2 March 2010

Paddy Power plc
Preliminary Results Announcement for the year to 31 December 2009

Business Development Highlights:

- Established the number one position in the highly attractive Australia online corporate bookmaker market through two acquisitions;
- Established new business-to-business revenue stream, securing PMU in France, the world's second largest betting organisation, as the first client;
- Opened 25 new shops in the UK, our largest ever number in a single year, whilst also maintaining positive momentum in UK Retail profits;
- Continued geographic diversification with trading profits from UK customers 44% and, on an annualised basis, Australian customers 20% of Group profits;
- Increased exposure to internet growth with trading profits from online 75% of Group profits (2008: 57%);
- Increased market share and turnover in all divisions.

Financial Highlights:

- Diluted EPS of 120.7c, down as expected versus 2008 due to an adverse swing in the run of sporting results (2008: 137.8c);
- Continued growth in our Online division, with growth in constant currency of 7% in gross win and 13% in operating profit to €45.7m*;
- Increased market share in Irish Retail from 26% to 32% and operating profit of €16.3m (2008: €28.3m);
- Continued profit growth in UK Retail to €1.3m (2008: €1.2m) with like-for-like EBITDA per shop in Great Britain up 7% to £120,000;
- Reduced like-for-like operating costs* by 4% in constant currency, while investing in key areas and without compromising the customer experience;
- Confidence in the underlying performance of, and prospects for the Group, with a 10% increase in the proposed final dividend to 38.9c, implying an 8% increase in the full year dividend to 58.4c;
- A strong balance sheet, with net cash at 31 December of €75m.

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

'Despite the economic problems, 2009 was a cracking year for Paddy Power punters on two fronts. The year saw a slew of punter-friendly sporting results which was the exact opposite to the experience of the prior year. Also, Paddy Power once again invested heavily in bringing unsurpassed value to our customers through a range of 'stand out' offers. This focus on value saw the Group drive up turnover and enhance market share across all channels by competing aggressively and attracting and retaining a record number of customers.

On the development front we have taken significant steps in geographic expansion through the continued growth of our UK Retail network, the successful acquisition of Sportsbet and IAS in Australia and through a B2B online agreement with PMU to provide risk management and pricing expertise.

In recent months we have engaged with the Irish Government on the potential for taxation of telephone and online betting in Ireland. In our view, such a tax will raise only relatively modest revenue, will be costly to implement and will be problematic, if not impossible, to enforce; points we have made to the Government with accompanying evidence. We have nonetheless never had an objection to paying tax on the internet betting of Irish customers, assuming that any tax is enforceable on all internet bookmakers providing services to the Irish market and not just on those of us who are based in Ireland providing valuable sustainable employment.'

** Prior to the inclusion of the Group's acquisitions in Australia during 2009*

ENDS

2 March 2010

Issued on behalf of Paddy Power plc by Drury

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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.

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)
(Amounts staked or turnover represents amounts placed on sporting events and net winnings on gaming activities)
(2008 results above and throughout this statement exclude an exceptional gain of €2.7m pre-tax)

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

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.

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.

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.

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
Chief Executive

1 March 2010

OPERATING & FINANCIAL REVIEW

Introduction

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 €11m 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.

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.

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)

(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.

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 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 stakes 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.

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.

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.

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.

Taxation

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

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

Cash Balances and Cash Flow

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

- Cash of €70m within the wholly owned Group, including cash held on behalf of customers of €18m;

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

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

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

1 March 2010

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2009

	Note	**Total 2009 €'000**	Before exceptional item 2008 €'000	Exceptional item *(Note 4)* 2008 €'000	Total 2008 €'000
Amounts staked by customers		**2,751,537**	2,100,926	-	2,100,926
Continuing operations					
Income	*3*	**295,928**	283,657	-	283,657
Direct betting costs	*4*	**(37,954)**	(29,975)	2,735	(27,240)
Gross profit		**257,974**	253,682	2,735	256,417
Employee expenses		**(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	*5*	**900**	3,297	-	3,297
Financial expense	*5*	**(402)**	-	-	-
Profit before tax		**67,192**	78,992	2,735	81,727
Income tax expense	*6*	**(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	*7*	**€1.219**			€1.457
Diluted	*7*	**€1.207**			€1.429

Notes 1 to 24 on pages 20 to 44 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 (including foreign exchange movements)	*11*	**479**	-
Foreign exchange translation differences in respect of foreign operations	*5*	**1,476**	(346)
Deferred tax on the changes in fair value of available-for-sale financial assets	*17*	**(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 24 on pages 20 to 44 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	*8*	**76,727**	68,041
Intangible assets	*9*	**45,084**	31,612
Goodwill	*10*	**60,903**	15,003
Financial assets	*11*	**2,498**	-
Deferred tax assets	*17*	**3,284**	1,244
Total non current assets		**188,496**	115,900
Trade and other receivables	*13*	**16,432**	5,641
Financial assets – restricted cash	*14*	**9,025**	-
Cash and cash equivalents	*14*	**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	*18*	**90,453**	53,942
Derivative financial liabilities – sports betting open positions	*18*	**5,448**	3,658
Provisions	*19*	**1,170**	-
Borrowings	*20*	**5,023**	-
Current tax payable		**978**	1,496
Total current liabilities		**103,072**	59,096
Trade and other payables	*18*	**3,003**	5,657
Derivative financial liabilities – sports betting open positions	*18*	**16**	11
Provisions	*19*	**1,713**	-
Borrowings	*20*	**11,498**	-
Deferred tax liabilities	*17*	**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 24 on pages 20 to 44 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	*12*	**(27,984)**	(23,181)
Acquisition expenses paid	*12*	**(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	*14*	**80,576**	76,661

Notes 1 to 24 on pages 20 to 44 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 15)												
	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 15)	**496,597**	**50**	**6,691**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**6,741**	**-**	**6,741**
Own shares acquired:													
By the long term incentive plan trust – 540,000 ordinary shares (Note 15)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,067)**	**-**	**-**	**(14,067)**	**-**	**(14,067)**
By the Group – nil ordinary shares (Note 15)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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 15)	**-**	**-**	**-**	**-**	**194**	**-**	**-**	**-**	**-**	**-**	**194**	**187**	**381**
Business combinations – Sportsbet (Note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,310**	**8,310**
Business combinations – IAS (Note 15)	**-**	**-**	**-**	**-**	**(452)**	**-**	**-**	**-**	**-**	**452**	**-**	**-**	**-**
Deferred tax balance transfer (Note 15)	**-**	**-**	**-**	**-**	**258**	**-**	**-**	**-**	**-**	**-**	**258**	**294**	**552**
Discount on loan from non-controlling interest (Notes 15 & 20)	**-**	**-**	**-**	**-**	**-**	**256**	**-**	**-**	**-**	**-**	**256**	**245**	**501**
Equity-settled transactions - expense recorded in income statement	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,841**	**-**	**5,841**	**-**	**5,841**
Equity-settled transactions – vestings (Note 15)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,735**	**(3,234)**	**(143)**	**358**	**-**	**358**
Transfer to retained earnings on exercise of share options (Note 15)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,372)**	**1,372**	**-**	**-**	**-**
Dividends to shareholders (Note 16)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(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 (continued)
Year ended 31 December 2009

	Attributable to equity holders of the Company (see Note 15)												
	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 15)	44,990	4	499	-	-	-	-	-	-	-	503	-	503
Own shares acquired:													
By the long term incentive plan trust - 599,000 ordinary shares (Note 15)	-	-	-	-	-	-	-	(11,582)	-	-	(11,582)	-	(11,582)
By the Group – 1,484,000 ordinary shares (Note 15)	-	-	-	-	-	-	(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	-	-	-	-	-	-	-	-	6,874	-	6,874	-	6,874
Equity-settled transactions – vestings (Note 15)	-	-	-	-	-	-	-	3,145	(3,033)	(44)	68	-	68
Transfer to retained earnings on exercise of share options (Note 15)	-	-	-	-	-	-	-	-	(121)	121	-	-	-
Dividends to shareholders (Note 16)	-	-	-	-	-	-	-	-	-	(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 24 on pages 20 to 44 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 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:

<u>IFRS 8 ‘Operating Segments’</u>

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 3). 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.

<u>Revised IAS 1 – IAS 1(2007) ‘Presentation of Financial Statements’</u>

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 Note 24.

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

Reportable business segment information for the 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**

3. Operating segments (continued)

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.

3. 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	2008
	€'000	€'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	2008
	€'000	€'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.

4. Direct betting costs

Direct betting costs comprise:

	2009	2008
	€'000	€'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 taxes levied on gross win, taxes levied on Irish retail and Australia segment amounts staked and general sales tax 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.

5. 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)

6. Income tax expense

	2009 **€'000**	2008 €'000
Recognised in the income statement:		
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 17)	**46**	(945)
Total income tax expense in income statement	**8,717**	12,910

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.

7. 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 4)	**-**	(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

8. 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 12)	-	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 12)	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.

9. 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 12)	-	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 12)	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.

9. Intangible assets (continued)

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 12) 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.

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.

10. 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 12)	-	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 12)	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 12).

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 12).

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

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. Based on these reviews, no impairment has arisen.

11. Financial assets (non current)

	31 December 2009	31 December 2008
	€'000	€'000
Derivative financial assets:		
Sportsbet buyout call options	**917**	-
Other financial assets:		
Restricted cash (see Note 14)	**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**
At start of year	-	-	-	-
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)
At end of year	**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 12).

12. 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 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 AUD10m (€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 11 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 11)			(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

12. 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 11). 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 20). A secured bank loan of €12,494,000 (AUD20,000,000) was also taken out by Sportsbet to part fund the acquisition (see Note 20).

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 11)			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.

12. 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.

12. 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

13. 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.

14. 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 21). 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 11). See also Note 21.

15. 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 12), 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. 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 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 20).

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.

16. 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 23)	**18,686**	16,830

17. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2009			31 December 2008		
	Assets 2009 €'000	**Liabilities 2009 €'000**	**Total 2009 €'000**	Assets 2008 €'000	Liabilities 2008 €'000	Total 2008 €'000
Property, plant and equipment	**563**	**-**	**563**	332	-	332
Purchase of business – licence intangible assets (Note 12)	**-**	**(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 24). This uncertainty arises due, amongst other factors, to the potential up-front costs of expansion in GB.

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 12)	-	-	(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)**

18. Trade and other payables and derivative financial liabilities

Current liabilities

	31 December 2009	31 December 2008
	€'000	€'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	31 December 2008
	€'000	€'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.

19. Provisions

Current liabilities

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

Non current liabilities

	31 December 2009	31 December 2008
	€'000	€'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**
At 1 January 2009	**-**	**-**	**-**	**-**
Other additions	**-**	**-**	**113**	**113**
Business combinations (Note 12)	**-**	**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**
At 31 December 2009	**-**	**519**	**651**	**1,170**

Non current liabilities

	Long service leave €'000	**Lease reinstatement €'000**	**Onerous contracts €'000**	**Total €'000**
At 1 January 2009	**-**	**-**	**-**	**-**
Other additions	**-**	**388**	**1,054**	**1,442**
Business combinations (Note 12)	**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**
At 31 December 2009	**234**	**441**	**1,038**	**1,713**

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.

20. Borrowings

The Group had the following borrowings at 31 December:

Current liabilities

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

Non current liabilities

	31 December 2009	31 December 2008
	€'000	€'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
Total						**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 loan (€3,682,000) and its 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.

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 non-controlling 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	-	-	-
Total	2,157	270	1,887

The Group had no finance leases at 31 December 2008.

21. 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 £16,000,000 (euro equivalent of €18,016,000) (2008: £12,000,000 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 £8,015,000 (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.

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 one Sportsbet 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.

21. 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.

22. Related parties

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

There were no transactions with related parties during the years ended 31 December 2009 and 2008 that materially impacted the financial position or performance of the Group.

23. 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.

24. 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 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.

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.

24. Accounting estimates and judgements (continued)

A potential deferred tax asset of €1,770,000 (2008: €2,380,000) relating to the GB retail business (see Note 17) 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 believes 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.