
- an audit and security department, independent of operations, monitors the activities of the betting operations and the risk management division, including the verification of winning bets. They also undertake internal control reviews throughout the Group. The head of this department meets regularly with the Audit Committee.

The Board, through the Audit Committee, is responsible for conducting a review of the effectiveness of the Group's systems of internal controls. This review has been performed in respect of the year ended 31 December 2009. The directors consider that the procedures necessary to implement the Turnbull guidelines on internal control in the Combined Code have been properly established.

Relations with shareholders

The Group is committed to ongoing communication with its shareholders. The Group operates an investor relations section on its corporate website ('www.paddypowerplc.com'). This contains copies of investor presentations and annual reports as well as providing access to Regulatory News Service ('RNS') statements and corporate press releases. All shareholders are encouraged to attend the Annual General Meeting where they are afforded the opportunity to question the Board.

There is regular discussion between Group management and analysts, brokers and institutional shareholders, ensuring that the market is appropriately informed on business activities. Visits to the Group's headquarters are encouraged and tours of our retail outlets are undertaken regularly. Feedback from major shareholders and reports by analysts are communicated to directors so directors can monitor their views on the Group.

The short-term financial performance of Paddy Power can be significantly influenced throughout the financial year by the run of sporting results. This is normal in the sports betting industry. For example, a disproportionate number of favourites winning at a major horse racing festival will depress short-term profitability, whereas a disproportionate number of outsiders winning will have the opposite effect. The experience of the industry is that this typically balances out over a more extended period. Accordingly, the Board does not believe that the typical levels of short-term profit volatility intrinsic to our business should significantly influence the investment decisions of a reasonable investor or that it should be likely to have a significant effect on the Company's share price.

The Board and management of Paddy Power carefully monitor any significant variances in financial performance to assess, based on the experience of the Company, whether such variances are attributable to the run of sporting results and therefore likely to be short-term in nature or reflect a trend which may impact on the overall performance of the Company going forward. The Board considers these two categories of variances to be fundamentally different as to their likely influence on the investment decisions of a reasonable investor and therefore on the Company's share price. The Board makes its judgements in respect of announcements to the market and its obligations under the disclosure rules to which the Company is subject against this background.

Compliance

The directors confirm that the Company has complied throughout the accounting period with the provisions of the Combined Code, except as noted in this commentary.

Conclusion

I would invite you all to consider the above carefully, and encourage any shareholders who have questions relating to this Corporate Governance statement to contact me by email at nnorthridge@paddypower.com.

Nigel Northridge
Chairman

1 March 2010

The Remuneration Committee

The Remuneration Committee operates within agreed terms of reference and has responsibility for making recommendations to the Board on the Group's general policy relating to executive remuneration, and to determine, on behalf of the Board, specific remuneration packages for the executive directors. Outside independent professional advice is sought where necessary. In addition to the remuneration of the executive directors, the Committee is also responsible for approving the remuneration of five of the most senior executives ('senior executives'). Membership of the Remuneration Committee is set out on page 39.

The remuneration of the Chairman of the Board is determined by the Board, excluding the Chairman. The remuneration of the non-executive directors is determined by the Board, including the non-executive directors.

Remuneration Policy

General

The Remuneration Committee determines the Group's policy on executive directors' and senior executives' remuneration. The objectives of the policy are:

- to reward executive directors and senior executives in a manner that ensures that they are properly incentivised and motivated to perform in the best interests of shareholders over the long term; and
- to provide the level of remuneration required to attract and retain executive directors and senior executives of an appropriate calibre.

Salaries and other benefits are reviewed annually. The Remuneration Committee takes into account the performance of the individual, comparisons with peer group companies, institutional guidelines and reports from specialist consultants. The experience of the individual and his/ her level of responsibility are also taken into account.

Consistent with this policy, the benefit packages awarded to executive directors are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration, designed to motivate them, but not to detract from the goals of corporate governance.

Basic salaries and benefits

Salaries of executive directors are set by reference to those prevailing in the market. Employment related benefits relate principally to medical, life and health insurances and to the provision of a company car or car allowance. No fees are payable to executive directors.

Performance bonus

Under current arrangements, which are reviewed annually by the Remuneration Committee, executive directors have targeted bonuses of 40% to 50% of salary subject to the attainment of specific and stretching targets set for each individual. The level earned in any one year depends on the Committee's assessment of each individual's performance and the overall performance of the Group against predetermined targets for the year. The maximum payout under the bonus scheme can be twice the bonus target and this will only be achieved with substantial out-performance in the year under review.

2006 long term incentive bonus plan

The long term incentive bonus plan adopted by the Board on 18 October 2006 in favour of Breon Corcoran expired on 31 December 2009 and no payment is due under the plan.

Pension entitlements

The Group does not operate any pension scheme or make pension provision for non-executive directors. Each executive director has an independent pension trust into which the Group makes defined contributions.

Targeted remuneration

The targeted composition of each director's annual remuneration (excluding sundry benefits) is as follows:

	Performance related	Non-performance related
Executive		
Patrick Kennedy	29%	71%
Breon Corcoran*	28%	72%
Jack Massey	25%	75%
Non-executive		
Nigel Northridge		100%
Tom Grace		100%
Fintan Drury		100%
Stewart Kenny		100%
Jane Lighting		100%
Pádraig Ó Ríordáin		100%
David Power		100%
Brody Sweeney		100%

** this percentage excludes the possible impact of the long term incentive bonus plan outlined on pages 44 and 45.*

Long Term Incentive Plan
It is Group policy to motivate its key executives to deliver superior performance over the long term and, at the Annual General Meeting held on 22 June 2004, the shareholders approved the 2004 Long Term Incentive Plan ('LTIP'). This plan, details of which are included in Note 21 to the consolidated financial statements, allows shares conditionally awarded to executives to be earned over a three to five year period subject to the achievement of testing earnings per share growth targets. Details of share grants to the executive directors and the Company Secretary are included with the directors' and secretary's interests in the Directors' Report on page 36.

In December 2009, the Remuneration Committee, being conscious of the potential for once-off exceptional items to boost or lower performance, amended the rules of the LTIP so that, in relation to all LTIP awards made from 2010 onwards, exceptional items would be excluded, both in relation to the base year and the performance years, from the earnings per share measure for the purposes of assessing achievement of bonus target. This is consistent with the Group's cash bonus arrangements for senior executives, which exclude exceptional items for the purpose of assessing achievement of bonus targets (exceptional gains in 2006 and 2008 were excluded for this purpose). The Committee felt that a change of this nature was appropriate as it ensures that executives are rewarded for changes in underlying performance rather than for once-off items.

Shareholding guidelines
The Committee introduced shareholding guidelines for executive directors in 2009, whereby, in summary, the current market value of the shares in the Company held by the relevant director should be at least 1.5 times salary for the Chief Executive and 1 times salary for other executive directors.

Share options
The policy of the Remuneration Committee, up to 2007, was to motivate executives, other than senior management, by granting them share options rather than LTIP awards. Accordingly, options have been granted under the terms of employee share incentive plans approved by shareholders. Further details of these plans are given in Note 21 to the consolidated financial statements.

Details of options granted to the executive directors prior to the introduction of the LTIP and options granted to executive directors under the Sharesave Schemes are included with the directors' and secretary's interests in the Directors' Report on page 36. All options are granted at the market price on the date of grant, with the exception of options granted under Revenue approved sharesave schemes which are granted at a discount.

The market price of the Company's shares at 31 December 2009 was €24.75 and, for the year then ended, the Company's daily closing share price ranged between €10.52 and €25.75.

Long term incentive bonus plan
Given (i) the key role that Breon Corcoran has played and continues to play in the development and growth of the Group's online and telephone business, which, under his guidance, has grown and developed from an operating loss of €8.1m in 2001 to an operating profit of €44.5m in 2009, (ii) the important role that he fulfils, as Chairman of Sportsbet, in the development of the Group's Australian business, and (iii) the Remuneration Committee's view of the strength of the retention and reward elements of Breon's current remuneration package, on 15 October 2009, the Remuneration Committee adopted a long term incentive bonus plan designed to retain him in the Group.

There are two components to the plan and payment there under is based on the achievement of two separate and very challenging performance targets, one based on operating profit in the Group's online and telephone divisions (excluding Australia) and the other on EBITDA in the Group's Australian business in the year ended 31 December 2012 and 30 June 2012, respectively. Should Breon Corcoran guide the online and telephone (excluding Australia) divisions and/ or the Australian division to achieve these targets, the Board is satisfied that the payment of the long term incentive under the plan will represent very good value to shareholders.

Under the plan, Breon Corcoran has the potential to earn a cash payment of between €0.25m and €1.5m if the online and telephone divisions (excluding Australia) generate operating profit in 2012 above challenging predefined thresholds and between €0.4m and €1.0m if EBITDA in the Group's Australian business in the year ended 30 June 2012 is above challenging predefined thresholds. The operating profit targets contained in the plan will be adjusted if the Group makes relevant acquisitions or makes material changes in the relevant geographical scope of its businesses. The payment of 70% of any amount due under the plan is scheduled for around March 2013, at which date Breon Corcoran must also be employed by the Group for a payment to be made to him. The remaining 30% will be paid on the one year anniversary of the original payment date, provided that Breon is still an employee of the Company on that date.

In the event of a change of control of the Company before 31 December 2012 that materially reduces Breon Corcoran's ability to achieve the plan's targets, the maximum payment under the plan will become payable to him within one week of the Group's consolidated financial statements for the financial year ended 31 December 2012 being signed. The Remuneration Committee will determine the calculation, adjustment and achievement of the targets under the plan.

No changes (except for minor amendments to benefit the administration of the plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the participant in the plan or for the Company or other members of the Group) will be made to the beneficiary of the plan, the limits on the amount of cash payable or the maximum entitlement of Breon Corcoran under the plan, the basis for determining his entitlement under the plan or to take account of any capitalisation issue, rights issue or open offer, subdivision or consolidation of shares or reduction of capital or any other variation of the capital of the Company, to Breon's advantage, without the prior approval of the Company's shareholders in general meeting. Payments under the plan are not pensionable. The plan will be available for inspection from the date of publication of this document until the close of the Company's Annual General Meeting on 18 May 2010 at the Company's registered office, and at the place of the general meeting for at least 15 minutes before and during the meeting.

Managers' Deferred Share Award Scheme
As first disclosed in the 2007 Annual Report, the Board, on the recommendation of the Remuneration Committee, established in December 2007 a scheme to offer already issued shares to a small number of key Group employees (not including directors). The employees will only become entitled to receive these shares if they remain employed by the Group until March 2011. The total number of shares offered to employees under the scheme at 31 December 2009 was 79,855 (2008: 85,129), see Note 21.

Executive directors' service contracts
The notice period for Patrick Kennedy is 12 months, and it is six months for both Breon Corcoran and Jack Massey. All executive directors are employed on contracts with a normal retirement age of 65. No executive director is entitled to any contractual termination payment other than for payment in lieu of notice.

Non-executive directors' service contracts
Non-executive directors, in accordance with best practice, are not appointed on service contracts, rather they are issued with a letter confirming the terms of their appointment. Non-executive directors are expected to give three months' notice of resignation, but this is without prejudice to their right to resign immediately if they feel it appropriate. None of the non-executive directors have an entitlement to a termination payment.

Directors' detailed emoluments
Full details of the emoluments of the directors are set out in Note 7 to the consolidated financial statements on pages 72 and 73.

Pádraig Ó Ríordáin
Chairman, Remuneration Committee

1 March 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU, and have elected to prepare the Company financial statements in accordance with generally accepted accounting practice in Ireland, comprising applicable law and the financial reporting standards issued by the Accounting Standards Board in the UK and promulgated by Chartered Accountants Ireland.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Acts 1963 to 2009 provide in relation to such financial statements that references in the relevant part of the Acts to financial statements giving a true and fair view are references to their achieving a fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing these Group financial statements the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- comply with applicable International Financial Reporting Standards as adopted by the European Union subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the directors are responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with the law and those Rules.

The directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Interim Transparency Rules of the Irish Financial Services Regulatory Authority to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Group.

The Directors confirm that they have complied with the above requirements in preparing the Annual Report.

The Directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Group are prepared in accordance with applicable International Financial Reporting Standards as adopted by the European Union and comply with the provisions of the Companies Acts 1963 to 2009, and Article 4 of the European Communities (International Financial Reporting Standards and Miscellaneous Amendments) Regulations 2005 (the 'IAS Regulation'). They are also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the website ('www.paddypowerplc.com'). Legislation in Ireland concerning the preparation and dissemination of financial statements may differ from legislations in other jurisdictions.

Responsibility Statement, in accordance with the Transparency Regulations

Each of the directors, whose names and functions are listed in the Board of Directors section on pages 30 and 31, confirm that, to the best of each person's knowledge and belief:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2009 and of the profit of the Group for the year then ended;
- the Company financial statements, prepared in accordance with generally accepted accounting practice in Ireland, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2009;
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

1 March 2010

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PADDY POWER PLC

We have audited the Group and Company financial statements (the 'financial statements') of Paddy Power plc for the year ended 31 December 2009, which comprise the consolidated Income Statement, the consolidated Statement of Comprehensive Income, the consolidated Statement of Financial Position and Company Balance Sheet, the consolidated Statement of Cash Flows, the consolidated Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU, and for preparing the Company financial statements in accordance with applicable law and the financial reporting standards issued by the Accounting Standards Board and promulgated by Chartered Accountants Ireland ('Generally Accepted Accounting Practice in Ireland'), are set out in the Statement of Directors' Responsibilities on page 46.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts 1963 to 2009 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you our opinion as to: whether proper books of account have been kept by the Company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2008 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Review, the Operating & Financial Review and the Remuneration Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2009 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009 and Article 4 of the IAS Regulation;
- the Company financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs as at 31 December 2009; and
- the Company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' Report on pages 32 to 37 is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet on page 108, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2009 a financial situation which under Section 40(1) of the Companies (Amendment) Act 1983 would require the convening of an extraordinary general meeting of the Company.

KPMG

Chartered Accountants
Registered Auditor

Dublin

1 March 2010

CONSOLIDATED INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2009

	Note	Total 2009 €'000	Before exceptional item 2008 €'000	Exceptional item (Note 5) 2008 €'000	Total 2008 €'000
Amounts staked by customers		**2,751,537**	2,100,926	-	2,100,926
Continuing operations					
Income	4	**295,928**	283,657	-	283,657
Direct betting costs	5	**(37,954)**	(29,975)	2,735	(27,240)
Gross profit		**257,974**	253,682	2,735	256,417
Employee expenses	6	**(90,146)**	(85,600)	-	(85,600)
Property expenses		**(25,222)**	(25,318)	-	(25,318)
Marketing expenses		**(28,973)**	(26,553)	-	(26,553)
Technology and communications expenses		**(16,185)**	(13,742)	-	(13,742)
Depreciation and amortisation		**(18,113)**	(16,919)	-	(16,919)
Other expenses, net		**(12,641)**	(9,855)	-	(9,855)
Total operating expenses		**(191,280)**	(177,987)	-	(177,987)
Operating profit		**66,694**	75,695	2,735	78,430
Financial income	8	**900**	3,297	-	3,297
Financial expense	8	**(402)**	-	-	-
Profit before tax		**67,192**	78,992	2,735	81,727
Income tax expense	10	**(8,717)**	(12,642)	(268)	(12,910)
Profit for the year		**58,475**	66,350	2,467	68,817
Attributable to:					
Equity holders of the Company		**56,946**	66,350	2,467	68,817
Non-controlling interest		**1,529**	-	-	-
		58,475	66,350	2,467	68,817
Earnings per share					
Basic	11	**€1.219**			€1.457
Diluted	11	**€1.207**			€1.429

Notes 1 to 35 on pages 55 to 107 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

1 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2009

	Note	2009 €'000	2008 €'000
Changes in fair value of available-for-sale financial assets	15	**479**	-
Foreign exchange translation differences in respect of foreign operations	8	**1,476**	(346)
Deferred tax on the changes in fair value of available-for-sale financial assets	22	**(98)**	-
Comprehensive income recognised directly in equity		**1,857**	(346)
Profit for the year		**58,475**	68,817
Total comprehensive income for the year		**60,332**	68,471
Attributable to:			
Equity holders of the Company		**58,004**	68,471
Non-controlling interest		**2,328**	-
Total comprehensive income for the year		**60,332**	68,471

Notes 1 to 35 on pages 55 to 107 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

1 March 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2009

	Note	31 December 2009 €'000	31 December 2008 €'000
Assets			
Property, plant and equipment	12	**76,727**	68,041
Intangible assets	13	**45,084**	31,612
Goodwill	14	**60,903**	15,003
Financial assets	15	**2,498**	-
Deferred tax assets	22	**3,284**	1,244
Total non current assets		**188,496**	115,900
Trade and other receivables	17	**16,432**	5,641
Financial assets - restricted cash	18	**9,025**	-
Cash and cash equivalents	18	**80,576**	76,661
Total current assets		**106,033**	82,302
Total assets		**294,529**	198,202
Equity			
Issued share capital		**4,977**	4,927
Share premium		**18,009**	11,318
Treasury shares		**(34,177)**	(34,177)
Shares held by long term incentive plan trust		**(31,858)**	(21,526)
Other reserves		**16,878**	14,523
Retained earnings		**184,644**	152,175
Total equity - attributable to equity holders of the Company		**158,473**	127,240
Non-controlling interest		**11,177**	-
Total equity		**169,650**	127,240
Liabilities			
Trade and other payables	23	**90,453**	53,942
Derivative financial liabilities - sports betting open positions	23	**5,448**	3,658
Provisions	24	**1,170**	-
Borrowings	25	**5,023**	-
Current tax payable		**978**	1,496
Total current liabilities		**103,072**	59,096
Trade and other payables	23	**3,003**	5,657
Derivative financial liabilities - sports betting open positions	23	**16**	11
Provisions	24	**1,713**	-
Borrowings	25	**11,498**	-
Deferred tax liabilities	22	**5,577**	6,198
Total non current liabilities		**21,807**	11,866
Total liabilities		**124,879**	70,962
Total equity and liabilities		**294,529**	198,202

Notes 1 to 35 on pages 55 to 107 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

1 March 2010

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2009

	Note	2009 €'000	2008 €'000
Cash flows from operating activities			
Profit before tax		**67,192**	81,727
Financial income		**(900)**	(3,297)
Financial expense		**402**	-
Depreciation and amortisation		**18,113**	16,919
Cost of employee share-based payments		**5,841**	6,874
Foreign currency exchange loss		**228**	110
Loss on disposal of property, plant and equipment and intangible assets		**75**	418
Cash from operations before changes in working capital		**90,951**	102,751
Increase in trade and other receivables		**(1,498)**	(1,516)
Increase in trade and other payables		**6,652**	7,159
Cash generated from operations		**96,105**	108,394
Income taxes paid		**(10,685)**	(13,107)
Net cash from operating activities		**85,420**	95,287
Cash flows from investing activities			
Purchase of property, plant and equipment		**(15,196)**	(14,334)
Purchase of intangible assets		**(3,658)**	(2,993)
Purchase of businesses, net of cash acquired	16	**(27,984)**	(23,181)
Acquisition expenses paid	16	**(2,437)**	(399)
Proceeds from disposal of property, plant and equipment and intangible assets		**295**	62
Interest received		**907**	3,474
Net cash used in investing activities		**(48,073)**	(37,371)
Cash flows from financing activities			
Proceeds from the issue of new shares		**4,648**	503
Purchase of treasury shares		**-**	(28,554)
Purchase of shares by long term incentive plan trust		**(14,067)**	(11,582)
Dividends paid		**(26,158)**	(25,902)
Movements in current and non current restricted cash balances		**(9,267)**	-
Proceeds from secured bank loan		**11,878**	-
Proceeds from non-controlling shareholder loans		**3,492**	-
Secured bank loan repayments		**(1,041)**	-
Finance lease repayments		**(316)**	-
Interest paid		**(373)**	-
Net cash used in financing activities		**(31,204)**	(65,535)
Net increase / (decrease) in cash and cash equivalents		**6,143**	(7,619)
Cash and cash equivalents at start of year		**76,661**	87,885
Foreign currency exchange loss in cash and cash equivalents		**(2,228)**	(3,605)
Cash and cash equivalents at end of year	18	**80,576**	76,661

Notes 1 to 35 on pages 55 to 107 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

1 March 2010

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2009

	Attributable to equity holders of the Company (see Note 19)												
	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 (Note 19)	496,597	50	6,691	-	-	-	-	-	-	-	6,741	-	6,741
Own shares acquired:													
By the long term incentive plan trust - 540,000 ordinary shares (Notes 19 & 21)	-	-	-	-	-	-	-	(14,067)	-	-	(14,067)	-	(14,067)
By the Group - nil ordinary shares (Note 19)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive income - income statement	-	-	-	-	-	-	-	-	-	56,946	56,946	1,529	58,475
Total comprehensive income - foreign exchange retranslation	-	-	-	864	-	-	-	-	-	-	864	612	1,476
Total comprehensive income - fair value changes (Note 19)	-	-	-	-	194	-	-	-	-	-	194	187	381
Business combinations - Sportsbet (Note 16)	-	-	-	-	-	-	-	-	-	-	-	8,310	8,310
Business combinations - IAS (Note 19)	-	-	-	-	(452)	-	-	-	-	452	-	-	-
Deferred tax balance transfer (Note 19)	-	-	-	-	258	-	-	-	-	-	258	294	552
Discount on loan from non-controlling interest (Notes 19 & 25)	-	-	-	-	-	256	-	-	-	-	256	245	501
Equity-settled transactions - expense recorded in income statement (Note 21)	-	-	-	-	-	-	-	-	5,841	-	5,841	-	5,841
Equity-settled transactions - vestings (Note 19)	-	-	-	-	-	-	-	3,735	(3,234)	(143)	358	-	358
Transfer to retained earnings on exercise of share options (Note 19)	-	-	-	-	-	-	-	-	(1,372)	1,372	-	-	-
Dividends to shareholders (Note 20)	-	-	-	-	-	-	-	-	-	(26,158)	(26,158)	-	(26,158)
Balance at 31 December 2009	49,767,339	4,977	18,009	518	-	1,392	(34,177)	(31,858)	14,968	184,644	158,473	11,177	169,650

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2009
CONTINUED

	Attributable to equity holders of the Company (see Note 19)											
	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 2008	49,225,752	4,923	10,819	-	-	1,136	(5,975)	(13,089)	10,013	109,535	117,362	-	117,362
Shares issued (Note 19)	44,990	4	499	-	-	-	-	-	-	-	503	-	503
Own shares acquired:													
By the long term incentive plan trust - 599,000 ordinary shares (Notes 19 & 21)	-	-	-	-	-	-	-	(11,582)	-	-	(11,582)	-	(11,582)
By the Group - 1,484,000 ordinary shares (Note 19)	-	-	-	-	-	-	(28,202)	-	-	(352)	(28,554)	-	(28,554)
Total comprehensive income - income statement	-	-	-	-	-	-	-	-	-	68,817	68,817	-	68,817
Total comprehensive income - foreign exchange retranslation	-	-	-	(346)	-	-	-	-	-	-	(346)	-	(346)
Equity-settled transactions - expense recorded in income statement (Note 21)	-	-	-	-	-	-	-	-	6,874	-	6,874	-	6,874
Equity-settled transactions - vestings (Note 19)	-	-	-	-	-	-	-	3,145	(3,033)	(44)	68	-	68
Transfer to retained earnings on exercise of share options (Note 19)	-	-	-	-	-	-	-	-	(121)	121	-	-	-
Dividends to shareholders (Note 20)	-	-	-	-	-	-	-	-	-	(25,902)	(25,902)	-	(25,902)
Balance at 31 December 2008	49,270,742	4,927	11,318	(346)	-	1,136	(34,177)	(21,526)	13,733	152,175	127,240	-	127,240

Notes 1 to 35 on pages 55 to 107 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

1 March 2010

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. **General information**

Paddy Power plc (the 'Company') and its subsidiaries (together referred to as the 'Group') provide sports betting services through a chain of licensed betting offices ('Paddy Power Bookmaker'), together with online interactive sports betting services ('paddypower.com') and telephone sports betting ('Dial-a-Bet'). The Group also provides online gaming services through 'paddypower.com', 'paddypowerpoker.com', 'paddypowercasino.com' and 'paddypowerbingo.com', and financial spread betting services through 'paddypowertrader.com'. It provides these services principally in the United Kingdom and Ireland. It also provides business-to-business services globally. In 2009, the Group entered the Australian internet and telephone sports betting markets with the acquisition of interests in Sportsbet Pty Limited ('Sportsbet') and International All Sports Limited ('IAS').

The Company is a public limited company incorporated and domiciled in the Republic of Ireland and has its primary listing on the Irish Stock Exchange. The address of its registered office is set out on the first page of this Annual Report.

The consolidated financial statements of the Group for the year ended 31 December 2009 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 1 March 2010.

2. **Basis of preparation and summary of significant accounting policies**

The consolidated 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 consolidated financial statements are presented in euro, the Company's functional currency, rounded to the nearest thousand.

Further to IAS Regulation (EC1606/2002) ('Accounting standards adopted for use in the EU'), EU law requires that the annual consolidated financial statements of the Group be prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted by the European Union ('EU'). The consolidated financial statements have been prepared on the basis of IFRSs adopted by the EU and effective for accounting periods ending on or before 31 December 2009. The accounting policies set out below have been applied consistently by Group entities.

The accounting policies applied in the preparation of these consolidated financial statements have been applied consistently during the year and prior year.

Recent accounting pronouncements

The IFRSs adopted by the EU applied by the Company and Group in the preparation of these consolidated financial statements are those that were effective for accounting periods ending on or before 31 December 2009. The IASB and the International Financial Reporting Interpretations Committee ('IFRIC') have issued the following standards and interpretations which were effective and significant for the Group in the year ended 31 December 2009:

IFRS 8 'Operating Segments'

This standard is effective from 1 January 2009 and replaces IAS 14 'Segment Reporting'. IFRS 8 introduces the 'management approach' to segment reporting and requires disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. As a result of the implementation of the standard, the Group has revised the business segments for which financial information is disclosed (see Note 4). As IFRS 8 concentrates on disclosure of financial information, there has been no impact on recognition and measurement within these consolidated financial statements. Operating segment disclosures in respect of the year ended 31 December 2008 have been restated in line with the requirements of IFRS 8 and in respect of the revised business segments.

Revised IAS 1 – IAS 1(2007) 'Presentation of Financial Statements'

This revised standard is effective from 1 January 2009 and is aimed at improving the ability of users of financial reports to analyse and compare information presented in financial statements. Among the changes introduced by the revised standard are new titles for a number of the primary financial statements in order to reflect their function more clearly; the balance sheet now becomes the 'statement of financial position', while the statement of recognised income and expense is now known as the 'statement of comprehensive income'. The Group has adopted the 'two separate statements approach' of presenting items of income and expense and the components of other comprehensive income. All changes in equity arising from transactions with owners in their capacity as owners are required to be presented separately from non-owner changes in equity in the 'consolidated statement of changes in equity'.

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

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

- Revised IFRS 3, 'Business Combinations (2008)' (effective for the Group's 2010 consolidated financial statements) will impact on the amounts recorded in goodwill and in the income statement for business combinations, and incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - Any non-controlling interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement': Eligible Hedged Items (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC 17, 'Distribution of Non-cash Assets to Owners' (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Amendments to IFRS 5, 'Measurement of Non-current Assets Held for Resale and Discontinued Operations' (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Revised IAS 27, 'Consolidated and Separate Financial Statements' (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.

Basis of consolidation

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

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

Judgements and estimates

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes and in Note 35:

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

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

Income

The services provided by the Group comprise sports betting, fixed odds games betting, online casino and games, peer to peer games including online poker and bingo, financial spread betting and business-to-business services. Income is stated exclusive of value added and general sales taxes and certain free bets, promotions and bonuses.

The Group's betting and gaming activities, with the exception of peer to peer games and financial spread betting on which commission income and tournament fees are earned and business-to-business services on which fees are earned, are classified as derivative financial instruments.

Income from retail, online sportsbook and telephone betting activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end.

Income from fixed odds games and the online casinos represents net winnings ('customer drop'), being amounts staked net of customer winnings.

Income from peer to peer games and financial spread betting represents commission income ('rake') and tournament fees earned from games completed by the period end. Income from business-to-business services represents fees charged for the services provided in the period.

These derivatives are recognised initially at fair value and subsequently at fair value through profit or loss, within the income line as this represents the Group's principal activity. Commission and other fee income earned is also recorded within income but is analysed separately in the notes to the financial statements.

The Group does not enter into any other derivative activities other than those described above.

Finance income

Interest income is recognised on an accruals basis by reference to the principal outstanding and the effective rate of interest.

Finance expense

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

Operating segment reporting

Operating segments are distinguishable components of the Group that have been established based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Geographical segments provide services within a particular economic environment that are subject to risks and rewards that are different from those components operating in alternative economic environments. The Group has determined that its operating segments of online (ex Australia), Irish retail, UK retail, telephone (ex Australia) and Australia are its reportable operating segments. The Group has also determined that its reportable geographic segments are UK, Australia and Ireland and rest of world. See Note 4 for further information on operating and geographic segments.

Foreign currency

Functional and presentation currency

The Group and Company financial statements are presented in euro which is also the Company's functional currency. Items included in the financial statements of each of the Group's activities are measured using the currency of the primary economic environment in which the entity operates, which is primarily the euro, pound sterling and Australian dollar.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Non monetary assets that are carried at historical cost are not subsequently retranslated. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to functional currencies at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

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

Financial statements of foreign operations
To the extent that the Group's foreign operations are considered to have functional currencies which are different from the Group's presentational currency, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation and long term intra-group loans that are part of the net investment because repayment is not planned or foreseen, are translated to euro at foreign exchange rates ruling at the statement of financial position date. The revenues and expenses of these foreign operations are translated to euro at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on translation are recognised directly in equity.

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

Business combinations
Acquisitions of subsidiaries are accounted for using the purchase method. The cost of acquisition is measured at the date of purchase and represents the aggregate of the fair values of assets given, liabilities incurred or assumed and any equity instruments issued by the Group in exchange for control of the acquiree, plus any costs incurred that are directly attributable to the business combination. The identifiable assets and liabilities of the acquiree are recognised at their fair values at the date of acquisition.

Goodwill recognised under Irish Generally Accepted Accounting Practice ('GAAP') prior to the date of transition to IFRS is stated at net book value as at the transition date. Goodwill recognised subsequent to 1 January 2004, representing the excess of purchase consideration over the fair value of net identifiable assets acquired defined in accordance with IFRS 3 'Business Combinations', is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is reviewed for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises.

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

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

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

Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight line basis over their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings: Freehold	50 years
Buildings: Leasehold improvements	unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 - 7 years
Computer equipment	3 years
Motor vehicles	5 years

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

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

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

Intangible assets

Intangible assets, principally comprising computer software, licences, brands and customer relationships, are capitalised at cost and amortised over their estimated useful economic lives on a straight line basis, with the exception of customer relationships which are amortised on a reducing balance basis.

Computer software includes the costs incurred in acquiring and bringing specific software programs into use. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business (as the existence of a premises is a pre-requisite for obtaining such licences) and licences for electronic point of sale ('EPOS') system software.

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

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

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

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

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

Impairment

Financial assets (including receivables)

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

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

Non-financial assets

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

Non-derivative financial instruments

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual right to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated impaired amounts.

Subsequent to initial recognition, cash and cash equivalents and trade and other payables are measured at amortised cost.

Cash and cash equivalents for the purpose of the cash flow statement comprise cash and call deposits with an original maturity of three months or less.

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

Financial assets

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

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

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

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

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

Leases
Leased assets, under the terms of which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. The assets acquired by way of finance lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability, and the charge is allocated to the income statement during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

All other leases are classified as operating leases and are not recognised on the statement of financial position.

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset to the extent that they relate to income taxes levied by the same taxation authority.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is considered probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Long service leave

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

Lease reinstatement

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

Onerous contracts

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

Employee benefits

Pensions

The Group operates a number of defined contribution schemes under which the Group pays fixed contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the income statement as the obligation falls due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in future payments is available.

Long term incentive bonus plans

The Group accounts for obligations relating to long term incentive bonus plans for executive directors and other employees at the present value of the defined benefit obligation at the statement of financial position date. The service cost relating to such plans is allocated to the financial years over which service under the plan is rendered by the employee. The income statement expense represents the increase in the present value of the defined benefit obligation resulting from employee service in the current period, in addition to any associated finance costs where material.

Share-based payments

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

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

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

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

Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

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

Repurchase of share capital (treasury shares)
When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

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

Dividends
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the statement of financial position date are disclosed in Note 34.

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

Bank and credit card charges
Bank and credit card charges and fees that are considered integral to the operations of the Group's business are recognised in 'total operating expenses' in the consolidated income statement. Bank and credit card charges and fees that are related to the Group's financing activities are recognised in 'financial income and expense' in the consolidated income statement.

3. Financial risk management

The Group has the following risk exposures in relation to its use of financial instruments:
- Market risk
- Interest rate risk
- Credit risk
- Liquidity risk

Set out below is information on the Group's exposure to each of the above risks, and what its objectives, policies and processes are for measuring and managing those risks. Information is also provided on how the Group manages its capital. Quantitative disclosures in respect of these risks are included throughout these consolidated financial statements and, in particular, in Notes 25 to 31.

General
The Board of Directors of Paddy Power plc has overall responsibility for the management of the Group's risks. This responsibility is delegated to a number of committees over which the Board has oversight. The primary Board committees set up to manage risks are the Risk Committee and the Audit Committee. Both these Committees report regularly to the Board on their activities. The oversight of the Group's treasury operations is performed by an Investment Committee, chaired by the Finance Director, who reports in turn to the Board on its activities.

Market risk
Market risk relates to the risk that changes in prices, including sports betting prices/ odds, foreign currency exchange rates and interest rates (see also interest rate section below), will impact the Group's income or the value of its financial instruments. Market risk management has the function of managing and controlling the Group's exposures to market risk to within acceptable limits, while at the same time ensuring that returns are optimised.

The management of market risk is performed by the Group under the supervision of the Risk Committee and the Investment Committee and according to the guidelines approved by them. The Group will utilise hedges where there is an identified requirement to manage profit or loss volatility.

Sports betting prices/ odds
Managing the risks associated with sportsbook bets is a fundamental part of the Group's business. The Group has a separate Risk Department which has responsibility for the compilation of bookmaking odds and for sportsbook risk management. This function reports directly to the Group Chief Executive and to the Risk Committee of the Board. The Risk Department is responsible for the creation and pricing of all betting markets and the trading of those markets through their life. A mix of traditional bookmaking approaches married with risk management techniques from other industries is applied, and extensive use is made of mathematical models and information technology. The Group has set predefined limits for the acceptance of sportsbook bet risks. Stake and loss limits are set by reference to individual sports, events and bet types. These limits are subject to formal approval by the Risk Committee. Risk management policies also require sportsbook bets to be hedged with third parties in certain circumstances to minimise potential losses. The profits and losses recorded on sportsbook hedging activities are recorded in 'income' in the income statement.

Foreign currency risk
The Group is exposed to currency risk in respect of income, expenses, receivables, cash and cash deposits, other financial assets and financial liabilities (primarily trade payables and customer balances) that are denominated in currencies that are not the functional currency of the entities in the Group. The currencies in which transactions are primarily denominated are the euro, the pound sterling ('GBP'), the Australian dollar ('AUD') and the US dollar ('USD').

It is Group policy to ensure that foreign currency denominated liabilities, primarily customer balances, are broadly matched by foreign currency denominated assets, primarily cash deposits. This is generally achieved by monthly sales of net foreign currency inflows into euro (or the subsidiaries' functional currency) at spot rates. The Group's Australian activities are conducted by separate subsidiaries whose accounts are denominated in AUD. Foreign exchange impacts therefore arise on the retranslation of their income and expense into euro for Group reporting purposes. Subject to Investment Committee approval, the Group may make use of forward contracts, intentional imbalances between foreign currency denominated liabilities and assets, and derivatives to manage foreign currency exposures on expected future cash flows. During the years ended 31 December 2009 and 2008, the Group did not utilise either foreign currency forward contracts or derivatives.

3. **Financial risk management** (continued)

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

The loss on retranslation of cash and cash equivalent balances in the year ended 31 December 2009 was €2,228,000 (2008: €3,605,000). This loss has been included within 'other expenses' in the income statement rather than as a financial expense, as the directors consider that the loss relates to operations as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised (as described above). Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the statement of cash flows.

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

Interest rate risk

The Group had no borrowings at 31 December 2008. During 2009, the acquisition of Sportsbet and IAS resulted in borrowings being consolidated in the Group's statement of financial position. The Group acquired finance lease debt with the acquisition of a controlling interest in Sportsbet in July 2009. The acquisition of IAS resulted in the Group acquiring additional finance lease debt from IAS and also part funding the acquisition of IAS through a combination of secured bank debt and Sportsbet shareholder loans (both from the Paddy Power Group and from the 49% non-controlling shareholders in Sportsbet, according to their respective shareholdings). Finance lease debt, amounting to €1,887,000 at 31 December 2009 (2008: €nil), is subject to repayment at fixed rates of interest ranging from 8.7% to 15.0% and at a weighted average rate of interest of approximately 11.9%. The secured bank debt of €11,453,000 at 31 December 2009 (2008: €nil) is repayable on a quarterly basis up to 30 September 2012 and bears interest at the bank's base rate plus a margin (at 31 December 2009 the interest rate was 7.89%). The shareholder loans, which had a face value of €3,682,000 and a carrying value of €3,181,000 at 31 December 2009 (2008: €nil), are from the 49% non-controlling shareholders in Sportsbet and are non-interest bearing. No derivative financial instruments are used to manage the interest rate risk inherent in the Group's borrowings.

Excess cash funds are invested in short term interest-bearing bank deposits on which the interest rate is fixed for the term of the deposit. Group treasury policy imposes limits on the terms over which cash can be placed on deposit. The reductions in both the European Central Bank and Bank of England interest rates in the second half of 2008 and into 2009 negatively impacted interest earned during the year. Furthermore, as a consequence of the financial market instability in 2008 and 2009 and to minimise the credit risk of cash deposits, the Group has at times reduced the average maturity period of deposits placed and invested cash with financial institutions with only the highest credit standing. These actions also adversely impacted the interest rate earned on deposits.

Credit risk

The Group's credit risk represents the risk that a financial loss may result in the event that a counterparty to a financial instrument, a trading partner or customers of the Australian businesses fail to meet their contractual obligations.

3. **Financial risk management** (continued)

Trade and other receivables

The Group's sports betting and gaming businesses (excluding Australia) are cash and credit card/ debit card businesses where there is a requirement that the customer pays in advance when a transaction is entered into. An option for customers to avail of credit is normal practice in the Australian online and telephone sports betting markets. Accordingly, the Australian sports betting business model is one where credit is sometimes granted to customers and the Group's acquisition of Sportsbet and IAS during the year has resulted in trade receivable balances being recorded in the Group's statement of financial position as at 31 December 2009. Trade receivables (after provisions for impairment) amounted to €6,391,000 at 31 December 2009 (2008: €nil). Credit lines are provided to customers on a case by case basis for higher value customers or based on credit ratings for smaller value customers. Individual credit limits are decided upon by the credit control function in the first instance after taking into account credit and background reference checks. The collectability of outstanding trade receivable balances is closely monitored by reference to aged receivables and other reports and any receivable balances considered to be uncollectible are provided against when identified. Trade and other receivables impairment allowances are established against individual receivable balances when there is objective evidence that such balances are likely to be uncollectible, either in full or in part. There is no material concentration of sales with individual customers.

Cash investments

It is Group treasury policy to limit investments in cash deposits to counterparties that have a Moody's (or equivalent) long term credit rating of Aa2 or higher and a Moody's (or equivalent) short term credit rating of P1, unless otherwise specifically approved by the Investment Committee (as at the date of this report there are specific approvals for a number of lower rated banks where they have been guaranteed by the Irish state or invested in by the UK government and are perceived by the Investment Committee to be systemically important).

A list of approved counterparties is maintained by the Group. There are also limits on the percentage of total cash on deposit that can be invested with an individual counterparty. Management does not expect any counterparty to fail to meet its obligations as of the statement of financial position date and the date of this report. There are also restrictions on the types of cash products that can be invested in.

During 2008 and 2009, in response to financial market instability, the Group at certain times restricted its cash deposit investments to counterparties that had higher long term credit ratings and shortened the maturities of deposits placed. The Group continues to carefully measure counterparty risk, by monitoring credit agency ratings, Credit Default Swap ('CDS') spread prices and other public information, and to take action to mitigate such risks as are identified.

Guarantees

The Group policy is to only provide guarantees in respect of certain commitments of wholly-owned subsidiaries of the Group. The guarantees entered into are generally in respect of certain third party obligations of subsidiaries, such as overdraft facilities. As of 31 December 2009, there were no amounts outstanding in the consolidated financial statements under these guarantees (2008: €nil).

During 2008, the Group put in place certain third party bank guarantees in favour of the Isle of Man and Maltese gambling regulatory bodies. These guarantees (which are more fully described in Note 31) are required by the terms of gambling licences and cover the value of player funds held by certain Group companies. In addition, our Australian businesses have a number of third party guarantees (see also Note 31 for further details). Certain of these guarantees have been partly or fully cash backed by cash deposits which have been classified as either non current or current financial assets depending on when the relevant restrictions first end (see Note 18).

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

Liquidity risk

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

3. **Financial risk management** (continued)

The Group performs regular cash projections to ensure that there is sufficient cash on hand to meet its expected obligations as they fall due. The nature of the Group's business and the potential volatility in sporting results can result in significant differences between expected and actual short term cash flows. Consequently, a conservative approach is applied to cash forecasting and flexibility is built into the forecast to cover potentially adverse sporting results. Cash deposit placement time periods are decided upon by reference to cash inflows forecast and expected requirements in respect of the Group's financial obligations. The Group's treasury policy sets a maximum maturity on deposits of nine months. The overall maturity of deposits at 31 December 2009 and 2008 is set out in Note 18. It is the directors' belief that the Group's cash deposit balances can be withdrawn without significant penalty.

The Group has the following lines of credit:

- Loan facility of €11.5m (AUD18.3m) from National Australia Bank secured on the assets of Sportsbet (on a non recourse to shareholders basis), which was fully drawn at 31 December 2009 (2008: €nil). This loan facility relates to the part funding of the acquisition of IAS by Sportsbet. The loan facility reduces and repayment is required in the amount of €1.0m (AUD1.6m) each quarter until 30 September 2012 at which time the facility expires. The original loan facility amount was €12.5m (AUD20.0m). The loan bears interest at the bank's base rate plus a margin of 3.0%.
- Shareholder loans from the non-controlling shareholders in Sportsbet with a face value of €3.7m (AUD5.9m) and a carrying value of €3.2m (AUD5.1m) which were fully drawn down at 31 December 2009 (2008: €nil). These loans part funded the acquisition of IAS by Sportsbet. The loans are non-interest bearing.
- Unsecured bank overdraft facilities for working capital purposes totalling €7.5m. Interest is payable thereon at the bank's prime overdraft rate. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of Allied Irish Banks plc.
- Unsecured bank overdraft facility for working capital purposes totalling GBP6.5m (€7.3m). Interest is payable thereon at the bank's sterling base rate plus 0.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of AIB Group (UK) plc.

At 31 December 2009, none of the bank overdraft facilities were being utilised.

Capital management

The Group has historically funded its operations through internally generated cash. Borrowings do not form part of its capital structure, apart from the consolidation of debt within its majority-owned subsidiaries in Australia during 2009. The Group's financing and capital structure is kept under review by the Board. The Board is committed to capital discipline; however in the current environment a strong cash balance gives Paddy Power financial strength and flexibility for expansion organically or via acquisition, thereby creating more opportunity for the Group.

The Group has the authority to buy back up to ten percent of the Company's issued share capital between the dates of its Annual General Meetings ('AGM's), subject to the annual approval of its shareholders at the Company's AGM. No shares were acquired under this authority in 2009. During 2008, the Group acquired 1,484,000 Paddy Power plc ordinary shares (see Note 19). Shares bought back may either be cancelled or held in treasury. Since its first share buybacks in 2007, a total of 3,873,443 of the Company's own shares have been bought back, of which 2,139,443 were cancelled and the remaining 1,734,000 are held in treasury.

The Company's ordinary shares are also acquired on the market periodically by the Paddy Power plc Employee Benefit Trust (the 'Trust') to meet the Trust's obligations under share award schemes. These shares are held by the Trust and ownership is transferred to the Trust's beneficiaries if and when the related share awards vest.

There were no significant changes in the wholly-owned Group's approach to capital management during 2009.

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

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

4. Operating segments

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

Income

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

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

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

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

(a) Reportable business segment information

The Group considers that its reportable segments are as follows:
- Online (ex Australia)
- Irish retail
- UK retail
- Telephone (ex Australia)
- Australia

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

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

4. Operating segments (continued)

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

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

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

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

Reconciliation of reportable segments to Group totals:

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

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

(2) Included in interest income in respect of 2009 is €723,000 (2008: €3,297,000) relating to the online (ex Australia), Irish retail, UK retail and telephone (ex Australia) ('non-Australia') segments and €177,000 (2008: €nil) relating to the Australia segment.

(3) Included in interest expense is €126,000 (2008: €nil) relating to the non-Australia segments (primarily relating to guarantee fees) and €276,000 (2008: €nil) relating to the Australia segment.

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

4. **Operating segments** (continued)

(b) Geographical segment information

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

Group revenues by geographical segment are as follows:

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

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

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

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

Seasonality

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

5. Direct betting costs

Direct betting costs comprise:

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

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

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

Other direct betting costs comprise payments to third parties for new online customers acquired, data rights which mainly comprise costs incurred in respect of British Horseracing Board and UK statutory levies, product fees payable to Australian state racing authorities, prize and tournament costs, customer bad debt charges and other miscellaneous direct betting costs.

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

The exceptional item relates to a refund received in 2008 of Irish value added tax ('VAT'), originally paid to the Irish Revenue Commissioners in respect of prior periods, on certain British Horseracing Board levies charged by BHB Enterprises plc to the Irish retail business segment. The refund follows a determination that Irish VAT was not in fact due on those levies.

6. Employee expenses and numbers

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

	2009	2008
The average number of persons employed by the Group (including executive directors), all of whom were involved in the provision of sports betting and gaming services, during the year was	**2,109**	1,787

7. Directors' emoluments and transactions with key management personnel

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

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

1. Patrick Kennedy is a non-executive director of Elan Corporation, plc for which he received fees of €53,338 in the year ended 31 December 2009 (2008: €25,000). In 2009, he was also conditionally awarded 7,500 Restricted Stock Units over Elan Corporation, plc shares.
2. Nigel Northridge was appointed Chairman of the Company on 1 January 2009.
3. Tom Grace is Chairman of the Audit Committee.
4. Fintan Drury was Chairman of the Company during the year ended 31 December 2008.
5. Jane Lighting was appointed to the Board on 1 September 2009.
6. Pádraig Ó Ríordáin was appointed to the Board on 8 July 2008 and was appointed as Chairman of the Remuneration Committee on 21 August 2008.
7. David Power was Chairman of the Remuneration Committee until 21 August 2008 and is Chairman of the Risk Committee.

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

Other transactions with directors

There were no loans outstanding to any director at any time during the year. Details of directors' interests in share awards and share options are set out on page 36. Other related party transactions between the Group and the directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

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

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

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

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

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

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

Transactions with key management personnel comprising executive and other senior management

Key management personnel compensation is as follows:

	2009 €'000	2008 €'000
Wages and salaries	**4,434**	4,388
Social security costs	**569**	678
Defined contribution pension and life assurance costs	**562**	550
Provision for executive director long term incentive bonus plan (1)	**792**	-
Share-based payments	**3,015**	4,173
Other staff costs	**205**	209
	9,577	9,998

	2009 €'000	2008 €'000
Executive directors (excluding share-based payments)	**2,805**	2,763
Other key management personnel	**2,396**	2,384
Provision for executive director long term incentive bonus plan (1)	**792**	-
Social security costs	**569**	678
Share-based payments	**3,015**	4,173
	9,577	9,998

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

8. Financial income and expense

	2009 €'000	2008 €'000
Recognised in profit or loss:		
Financial income:		
On financial assets at amortised cost:		
Interest income on short term bank deposits	**900**	3,297
Financial income	**900**	3,297
Financial expense:		
On financial liabilities at amortised cost:		
Bank loans	**247**	-
Bank guarantees	**113**	-
Finance leases	**29**	-
Unwinding of the discount on provisions and other non current liabilities	**13**	-
Financial expense	**402**	-

	2009 €'000	2008 €'000
Recognised in equity:		
Foreign exchange gain / (loss) on revaluation of the net assets of foreign currency denominated subsidiaries	**1,476**	(346)
	1,476	(346)

9. Statutory and other information

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

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

10. Income tax expense

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

10. Income tax expense (continued)

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

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

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

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

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

11. Earnings per share

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

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

12. 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 2008	48,290	68,670	17,240	923	135,123
Additions	2,780	8,696	1,793	372	13,641
Additions - business combinations (Note 16)	-	36	-	-	36
Disposals	(238)	(1,031)	(3)	(132)	(1,404)
Foreign currency retranslation adjustment	(50)	(271)	(29)	-	(350)
Balance at 31 December 2008	50,782	76,100	19,001	1,163	147,046
Additions	5,207	8,343	4,624	69	18,243
Additions - business combinations (Note 16)	887	248	3,333	38	4,506
Disposals	(90)	(211)	(215)	(10)	(526)
Foreign currency retranslation adjustment	209	159	255	3	626
Balance at 31 December 2009	**56,995**	**84,639**	**26,998**	**1,263**	**169,895**
Accumulated depreciation					
Balance at 1 January 2008	14,229	37,838	13,272	352	65,691
Depreciation charges	2,115	9,156	2,765	178	14,214
Impairment charges / (credits)	(51)	100	(1)	-	48
Disposals	(52)	(782)	(3)	(87)	(924)
Foreign currency retranslation adjustment	(1)	(21)	(2)	-	(24)
Balance at 31 December 2008	16,240	46,291	16,031	443	79,005
Depreciation charges	2,514	9,069	2,686	186	14,455
Impairment credits	(82)	(215)	(13)	-	(310)
Disposals	(22)	(134)	(20)	-	(176)
Foreign currency retranslation adjustment	55	42	95	2	194
Balance at 31 December 2009	**18,705**	**55,053**	**18,779**	**631**	**93,168**
Net book value					
At 31 December 2009	**38,290**	**29,586**	**8,219**	**632**	**76,727**
At 31 December 2008	34,542	29,809	2,970	720	68,041

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

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

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

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

13. Intangible assets

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

	Computer software €'000	Licences €'000	Brands €'000	Customer relationships €'000	Total €'000
Cost					
Balance at 1 January 2008	14,819	4,006	-	-	18,825
Additions	3,188	340	-	-	3,528
Additions - business combinations (Note 16)	-	22,258	-	-	22,258
Disposals	-	-	-	-	-
Foreign currency retranslation adjustment	(2)	(8)	-	-	(10)
Balance at 31 December 2008	18,005	26,596	-	-	44,601
Additions	2,725	596	-	-	3,321
Additions - business combinations (Note 16)	1,611	-	13,744	-	15,355
Disposals	(20)	-	-	-	(20)
Foreign currency retranslation adjustment	87	(2,280)	998	-	(1,195)
Balance at 31 December 2009	**22,408**	**24,912**	**14,742**	**-**	**62,062**
Amortisation					
Balance at 1 January 2008	9,049	1,130	-	154	10,333
Amortisation charges	2,270	544	-	(154)	2,660
Impairment charges / (credits)	3	(6)	-	-	(3)
Disposals	-	-	-	-	-
Foreign currency retranslation adjustment	-	(1)	-	-	(1)
Balance at 31 December 2008	11,322	1,667	-	-	12,989
Amortisation charges	2,669	496	-	-	3,165
Impairment charges	803	-	-	-	803
Disposals	-	-	-	-	-
Foreign currency retranslation adjustment	21	-	-	-	21
Balance at 31 December 2009	**14,815**	**2,163**	**-**	**-**	**16,978**
Net book value					
At 31 December 2009	**7,593**	**22,749**	**14,742**	**-**	**45,084**
At 31 December 2008	6,683	24,929	-	-	31,612

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

The value of betting shop licences of €19,975,000 (2008: €22,258,000) acquired as a result of the purchase of D McGranaghan Limited in 2008 (see Note 16) are not being amortised as the directors consider these licences to have an indefinite life because:

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

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

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

13. Intangible assets (continued)

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

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

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

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

14. Goodwill

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

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

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

Goodwill on UK retail properties arose from the acquisition of two London bookmaking businesses in 2004 and the acquisition of a retail bookmaking company in Northern Ireland in 2008 (see Note 16).

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

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets
In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2009.

14. **Goodwill** (continued)

The Group's operating segments include the following amounts in respect of goodwill and indefinite life intangible assets (comprising licences acquired as part of the purchase of the D McGranaghan Limited business in 2008 and brands acquired as part of the purchase of Sportsbet and IAS in 2009 – see Notes 13 and 16):

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

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

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

The recoverable amount of the Irish retail underlying cash generating units (relating to 37 retail units) was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2008: 2%) per annum and is based on an weighted average income growth rate of 3% (2008: 3%) and a gross win of 14% (2008: 14%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2008: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2009 €'000	31 December 2008 €'000
Irish retail - acquisition of three bookmakers in 2007	**5,019**	5,019

The recoverable amount of the Irish retail underlying cash generating units for the 2007 acquired businesses was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2008: 2%) per annum and is based on a weighted average income growth rate of 3% (2008: 3%) and a gross win of 14% (2008: 13%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2008: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

14. Goodwill (continued)

	31 December 2009 €'000	31 December 2008 €'000
Irish retail - acquisition of bookmaking business in 2009	**1,144**	-

The recoverable amount of the Irish retail underlying cash generating units for the 2009 acquired business was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% per annum and is based on a weighted average income growth rate of 3% and a gross win of 13%, which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in the location currently occupied by the underlying cash generating unit for the foreseeable future. A pre-tax discount rate of 10%, which reflects the specific risks relating to the underlying business segment, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2009 €'000	31 December 2008 €'000
UK retail - 2004 acquisitions	**976**	976

The recoverable amount of the two London underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2008: 2%) per annum and is based on a weighted average income growth rate of 2% (2008: 3%) and a gross win of 12% (2008: 13%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2008: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the UK retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2009 €'000	31 December 2008 €'000
UK retail - Northern Ireland acquisition 2008	**27,247**	30,362

The recoverable amount of the D McGranaghan Limited underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2008: 2%) per annum and is based on a weighted average income growth rate of 3% (2008: 4%) and a gross win of 13% (2008: 12%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2008: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the D McGranaghan Limited goodwill and licences recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

14. **Goodwill** (continued)

	31 December 2009 €'000	31 December 2008 €'000
Australia - Sportsbet acquisition 2009	**37,955**	-

The recoverable amount of the Sportsbet Pty Limited underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 3% per annum and is based on a weighted average income growth rate of 3% and a gross win of 7%, which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. A pre-tax discount rate of 13%, which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the Sportsbet Pty Limited goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

	31 December 2009 €'000	31 December 2008 €'000
Australia - IAS acquisition 2009	**22,375**	-

The recoverable amount of the International All Sports Limited underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% per annum and is based on a weighted average income growth rate of 3% and a gross win of 7%, which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. A pre-tax discount rate of 13%, which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believe that any reasonably possible change in the key assumptions on which the International All Sports Limited goodwill and brands recoverable amounts are based would not cause their carrying amounts to exceed their recoverable amounts.

The primary assumptions used by management in assessing the recoverable amounts of the relevant retail cash generating units over the initial five year review period are as follows:

	Irish retail - 1988 amalgamation	Irish retail - 2007 acquisitions	Irish retail - 2009 acquisition	UK retail - 2004 acquisitions	UK retail - NI acquisition 2008	Australia - Sportsbet acquisition 2009	Australia - IAS acquisition 2009
Growth in number of bets per annum (on compound annual growth rate basis)	2%	2%	3%	0.5%	2%	n/a	n/a
Growth in average stake per bet per annum (on compound annual growth rate basis)	1%	1%	1%	1%	1%	n/a	n/a
Growth in amounts staked	n/a	n/a	n/a	n/a	n/a	5%	3%
Gross win % (average and as percentage of amounts staked)	14%	14%	13%	12% - 13%	13%	7%	7%
Cost of sales % (of amounts staked)	1% - 2%	1% - 2%	1% - 2%	5%	2%	3%	3%
Cost inflation per annum	2%	2%	2%	2%	2%	4%	4%

The assumptions above are based on past experience of the Group's businesses, management's expectations for market development, growth in market share, gross win margin percentages and cost inflation for the five year period.

The discount rate applied to the cash flows is based on the risk free rate for ten years plus government bonds, adjusted for a risk premium that reflects both the increased risk of investing in equities and the systemic risk of the cash generating units. The risk premium is calculated using the equity market risk premium (being the increased return required by investors in the equity market as a whole over and above the risk free rate available) and the risk adjustment applied to reflect the risk of the specific cash generating unit relative to the market as a whole. The discount rates reflect the market conditions applicable to the Group and to the particular cash generating units being reviewed.

Based on the reviews as described above, no impairment has arisen.

15. Financial assets (non current)

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

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

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

Sportsbet buyout call options

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

Available-for-sale investments

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

16. Business combinations

Year ended 31 December 2009

Australia acquisitions

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

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

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

The net cash consideration is analysed as:	
Cash consideration before acquisition expenses	24,627
Acquisition expenses	2,172
Cash consideration	26,799
Cash acquired	(6,846)
Net cash consideration for acquisition of Sportsbet	19,953

16. Business combinations (continued)

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

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

Acquisition of International All Sports Limited

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

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

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

The net cash consideration is analysed as:	
Cash consideration before acquisition expenses	19,367
Acquisition expenses	201
Cash consideration	19,568
Cash acquired	(10,164)
Net cash consideration for acquisition of IAS	9,404

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

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

16. **Business combinations** (continued)

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

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

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

Shop property acquisition

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

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

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

The net cash consideration is analysed as:	
Cash consideration	1,000
Acquisition expenses	64
Net cash consideration for acquisition	1,064

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

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

16. Business combinations (continued)

Year ended 31 December 2008

D McGranaghan Limited

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

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

	Book values on acquisition €'000	Fair value adjustments €'000	Fair values 31 December 2008 €'000
Identifiable net assets acquired:			
Property, plant and equipment	468	(432)	36
Intangible assets - licences	-	22,258	22,258
Cash and cash equivalents	2,427	-	2,427
Other net current liabilities	(663)	-	(663)
Deferred income tax liability	(38)	(6,232)	(6,270)
	2,194	15,594	17,788
Goodwill arising on acquisition			8,104
Consideration (including associated purchase costs)			25,892

The net cash consideration is analysed as:	
Cash consideration before acquisition expenses	25,493
Acquisition expenses	399
Cash consideration	25,892
Cash acquired	(2,427)
Net cash outflow before foreign currency translation adjustment	23,465

The value attributed to goodwill reflects both the low fair values of the property, plant and equipment acquired as part of the purchase due to the required post-acquisition re-branding of the shops, and the deferred tax liability arising on the value of the licences intangible assets recognised on application of fair value accounting to the business combination.

Since the date of acquisition to 31 December 2008, the acquired business contributed €22.1m, €2.7m and €0.7m to amounts staked, income and operating profit, respectively.

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

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

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

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

17. Trade and other receivables

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

Trade and other receivables are non-interest bearing.

18. Cash and cash equivalents

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

The effective interest rate on short term bank deposits was 1.06% (2008: 3.31%); these deposits have an average original maturity date of 51 days (2008: 50 days). The short term bank deposits also have an average maturity date of 26 days from 31 December 2009 (2008: 39 days).

The directors believe that all short term bank deposits can be withdrawn without significant penalty.

Short term bank deposits are analysed by currency as follows:

	31 December 2009 €'000	31 December 2008 €'000
Euro	**53,836**	58,449
GBP	**10,137**	6,625
AUD	**12,610**	-
USD	**827**	1,173
	77,410	66,247

Financial assets

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

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

19. Share capital and reserves

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2008: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

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

In 2009, the Group made no purchases of the Company's own shares. During 2008, the Group purchased 1,484,000 of the Company's own shares on the market at prices ranging from €13.50 to €22.39 and at an average price of €19.00. The total cost of the shares purchased was €28,554,000, comprised of €28,202,000 for the shares themselves and a further €352,000 for other purchase related costs. The other purchase related costs were written off directly to retained earnings. All of the shares purchased in 2008 were held in treasury at 31 December 2009 and 2008; the total number of shares held in treasury at 31 December 2009 was 1,734,000 shares (2008: 1,734,000 shares). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to €34,177,000 as of 31 December 2009 (2008: €34,177,000). The value of treasury shares held by the Company at 31 December 2009 was €5,975,000 (2008: €5,975,000), with the remaining €28,202,000 of shares being held by Paddy Power Isle of Man Limited (2008: €28,202,000).

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

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

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

In 2009, an amount of €1,372,000 (2008: €121,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to retained earnings.

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year (measured in accordance with Irish GAAP) of €67.8m (2008: €70.5m), which includes a €50.0m (2008: €40.0m) dividend receivable from a subsidiary company.

20. Dividends paid on equity shares

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

21. Share schemes

Summary of share-based payments expense

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

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

All of the above schemes are treated as equity-settled in the financial statements as all can only be settled by the allocation of shares purchased in the market or by the issue of new shares.

General

The aggregate number of shares which may be utilised under the employee share option schemes and the LTIP in any ten year period may not exceed ten percent of the Company's issued ordinary share capital. The percentage of share capital which can be utilised under these schemes and the Sharesave Scheme comply with guidelines issued by the Irish Association of Investment Managers in relation to such schemes.

Summary of options outstanding

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

For the year ended 31 December 2009:

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

For the year ended 31 December 2008:

	Options outstanding at 1 January 2008	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2008
Share option scheme	676,435	-	(35,500)	(4,000)	636,935
Sharesave scheme	348,608	452,585	(74,451)	(40,990)	685,752
Total	1,025,043	452,585	(109,951)	(44,990)	1,322,687

21. Share schemes (continued)

The Group has the following employee share schemes:

The Paddy Power plc 2000 Restricted Share Scheme (the 'Restricted Scheme')
The Restricted Scheme was adopted by shareholders on 21 November 2000. Employees eligible to participate in the Restricted Scheme may not be participants in any other Company share option scheme (except for the Sharesave Scheme described below). In addition, to be eligible, a participant must have been an employee at 7 December 2000, must have had at least three years continuous service, and must have been listed in the allocation schedule attached to the Rules of the Restricted Scheme. The awards of shares granted under the Restricted Scheme were in the amounts of €3,175, €1,905 or €1,270 per eligible employee.

The shares cannot be sold within five years of the date of the award being granted. During this period of five years the shares are held by the Power Leisure Employee Benefit Trust for the benefit of the relevant employees.

At 31 December 2009, 18 ordinary shares (2008: 13,758) owned by employees were held on their behalf by Power Leisure Employee Benefit Trust. The movement in ordinary shares held is due to shares being granted to beneficiaries by the Power Leisure Employee Benefit Trust.

The Paddy Power plc November 2000 Share Option Scheme (the 'Share Option Scheme')
The Share Option Scheme was adopted by shareholders on 21 November 2000 and modified by the shareholders on 22 June 2004. The Share Option Scheme is open to directors, other than non-executive directors, and employees. Options may be granted within a period of ten years from 7 December 2000 at the higher of nominal and current market value. Options may not be exercised earlier than three years from the date of grant and may only be exercised if the Group meets certain targets and any further condition on exercise which the Board determines to be appropriate. These targets require real growth (Consumer Price Index ('CPI') plus five percent compounded annually) in earnings per share of the Group over a period of not less than three years following the grant of an option. Since November 2000, 1,600,472 options have been granted under the scheme. Options granted before 7 November 2002 do not fall within the scope of IFRS 2 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

Since November 2000, options over 1,078,806 shares have been exercised and options over 204,866 shares have lapsed. Options over 316,800 shares were outstanding at 31 December 2009 (2008: 636,935), of which 164,000 were exercisable at 31 December 2009 (2008: 225,635). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 1 January 2009	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2009	Earliest exercise date *	Exercise price	Market price at date of exercise
Granted after 7 November 2002							
45,951	-	-	(25,951)	20,000	February 2007	€8.15	€17.40 - €21.37
37,000	-	-	(27,000)	10,000	June 2007	€9.43	€16.55 - €21.85
13,684	-	-	(13,684)	-	September 2007	€9.80	€17.40
129,000	-	-	(99,000)	30,000	September 2008	€14.80	€20.33 - €24.75
15,000	-	-	(12,000)	3,000	March 2009	€12.55	€18.62 - €18.85
230,000	-	-	(129,000)	101,000	October 2009	€14.40	€17.00 - €25.49
166,300	-	(13,500)	-	152,800	September 2010	€24.17	-
636,935	**-**	**(13,500)**	**(306,635)**	**316,800**			

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

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

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

21. **Share schemes** (continued)

The Paddy Power plc Sharesave Scheme (the 'Sharesave Scheme')

The Sharesave Scheme was adopted by shareholders on 21 November 2000 and was subsequently approved by the Revenue Commissioners.

All employees (including executive directors) who have not less than 12 months continuous service with the Company or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. Options will normally be granted to all eligible employees in the 42 day period after the announcement of the interim or final results of the Company. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 75 per cent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme is €500.

Options granted before 7 November 2002 do not fall within the scope of IFRS 2 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

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

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

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

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

21. Share schemes (continued)

Long Term Incentive Plan

On 22 June 2004, the 2004 Long Term Incentive Plan ('LTIP') for senior executives was adopted by the Shareholders, under which the Remuneration Committee can make conditional grants of a number of Company shares to each eligible executive. The grants are subject to the rules of the scheme. In accordance with the rules, the grant will vest if the growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) is achieved over the minimum vesting period of three years. To the extent the grant does not vest in full in respect of the minimum vesting period, the award will continue in effect in accordance with the rules and will vest if the growth target is met over the four year period measured from the commencement of the minimum vesting period. To the extent the award does not vest in full in respect of such four year period, the grant will continue in effect in accordance with the rules and will vest if the growth target is met over the five year period measured from the commencement of the minimum vesting period, provided, however, that to the extent the grant has not vested on or before the latest vest date specified above, the grant will automatically lapse in its entirety immediately following such date.

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

Until the vesting of the award in accordance with the rules of the scheme, the grantholder will have no rights over or in respect of the shares subject to the grant and on vesting, the grantholder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the scheme. The grants are not transferable. In relation to the awards of shares granted in 2007, the relevant growth target has been met and eligible awards are expected to vest. Upon the vesting of a share award, as part of the grantholders' rights they also receive a small number of additional shares in respect of dividends on those shares between the award and vesting dates, regarded as a de facto part of the original share award.

During the year, awards of 250,000 shares, 276,000 shares and 15,000 shares (2008: 122,900 shares, 97,100 shares and 263,750 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €17.84, €23.23 and €24.74, respectively (2008: €21.60, €24.25 and €13.79). The total cost of these grants is €11,243,000 (2008: €8,646,000) if the testing performance targets are achieved along with the other conditions for vesting. The cost is being expensed in the Group income statement over the expected vesting period of the grant. The operating profit for the year ended 31 December 2009 is stated after an LTIP charge of €4,930,000 (2008: €5,899,000).

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

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

Managers' Deferred Share Award Scheme

As a means of rewarding strong performance in 2007 and retaining some key members of staff, the Board approved the establishment of the Managers' Deferred Share Award Scheme (the 'Share Award Scheme'). Under the Share Award Scheme, 86,221 ordinary shares were conditionally granted to a small number of key Group employees (not including directors) in December 2007 when the Company's share price was €23.14. The award was conditional on the achievement of profitability targets in respect of 2007 and there is no further performance vesting condition under the scheme rules. Employees will only become entitled to receive these shares if they remain employed by the Group until March 2011. Until the vesting of the award in accordance with the rules of the scheme, the grantholder will have no rights over or in respect of the shares subject to the grant. The grants are not transferable.

21. Share schemes (continued)

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

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

Paddy Power plc Employee Benefit Trust

The Paddy Power plc Employee Benefit Trust (the 'Trust') was established to manage the Long Term Incentive Plan and also manages the Managers' Deferred Share Award Scheme. Purchases of Paddy Power plc ordinary shares from 1 January 2008 to 31 December 2009, and shares vested from the Trust during that period, are shown below:

	Number of Paddy Power plc ordinary shares	Cost of purchase €'000
Shares held by the Trust at 1 January 2008	796,028	13,089
Purchased 3 March 2008	250,000	5,440
Purchased 16 May 2008	85,000	2,091
Purchased 1 September 2008	264,000	4,051
	1,395,028	24,671
Vested from the Trust in 2008	(228,173)	(3,145)
Shares held by the Trust at 31 December 2008	1,166,855	21,526
Purchased 8 December 2009	540,000	14,067
	1,706,855	35,593
Vested from the Trust in 2009	(268,144)	(3,735)
Shares held by the Trust at 31 December 2009	1,438,711	31,858

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

Paddy Power 2004 Second Tier Option Scheme

On 22 June 2004, the shareholders approved the establishment of the Paddy Power 2004 Second Tier Option scheme, which allows the Company to grant options to employees, exercisable after a five year performance period, upon the achievement by the Company of exceptional performance levels. To be exercisable, the Company's earnings per share must grow during the five year performance period by at least the percentage increase in the Consumer Price Index plus ten percent compounded and the Company's earnings per share growth must be in the top quarter in performance terms of a specified peer group.

No options have been granted to date under this scheme to any Group employees.

22. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2009 Assets €'000	31 December 2009 Liabilities €'000	31 December 2009 Total €'000	31 December 2008 Assets €'000	31 December 2008 Liabilities €'000	31 December 2008 Total €'000
Property, plant and equipment	563	-	563	332	-	332
Purchase of business - licence intangible assets (Note 16)	-	(5,593)	(5,593)	-	(6,232)	(6,232)
Lease premiums - income element	-	(114)	(114)	-	(114)	(114)
Available-for-sale investments	-	-	-	-	-	-
Employee benefits	1,270	-	1,270	1,048	-	1,048
Other	1,581	-	1,581	12	-	12
Net assets / (liabilities)	3,414	(5,707)	(2,293)	1,392	(6,346)	(4,954)
Analysed by Irish, UK and Australian corporation tax:						
Irish corporation tax	1,405	(114)	1,291	1,358	(114)	1,244
UK corporation tax	16	(5,593)	(5,577)	34	(6,232)	(6,198)
Australian corporation tax	1,993	-	1,993	-	-	-
Net assets / (liabilities)	3,414	(5,707)	(2,293)	1,392	(6,346)	(4,954)

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

Unrecognised deferred tax assets

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

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

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

22. Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

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

23. Trade and other payables and derivative financial liabilities

Current liabilities

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

Non current liabilities

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

Sports betting open positions

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

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

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

24. Provisions

Current liabilities

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

Non current liabilities

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

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

Current liabilities

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

Non current liabilities

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

24. Provisions (continued)

Long service leave

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

Lease reinstatement

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

Onerous contracts

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

25. Borrowings

The Group had the following borrowings at 31 December:

Current liabilities

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

Non current liabilities

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

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

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

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

25. Borrowings (continued)

Security and restrictions

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

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

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

Finance lease liabilities

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

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

The Group had no finance leases at 31 December 2008.

26. Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 December was:

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

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

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

26. **Credit risk** (continued)

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

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

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

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

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

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

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

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

27. Liquidity risk

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

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

31 December 2008	Carrying amount €'000	Contractual cash flows €'000	6 months or less €'000	6-12 months €'000	1-2 years €'000	2-3 years €'000	4 years and over €'000
Non-derivative financial liabilities							
Trade and other payables	59,599	60,632	53,609	341	3,661	389	2,632
Deferred consideration	-	-	-	-	-	-	-
Secured bank loan	-	-	-	-	-	-	-
Other loans	-	-	-	-	-	-	-
Finance leases	-	-	-	-	-	-	-
	59,599	60,632	53,609	341	3,661	389	2,632
Derivative financial liabilities							
Sports betting open positions	3,669	3,669	3,595	63	11	-	-
	63,268	64,301	57,204	404	3,672	389	2,632

28. Currency risk

Currency risk exposure

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

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

28. Currency risk (continued)

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

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

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

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

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

Sensitivity analysis

A ten percent strengthening and weakening of the euro against the following currencies at 31 December 2009 and 2008 would have increased / (decreased) profit and other equity by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	Profit		Other equity	
	10 % increase €'000	10% decrease €'000	10 % increase €'000	10% decrease €'000
31 December 2009				
GBP	**116**	**(142)**	**(2,203)**	**2,692**
AUD	**(76)**	**93**	**(3,124)**	**3,819**
USD	**-**	**1**	**-**	**-**
31 December 2008				
GBP	103	(126)	-	-
AUD	-	-	-	-
USD	(12)	15	-	-

29. Interest rate risk

Profile

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

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

29. Interest rate risk (continued)

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

Cash flow sensitivity analysis for variable rate instruments

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

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

30. Fair values

Fair values versus carrying amounts

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

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

30. **Fair values** (continued)

Fair value hierarchy

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

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

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

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

Basis for determining fair values

The following are the significant methods and assumptions used to estimate the fair values of the financial instruments above:

Trade and other receivables

The fair value of trade and other receivables are estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date. Amounts due within three months are not discounted.

Cash and cash equivalents

The fair value of cash and cash equivalents is based on the nominal value of the cash balances held, as all cash on hand is held at variable interest rates.

Derivative financial instruments

Derivative financial instruments comprise the Sportsbet buyout call options and sports betting open positions.

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

The fair value of open sports bets at the year end has been calculated using the latest available prices on relevant sporting events. The fair value calculation also includes the impact of any hedging activities in relation to these open positions, which is not significant.

Non-derivative financial liabilities

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

30. Fair values (continued)

Sensitivity analysis in respect of financial instruments carried at fair value

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

Sportsbet buyout call options

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

Sports betting open positions

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

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

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

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

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

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

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

31. Commitments and contingencies

(a) Guarantees

The Group has working capital overdraft facilities of €14.8m (2008: €14.3m) with Allied Irish Banks plc. These facilities are secured by a Letter of Guarantee from Paddy Power plc.

The Group has a bank guarantee in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by Paddy Power Isle of Man Limited to its customers. This guarantee is required as part of Paddy Power Isle of Man Limited's Online Gambling Licence. The maximum amount of the guarantee at 31 December 2009 was GBP16,000,000 (euro equivalent of €18,016,000) (2008: GBP12,000,000 and euro equivalent of €12,598,000). No claims had been made against the guarantee as of 31 December 2009 (2008: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Isle of Man Limited, and is partly secured by a cash deposit of GBP8,015,000 (euro equivalent €9,025,000) (2008: €nil) over which the guaranteeing bank holds a floating charge. The fair value accounting impact of this guarantee is deemed to be immaterial.

31. **Commitments and contingencies** (continued)

The Group has a bank guarantee in favour of the Lotteries & Gaming Authority - Malta as security for player funds owed by Paddy Power Bookmakers (Malta) Limited to its customers. This guarantee is required as part of Paddy Power Bookmakers (Malta) Limited's Remote Gaming Licence. The maximum amount of the guarantee at 31 December 2009 was €300,000 (2008: €300,000). No claims had been made against the guarantee as of 31 December 2009 (2008: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Bookmakers (Malta) Limited. The fair value accounting impact of this guarantee is deemed to be immaterial.

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

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

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

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

(b) Capital commitments

Capital expenditure contracted for at the statement of financial position date but not yet incurred was as follows:

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

(c) Operating leases

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

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

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

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

31. Commitments and contingencies (continued)

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

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

32. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

There were no other related party transactions save those disclosed in Note 7.

33. Group entities

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

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

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

In addition to the above subsidiary undertakings, the Group utilises two employee trusts. Power Leisure Employee Benefit Trustee Limited, a company with a registered office at Airton House, Airton Road, Tallaght, Dublin 24, holds the shares of the Restricted Share Scheme. Paddy Power plc Employee Benefit Trust, with a registered address at PO Box 76, Wests Centre, St Helier, Jersey, JE4 8PQ, holds the shares under the share award schemes.

34. Events after the statement of financial position date

Dividend

In respect of the current year, the directors propose that a final dividend of 38.90 cent per share (2008: 35.40 cent per share) will be paid to shareholders on 21 May 2010. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 12 March 2010. The total estimated dividend to be paid amounts to €18,686,000 (2008: €16,830,000).

Increased shareholding in Sportsbet

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

35. Accounting estimates and judgements

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

Goodwill of €60,903,000 (2008: €15,003,000) continues to be carried in the Group statement of financial position as the directors believe that there has been no impairment in the fair value of the net identifiable assets of the acquired businesses. During the year ended 31 December 2009, the acquisition by the Group of 51% of Sportsbet and Sportsbet's subsequent acquisition of IAS contributed additional goodwill of €45,588,000 and brands intangible assets of €14,742,000. During 2008, the acquisition of the D McGranaghan Limited business in Northern Ireland contributed additional goodwill of €7,272,000 (2008: €8,104,000), including €5,593,000 (2008: €6,232,000) of deferred tax on the value of licences intangible assets recognised on the application of fair value accounting to the acquisition, and €19,975,000 (2008: €22,258,000) of licences intangible assets. The directors believe that this goodwill and the licences and brands intangible assets have not been impaired as of 31 December 2009. The key assumptions made in respect of goodwill and indefinite life intangible assets are set out in Note 14.

The share-based payment reserve, which includes amounts in relation to the share award schemes and various share option schemes, amounted to €14,968,000 at 31 December 2009 (2008: €13,733,000). The fair value of share options granted after 7 November 2002 has been determined using a Black Scholes valuation model. The significant inputs into the model include certain management assumptions with regard to the standard deviation of expected share price returns, expected option life and annual risk free rates. These assumptions are set out in Note 21.

The fair value of the Group's sports betting open positions amounted to €5,464,000 at 31 December 2009 (2008: €3,669,000) and the Group considers such arrangements to be derivatives. The Group performs a revaluation of sports betting open positions at each statement of financial position date. The revaluation takes into account the expected probability of such open positions resulting in a gain or loss to the Group in the future, and is dependent on factors that cannot always be reliably predicted.

The majority of the Group's retail premises are held under operating leases. Under accounting standards there is a requirement for management to examine the buildings element within such operating leases to determine if the lease meets the definition of a finance lease and, if so, it should be accounted for as such. This review involves determining the fair value of each property at the inception of the lease and analysing the minimum lease payments between their 'land' and 'buildings' elements. Based on management's review of operating leases for the years ended 31 December 2009 and 2008, all retail premises leases qualify as operating leases.

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

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

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2009

	Note	31 December 2009 €'000	31 December 2008 €'000
Fixed assets			
Intangible assets	3	**535**	719
Goodwill	4	**5,955**	5,240
Tangible assets	6	**41,492**	45,501
Financial assets	7	**52,245**	13,180
		100,227	64,640
Current assets			
Trade and other receivables	8	**104,207**	108,172
Cash at bank and in hand	9	**29,085**	26,144
		133,292	134,316
Creditors (amounts falling due within one year)	10	**(80,649)**	(86,464)
Net current assets		**52,643**	47,852
Total assets less current liabilities		**152,870**	112,492
Creditors (amounts falling due after more than one year)	11	**(885)**	(1,454)
Provision for liabilities	12	**(444)**	-
Net assets		**151,541**	111,038
Capital and reserves			
Called-up share capital	13	**4,977**	4,927
Share premium	13	**18,009**	11,318
Capital redemption reserve fund	13	**876**	876
Capital conversion reserve fund	13	**260**	260
Treasury shares	13	**(5,975)**	(5,975)
Shares held by long term incentive plan trust	13	**(31,858)**	(21,526)
Share-based payment reserve	13	**14,968**	13,733
Profit and loss account	13	**150,284**	107,425
Shareholders' funds – all equity interests	13	**151,541**	111,038

Notes 1 to 18 on pages 109 to 119 form part of these financial statements.

On behalf of the Board

Patrick Kennedy   **Jack Massey**

1 March 2010

1. Basis of preparation and accounting policies

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

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €67.8m (2008: €70.5m), which includes a dividend receivable from a subsidiary company, Paddy Power Isle of Man Limited, amounting to €50.0m (2008: €40.0m).

Financial assets

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

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

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

Tangible assets and depreciation

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

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

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

Goodwill

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

Intangible assets

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

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

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

Licences - shop licences and EPOS software licences	5 years

1. Basis of preparation and accounting policies (continued)

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

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

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

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

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

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

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

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

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

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

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

1. Basis of preparation and accounting policies (continued)

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

Own shares held

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

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

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in Note 34 to the consolidated financial statements.

2. Employee expenses and numbers

	2009 €'000	2008 €'000
Wages and salaries	**31,054**	28,806
Social security costs	**2,962**	2,862
Defined contribution pension and life assurance costs	**680**	634
Share-based payments (see below)	**1,594**	2,097
Other staff costs	**1,310**	1,475
	37,600	35,874

	2009	2008
The average number of persons employed by the Company (including executive directors), all of whom were involved in the provision of betting services, during the year was	**912**	839

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

2. Employee expenses and numbers (continued)

Summary of share-based payments expense

The share-based payments expense in the profit and loss account in respect of the Company's share schemes is comprised as follows:

	2009 €'000	2008 €'000
Share option scheme	**5**	7
Sharesave scheme	**195**	176
Long Term Incentive Plan	**1,390**	1,908
Managers' Deferred Share Award Scheme	**4**	6
	1,594	2,097

Summary of options outstanding to employees of the Company

The total number of options outstanding at 31 December 2009 was 286,413 (2008: 406,271). These options had exercise prices ranging from €8.15 to €24.17 (2008: €8.15 to €24.17).

For the year ended 31 December 2009:

	Options outstanding at 1 January 2009	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2009
Share option scheme	**41,000**	**-**	**(10,000)**	**-**	**31,000**
Sharesave scheme	**365,271**	**49,294**	**(121,286)**	**(37,866)**	**255,413**
Total	**406,271**	**49,294**	**(131,286)**	**(37,866)**	**286,413**

For the year ended 31 December 2008:

	Options outstanding at 1 January 2008	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2008
Share option scheme	41,000	-	-	-	41,000
Sharesave scheme	208,881	220,516	(37,417)	(26,709)	365,271
Total	249,881	220,516	(37,417)	(26,709)	406,271

Further details of the Company's employee share schemes are set out in Note 21 to the consolidated financial statements.

3. Intangible assets

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

	Licences €'000	Total €'000
Cost		
Balance at 1 January 2009	1,490	1,490
Additions	49	49
Disposals	-	-
Balance at 31 December 2009	**1,539**	**1,539**
Amortisation		
Balance at 1 January 2009	771	771
Amortisation for year	233	233
Disposals	-	-
Balance at 31 December 2009	**1,004**	**1,004**
Net book value		
At 31 December 2008	719	719
At 31 December 2009	**535**	**535**

4. Goodwill

	€'000
Cost	
Balance at 1 January 2009	7,440
Acquisitions in year (Note 5)	1,144
Balance at 31 December 2009	**8,584**
Amortisation	
Balance at 1 January 2009	2,200
Amortisation for year	429
Balance at 31 December 2009	**2,629**
Net book value	
At 31 December 2008	5,240
At 31 December 2009	**5,955**

The goodwill balance as of 1 January 2009 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and the acquisition of eight licensed bookmaking shops (through three separate acquisitions) in Ireland in 2007.

5. Purchase of businesses

Sportsbet Pty Limited

On 1 July 2009, the company purchased a 51% shareholding in Sportsbet Pty Limited ('Sportsbet'), a provider of internet and telephone sports betting services in Australia. The initial purchase consideration for this investment amounted to €26.3m, comprising a cash payment of €24.6m and the granting of 100,000 ordinary shares of the Company valued at €1.7m (see Note 13). An additional payment of AUD10.0m (€6.2m) may be payable in 2010 if certain profitability targets are achieved by Sportsbet in respect of the financial year ended 30 June 2010. Acquisition costs incurred by the Company in relation to the purchase totalled €2.3m. See also Note 16 to the consolidated financial statements for further information. Under the terms of the acquisition, certain call options were granted to the Company and to the non-controlling interest in Sportsbet (see Note 7 below and Note 15 to the consolidated financial statements for further information). The net fair value of these options has been deducted from the overall purchase consideration in the calculation of the cost of the investment in Sportsbet. The cost of the investment in Sportsbet is analysed as follows:

	31 December 2009 €'000
Cash consideration (including associated purchase costs)	24,627
Shares issued	1,648
Deferred consideration	6,216
Acquisition expenses paid	2,172
Accrued acquisition expenses	154
	34,817
Financial asset - Sportsbet buyout call options (Note 7)	(917)
	33,900

Shop property acquisition

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

5. **Purchase of businesses** (continued)

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

	Book value on acquisition €'000	Provisional fair value adjustments 31 December 2009 €'000	Provisional fair values 31 December 2009 €'000
Identifiable net assets acquired:			
Tangible fixed assets	100	(80)	20
	100	(80)	20
Goodwill arising on acquisition			1,144
Consideration (including associated purchase costs)			1,164
Satisfied by:			
Cash consideration (including associated purchase costs)			1,064
Contingent consideration accrued			100
			1,164
Net cash outflow from purchase of businesses			
Purchase of businesses, net of cash acquired			1,000
Acquisition expenses paid			64
			1,064

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

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

6. **Tangible assets**

	Land, buildings & leasehold improvements €'000	Fixtures, fittings & equipment €'000	Computer equipment €'000	Computer software €'000	Motor vehicles €'000	Total €'000
Cost						
Balance at 1 January 2009	35,228	48,373	3,122	2,605	192	89,520
Additions	847	2,204	667	384	-	4,102
Purchase of businesses (Note 5)	-	20	-	-	-	20
Transfers to other Group companies	-	-	-	-	(44)	(44)
Disposals	(90)	(198)	(30)	-	-	(318)
Balance at 31 December 2009	**35,985**	**50,399**	**3,759**	**2,989**	**148**	**93,280**
Accumulated depreciation						
Balance at 1 January 2009	11,755	27,747	3,050	1,352	115	44,019
Charge for year	1,498	5,469	634	607	33	8,241
Transfers to other Group companies	-	-	-	-	(37)	(37)
Impairment credits	(74)	(146)	(13)	(19)	-	(252)
Disposals	(22)	(134)	(27)	-	-	(183)
Balance at 31 December 2009	**13,157**	**32,936**	**3,644**	**1,940**	**111**	**51,788**
Net book value						
At 31 December 2008	23,473	20,626	72	1,253	77	45,501
At 31 December 2009	**22,828**	**17,463**	**115**	**1,049**	**37**	**41,492**

6. **Tangible assets** (continued)

The net book value of land, buildings and leasehold improvements at 31 December 2009 includes €18.5m (2008: €19.0m) in respect of leasehold improvements.

The impairment credits relate to the retail business segment and have arisen from a review of the carrying value of shop properties. The recoverable amounts used in the calculation of the impairment credits are based on value in use. The pre-tax discount rate used to determine value in use was 10% (2008: 10%). The impairment credit of €252,000 recorded in the year ended 31 December 2009 includes €386,000 relating to new impairment charges and is stated net of impairment reversals of €638,000.

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

7. **Financial assets**

	Unlisted investments in subsidiary companies €'000	Embedded derivatives €'000	Capital contributions €'000	Total €'000
Balance at 1 January 2009	197	-	12,983	13,180
Share-based payments	-	-	4,248	4,248
Movement during year - acquisition of Sportsbet (Note 5)	34,817	-	-	34,817
Recognition of Sportsbet buyout call options fair values (Note 5)	(917)	917	-	-
Balance at 31 December 2009	**34,097**	**917**	**17,231**	**52,245**

In the opinion of the directors, the value to the Company of the unlisted investments in subsidiary companies is not less than the carrying amount of €34,097,000 (2008: €197,000). The Company's principal subsidiaries are listed in Note 33 to the consolidated financial statements.

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

The embedded derivatives financial asset arises in respect of call options granted by the vendors of Sportsbet to the Company and a call option granted by the Company to the vendors of Sportsbet. These call options relate to the acquisition of the Company's and the non-controlling interest's shareholdings in Sportsbet (see Note 15 to the consolidated financial statements for further information).

8. **Trade and other receivables**

	31 December 2009 €'000	31 December 2008 €'000
Other debtors and prepayments	**1,564**	298
Amounts owed by fellow Group companies	**98,810**	107,182
Loan receivable from Sportsbet	**3,833**	-
Deferred tax (Note 12)	**-**	692
	104,207	108,172

All of the above debtors, with the exception of the loan receivable from Sportsbet, fall due within one year.

The loan receivable from Sportsbet is repayable by Sportsbet on or before 25 September 2016. The loan is non-interest bearing.

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

9. Cash at bank and on hand

Included in cash at bank and on hand at 31 December 2009 is an amount of €9,025,000 (GBP8,015,000) (2008: €nil) which was restricted at that date and up to 5 January 2010 as it formed part of a guarantee issued in favour of the Isle of Man Gambling Supervision Commission in respect of player funds held by a subsidiary of the Company, Paddy Power Isle of Man Limited (see Note 16).

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

	31 December 2009 €'000	31 December 2008 €'000
Trade creditors	**1,469**	4,851
Accruals	**6,664**	10,362
Corporation tax	**710**	566
PAYE and social welfare	**799**	1,262
Betting duty	**2,360**	2,253
Sports betting open positions	**894**	994
Value added tax	**158**	221
Deferred consideration for business combinations	**6,329**	-
Amounts owed to fellow Group companies	**61,266**	65,955
	80,649	86,464

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

11. **Creditors** (amounts falling due after more than one year)

	31 December 2009 €'000	31 December 2008 €'000
Accruals	**885**	1,454
	885	1,454

12. Provision for liabilities

Deferred tax

	2009 €'000	2008 €'000
Cost		
Balance at 1 January	**(692)**	271
Charged / (credited) to the profit and loss account for year	**1,136**	(963)
Balance at 31 December	**444**	(692)

Deferred tax at 31 December 2009 and 2008 is analysed by category as follows:

	31 December 2009 €'000	31 December 2008 €'000
Capital allowances	**553**	296
Employee benefits	**(6)**	(13)
Share schemes	**(154)**	(1,030)
Capitalised rents	**59**	59
Other	**(8)**	(4)
Deferred tax liability / (asset)	**444**	(692)

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

13. Share capital and reserves

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Capital redemption reserve fund €'000	Capital conversion reserve fund €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Profit and loss account €'000	Total €'000
Balance at 1 January 2009	49,270,742	4,927	11,318	876	260	(5,975)	(21,526)	13,733	107,425	111,038
Shares issued on exercise of share options	396,597	40	5,053	-	-	-	-	-	-	5,093
Shares issued as consideration for acquisition of Sportsbet	100,000	10	1,638	-	-	-	-	-	-	1,648
Own shares acquired:										
By the long term incentive plan trust - 540,000 ordinary shares	-	-	-	-	-	-	(14,067)	-	-	(14,067)
Profit for the year	-	-	-	-	-	-	-	-	67,788	67,788
Equity-settled transactions - profit and loss account and financial assets	-	-	-	-	-	-	-	5,841	-	5,841
Equity-settled transactions - vestings	-	-	-	-	-	-	3,735	(3,234)	(143)	358
Transfer to profit and loss account on exercise of share options	-	-	-	-	-	-	-	(1,372)	1,372	-
Dividends to shareholders (Note 14)	-	-	-	-	-	-	-	-	(26,158)	(26,158)
Balance at 31 December 2009	49,767,339	4,977	18,009	876	260	(5,975)	(31,858)	14,968	150,284	151,541

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2008: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid. The holders of ordinary shares are entitled to vote at general meetings of the Company on a one vote per share held basis. Ordinary shareholders are also entitled to receive dividends as may be declared by the Company from time to time.

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

The total number of shares held in treasury at 31 December 2009 was 250,000 shares (2008: 250,000 shares). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Company's distributable reserves are restricted by the value of the treasury shares, which amounted to €5,975,000 as of 31 December 2009 (2008: €5,975,000).

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

The capital redemption reserve fund of €876,000 (2008: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2008: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In 2009, an amount of €1,372,000 (2008: €121,000) in respect of share options exercised during the year was transferred from the share-based payment reserve to the profit and loss account.

14. Dividends paid on equity shares

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

15. Pension arrangements

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

Pension costs for the year were €605,000 (2008: €565,000) and the amount due to the schemes at 31 December 2009 amounted to €45,942 (2008: €169,541).

16. Commitments and contingencies

(a) Guarantees
The Company has working capital overdraft facilities of €5.2m (2008: €5.1m) with Allied Irish Banks plc. These facilities are unsecured.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee. The Company has issued a letter of guarantee totalling €9.6m (2008: €9.2m) in favour of Allied Irish Banks plc in respect of working capital overdraft facilities provided to certain of the Company's subsidiaries.

A bank guarantee has been issued in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by the Company's subsidiary, Paddy Power Isle of Man Limited, to its customers. This guarantee is required as part of Paddy Power Isle of Man Limited's Online Gambling Licence. The maximum amount of the guarantee at 31 December 2009 was GBP16,000,000 (euro equivalent of €18,016,000) (2008: GBP12,000,000 and euro equivalent of €12,598,000). No claims had been made against the guarantee as of 31 December 2009 (2008: €nil). The guarantee is secured by counter indemnities from the Company and Paddy Power Isle of Man Limited, and is partly secured by a cash deposit of GBP8,015,000 (euro equivalent €9,025,000) (2008: €nil) over which the guaranteeing bank holds a floating charge (see also Note 9).

A bank guarantee has also been issued in favour of the Lotteries & Gaming Authority - Malta as security for player funds owed by a subsidiary of the Company, Paddy Power Bookmakers (Malta) Limited, to its customers. This guarantee is required as part of Paddy Power Bookmakers (Malta) Limited's Remote Gaming Licence. The maximum amount of the guarantee at 31 December 2009 was €300,000 (2008: €300,000). No claims had been made against the guarantee as of 31 December 2009 (2008: €nil). The guarantee is secured by counter indemnities from Paddy Power plc and Paddy Power Bookmakers (Malta) Limited.

(b) Capital commitments
The Company has entered into commitments for capital expenditure not provided for in the financial statements amounting to €636,000 (2008: €1,235,000).

16. Commitments and contingencies (continued)

(c) Operating lease commitments

The Company has annual commitments of €8,918,000 (2008: €8,634,000) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2009 €'000	31 December 2008 €'000
Within 1 year	**1,088**	1,083
Between 2 and 5 years	**907**	915
After 5 years	**6,923**	6,636
	8,918	8,634

17. Statutory information

	2009 €'000	2008 €'000
Directors' remuneration	**6,259**	5,308
Auditor's remuneration	**125**	100
Depreciation	**8,241**	8,498
Impairment charges - tangible fixed assets	**386**	673
Impairment reversals - tangible fixed assets	**(638)**	(622)
Amortisation of intangible assets	**233**	320
Impairment charges - intangible assets	**-**	14
Impairment reversals - intangible assets	**-**	(19)
Amortisation of goodwill	**429**	395
Operating lease rentals, principally premises	**9,464**	9,217

18. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2009 were approved for issue by the Board of Directors on 1 March 2010.

FIVE YEAR FINANCIAL SUMMARY

Financial information for the Group reported under IFRS for the five years ended 31 December 2009 is set out below in euro and pounds sterling.

	2009 €'000	2008 €'000	2007 €'000	2006 €'000	2005 €'000
Amounts staked by customers	**2,751,537**	2,100,926	2,027,777	1,795,090	1,371,710
Income	**295,928**	283,657	278,952	218,706	160,848
Operating profit (before exceptional item)	**66,694**	75,695	72,106	45,462	30,118
Profit before tax	**67,192**	81,727	75,828	49,699	31,344
Profit for the year - attributable to equity holders of the Company	**56,946**	68,817	62,778	41,245	26,954
Net cash inflow from operating activities	**85,420**	95,287	98,828	67,743	41,410
Total equity - attributable to equity holders of the Company	**158,473**	127,240	117,362	128,131	96,051

Set out below is the above financial information translated into pounds sterling at the exchange rates shown, for illustrative purposes only.

	2009 GBP'000	2008 GBP'000	2007 GBP'000	2006 GBP'000	2005 GBP'000
Amounts staked by customers	**2,451,757**	1,672,978	1,387,653	1,223,730	937,986
Income	**263,687**	225,878	190,893	149,094	109,989
Operating profit (before exceptional item)	**59,428**	60,276	49,344	30,992	20,595
Profit before tax	**59,871**	65,080	51,891	33,880	21,433
Profit for the year - attributable to equity holders of the Company	**50,742**	54,799	42,960	28,117	18,431
Net cash inflow from operating activities	**76,113**	75,878	67,630	46,181	28,316
Total equity - attributable to equity holders of the Company	**141,207**	101,322	80,313	87,348	65,680
Average annual exchange rates used are	**1.1223**	1.2558	1.4613	1.4669	1.4624

ADDITIONAL INFORMATION FOR SHAREHOLDERS

Listings
Paddy Power plc is an Irish registered company. Its ordinary shares are quoted on the Irish Stock Exchange and the London Stock Exchange.

Registrar
Enquiries concerning shareholdings should be addressed to the Company's Registrar:
Computershare Investor Services (Ireland) Limited,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
Telephone: +353-1-216 3100
Facsimile: +353-1-216 3151
Website: www.computershare.com

Payment of dividends direct to a bank account
Dividends are paid by cheque; however shareholders resident in Ireland or in the UK may have their dividends paid by electronic transfer direct to a designated bank account. Shareholders who wish to avail of this facility should contact the Company's Registrar (see above).

Payment of dividends in euro
Dividend payments are made in euro by default. However, shareholders wishing to opt for payments in pounds sterling either by cheque or direct to their bank account may do so by contacting the Registrar (see details above).

Crest
Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

Dividend Withholding Tax ('DWT')
Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from:
DWT Unit, Collector General's Division, Government Offices,
Nenagh, Co. Tipperary, Ireland.
Telephone: +353-67-63400
Facsimile: +353-67-33822
E-mail: infodwt@revenue.ie
Website: www.revenue.ie/en/tax/dwt/

General
With certain exceptions, dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, which is currently 20%. DWT, where applicable, is deducted by the Company from all dividends. The following summarises the position in respect of different categories of shareholder:

A. Irish resident shareholders

Individuals
Individuals resident in the Republic of Ireland for tax purposes are liable to DWT in respect of dividends received. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT may be available for offset against their income tax liability; where the DWT exceeds such liability, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the excess.

Shareholders not liable for DWT

Shareholders who receive a dividend in a beneficial capacity can, in certain circumstances, be exempted from DWT. Provided the shareholder furnishes a properly completed declaration on a standard form to the Company's Registrar, and not less than three working days prior to the relevant dividend payment record date, the following classes of shareholders may receive their dividends gross:

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Collective Investment Undertakings;
- Qualifying unit trusts;
- Charities exempt from income tax on their income;
- Athletic/ amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ('SPIA');
- Qualifying fund managers of Approved Retirement Funds or an Approved Minimum Retirement Fund;
- Qualifying savings managers of Special Savings Incentive Accounts;
- A PRSA administrator; and
- Persons exempt from tax on income from personal injury claims.

Copies of the relevant declaration form may be obtained from the Company's Registrar or from the Revenue Commissioners at their addresses shown on page 121. Once lodged with the Company's Registrar, the declaration form remains valid until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to shareholders not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown on page 121, for a refund of the DWT so deducted.

Qualifying intermediaries

Dividends received by qualifying intermediaries on behalf of a shareholder who is exempt from DWT may be received without deduction of DWT. A 'qualifying intermediary' is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory*, and:

- holds a licence under the Central Bank Act 1971, or a similar authorisation under the law of a relevant territory, or is owned by a company which holds such a licence; or
- is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
- otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary;

and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

* A 'relevant territory' means:

(i) a member state of the European Communities (other than the Republic of Ireland); or
(ii) a country with which the Republic of Ireland has concluded a double taxation agreement which is currently in force; or
(iii) a country with which the Republic of Ireland has concluded a double taxation agreement where that agreement has yet to come into force.

Information concerning conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown on page 121. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company's Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT. A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown on page 121.

B. Non Irish-resident shareholders

Persons not resident in the Republic of Ireland are liable to DWT in respect of dividends received. The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:

(a) an individual who is neither resident nor ordinarily resident for the purpose of tax in the Republic of Ireland and who is resident for tax purposes in a relevant territory;
(b) an unincorporated entity which is not resident in the Republic of Ireland and is resident for tax purposes in a relevant territory;
(c) a company which is not resident in the Republic of Ireland and is resident in a relevant territory (by virtue of the law of that relevant territory) and which is not under the control, whether directly or indirectly, of a person or persons who is/ are resident for the purpose of tax in Ireland;

B. Non Irish-resident shareholders (continued)

(d) a company which is not resident in the Republic of Ireland and is under the control, whether directly or indirectly, of a person or persons who is/ are resident for the purposes of tax in a relevant territory and who are not under the control, whether directly or indirectly, of a person or persons who is/ are not so resident; or

(e) a company not resident in the Republic of Ireland, the principal class of the shares of which,
   (i) where the company is a 75 per cent subsidiary of another company, of that other company, or
   (ii) where the company is wholly-owned by two or more companies, of each of those companies,
   is substantially and regularly traded on one or more than one recognised stock exchange in a relevant territory or on such other stock exchange as may be approved of by the Minister for Finance.

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form available from the Irish Revenue Commissioners and from the Company's Registrar, to the Company's Registrar not less than three working days in advance of the relevant dividend payment record date, accompanied by:

- Categories (a) and (b): The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary and a notice in writing from the Irish Revenue Commissioners stating that the Irish Revenue Commissioners have noted the contents of the certificate. However, it is important to note where trusts are concerned that only non-resident discretionary trusts, which are resident in a relevant territory, can obtain an exemption from DWT. In that circumstance, the trustee of the discretionary trust may make the declaration. The individual beneficiaries of a non-resident bare trust, where the beneficiaries are resident in a relevant territory, may obtain an exemption from DWT where:
    - the trustees of the trust have been authorised by the Revenue Commissioners to act as a Qualifying Intermediary, and
    - where an exemption declaration has been made to the Qualifying Intermediary by the beneficiaries.
- Category (c): The declaration must be accompanied by a certificate issued by the tax authority of the relevant territory certifying that the company is resident in that territory for tax purposes. It must also be accompanied by a certificate from the company's auditors confirming that it is not under the control, directly or indirectly, of persons resident in Ireland.
- Category (d): The declaration must be accompanied by a declaration from the auditors of the company confirming that the company is not resident in Ireland and is under the control, whether directly or indirectly, of persons who are resident for tax purposes in a relevant territory by virtue of the law of that territory and is not under the control of persons who are not so resident.
- Category (e): The declaration must be accompanied by a certificate from the company's auditors certifying that the principal class of shares in the company (or (i) where the company is a 75 percent subsidiary of another company, of that other company, or (ii) where the company is wholly-owned by two or more companies, of each of those companies), is substantially and regularly traded on one or more than one recognised stock exchange in a relevant territory or on such other stock exchange as may be approved of by the Minister for Finance.

Each of the certificates mentioned above remains current from its date of issue until 31 December in the fifth year following the year of issue.

In relation to categories (c), (d) and (e) above, the Finance Bill 2010 proposes changes to these requirements such that the auditor's certificate and the certificate from the foreign tax authority will no longer be required. If these proposals are enacted, they will apply to dividends paid after the passing of the Finance Act 2010.

Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without declaration of DWT - see 'Qualifying intermediaries' under 'A. Irish resident shareholders' on page 122.

C. Dividend statements

Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

Financial calendar

Announcement of final results for 2009	2 March 2010
Ex-dividend date	10 March 2010
Record date for dividend	12 March 2010
Annual General Meeting	18 May 2010
Dividend payment date	21 May 2010

LETTER TO SHAREHOLDERS

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser being, in the case of shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations (Nos 1 to 3) 2007 or the Investment Intermediaries Act 1995 (as amended), or, in the case of shareholders in the United Kingdom, a firm authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your registered holding of ordinary shares in the Company, please forward this document and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through or by whom the sale or transfer was effected, for delivery to the purchaser or transferee.

To all shareholders

I am writing to you to outline the background to the resolutions to be proposed at the forthcoming Annual General Meeting ('AGM') of Paddy Power plc (the 'Company'), all of which are recommended by the Board for approval. Your attention is drawn to the notice of the AGM of the Company, to be held at The Burlington Hotel, Upper Leeson Street, Dublin 4 at 11.00 am on Tuesday, 18 May 2010. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the appointment and reappointment of directors and the Auditors' remuneration, there are various items of special business which are described further below.

Resolutions 3, 4(a), (b), (c) and (d) of the ordinary business propose the appointment of Jane Lighting and the reappointment of four directors. Jane Lighting was appointed by the directors since the last Annual General Meeting and, in accordance with the Articles of Association of the Company, retires at the AGM and puts herself forward for election by the shareholders. Messrs Nigel Northridge, Patrick Kennedy, Stewart Kenny and David Power, having served on the Board for three years, retire in accordance with Regulation 86 of the Articles of Association and, being eligible, offer themselves for reappointment. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the appointment/ reappointment of each of these directors. Biographical information on these directors is given on pages 30 and 31 of the Annual Report.

Shareholders are being asked in resolution 6 to renew for a further period of five years the Directors' authority to allot relevant securities, within the meaning of Section 20 of the Companies (Amendment) Act 1983, up to the unissued authorised share capital of the Company (excluding treasury shares).

Shareholders are being asked in resolution 7 to renew the directors' authority to allot shares for cash without being required to offer them first to shareholders. This authority is limited to an allotment of shares up to five percent of the issued ordinary share capital of the Company at the date of the resolution (currently equal to 2.49m shares). If renewed, this authority will expire on the date of the next AGM of the Company or 17 November 2011, whichever is earlier.

Shareholders are being asked in resolution 8 to renew the authority to empower the Company, or any subsidiary, to make market purchases of the Company's shares. No more than ten percent of the issued share capital of the Company may be acquired under this authority. The price range at which shares may be acquired cannot be less than the nominal value of the Company's shares and cannot be greater than 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or re-issue.

The total number of options to subscribe for shares in the Company on 1 April 2010 is 830,278, and represents 1.7% of the total voting rights of the Company (excluding treasury shares) on that date. This percentage would increase to 1.9% if the full authority to buy shares is used. The authority sought will expire on the date of the next AGM of the Company or 17 November 2011, whichever is earlier. The Board will only exercise the power to purchase shares in the future at price levels at which it considers purchases to be in the best interests of the shareholders generally after taking account of the Group's overall financial position. Given the potential opportunities created for the Company from having cash in the current environment, while not ruling out future share purchases, the Board has no immediate intention to exercise this power.

Shareholders are also being asked in resolution 9 to pass a resolution authorising the Company to re-issue shares purchased by it and not cancelled as treasury shares off market within a price range, which shall not be less than 95% nor more than 120% of the average price of the Company's shares over the ten dealing days prior to the date of re-issue by the Company. The authority sought will expire on the date of the next Annual General Meeting of the Company or 17 November 2011, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990.

Your Board is proposing two special resolutions (i.e. Resolutions 10 and 11) to reflect the implementation of the Shareholders' Rights (Directive 2007/36/EC) Regulations 2009 (the 'Regulations').

If adopted, Resolution 10 will maintain the existing authority in the Articles of Association which permits the Company to convene an Extraordinary General Meeting on 14 days notice in writing where the purpose of the meeting is to consider an ordinary resolution. As a matter of policy, the 14 day notice will only be utilised where the Directors believe that it is merited by the business of the meeting and the circumstances surrounding the business.

If adopted, Resolution 11 will update the Company's Articles of Association in order to make them consistent with the Regulations by incorporating the following changes:

(a) allow for the convening of shareholder meetings to consider an ordinary resolution with 14 days notice provided that the Company offers its members the facility to vote electronically and provided that the members agree to this in a general meeting. Members' consent must be sought by way of a special resolution and this may be done as part of the ordinary business of the AGM. Any consent given is valid only up to the next AGM, and must therefore be renewed every year;

(b) remove the casting vote of the Chairman at general meetings of the Company;

(c) allow for the fixing of the record date and time which shall determine the eligibility of shareholders to participate and vote at the shareholders' meeting;

(d) require any request by a member to table a draft resolution under Section 133B(1)(b) of the Companies Act 1963 (regarding shareholders' rights to table draft resolutions at an extraordinary general meeting) to be received by the Company in hardcopy form or in electronic form at least 30 days before the meeting to which it relates; and

(e) allow the directors to implement procedures for voting electronically or by correspondence and for the real time transmission of shareholder meetings via the internet.

In addition, a change is also proposed to Article 54 of the Articles of Association to reduce the quorum for general meetings from 20 persons to ten persons to align the quorum requirements more closely with the quorum requirements of other Irish listed companies.

A copy of the Articles of Association of the Company showing the amendments that would be made if Resolution 11 is adopted is available at www.paddypowerplc.com and may also be inspected at the registered office of the Company. A copy showing these amendments will be available for inspection at the AGM for a period of at least 15 minutes before and during the AGM.

Action to be taken
A Form of Proxy for use at the Annual General Meeting is enclosed with this Annual Report. The Form of Proxy will be valid if lodged at the registered office of the Company or with the Company's Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, by no later than 11am on 16 May 2010. Alternatively you may wish to submit your votes via the internet and instructions on how to do so are shown on the form. All proxy forms must be lodged no later than 48 hours before the time appointed for the meeting. The completion and lodging of the Form of Proxy will not prevent you from attending and voting in person at the meeting should you so wish.

Recommendation
The directors believe that the resolutions proposed are in the best interests of the Company and its shareholders, and so they recommend that you vote in favour of these resolutions at the AGM, as they intend to themselves in respect of their shares.

Yours sincerely

Nigel Northridge
Chairman

1 April 2010

NOTICE OF ANNUAL GENERAL MEETING
OF PADDY POWER PLC

NOTICE is hereby given that the Annual General Meeting of Paddy Power plc (the 'Company') will be held at The Burlington Hotel, Upper Leeson Street, Dublin 4 at 11.00 am on Tuesday, 18 May 2010 for the following purposes:

To consider and if thought fit, to pass the following resolutions, which will be proposed as ordinary resolutions:

1. **To receive and consider the financial statements for the year ended 31 December 2009 and the reports of the Directors and Auditors thereon.**

2. **To declare a final dividend of 38.9 cent per share for the year ended 31 December 2009.**

3. **To elect Jane Lighting as a director who is recommended by the Board for election.**

4. **To re-elect by separate resolution**
   Resolution 4(a) Nigel Northridge
   Resolution 4(b) Patrick Kennedy
   Resolution 4(c) Stewart Kenny
   Resolution 4(d) David Power

   who retire in accordance with Regulation 86 of the Articles of Association and, being eligible, offer themselves for re-election.

5. **To authorise the directors to fix the remuneration of the Auditors for the year ending 31 December 2010.**

As Special Business
As special business to consider and, if thought fit, pass the following resolutions:

6. **As an ordinary resolution**
   "That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 20 of the Companies (Amendment) Act 1983) up to an aggregate nominal amount not exceeding the authorised unissued capital of the Company as at the time of passing this resolution; provided that this authority shall expire on the day which is five years after the date of the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby confirmed had not expired."

7. **As a special resolution**
   "That for the purposes of Regulation 8(d) of the Articles of the Association of the Company, the directors are hereby empowered to allot equity securities (as defined in Section 23 of the Companies (Amendment) Act 1983) for cash pursuant to and in accordance with the provisions of their authority pursuant to Section 20 of the Companies (Amendment) Act 1983 as if sub-section (1) of Section 23 of the Companies (Amendment) Act 1983 did not apply to any such allotment provided that, pursuant to Regulation 8(d)(ii), the maximum aggregate nominal value of shares to which this authority relates shall be an aggregate nominal value of €240,383 or five percent of the Company's issued ordinary share capital at the close of business on the date on which this resolution shall be passed; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 17 November 2011 unless previously renewed, varied or revoked by the Company in general meeting provided that the Company may make before such expiry an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement notwithstanding that the power hereby conferred has expired."

8. **As a special resolution**
   "That the Company and/ or any subsidiary (being a body corporate referred to in the European Communities (Public Limited Companies Subsidiaries) Regulations 1997) of the Company be generally authorised to make market purchases (as defined by Section 212 of the Companies Act 1990) of shares of any class of the Company on such terms and conditions and in such manner as the directors may from time to time determine in accordance with and subject to the provisions of the Companies Act 1990 and to the restrictions and provisions set out in Regulation 46(a) of the Articles of Association of the Company and that the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 17 November 2011 unless, in any such case, previously renewed, varied or revoked by the Company in general meeting."

9. **As a special resolution**
   "That the re-issue price range at which any treasury share (as defined in Section 209 of the Companies Act 1990) for the time being held by the Company, may be re-issued off market, shall be the price range set out in Article 46(b) of the Articles of Association of the Company; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 17 November 2011 unless, in any such case, previously renewed, varied or revoked in accordance with the provisions of Section 209 of the Companies Act 1990."

10. **As a special resolution**
    "That it is hereby resolved that the provision in Article 53(a) allowing for the convening of an Extraordinary General Meeting by at least fourteen Clear Days' notice (where such meetings are not convened for the passing of a special resolution) shall continue to be effective."

11. **As a special resolution:**
“That the form of the Articles of Association produced to the meeting and which have been signed for identification by the Chairman of the meeting, be and are hereby adopted as the new Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.”

By Order of the Board

David Johnston
Company Secretary

1 April 2010

Registered Office:
Airton House
Airton Road
Tallaght
Dublin 24

Notes

1. Any member entitled to attend, speak and vote at the meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak and vote in his/her place. Completion of a form of proxy will not affect the right of a member to attend, speak and vote at the meeting in person. A Shareholder may appoint more than one proxy to attend and vote at the meeting provided each proxy is appointed to exercise rights attached to different shares held by that Shareholder. Should you wish to appoint more than one proxy, please read carefully the explanatory notes accompanying the Form of Proxy. A member may appoint a proxy or proxies electronically by logging on to the website of the registrars, Computershare Services (Ireland) Limited: www.computershare.com/ie/voting/paddypower. Shareholders will be asked to enter the Shareholder Reference Number and PIN Number as printed on your Form of Proxy and agree to certain conditions.

2. As a Shareholder, you have several ways to exercise your right to vote:
   (a) By attending the Annual General Meeting in person; or
   (b) By appointing (either electronically or by returning a completed Form of Proxy) the Chairman or another person as a proxy to vote on your behalf; or
   (c) By appointing a proxy via the CREST System if you hold your shares in CREST.

3. If you are appointing someone other than the Chairman as your proxy, then you must fill in the details of your representative at the meeting in the box located underneath the wording “I/We hereby appoint the Chairman of the AGM OR the following person” on the Form of Proxy. If you appoint the Chairman or another person as a proxy to vote on your behalf, please make sure to indicate how you wish your votes to be cast by ticking the relevant boxes on the Form of Proxy.

   In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other registered holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members. Completing and returning a form of proxy will not preclude you from attending and voting at the meeting should you so wish.

   Alternatively, you may appoint a proxy electronically, by visiting the website of the Company’s Registrars at www.computershare.com/ie/voting/paddypower. You will need your shareholder reference number and your PIN number, which can be found on the lower section of your Form of Proxy.

4. To be valid, forms of proxy duly signed together with the power of attorney or such other authority (if any) under which they are signed (or a certified copy of such power or authority) must be lodged with the company’s registrar, Computershare Services (Ireland) Limited, P.O. Box 954, Sandyford, Dublin 18 not less than 48 hours before the time appointed for the holding of the meeting.

5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Proxy Instruction must be properly authenticated in accordance with Euroclear (UK and Ireland) Limited’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Computershare Services (Ireland) Limited (ID 3RA50) by 11.00 a.m. on 16 May 2010. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host)

from which Computershare Investor Services PLC is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear (UK and Ireland) Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the CREST Regulations.

6. Each of the directors has been subject to the evaluation process recommended by the 2008 FRC Combined Code. On this basis, the Chairman and Board are pleased to recommend the re-election of those directors.

7. If you or a group of shareholders hold at least three per cent of the issued share capital of the Company, you or the group of shareholders acting together have the right to put an item on the agenda of the AGM. In order to exercise this right, written details of the item you wish to have included in the AGM agenda together with a written explanation why you wish to have the item included in the agenda and evidence of your shareholding must be received by the Company Secretary at Paddy Power plc, Airton House, Airton Road, Tallaght, Dublin 24, Ireland or by email to info@paddypowerplc.com no later than 6 April 2010 (i.e. 42 days before the AGM meeting). An item cannot be included in the AGM agenda unless it is accompanied by the written explanation and received at either of these addresses by this deadline.

8. If you or a group of shareholders hold at least three per cent of the issued share capital of the Company, you or the group of shareholders acting together have the right to table a draft resolution for inclusion in the agenda of the AGM subject to any contrary provision in company law. In order to exercise this right, the text of the draft resolution and evidence of your shareholding must be received by post by the Company Secretary at Paddy Power plc, Airton House, Airton Road, Tallaght, Dublin 24, Ireland or by email to info@paddypowerplc.com by no later than 6 April 2010 (i.e. 42 days before the AGM meeting). A resolution cannot be included in the AGM agenda unless it is received at either of these addresses by this deadline. Furthermore, shareholders are reminded that there are provisions in company law which impose other conditions on the right of shareholders to propose resolutions at the general meeting of a company.

9. Pursuant to section 134C of the Companies Act 1963, shareholders have a right to ask questions related to items on the AGM agenda and to have such questions answered by the Company subject to any reasonable measures the Company may take to ensure the identification of shareholders. An answer is not required if (a) an answer has already been given on the Company's website in the form of a 'Q&A' or (b) it would interfere unduly with preparation for the meeting or the confidentiality or business interests of the Company or (c) it appears to the Chairman that it is undesirable in the interests of good order of the meeting that the question be answered.

10. This AGM notice, details of the total number of shares and voting rights at the date of giving this notice, the documents to be submitted to the meeting, copies of any draft resolutions and copies of the forms to be used to vote by proxy are available on the Company's website at www.paddypowerplc.com. Should you not receive a Form of Proxy, or should you wish to be sent copies of documents relating to the meeting, you may request this by telephoning the Company's Registrars on 00 353 1 447 5105 or by writing to the Company Secretary at the address set out above.

2009 BETTING REVIEW

January
As Johnny Logan famously sang....What's another year?? (That Eurovision winner would have cost us a pretty penny back in 1980.....if of course we existed back then!)

Rafas were set to be big news in 2009 and the Nadal kicked off the year by beating Roger Federer in the Aussie Open final.

The ground came up heavy at Leopardstown for Toshiba's first Irish Champion Hurdle and they couldn't have had a more popular winner than when Brave Inca held off Muirhead to roll back the years and land a mighty public gamble. The only downside was that it was a pretty depressing indictment of the standard of our hurdlers for the season ahead.

Everton started on a run in the FA Cup by holding Liverpool to a draw and then were cursed by punters knocking them out... I guess Liverpool can look back in the comfort that they were the first of many!

February
The Six Nations began with Ireland sending the French home with their tails between their legs...and what a game it was! In theory we only had to beat France and Wales to win a historic Grand Slam so already us bookies were afraid, very afraid.

Rory McIlroy announced himself on the scene by winning the Dubai Desert Classic and has now firmly established himself as bookies' enemy number one. So now instead of having one eye on Harrington, we were cross-eyed looking at young Rory too!

It was a pretty good month for Ireland all told with us coming from a goal down to beat Georgia and keep our World Cup dreams alive. The one good thing about the credit crunch is that our football team has a great recession record.

United left themselves a bit nervous and punters a bit frustrated when mauling Inter away but only managing a draw, while Liverpool on the other hand put their Everton blues behind them and beat Real Madrid away to all but book themselves a place in the quarter finals of the Champions League.

The month ended with more Six Nations glory and another famous win over the old enemy in Croke Park. To be fair England played well and we only fell across the line - it's not often we can be a little bit patronising about Irish sporting success over England so please forgive the indulgence!

March
March is usually all about racing and all about Cheltenham – this year we had the Six Nations to throw into the mix too.

Cheltenham kicked off with our biggest ever special offer on the very first race. We were going to give back all losers if the well backed favourite, Cousin Vinny, won the Supreme Novices Hurdle. He disappointed his backers but left us breathing a huge sigh of relief...but job done, a record number of new accounts ready and set to bet with us for the week.

What a week to pick! To say the results went downhill from there is a slight understatement – we were considering going to the government for a bailout after two days of champagne cork popping results for punters. As ever though, things evened themselves out and we got away with it.

When you consider that Ruby Walsh rode seven winners, we really did get away with it!

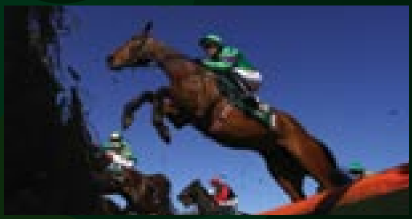
We conquered Scotland which meant that the big Six Nations decider was on. We descended on Cardiff with our sights firmly on a Championship and an historic Grand Slam.

Wales were slight favourites for the game, but the men in green stood up and took home the bacon – an absolute blow out for us bookies but we were roaring loudest of all nonetheless.

April
What an April Fools' Day! We went to Bari and all the rumours were that there'd be no drink for fans – surely an April Fools' gag? Then Italy have a man sent off in the first minute – this can't be for real! They go ahead but Robbie Keane equalises late and we are singing all the way to the World Cup Finals.... well not yet but it's looking pretty good.

The Grand National came with the usual hype and it was simply a question of what price My Will would win the National at. However, Mon Mome came fast and stormed clear from the last.

As the commentator was screaming "and Mon Mome wins the National!" every racegoer was looking at their race card scratching their head and saying "Who would have thought God's a bookie!?".



100/1 was the price and it was the third worst result in the book for punters. One lad had £250 each way which clicked for £32,000 but he was pretty much alone.

Rory McIlroy took his position at the top of our least wanted list for the Masters but when push came to shove and Kenny Perry, Angel Cabrera and Chad Campbell landed in a playoff we were sitting pretty...

April (continued)
But April will forever be remembered for an epidemic, not Swine flu but 4-4 fever! Chelsea and Liverpool served up a 500/1 4-4 treat which is in theory a great result for us but funnily enough we lost about a quarter of a million!!! How the hell did that happen???

Once again we had fallen victim to offering the best odds on the market. 500/1 with Paddy Power was 100/1 everywhere else. Hundreds of punters staked an average of £2 and cleaned us out. One Leicester punter had £25 on to win £12,500. Thankfully it wasn't due to happen again for another 500 games.

The next week, Liverpool hosted Arsenal and you wouldn't Adam & Eve it but they only drew 4-4 again! This was going to be bad...and it was.

Double the bets, double the money, yikes! That Leicester punter was back in, but this time he had £53 on and so clicked a nice £26,500 – that's about £40k in a week and he tells us he lost his job a month before... maybe he should turn pro punter!

Half a million quid later we raise the white flag and cut the odds to 350/1 – because that will put them off!!!

May
The very first weekend of May threw up what would turn out to be something very special, a certain horse named Sea The Stars left all before him seeing stars as he stormed to victory in the 2000 Guineas in Newmarket.

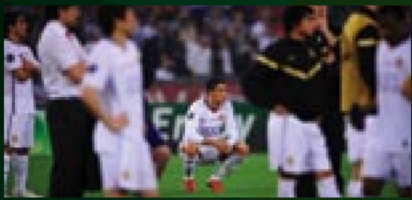
He was 8/1 that day and was actually a pretty good result for us...the very last time those words would be uttered in the same sentence as Sea The Stars.

May was a pretty good month for rugby too, particularly if you are a Leinster fan. Their earlier ugly 6-5 win over Harlequins will always be remembered for Tom Williams' mouth full of ketchup, but their semi final win over Munster in Croke Park left the crowd fairly stunned, Johnny Sexton fairly famous and Munster fairly sick.

If Leinster's path to the final was dramatic, then Leicester's came straight from Shakespeare with a never seen before penalty shoot out win over Cardiff in the semis. There's something quite comforting about seeing 18 stone props take pressure kicks in the semi finals of a European tournament!

The final was as tense as every final is and it was Leinster who emerged with the Cup – funnily enough it was Rocky Elsom who was man of the match, for only the 700th time this season!

Manchester United won the Premier League after a pretty tight race. In the end they had 4 points to spare over Liverpool (I know, what the hell has happened to Liverpool!?). That was a good result for ante post punters, but there aren't too many who'll wait a whole season to collect!



Ronaldo's last game for United was a bit of a disappointment when they lost 2-0 to Barcelona in the Champions League final. Not to us though, United had been an incredibly well backed 13/8 in the final. In fact it was our most one sided betting book of the year so far.

Chelsea may have made a mess of the League but they got some reward in the FA Cup beating Everton 2-1 in the final. A bad result for us all round, and we would have loved Everton to go all the way considering they'd done us a few favours along the way beating Liverpool, United and Villa – they deserved to win it....tell that to Tom Watson!

June
A great start to June for backers of Sea The Stars – a historic victory in the Derby confounded Coolmore and foiled a massive punt on Fame And Glory which had made him favourite at the off.

Respite for the bookies then? Of course not, the fat cats thought they knew better but the regular punter knew best of all, this Sea The Stars was turning into a bit of an ATM.

The crowd at Ascot wouldn't exactly be well known for their paddywhackery, but this year was different. It was turning into a pretty incredible year for flat racing and it was a little like Cheltenham when Yeats won his fourth Gold Cup.

As you'd expect, an 'incredible year for the flat' means that big name horses keep winning, which means that punters keep backing them, which means that we keep getting our pants taken down – but what the heck, we'll cheer with the rest of them!

If well known horses were winning, the golf majors weren't exactly going to plan. Lucas Glover won the US Open – who? Only five players managed to finish under par and to be fair both Tiger and Mickelson were close enough if good enough.

So fair play to the 150/1 shot for managing to hold on, even if he did give us heart failure by shooting a three over par final round!

The first Lions test in South Africa left a bit of a sour taste in the mouth with a narrow defeat for the visitors after a big second half comeback. Many of the big punters had piled into the World Champs but that was balanced out by the patriotic Lions punters.

June (continued)

It's been a pretty dramatic couple of months and Wimbledon didn't fail to entertain either. Andy Murray was the talk of the town for most of the tournament but he fell to the resurgent Andy Roddick, who was all that stood between Roger Federer and history.

The Fed Express was a red hot favourite and didn't disappoint, but he had to work pretty hard – he won the last set 16-14. Pete Sampras was there to see his record 14 Grand Slams surpassed.

If any punter had bothered to ask for odds on Federer to win 16-14 in the last set we would have quoted him 1000/1, and sent the men in white coats around to his house!

July

Nobody will ever forget the Open Championship of 2009 which proved once and for all that sport is anything but fair!

Tom Watson did everything right, he shot a first round 65 which put him right up there as a bit of a "isn't it great to see that the old boy can still make it around in one piece". Then a couple of days later it was more a case of "jaypers, is he still here?".

He never took the imagination of punters though and even though everyone was cheering for him, nobody really backed him. Stewart Cink came from nowhere and, as soon as Watson fluffed the 18th, he was always going to win the playoff.

Come to think of it – nobody will forget the runner up, but not so many might remember the winner!

Either way it was a kick in the teeth for punters as the big Tiger v Harrington battle royale never really happened.

England began winning back the Ashes with a famous home victory over the old enemy and 8/13 favourites, Australia. A very popular result with punters and us bookies paid for many a round toasting hero of the series, captain fantastic Andrew Strauss.

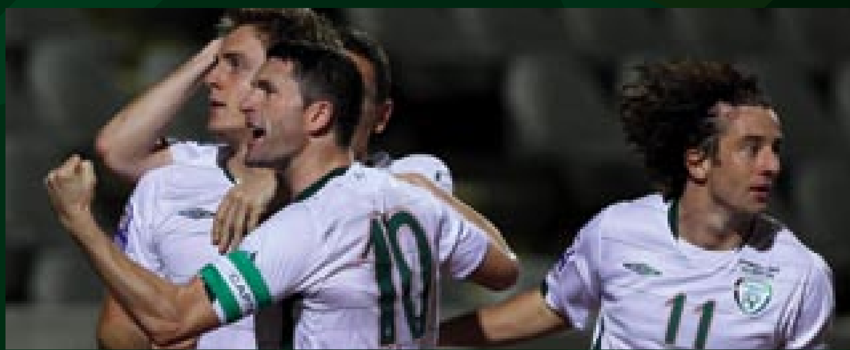
The Lions had managed to lose the first two tests so the last hurrah was a bit of damp squib but most punters called it completely wrong. The Lions finally found their winning groove with an easy victory over an already celebrating Springbok team. On the very same day Sea The Stars was justifying favouritism in the Coral Eclipse at Sandown. One good result and one bad.

So Tiger chooses this major to completely choke for the first time in his career, he shoots a final round 75 (that's not a misprint!). YE Yang wins the tournament and the whole bookmaking industry breathes a collective sigh of relief while punters around the world say "who?".

At times like these most people keep the head down and pretend it never happened. We considered this and then ran a media campaign under the slogan "It pays to bet with Paddy Power. When we get it wrong, we get it really wrong!".

September

Man Utd's victory over big spending neighbours Man City will be seen as one of the pivotal points of their season. For many it also heralded the start of what is now known as 'Fergie Time'.



August

The Premier League started with a bit of a bang, both United and Chelsea justified short odds beating Birmingham and Hull while Arsenal threw down a big marker with a 6-1 mauling of Everton away.

We can thank our lucky stars that Liverpool started as they meant to continue with a defeat at the hands of Tottenham – the multiple bets on the top four winning were looking pretty nasty!

The early exchanges looked as though nobody except Chelsea wanted to win the League this year. It was meant to be a two horse race but United losing to Burnley certainly put a spring into Chelsea's step.

The USPGA is usually a pretty forgettable major and passes without much notice or mention. This year looked like being much of the same with Tiger leading by two at the start of the final round – don't forget he never gets beaten from the front in majors.

That's why we decided to pay out early. Everyone who backed Woods got paid out before a ball was even struck in the final round. There aren't enough zeros on this keyboard to tell you how much we paid out – it was a lot!

Craig Bellamy scored in the last minute to earn a draw for Man City but with Utd piling on the pressure they managed to bag a Michael Owen winner in the sixth minute of injury time. It was some game though, 4-3 United. They might have been well backed to win the match, but not many got the score right!

The Irish Champion Stakes at Leopardstown was the only time we were lucky enough to see Sea The Stars in Ireland over the whole season and he didn't disappoint. Coolmore threw no less than five horses, including two of their biggest guns, at John Oxx's superstar but they still couldn't find a way to the bottom of this horse. Mastercraftsman and Fame And Glory, a St. James's Palace winner and an Irish Derby winner, were both made look pretty ordinary.

England beat Croatia 5-1 to almost guarantee their place in South Africa – this bloke Capello can manage! Many people say that England are always under priced because of the patriotic punt – it doesn't bloody well matter, if they keep winning we keep getting cleaved!

As for Ireland, the dream was still alive after a Robbie Keane winner away in Cyprus.

2009 BETTING REVIEW CONTINUED

October
Sea The Stars finished his short career with a jaw dropping win in the Prix de l'Arc de Triomphe in Paris, coming from an impossible position to storm home amid scenes of pure paddywhackery!

The only good news for the bookies was that he was off to stud.

There was a small chance of us topping our qualifying group, especially when Sean St Ledger put us ahead in the 87th minute against Italy in Croke Park. Then the defence went to the boozer to celebrate while Gilardino was scoring the equaliser three minutes later! Playoffs here we come – let's hope we don't draw France.

England managed to lose their 100% record away in the Ukraine but it didn't really matter as they had already topped their group. It was very nice of them to give some points to some of the other teams.

Jenson Button won the F1 Drivers' Championship, which doesn't seem that amazing now but remember he was 80/1 at the start of the season and made a packet for the many petrol heads who were far more on top of out of season testing (yawn!) than we obviously were.

While Button was spraying the champagne, FIFA were busy changing the World Cup Qualifying rules to suit France and Portugal. They seeded the draw for the qualifiers to make sure the big teams avoided each other which would have been absolutely fine....if Ireland had been seeded.

Luck of the Irish my ar*e, we drew France.

November
Lots of people grew silly moustaches in November, which just made it an awful lot easier for ugly blokes to get lucky in nightclubs the length and breadth of the land!

The National Hunt season kicked off as usual with the Paddy Power Gold Cup at Cheltenham and once again we had a quality winner with the Edward O'Grady trained Tranquil Sea storming clear up the hill.

In our wisdom we had offered money back to all punters if Paul Nicholls won the race – bear in mind that Nicholls is a champion trainer and has won just about every big race bar this one. He also had three of the top five horses in the race.

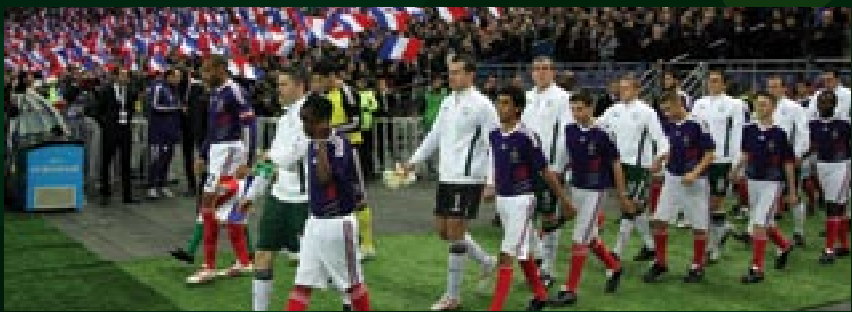
You'd think the fact that he didn't win was good for us, but the special put everyone onto everything else in the race and Tranquil Sea landed a nice touch being backed from 14/1 a couple of days before to 11/2 favourite. It was the first Irish winner of the race for donkey's years.

As I said earlier, luck of the Irish my ar*e! The only good thing is that it does give us something to moan about for months and months.

We stuck up an ad in Dublin airport welcoming everyone to Ireland, unless they were called Thierry – although I very much doubt we would be top of his wishlist of destinations.

December
Lee Westwood had managed to fall away a few times over the season when in a winning position but he toyed with the opposition when winning the very lucrative Race to Dubai.

The Christmas racing festivals saw some ups and downs for punters but the most important result was the Christmas dish which is almost as popular as Turkey – Kauto Star.



Chelsea captain John Terry scored in their awful 1-0 win over United to cement their place atop the League, not a bad result as the millions of United fans had once again bet with their hearts.

The real football story happened in Paris though. Two French players are offside but Thierry Henry wisely plays the whistle. He tries to palm the ball down but fails at the first attempt so goes again, eventually he gets it across to Gallas who bundles the ball into the back of the net.

Some said he was over the hill, some still say he can't jump (he has fallen three times in 33 starts and has won 2 Gold Cups and now 4 King Georges!). He was awesome. It looked really unfair, like he was racing against donkeys – 36 lengths was the winning margin in the end.

It's easy in hindsight but 8/13 was an unbelievable price considering his record in the race. Most punters don't need hindsight – bloodbath!

We figured there might be some nasty weather on the way so we decided to pay out early on a white Christmas. It cost us a pretty penny and we were kind of right, but as usual the snow only came afterwards so we ended the year with a cocked up payout – must try harder next year!

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