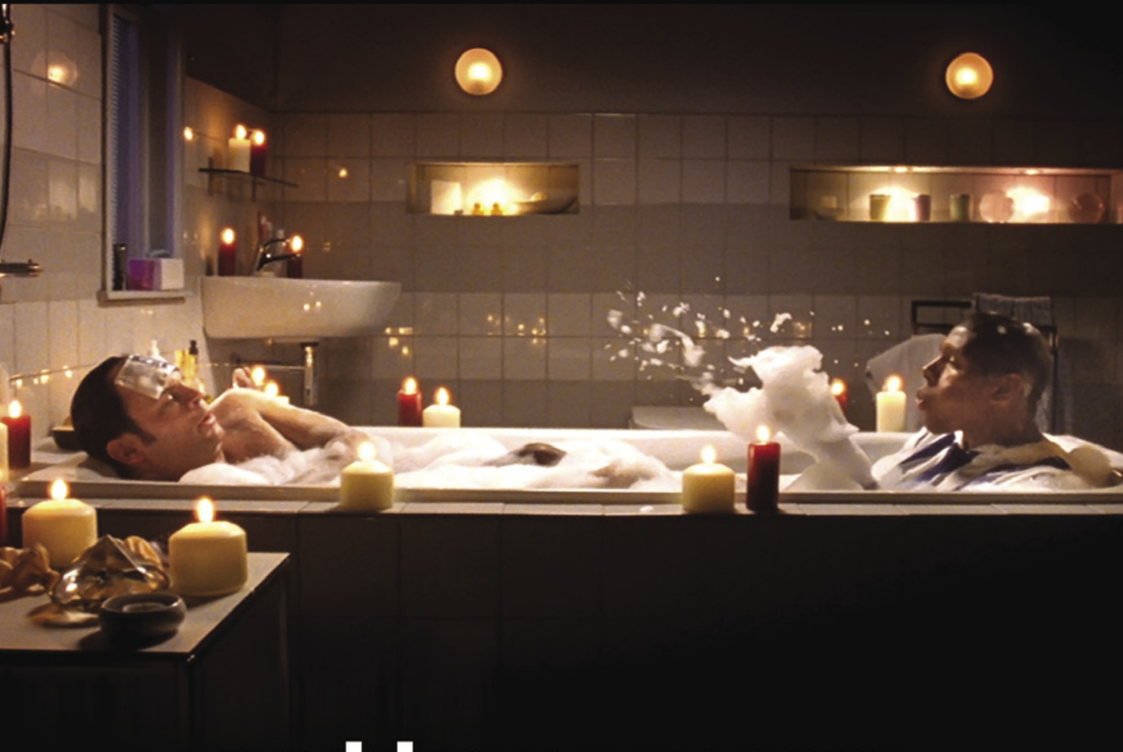
Paddy Power plc

2009 Interim Report



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2009 Interim Financial Highlights
For the six months ended 30 June 2009

	Six months ended 30 June 2009 *(unaudited)*	Six months ended 30 June 2008 *(unaudited)*	% Change	*Constant Currency ('CC') % Change ****
	€m	€m		
Amounts staked by customers *				
Online	**431**	350	+23%	*+32%*
Irish Retail	**475**	490	-3%	*-3%*
UK Retail	**91**	84	+9%	*+24%*
Telephone	**151**	143	+6%	*+12%*
Total amounts staked	**1,148**	1,067	+8%	*+12%*
	€'000	€'000		
Income *				
Online	**51,595**	54,950	-6%	*-1%*
Irish Retail	**56,643**	68,668	-18%	*-18%*
UK Retail	**16,838**	15,817	+6%	*+23%*
Telephone	**7,615**	12,376	-38%	*-35%*
Total income	**132,691**	151,811	-13%	*-9%*
Operating profit / (loss) **				
Online	**21,815**	21,108	+3%	*+7%*
Irish Retail	**11,697**	20,511	-43%	*-43%*
UK Retail	**460**	525	-12%	*+276%*
Telephone	**(446)**	2,957	na	*na*
Total operating profit	**33,526**	45,101	-26%	*-24%*
Basic earnings per share **	**63.4c**	82.3c	-23%	*na*

* Amounts staked by customers (or 'turnover') represent amounts received in respect of bets placed on sporting events that occurred during the period and net winnings, commission income and fee income earned on gaming activities. Income (or 'gross win') represents the net gain on sports betting transactions (stake less payout) plus the gain or loss on the revaluation of open positions at period end, net winnings on fixed odds and online casino gaming activities, and commission income and tournament fees earned from peer to peer games and financial spread betting.

** Operating profit and earnings per share in respect of the six months ended 30 June 2008 is stated excluding a once-off exceptional item of €2,735,000 (€2,467,000 after-tax) relating to a refund of Irish VAT on certain British horseracing levy payments.

*** The constant currency % change is calculated on the basis of the foreign currency content in 2008 translated at 2009 rates.

Interim Statement

Introduction

I am pleased to report on a positive start to 2009 for Paddy Power. In our Online, UK Retail and Telephone divisions we have grown our turnover and market share substantially. In our Irish Retail division a 3% decline in turnover was a significantly better result than that of the rest of the market, with our share increasing as a result from approximately 26% to 29%. The diversification of the Group's geographic and channel mix saw 65% of Group profit generated from the Online division (H1 2008: 47%) and 39% of Group profit from UK customers (H1 2008: 28%).

The underlying performance of the Group in the period included the following additional highlights:

- A positive response from customers across all channels to the significantly increased value we introduced mid-last year, with turnover growth of 12% in constant currency despite the economic conditions;
- An acceleration of growth in our Online division, with turnover up 32% in constant currency and a 20% increase in active customers;
- Continued operating profit growth in our Online division of 3% to €22m;
- Further progress in UK Retail with 15 shops opened in the year to date, growth in like-for-like EBITDA per shop of 1% to £56,000 in the half year and enhanced online performance in areas where we have opened shops;
- Reduced operating costs by 4% in constant currency, while investing in key areas and without compromising the customer experience;
- Continued geographic diversification with the successful entry into the attractive Australian betting market;
- A strong balance sheet, with net cash at 30 June of €87m;
- Confidence in the underlying performance of, and prospects for the Group, leading to a 5% increase in the interim dividend to 19.5 cent.

This performance is in the context of a very different year on year environment. The colder economic winds blowing in the middle of 2008 led Paddy Power to step up its long standing focus on providing better value than the competition. We introduced an additional range of 'stand out' offers with a gross cost of approximately €20m in a full year. On top of our increased concessionary activity, our customers got an extra 'dig out' with a punter-friendly run of sporting results, particularly in comparison with the bonanza results we enjoyed in the early months of 2008. This reduced the gross win percentage by a further 1.4% compared to the first half of 2008 and 0.7% below our normal expectations for the period. This change in the run of results is a normal occupational hazard for bookmakers and has driven the €11.6m reduction in operating profit in the period to €33.5m.

Sporting Results and Trading

Sporting results got off to a decent start from a bookie's perspective – at least when there was racing during a waterlogged beginning to the year. The weather and the calendar of events picked up in March and we certainly ratcheted things up for the first race of Cheltenham. We offered one of our most generous ever Money-Back Specials – a refund of all losing bets if the race was won by the 9/4 favourite, Cousin Vinny (for any odds challenged readers that's a 31% probability) – and, for once, we lived to tell the tale.

To say the results went downhill from there would be like saying Cristiano Ronaldo sometimes goes down too easily. After eight Irish trained winners over the first two days we were considering going to the Government for a bailout, but we knew they had no money left. Ruby Walsh continued to do us damage riding a festival record of seven winners, but after that incredible start the Irish trained winners tally finished at nine, one short of the record of ten in 2006. We got some relief when 100/1 outsider, Mon Mome, won the Grand National, even with our generous offer of five places on each-way bets.

There was, however, no respite for us with football and rugby results, where we took the kind of beating you usually have to play against Schalke Burger to get. Irish rugby had its most successful season ever with a clean sweep of the Northern hemisphere silverware – Magners League, Heineken Cup and Grand Slam. Paddy supported the celebrations buying thousands of pints for fans after key matches at Leinster's Donnybrook watering hole.

The FA Cup quarter finals were all won by the fancied teams (Arsenal, Everton, Man United and Chelsea). Meanwhile the "Big 4" were showing similar consistency in the Premier League winning 26 out of their final 27 matches against the "Not-So-Big 16". What should have been bookie friendly results weren't even working out that way with our generous 500/1 pricing of two 4-4 draws (Chelsea v Liverpool, Liverpool v Arsenal) attracting value conscious and very lucky punters.

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. That consistency pays both in terms of the strength of our brand, and measurable financial performance such as the growth from 26% to 29% in our Irish Retail market share and the 52% increase in online sportsbook bet volumes in the period.

Online Division

€m	H1 2009	H1 2008	% Change	% Change in CC
Amounts staked	430.9	349.8	+23%	+32%
Sportsbook gross win	26.6	31.1	-14%	-8%
Sportsbook gross win %	*6.6%*	*9.6%*		
Gaming gross win	25.0	23.9	+5%	+7%
Total gross win	**51.6**	**55.0**	**-6%**	**-1%**
Gross profit	44.2	46.9	-6%	-2%
Operating costs	(22.4)	(25.8)	-13%	-9%
Operating profit	**21.8**	**21.1**	**+3%**	**+7%**

The Online channel once again grew profits, up €0.7m to €21.8m, highlighting its strong structural growth drivers, continued success in winning market share and tight cost management. These positives were sufficient to offset significant headwinds from a reduced sportsbook gross win percentage, economic conditions and a net adverse impact from foreign currency fluctuations of approximately €0.7m.

Interim Statement
(continued)

Operating costs were managed extremely tightly. They decreased by €3.4m as we continue to leverage our increased scale and to renegotiate, reassess and optimise expenditure in areas such as marketing. We also benefited from reduced spending on certain new business activity (such as our former German and current Spanish language online betting businesses), the foreign currency impact of the stronger euro and lower performance related pay costs. Notwithstanding tight cost control, we continue to invest in areas such as TV advertising in the UK, extended 24/7 customer services hours and aggressive recruitment to increase our talent pool in what is currently an attractive labour market for employers.

Online Channel Active Customers	30 June 2009	30 June 2008	% Change
Ireland and Rest Of World	87,308	75,345	+16%
UK	177,880	143,137	+24%
Total	**265,188**	**218,482**	**+21%**

Online Customers Product Usage	30 June 2009	30 June 2008	% Change
Sportsbook only	176,128	144,419	+22%
Gaming only	31,931	27,619	+16%
Multi product customers	57,129	46,444	+23%
Total	**265,188**	**218,482**	**+21%**

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

(A) Sportsbook

The amounts staked on the sportsbook increased by 34% in constant currency to €406m. Within this, bet volumes grew 52% to 21.0m while the average stake per bet decreased by 11% in constant currency to €19.26. 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 conditions. Gross win in the sportsbook declined by 8% in constant currency to €26.6m due to a 31% fall in the gross win percentage.

Customer numbers continue to grow strongly, up over 20% at the end of the period. Average bets per customer also continue to grow, with the increase in bet volumes of over 50% significantly higher than the growth in customer numbers. An important driver of this growth is product innovation and expansion - offering more betting markets and covering more betting events. For example, we offered over 45 distinct betting markets on a tennis match during the period (compared to 14 in late 2008) and we offered betting-in-running (‘BIR’) on over 1,000 football matches in April (compared to 430 last September). We were also the first bookmaker to introduce BIR on all UK and Irish horse racing during the period. This product differentiation attracts new customers, makes existing customers less likely to use other providers and attracts additional bets per customer, all contributing to increased revenue.

Our regular early payouts and 'Paddy Justice' payouts continue to benefit punters, differentiate us and create fun talking points and media interest, all of which drives incremental revenue. Punters that backed Man United to win any or all of the three domestic UK football competitions with Paddy Power could relax more than three months before the final ball was kicked (let's just say two out of three ain't bad). Stoke supporters not only got to enjoy their team 'staying up' in the Premier League (after we paid out on them to be relegated following the first match) but also the 'humble pie ice cream' served by Paddy at the stadium on the last day of the season, along with full page apologies in the press. Meanwhile refereeing decisions more suspect than a Tour de France competitor were put right by Paddy Power, with refunds to frustrated Chelsea backers against Barcelona in the Champions League semi-final and Cardiff's backers following the bizarre rugby penalty shoot out in the Heineken Cup semi-final.

(B) Gaming

Gaming revenue increased to €25.0m. This is a 7% increase in constant currency after adjusting the comparative for the 13% depreciation in sterling and 15% appreciation in the US dollar versus the euro. This was driven by strong revenue growth in Games and our newer gaming businesses, Bingo and Financial Spread Betting, which more than offset the impact of a difficult Poker market.

The Games business benefited from the increased value and overall strength of the sportsbook offering which grew its customer numbers by over 20%, some of whom went on to enjoy Games. The product offering was also enhanced to make Games more readily accessible to sportsbook players and expand the product choice to over 115 games, with 31 added in the period. The Casino business performed solidly despite the economic environment.

The Poker market continues to be challenging due to the advantages enjoyed by certain operators taking play from the U.S. and the difficulty of achieving product differentiation. In this context, we were pleased to grow our active customers and profitability. Our sponsorship of the Irish Open Poker Tournament, the oldest tournament in Europe, continues as a strong point of differentiation. We enhanced the value of the sponsorship, while also lowering our costs, with the broadcast of live streaming pictures of it online watched by over 160,000 people, plus eight one hour highlights programmes shown on Irish and UK terrestrial television.

Our Bingo business made further progress in the period including a successful migration to a hosted network model with Virtue Fusion which had a positive impact on revenues and costs. Paddy Power Trader pined for the exceptional market volatility of late 2008 but continued to advance as we assess our options to take the business to the next level.

We continue to focus on possible international Business-to-Business opportunities (where we could partner with local players with brands and/or distribution and provide them with sports betting product) which would allow us to access new geographies on an attractive risk reward basis.

Interim Statement
(continued)

Retail

The difficult economic conditions are challenging in the short term for retail businesses which do not enjoy the same structural growth drivers as online. Nonetheless our Irish and UK Retail businesses have met the challenges head-on with compelling value for consumers, combined with tight cost management. We are confident that both businesses will emerge from the downturn stronger and with an increased market share. We are already achieving increased share in Ireland of approximately 29% in the period as compared to approximately 26% in the equivalent period last year. This has been driven by a more value conscious consumer responding to the value and quality of our offer, and the supply of shops slowly falling. In the UK, we are availing of the positive environment for investing on the high street in terms of the choice and cost of locations, with 15 openings in the year to date taking our UK estate to 83 shops and placing us well on track to achieve our target of at least 150 shops in the UK by 2011.

Within our recession busting range of promotions, there have been some major campaigns specific to Retail. In Ireland, enhanced prices and other extra value 'Powerplays' throughout the day guarantee our customers the best price in the industry on many popular selections. In the UK, the focus has been on making sure customers are clear on what to expect when Paddy Power comes to town, with new shops blasting a five week cycle of our most generous offers like 'Money-Back on All Losing Bets' (we can't make it any easier than that bar dispatching Paddy to tour Manchester and Glasgow in a bikini with free money – we're still thinking about that idea).

Irish Retail Division

€m	H1 2009	H1 2008	% Change
Amounts staked	474.7	489.5	-3%
Gross win	**56.6**	**68.7**	**-18%**
Gross win %	*11.9%*	*14.0%*	
Gross profit	51.7	63.4	-19%
Operating costs	(40.0)	(42.9)	-7%
Operating profit	**11.7**	**20.5**	**-43%**
Shops at period end	195	186	+5%

The amounts staked within Irish Retail decreased by 3% to €475m. Gross win fell by 18% to €57m, hit by the 15% fall in the gross win percentage to 11.9%, just slightly below the 12.0% mid-point of the expected range. We opened four new shops in the period, including one acquisition. Excluding the impact of new shops, like-for-like amounts staked were down 8% and gross win was down 21%. The reduction in stake was primarily due to a fall in average stake per slip of 6% to €20.61.

We continue to squeeze our costs and added to the savings achieved last year with a further 7% reduction in like-for-like direct shop operating costs in this period. This was driven by more efficient staffing, aggressive control of overheads and reduced performance related pay.

We expect the supply of shops in the industry to remain under pressure as profits contract due to a smaller economy and the more competitive trading terms introduced last year across the industry. We estimate that 67 shops have closed over the last 12 months and that there are currently approximately 1,250 shops in the industry.

The deductions between gross win and gross profit have remained at 1% of turnover in the period with the Irish government postponing its planned doubling of betting tax to 2% of turnover from 1 May 2009. We understand this postponement is to allow the Government to carry out a study into the potential taxation of online and telephone betting, 'while protecting Irish jobs'. We welcome the Government's postponement of the retail betting tax increase and in relation to any possible non retail betting tax we have highlighted the following:

- The misconception that the Irish non retail betting market is substantially larger than the Irish shop betting market and that therefore there is 'a pot of gold' available if such a tax could be introduced;
- The difficulties in fairly and successfully implementing such a tax;
- The fact that this would ultimately be a tax on Irish 'smart economy' jobs where Irish companies are successfully exporting services and substantially benefiting the Irish economy and Exchequer;
- The alternative initiatives which could increase economic activity in our sector, and therefore enhance its tax contribution.

UK Retail Division

€m	**H1 2009**	**H1 2008**	**% Change**	**% Change in CC**
Amounts staked	91.2	84.0	+9%	+24%
OTC gross win	10.6	9.7	+9%	+26%
Sportsbook gross win %	*12.5%*	*12.4%*		
Machine gross win	6.2	6.1	+2%	+17%
Total gross win	**16.8**	**15.8**	**+6%**	**+23%**
Gross profit	14.1	13.0	+8%	+25%
Operating costs	(13.6)	(12.5)	+9%	+22%
Operating profit	**0.5**	**0.5**		
Shops at period end	80	67	+19%	+19%

UK Retail maintained its profits at €0.5m for the first six months of the year. We achieved increased profitability of €0.4m in constant currency from the 60 shops we had in London at the start of 2009 and an additional contribution of €0.4m from the eight shops acquired in Northern Ireland in May 2008. This performance offset the upfront costs of opening new units of €0.4m and an adverse impact from weaker sterling of approximately €0.4m.

Interim Statement
(continued)

In constant currency, turnover grew 24% to €91m, with an unchanged average stake per slip of €15.43, while gross win increased by 23%. Like-for-like gross win grew 1.4% in constant currency, comprised of machine growth of 3.4% and over-the-counter growth of 0.1% on like-for-like turnover down 4.7%. There were 316 machines installed at 30 June, an increase of 52 compared to 30 June last year as a result of new shop openings. The average gross win per machine per week including VAT was £846. For the like-for-like estate in London, this amount was £940, an increase of 2% compared to the first six months of 2008.

Operating costs grew 22% in constant currency driven by a 25% increase in average shop numbers and the additional infrastructure required to support shop openings in Glasgow and Manchester. Like-for-like costs in our London estate were reduced by 3%. Further savings and improved operational arrangements were 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 2010.

We are confident that underlying operating profit from UK Retail will increase as we benefit from increased estate EBITDA from new and maturing shops, lower estate depreciation (with a reduced capital cost for new openings) and increased scale to cover central overheads and to facilitate further cost reductions. Like-for-like EBITDA per shop in our London estate averaged €63,000 (£56,000) in the six month period, an increase of 1% in constant currency. We opened 12 new shops in the UK in the period at an average capital cost per unit, including lease premia, of €283,000 (£253,000). We also experienced stronger relative online growth in regions where we have been opening shops.

€m	H1 2009	H1 2008	% Change	% Change in CC
Shop estate EBITDA	**4.3**	**4.4**	**-2%**	**+18%**
Shop estate depreciation	(2.1)	(2.0)	+7%	+7%
Shop estate operating profit	**2.2**	**2.4**	**-9%**	**+31%**
Central overheads	(1.7)	(1.9)	-8%	+11%
Operating profit	**0.5**	**0.5**		

On the regulatory front, we note the recent announcement by the UK Gambling Commission that their ongoing review of research into high stake/high prize machines found no clear evidence from the available research about the extent to which such gaming machines may cause players to become problem gamblers. A Treasury consultation process on the likely replacement of the existing VAT regime for machine taxation with a gross profits tax ('GPT') is underway. While the Treasury have stated that their objective is for any change to be tax neutral, it could adversely affect efficient machine and expanding operators like Paddy Power depending on the percentage GPT rate set, with each 1% increase in GPT over VAT costing at least €125,000 per annum at historic machine revenue levels.

Telephone Division

€m	H1 2009	H1 2008	% Change	% Change in CC
Amounts staked	151.5	143.3	+6%	+12%
Gross win	**7.6**	**12.4**	**-38%**	**-35%**
Gross win %	*5.0%*	*8.6%*		
Gross profit	7.6	12.3	-38%	-35%
Operating costs	(8.0)	(9.3)	-14%	-11%
Operating (loss) / profit	**(0.4)**	**3.0**	**na**	**na**

Despite strong top line growth, effective cost management and a profit pre central cost allocations, the Telephone channel incurred a bottom line loss of €0.4m in the period. This was driven by an exceptionally adverse run of sporting results within the channel's particular business mix which has higher Irish customer and racing content than Online and more betting on football and rugby than Irish Retail (definitely not the mix a bookie would have wanted given the outcome of sporting results).

The amounts staked grew by 12% in constant currency. Within this, bet volumes grew 38% to 2.2m while the average stake per bet decreased by 19% in constant currency to €68.76. The reduction in average stake per bet was driven by the weak economic conditions and the impact of attracting incremental but smaller than average sized bets from customers. There was strong growth in customer acquisition with active customers up 29% during the last quarter. There continues to be net migration of spending from Telephone to Online betting with customers acquired via the Telephone channel contributing to increased Online profitability.

Operating costs were reduced by 11% in constant currency with a full period impact of the new technologies, procedures and overhead renegotiations implemented during 2008, additional initiatives in 2009 and reduced consumption of shared central resources by the Telephone channel.

The combination of today's economy and cannibalisation from the internet makes running a telephone betting business nearly as tough as running Newcastle United, but the team are doing a great job growing our market share, increasing our productivity and making every euro of expenditure pay.

Telephone Channel Active Customers	30 June 2009	30 June 2008	% Change
Ireland and Rest Of World	15,260	13,873	+10%
UK	21,182	14,361	+47%
Total	**36,442**	**28,234**	**+29%**

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

Interim Statement
(continued)

Australian Division

During the period, the Group put on a hat with corks hanging from the brim, downed some Fosters and announced its entry into the attractive Australian betting market by acquiring 51% of Sportsbet Pty Limited ('Sportsbet'), for an initial consideration of €27.8m (AUD48.5m). Sportsbet subsequently agreed to acquire International All Sports Limited ('IAS') with a maximum required funding on closing from Paddy Power of €9.6m (AUD16.3m). Sportsbet, which has been operating for over 15 years, is one of Australia's largest corporate bookmakers providing markets on racing and sports through online and telephone channels. The Sportsbet acquisition was completed on schedule on 1 July and the IAS acquisition remains on target to complete during October. From completion, these acquisitions will be reflected in a new divisional segment and fully consolidated.

Since the announcement of the acquisitions, the Group has, as planned, relocated two senior Paddy Power executives with extensive e-commerce, marketing, risk and product expertise to work with the already strong and proven Sportsbet team. The Group has been satisfied with trading in the eight weeks since our investment in Sportsbet and remains very excited about the potential of the Australian market (good weather, beaches, you get the gist!) and the third geographic leg it adds to our business.

Taxation

The corporation tax charge for the period was €4.5m. This represents an effective tax rate of 13.3%, a reduction of 2.7% compared to the first half of 2008 driven by the current 1% betting tax on Irish retail turnover being made a corporation tax deductible expense from January 2009.

Financial Position and Dividend

Cash balances at the end of the period were €87m, an increase of €10m compared to €77m at the end of 2008 (including cash balances held on behalf of customers of €18m and €17m respectively).

Notwithstanding second half acquisition spending on Sportsbet and expected on IAS, the Group has a strong cash position giving it flexibility for further investment and cash returns to shareholders. Despite the reduction in the Group's profitability driven by short run volatility in sports results, the Board is confident of the underlying performance of, and prospects for the Group and has decided to increase the interim dividend by 5% to 19.5 cent per share. The total expected interim dividend is €9.3m payable on 25 September to shareholders on the register at the close of business on 4 September.

Principal Risks and Uncertainties for the remainder of the period

The principal risks and uncertainties facing the Group remain those disclosed within the Directors' Report on page 24 of the Group's 2008 Annual Report. The most relevant risks and uncertainties for the remainder of the period are:

- A positive or negative material change in taxation, particularly retail or non retail betting taxation arising from current government reviews;
- A materially adverse run of sporting results and/or fixture cancellations;
- A material worsening of economic conditions and/or an increase in their impact on our businesses;
- A very significant weakening of sterling against the euro.

Outlook

From 1 July to 23 August, in constant currency, non retail and retail sportsbook amounts staked have grown strongly, by 31% and 7% respectively, whilst poor sports results have resulted in sportsbook gross win percentages being below our expected ranges. The growth in amounts staked has been helped both by a high level of race cancellations in the comparable period in 2008 and the recycling of greater customer winnings in 2009. Non sportsbook gross win has increased by 17%.

Overall, the strong turnover growth, along with the Irish government's decision to postpone the introduction of a 2% betting tax, has offset the impact of the poor sports results. The Group therefore remains on track to meet the current market consensus for 2009 adjusted diluted EPS of approximately 111 cent, subject, as always, to the volatility that could arise from sporting results.

Going forward, we will continue to invest in our brand, our product and in enhanced value for our customers, which in turn should lead to continued growth in the market share of our businesses. The businesses will also benefit from their particular market circumstances:

- Strong structural fundamentals will continue to drive growth in the online market, from which the majority of our profits are derived;
- Our Irish Retail business will emerge from the current economic downturn stronger and with a significantly increased market share;
- A market of almost 9,000 shops in the UK represents a very substantial opportunity as we continue to roll out our distinctive offering.

Furthermore, our new Australian business should continue to grow strongly and become a material part of the future of Paddy Power, whilst a strong balance sheet also gives the Group financial strength and flexibility for further expansion. Accordingly, the Board remains confident of the Group's prospects in 2010 and beyond.

Nigel Northridge
Chairman

25 August 2009

Directors' Responsibility Statement in respect of the Condensed Consolidated Interim Financial Statements

For the six months ended 30 June 2009

We confirm our responsibility for preparing the condensed consolidated interim financial statements in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland's Financial Regulator, the Disclosure and Transparency Rules of the UK's Financial Services Authority ('the FSA') and with IAS 34 'Interim Financial Reporting' as adopted by the EU, and that to the best of our knowledge:

a) the condensed consolidated interim financial statements comprising the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of financial position, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in equity and related Notes 1 to 19 have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland's Financial Regulator, the Disclosure and Transparency Rules of the FSA and with IAS 34 'Interim Financial Reporting' as adopted by the EU.

b) the interim management report includes a fair review of the information required by:
   i) Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
   ii) Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

25 August 2009

Condensed Consolidated Interim Income Statement
For the six months ended 30 June 2009

	Note	**Six months ended 30 June 2009 *(unaudited)***	Six months ended 30 June 2008 *(unaudited)*			Year ended 31 December 2008 *(audited)*
		Total €'000	Before exceptional item €'000	Exceptional item *(Note 5)* €'000	Total €'000	Total €'000
Amounts staked by customers		**1,148,373**	1,066,656	-	1,066,656	2,100,926
Continuing Operations						
Income		**132,691**	151,811	-	151,811	283,657
Direct betting costs	*5*	**(15,100)**	(16,186)	2,735	(13,451)	(27,240)
Gross profit		**117,591**	135,625	2,735	138,360	256,417
Employee costs		**(38,541)**	(44,345)	-	(44,345)	(85,600)
Property expenses		**(11,978)**	(12,402)	-	(12,402)	(25,318)
Marketing expenses		**(12,838)**	(13,902)	-	(13,902)	(26,553)
Technology and communications		**(7,333)**	(6,611)	-	(6,611)	(13,742)
Depreciation and amortisation		**(8,273)**	(8,251)	-	(8,251)	(16,919)
Other expenses, net		**(5,102)**	(5,013)	-	(5,013)	(9,855)
Total operating expenses		**(84,065)**	(90,524)	-	(90,524)	(177,987)
Operating profit		**33,526**	45,101	2,735	47,836	78,430
Financial income		**560**	1,987	-	1,987	3,297
Profit before tax		**34,086**	47,088	2,735	49,823	81,727
Income tax expense	*6*	**(4,544)**	(7,682)	(268)	(7,950)	(12,910)
Profit for the period from continuing operations – all attributable to equity holders of the Company		**29,542**	39,406	2,467	41,873	68,817
Basic earnings per share	*7*	**€0.634**			€0.874	€1.457
Diluted earnings per share	*7*	**€0.626**			€0.861	€1.429

Condensed Consolidated Interim Statement of Comprehensive Income
For the six months ended 30 June 2009

	Six months ended 30 June 2009 *(unaudited)* €'000	Six months ended 30 June 2008 *(unaudited)* €'000	Year ended 31 December 2008 *(audited)* €'000
Profit for the period	**29,542**	41,873	68,817
Foreign exchange translation difference	**193**	(53)	(346)
Total comprehensive income	**29,735**	41,820	68,471

The total comprehensive income for the period is entirely attributable to the equity holders of the Company.

Condensed Consolidated Interim Statement of Financial Position

As at 30 June 2009

	Note	30 June 2009 (unaudited) €'000	30 June 2008 (unaudited) €'000	31 December 2008 (audited) €'000
Assets				
Property, plant and equipment	8	**68,417**	70,695	68,041
Intangible assets	9	**31,198**	26,342	31,612
Goodwill	10	**16,048**	17,594	15,003
Deferred tax assets		**1,296**	686	1,244
Total non current assets		**116,959**	115,317	115,900
Trade and other receivables		**8,740**	7,574	5,641
Financial assets	11	**4,700**	-	-
Cash and cash equivalents	11	**81,856**	79,088	76,661
Total current assets		**95,296**	86,662	82,302
Total assets		**212,255**	201,979	198,202
Equity				
Issued capital		**4,939**	4,923	4,927
Share premium		**12,619**	10,819	11,318
Treasury shares		**(34,177)**	(20,038)	(34,177)
Shares held by long term incentive plan trust		**(17,791)**	(17,540)	(21,526)
Other reserves		**12,080**	11,956	14,523
Retained earnings		**165,271**	134,117	152,175
Total equity		**142,941**	124,237	127,240
Liabilities				
Trade and other payables	16	**55,211**	57,270	53,942
Derivative financial instruments				
- sports betting open positions	16	**3,176**	2,101	3,658
Current tax payable		**883**	9,006	1,496
Total current liabilities		**59,270**	68,377	59,096
Trade and other payables	16	**3,743**	4,613	5,657
Derivative financial instruments				
- sports betting open positions	16	**16**	1	11
Deferred tax liabilities		**6,285**	4,751	6,198
Total non current liabilities		**10,044**	9,365	11,866
Total equity and liabilities		**212,255**	201,979	198,202

Condensed Consolidated Interim Statement of Cash Flows
For the six months ended 30 June 2009

	Note	**Six months ended 30 June 2009 *(unaudited)* €'000**	Six months ended 30 June 2008 *Restated (see Notes 11 & 12) (unaudited)* €'000	Year ended 31 December 2008 *(audited)* €'000
Cash flows from operating activities				
Profit before tax		**34,086**	49,823	81,727
Financial income		**(560)**	(1,987)	(3,297)
Depreciation and amortisation		**8,273**	8,251	16,919
Cost of employee share-based payments	*15*	**1,159**	3,878	6,874
Foreign currency exchange loss / (gain)		**172**	(303)	110
Loss on disposal of property, plant and equipment and intangible assets		**66**	183	418
Cash from operations before changes in working capital		**43,196**	59,845	102,751
Increase in trade and other receivables		**(1,899)**	(3,500)	(1,516)
(Decrease) / increase in trade and other payables and derivative financial instruments		**(3,226)**	3,301	7,159
Cash generated from operations		**38,071**	59,646	108,394
Income taxes paid		**(5,153)**	-	(13,107)
Net cash from operating activities		**32,918**	59,646	95,287
Cash flows from investing activities				
Purchase of property, plant and equipment		**(6,223)**	(7,346)	(14,334)
Purchase of intangible assets		**(1,160)**	(1,129)	(2,993)
Purchase of businesses, net of cash acquired	*12*	**(1,000)**	(22,029)	(23,181)
Acquisition expenses paid in respect of acquisitions completed in the period	*12*	**(65)**	(337)	(399)
Other acquisition expenses paid		**(951)**	-	-
Proceeds from disposal of property, plant and equipment and intangible assets		**-**	72	62
Interest received		**610**	2,185	3,474
Net cash used in investing activities		**(8,789)**	(28,584)	(37,371)
Cash flows from financing activities				
Movement in restricted cash deposits	*11*	**(4,700)**	-	-
Proceeds from the issue of new shares		**1,238**	-	503
Purchase of treasury shares		**-**	(14,239)	(28,554)
Purchase of shares by long term incentive plan trust		**-**	(7,530)	(11,582)
Dividends paid	*13*	**(16,864)**	(17,054)	(25,902)
Net cash used in financing activities		**(20,326)**	(38,823)	(65,535)
Net increase / (decrease) in cash and cash equivalents		**3,803**	(7,761)	(7,619)
Cash and cash equivalents at start of period		**76,661**	87,885	87,885
Foreign exchange gain / (loss) in cash and cash equivalents		**1,392**	(1,036)	(3,605)
Cash and cash equivalents at end of period	*11*	**81,856**	79,088	76,661

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

(unaudited)	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2009	49,270,742	4,927	11,318	(346)	1,136	(34,177)	(21,526)	13,733	152,175	127,240
Shares issued *(Note 14)*	117,807	12	1,301	-	-	-	-	-	-	1,313
Own shares acquired:										
By the long term incentive plan trust - nil ordinary shares *(Note 14)*	-	-	-	-	-	-	-	-	-	-
By the Group – nil ordinary shares *(Note 14)*	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	193	-	-	-	-	29,542	29,735
Equity-settled transactions - expense recorded in income statement *(Notes 14 & 15)*	-	-	-	-	-	-	-	3,177	-	3,177
Equity-settled transactions – credit taken in respect of revision of LTIP vesting period *(Notes 14 & 15)*	-	-	-	-	-	-	-	(2,018)	-	(2,018)
Equity-settled transactions - vestings *(Note 14)*	-	-	-	-	-	-	3,735	(3,234)	(143)	358
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	-	(561)	561	-
Dividends to shareholders *(Note 13)*	-	-	-	-	-	-	-	-	(16,864)	(16,864)
Balance at 30 June 2009	**49,388,549**	**4,939**	**12,619**	**(153)**	**1,136**	**(34,177)**	**(17,791)**	**11,097**	**165,271**	**142,941**
Balance at 1 January 2008	49,225,752	4,923	10,819	-	1,136	(5,975)	(13,089)	10,013	109,535	117,362
Shares issued	-	-	-	-	-	-	-	-	-	-
Own shares acquired:										
By the long term incentive plan trust - 335,000 ordinary shares *(Note 14)*	-	-	-	-	-	-	(7,530)	-	-	(7,530)
By the Group - 644,000 ordinary shares *(Note 14)*	-	-	-	-	-	(14,063)	-	-	(176)	(14,239)
Total comprehensive income	-	-	-	(53)	-	-	-	-	41,873	41,820
Equity-settled transactions - expense recorded in income statement *(Note 15)*	-	-	-	-	-	-	-	3,878	-	3,878
Equity-settled transactions - vestings *(Note 14)*	-	-	-	-	-	-	3,079	(3,018)	(61)	-
Dividends to shareholders *(Note 13)*	-	-	-	-	-	-	-	-	(17,054)	(17,054)
Balance at 30 June 2008	49,225,752	4,923	10,819	(53)	1,136	(20,038)	(17,540)	10,873	134,117	124,237

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended 30 June 2009 (continued)

(audited)	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2008	49,225,752	4,923	10,819	-	1,136	(5,975)	(13,089)	10,013	109,535	117,362
Shares issued *(Note 14)*	44,990	4	499	-	-	-	-	-	-	503
Own shares acquired:										
By the long term incentive plan trust - 599,000 ordinary shares *(Note 14)*	-	-	-	-	-	-	(11,582)	-	-	(11,582)
By the Group - 1,484,000 ordinary shares *(Note 14)*	-	-	-	-	-	(28,202)	-	-	(352)	(28,554)
Total comprehensive income	-	-	-	(346)	-	-	-	-	68,817	68,471
Equity-settled transactions - expense recorded in income statement *(Note 15)*	-	-	-	-	-	-	-	6,874	-	6,874
Equity-settled transactions - vestings *(Note 14)*	-	-	-	-	-	-	3,145	(3,033)	(44)	68
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	-	(121)	121	-
Dividends to shareholders *(Note 13)*	-	-	-	-	-	-	-	-	(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

Notes to the Condensed Consolidated Interim Financial Statements

1. General information

Paddy Power plc ('the Company') is a company incorporated in the Republic of Ireland. The condensed consolidated interim financial statements of the Company for the six months ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as 'the Group').

The financial information presented herein does not comprise full statutory financial statements and therefore does not include all of the information required for full annual financial statements. Full statutory financial statements for the year ended 31 December 2008, prepared in accordance with International Financial Reporting Standards as adopted by the EU together with an unqualified audit report thereon, are available from the Company, from the website www.paddypowerplc.com and from the Registrar of Companies.

The condensed consolidated interim financial statements were approved by the Board of Directors of Paddy Power plc on 25 August 2009.

2. Basis of preparation and accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Republic of Ireland's Financial Regulator, the Disclosure and Transparency Rules of the UK's Financial Services Authority ('the FSA') and with IAS 34 'Interim Financial Reporting' as adopted by the EU. The financial information contained in the condensed consolidated interim financial statements has been prepared in accordance with the accounting policies set out in the Company's last annual financial statements in respect of the year ended 31 December 2008 (except for the new accounting policy outlined below).

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

The following new accounting policy has been adopted by the Group:

Restricted cash

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

2. Basis of preparation and accounting policies (continued)

Adoption of new accounting standards

The following standard and amendment to standard have been adopted by the Group during the six months ended 30 June 2009:

IFRS 8 'Operating Segments'

This standard is effective from 1 January 2009 and replaces IAS 14 'Segment Reporting'. IFRS 8 introduces the 'management approach' to segment reporting and requires disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. As a result of the implementation of the standard, the Group has revised the business segments for which financial information is disclosed (see Note 4). As IFRS 8 concentrates on disclosure of financial information, there has been no impact on recognition and measurement within these condensed consolidated interim financial statements. Operating segment disclosures in respect of the six months ended 30 June 2008 and the year ended 31 December 2008 have been restated in line with the requirements of IFRS 8 and in respect of the revised business segments.

Revised IAS 1 – IAS1(2007) 'Presentation of Financial Statements'

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

3. Judgements and estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were consistent with those that applied to the consolidated financial statements as at and for the year ended 31 December 2008.

4. Operating segment information

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
- Irish retail
- UK retail
- Telephone

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

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies set out in the Company's last annual financial statements in respect of the year ended 31 December 2008. 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 a central Group function and interest is shown as a net income amount as interest expense is not material for separate disclosure. Assets and liabilities information is reported internally in total and not by reportable segment and, accordingly, no information is provided in this note on assets and liabilities split by reportable segment.

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

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

4. Operating segment information (continued)

Reportable business segment information for the six months ended 30 June 2008:

	Online €'000	Irish retail €'000	UK retail €'000	Telephone €'000	Total reportable segments €'000
Income from external customers, being total income	54,950	68,668	15,817	12,376	151,811
Direct betting costs	(8,037)	(5,250)	(2,816)	(83)	(16,186)
Gross profit	46,913	63,418	13,001	12,293	135,625
Depreciation and amortisation	(989)	(4,487)	(2,051)	(724)	(8,251)
Other operating costs	(24,816)	(38,420)	(10,425)	(8,612)	(82,273)
Operating profit before exceptional item	21,108	20,511	525	2,957	45,101
Exceptional gain	-	2,735	-	-	2,735
Reportable segment profit	21,108	23,246	525	2,957	47,836

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

	Online €'000	Irish retail €'000	UK retail €'000	Telephone €'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 costs	(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:

	Six months ended 30 June 2009 €'000	Six months ended 30 June 2008 €'000	Year ended 31 December 2008 €'000
Income			
Total income from reportable segments, being total Group income (1)	**132,691**	151,811	283,657
Profit and loss			
Total profit and loss from reportable segments	**33,526**	47,836	78,430
Unallocated amounts			
Interest income	**560**	1,987	3,297
Total profit before tax	**34,086**	49,823	81,727

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

4. Operating segment information (continued)

The segment information reported previously in respect of the six months ended 30 June 2008 and 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 and telephone. 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.

(b) Geographical segment information

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

Group revenues by geographical segment are as follows:

Income

	Six months ended 30 June 2009 €'000	Six months ended 30 June 2008 €'000	Year ended 31 December 2008 €'000
Ireland	**83,513**	103,548	186,953
UK	**49,178**	48,263	96,704
Total	**132,691**	151,811	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.

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

Non current assets

	Six months ended 30 June 2009 €'000	Six months ended 30 June 2008 €'000	Year ended 31 December 2008 €'000
Ireland	**55,819**	59,984	58,441
UK	**59,844**	54,647	56,215
Total	**115,663**	114,631	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.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

5. Direct betting costs and exceptional item

Direct betting costs comprise:

	Six months ended 30 June 2009 €'000	Six months ended 30 June 2008 €'000	Year ended 31 December 2008 €'000
Betting taxes	**6,945**	6,608	12,862
Software supplier costs	**4,567**	5,302	10,534
Other direct betting costs	**3,588**	4,276	6,579
Direct betting costs before exceptional item	**15,100**	16,186	29,975
Less: Exceptional item – refund of VAT relating to British Horseracing Board levies	**-**	(2,735)	(2,735)
Direct betting costs after exceptional item	**15,100**	13,451	27,240

Betting taxes comprise taxes levied on gross win and tax levied on Irish retail amounts staked.

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

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

Exceptional item – refund of VAT relating to British Horseracing Board levies
The exceptional item in 2008 relates to a refund 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. The refund amount due of €2,735,000 was included in 'trade and other receivables' in the consolidated statement of financial position at 30 June 2008 and was received after that date.

6. Taxation

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

The Group's effective tax rate for the period was 13.3% (six months ended 30 June 2008: 16.0% and year ended 31 December 2008: 15.8%), which compares to the standard Irish corporation tax rate of 12.5%. The primary reasons for the difference in the effective tax rate versus the standard tax rate are depreciation on certain items of property, plant and equipment and amortisation of intangible assets that do not qualify for capital allowances and the taxation of certain interest income at income tax rates higher than the standard corporation tax rate. Due to changes in Irish tax legislation, Irish betting duty costs incurred since 1 January 2009 are now allowable as a tax–deductible expense.

6. Taxation (continued)

Unrecognised deferred tax assets
A deferred tax asset has not been recognised in respect of the tax losses related to the Group's retail operations in Great Britain as it is not certain whether taxable profits will be generated against which to offset these losses. The value of this unrecognised deferred tax asset at 30 June 2009 was €2.4m (31 December 2008: €2.4m).

7. Earnings per share

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

The calculation of basic and diluted EPS is as follows:

	Six months ended 30 June 2009	Six months ended 30 June 2008	Year ended 31 December 2008
Numerator in respect of basic and diluted earnings per share (€'000):			
Profit attributable to equity holders of the Company	**29,542**	41,873	68,817
Numerator in respect of adjusted basic and diluted earnings per share (€'000):			
Profit attributable to equity holders of the Company	**29,542**	41,873	68,817
Less: VAT refund exceptional item *(Note 5)*	**-**	(2,467)	(2,467)
Profit for adjusted earnings per share calculation	**29,542**	39,406	66,350
Denominator in respect of basic earnings per share (in '000s):			
Weighted average number of shares in issue during the period	**46,583**	47,898	47,230
Adjustments to derive denominator in respect of diluted earnings per share:			
Dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and share award schemes	**574**	762	921
Adjusted weighted average number of shares in issue during the period	**47,157**	48,660	48,151
Basic earnings per share	**€0.634**	€0.874	€1.457
Adjusted earnings per share (after tax)	**€0.634**	€0.823	€1.405
Diluted earnings per share	**€0.626**	€0.861	€1.429
Adjusted diluted earnings per share (after tax)	**€0.626**	€0.810	€1.378

Notes to the Condensed Consolidated Interim Financial Statements
(continued)

7. Earnings per share (continued)

The basic weighted average number of shares excludes shares held by the Paddy Power Employee Benefit Trust. The effect of this is to reduce the average number of shares in the six months ended 30 June 2009 by 987,599 shares (six months ended 30 June 2008: 833,877 shares and year ended 31 December 2008: 957,798 shares).

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	1,961	3,827	1,230	46	7,064
Additions – business combinations *(Note 12)*	-	20	-	-	20
Disposals	(52)	(70)	-	-	(122)
Foreign currency retranslation adjustment	25	150	17	-	192
Balance at 30 June 2009	**52,716**	**80,027**	**20,248**	**1,209**	**154,200**
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	(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	1,052	4,422	1,247	91	6,812
Disposals	(17)	(39)	-	-	(56)
Foreign currency retranslation adjustment	1	18	3	-	22
Balance at 30 June 2009	**17,276**	**50,692**	**17,281**	**534**	**85,783**
Net book value					
At 30 June 2009	**35,440**	**29,335**	**2,967**	**675**	**68,417**
At 31 December 2008	34,542	29,809	2,970	720	68,041

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 period in respect of intangible assets were as follows:

	Computer software €'000	Licences €'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	982	60	-	1,042
Disposals	-	-	-	-
Foreign currency retranslation adjustment	1	5	-	6
Balance at 30 June 2009	**18,988**	**26,661**	**-**	**45,649**
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	1,212	249	-	1,461
Disposals	-	-	-	-
Foreign currency retranslation adjustment	-	1	-	1
Balance at 30 June 2009	**12,534**	**1,917**	**-**	**14,451**
Net book value				
At 30 June 2009	**6,454**	**24,744**	**-**	**31,198**
At 31 December 2008	6,683	24,929	-	31,612

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

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

9. Intangible assets (continued)

The Group reviews the carrying value of its indefinite life licences for impairment semi-annually (or more frequently if there are indications that the value of licences may be impaired) by comparing the carrying values of these assets with their recoverable amounts (being the higher of value in use and fair value less costs to sell). Management performed such an impairment review at 30 June 2009 and, on the basis of this review, are satisfied that the carrying amount of the Group's licences at 30 June 2009 is not less than their recoverable amount.

The prior year customer relationships amortisation adjustment of €154,000 relates to amortisation charged on a customer relationships asset of €1,455,000 provisionally recognised in 2007 in respect of a business combination that occurred that year (see Note 12). This customer relationships asset was subsequently not recognised on finalisation of the fair value accounting for the acquisition and, while the asset cost value was adjusted in 2007 as permitted by IFRS, the amortisation adjustment was recorded in 2008 on grounds of immateriality.

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**	**Total €'000**
Balance at 1 January 2008	5,952	976	6,928
Arising on acquisition *(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 acquisition *(Note 12)*	**1,045**	**-**	**1,045**
Balance at 30 June 2009	**6,968**	**9,080**	**16,048**

Goodwill on Irish retail properties arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988, the acquisition of three retail bookmaking businesses during the year ended 31 December 2007 and the acquisition of a retail bookmaking business in the six months ended 30 June 2009.

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 May 2008.

The Group reviews the carrying value of goodwill for impairment semi-annually (or more frequently if there are indications that the value of goodwill may be impaired) by comparing the carrying values of these assets with their recoverable amounts (being the higher of value in use and fair value less costs to sell). Management performed such an impairment review at 30 June 2009 and, on the basis of this review, are satisfied that the carrying amount of the Group's goodwill at 30 June 2009 is not less than its recoverable amount.

11. Cash and cash equivalents and financial assets

	30 June 2009 €'000	31 December 2008 €'000
Cash at bank and on hand	4,487	10,414
Short term bank deposits	82,069	66,247
	86,556	76,661
Less: Financial asset - restricted cash deposits (see below)	(4,700)	-
Cash and cash equivalents in the statement of cash flows	81,856	76,661

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

Short term bank deposits are analysed by currency as follows:

	30 June 2009 €'000	31 December 2008 €'000
Euro	44,971	58,449
GBP	10,531	6,625
USD	1,448	1,173
AUD	25,119	-
	82,069	66,247

Included in the Australian Dollar ('AUD') short term bank deposits balance is an amount of €24,927,000 (31 December 2008: €nil) relating to the initial purchase consideration for the acquisition of a 51% interest in Sportsbet Pty Limited ('Sportsbet'). The acquisition was completed on 1 July 2009, at which point the amount was transferred to the vendors of Sportsbet (see Note 19).

The gain on retranslation of cash and cash equivalent balances in the six months ended 30 June 2009 was €1,392,000 (six months ended 30 June 2008: loss of €1,036,000 and year ended 31 December 2008: loss of €3,605,000). This gain and loss has been included within 'other expenses' in the consolidated income statement rather than as a financial income or expense, as the directors consider that the gain or loss relates to operations as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised. Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the cash flow statement. The statement of cash flows in respect of the six months ended 30 June 2008 has been restated on this basis.

Financial assets

Included in short term bank deposits at 30 June 2009 is an amount of €4,700,000 (31 December 2008: €nil) which was restricted at that date and up to 31 July 2009 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 17). This balance has been shown as a current financial asset in the consolidated statement of financial position.

Notes to the Condensed Consolidated Interim Financial Statements
(continued)

12. Business combinations

Six months ended 30 June 2009

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:

	Book value on acquisition €'000	Provisional fair value adjustments in the six months ended 30 June 2009 €'000	Provisional fair values at 30 June 2009 €'000
Identifiable net assets acquired:			
Property, plant and equipment	100	(80)	20
	100	(80)	20
Goodwill arising on acquisition			1,045
Consideration (including associated purchase costs)			1,065
Satisfied by:			
Cash consideration (including associated purchase costs)			1,065
Accrued acquisition expenses			-
			1,065

Net cash outflow from purchase of businesses for the purposes of the statement of cash flows:

Purchase of businesses, net of cash acquired	1,000
Acquisition expenses paid	65
	1,065

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 six months ended 30 June 2009 has not been presented on the basis of immateriality.

12. Business combinations (continued)

Acquisition of Sportsbet Pty Limited

As described in Note 19, the Group acquired a 51% interest in Sportsbet Pty Limited on 1 July 2009. Included in trade and other receivables (prepayments) at 30 June 2009 is an amount of €1,147,000 in respect of fees incurred relating to the purchase of Sportsbet and, of this amount, €951,000 was paid in the six months ended 30 June 2009 (included under 'other acquisition expenses paid' in the consolidated statement of cash flows).

Six months ended 30 June 2008 and 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. The acquisition of D McGranaghan represented the only business combination in 2008 and, on that basis, information is being presented in respect of the final accounting numbers for the year ended 31 December 2008.

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

	Book value on acquisition €'000	Fair value adjustments €'000	Fair values 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

Notes to the Condensed Consolidated Interim Financial Statements
(continued)

12. Business combinations (continued)

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).

Final fair value adjustments relating to 2007 acquisitions

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

12. Business combinations (continued)

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

	Six months ended 30 June 2008 €'000	Year ended 31 December 2008 €'000
Cash consideration – acquisitions in period	24,391	25,493
Acquisition expenses paid	309	399
Less: cash and cash equivalents acquired – acquisitions in period	(2,427)	(2,427)
Net cash outflow before foreign currency translation adjustment	22,273	23,465
Foreign currency translation adjustment	65	65
Purchase of businesses – acquired in period	22,338	23,530
Payments made in respect of expenses accrued for 2007 acquisitions	28	50
Purchase of businesses	22,366	23,580
Analysed for the purposes of the cash flow statement as:		
Purchase of businesses, net of cash acquired	22,029	23,181
Acquisition expenses paid	337	399
	22,366	23,580

13. Dividends paid

	Six months ended 30 June 2009 €'000	Six months ended 30 June 2008 €'000	Year ended 31 December 2008 €'000
Final dividend of 35.00 cent per share for year ended 31 December 2007	**-**	17,054	17,054
Interim dividend of 18.6 cent per share for period ended 30 June 2008	**-**	-	8,848
Final dividend of 35.4 cent per share for year ended 31 December 2008	**16,864**	-	-
	16,864	17,054	25,902

The directors intend to declare an interim dividend of 19.5 cent per share which will be paid on 25 September 2009 to shareholders on the Company's register of members at the close of business on the record date of 4 September 2009. This dividend, which is estimated to be approximately €9,315,000, has not been included as a liability at 30 June 2009.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

14. Changes in equity

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (30 June 2008 and 31 December 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.

All of the ordinary shares issued during the six months ended 30 June 2009 and the year ended 31 December 2008 were in respect of the exercise of share options granted to employees of the Group under the terms of the Share Option and Sharesave Schemes (see Note 15). As part of the purchase of 51% of Sportsbet on 1 July 2009, 100,000 ordinary shares of €0.10 each were issued to the vendors of Sportsbet on 1 July 2009 (see Note 19).

During the six months ended 30 June 2009, the Group did not make any purchases of the Company's own shares on the market. During the six months ended 30 June 2008, the Group purchased 644,000 of the Company's own shares on the market at prices ranging from €21.15 to €22.39 and at an average price of €21.84. The total cost of the shares purchased was €14,239,000, comprised of €14,063,000 for the shares themselves and a further €176,000 for tax and other purchase related costs. During the year ended 31 December 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 tax and other purchase related costs. The tax and other purchase related costs were written off directly to retained earnings. A total of 1,734,000 shares were held in treasury as of 30 June 2009 (30 June 2008: 894,000 and 31 December 2008: 1,734,000). All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Group's distributable reserves are restricted by the value of the treasury shares, which amounted to €34,177,000 as of 30 June 2009 (30 June 2008: €20,038,000 and 31 December 2008: €34,177,000).

At 30 June 2009, the Company held a further 898,711 of its own shares (30 June 2008: 905,849 shares and 31 December 2008: 1,166,855 shares), which were acquired at a total cost of €17,791,000 (30 June 2008: €17,540,000 and 31 December 2008: €21,526,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan and Managers' Deferred Share Award Scheme (collectively referred to as the 'Share Award Schemes'). The Company's distributable reserves at 30 June 2009, 30 June 2008 and 31 December 2008 are further restricted by these respective amounts. The Long Term Incentive Plan Trust ('the Trust') did not make any purchases of the Company's ordinary shares in the six months ended 30 June 2009 (six months ended 30 June 2008: 335,000 ordinary shares at a total cost of €7,530,000 and year ended 31 December 2008: 599,000 ordinary shares at a total cost of €11,582,000). In the six months ended 30 June 2009, 268,144 shares originally valued at €3,735,000 were transferred from the Trust to beneficiaries of the Trust consequent to the vesting thereof (six months ended 30 June 2008: 225,179 shares originally valued at €3,079,000 and year ended 31 December 2008: 228,173 shares originally valued at €3,145,000). The directors have revised their vesting expectations in respect of the 2008 Long Term Incentive Plan share grants and this resulted in a credit to the income statement in the six months ended 30 June 2009.

14. Changes in equity (continued)

The foreign exchange translation reserve at 30 June 2009 was a deficit of €153,000 (30 June 2008: deficit of €53,000 and 31 December 2008: deficit of €346,000) which arose primarily from the retranslation of the Group's net investment in non-euro functional currency subsidiary companies. Other reserves comprise a capital redemption reserve fund and a capital conversion reserve fund. The capital redemption reserve fund of €876,000 (30 June 2008 and 31 December 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 (30 June 2008 and 31 December 2008: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

In the six months ended 30 June 2009, an amount of €561,000 (six months ended 30 June 2008: €nil and year ended 31 December 2008: €121,000) in respect of share options exercised during the period was transferred from the share-based payment reserve to retained earnings.

15. Share schemes and long term incentive bonus plan

Summary of share-based payments expense

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

	Six months ended 30 June 2009 €'000	Six months ended 30 June 2008 €'000	Year ended 31 December 2008 €'000
Share option schemes	**188**	231	488
Sharesave scheme	**236**	162	279
Long Term Incentive Plan	**692**	3,362	5,899
Managers' Deferred Share Award Scheme	**43**	123	208
Total	**1,159**	3,878	6,874

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

Notes to the Condensed Consolidated Interim Financial Statements (continued)

15. Share schemes and long term incentive bonus plan (continued)

Long Term Incentive Plan

During the six months ended 30 June 2009, the Company granted 250,000 (six months ended 30 June 2008: 220,000 and year ended 31 December 2008: 483,750) share awards under the Long Term Incentive Plan ('LTIP') to senior management (including executive directors). The share price on the date of grant was €17.84 (six months ended 30 June 2008: ranged from €21.60 to €24.25 and year ended 31 December 2008: ranged from €13.79 to €24.25). The total cost of this grant is estimated at €4,460,000 and is being expensed in the Group consolidated income statement over the expected term of the grant of three years.

A total of 268,144 shares in respect of 2006 LTIP awards and related dividends were vested from the Long Term Incentive Plan Trust to senior management during the six months ended 30 June 2009 (six months ended 30 June 2008 and year ended 31 December 2008: 225,179 shares relating to 2005 LTIP awards).

Share Option Schemes

No options were awarded to employees and 57,635 options were exercised during the six months ended 30 June 2009 (six months ended 30 June 2008: no share options awarded and no options exercised and year ended 31 December 2008: no share options awarded and 4,000 options exercised).

Sharesave Scheme

During the six months ended 30 June 2009, 60,172 options previously granted under this scheme were exercised (six months ended 30 June 2008: no options exercised). In the year ended 31 December 2008, 452,585 options were granted and 40,990 options were exercised.

Long Term Incentive Bonus Plan

As first disclosed in the 2006 Annual Report, the Board, on the recommendation of the Remuneration Committee, adopted a long term incentive bonus plan on 18 October 2006. Payment under the plan is dependent upon the combined online and telephone businesses ('non retail') achieving very challenging operating profit targets in the year ended 31 December 2009. Under the plan, the beneficiaries have the potential to earn a cash payment if the non retail business generates an operating profit in 2009 above predefined thresholds. No payment obligation has crystallised under the plan at this point. The directors have reviewed the likelihood of payments arising under the plan by reference to forecast non retail profitability for 2009 and the objectives of the plan and, on that basis, the directors believe that full payment of the previously accrued amount of €2,326,000 is unlikely to be made. Accordingly, an amount previously accrued in the financial statements in respect of the plan of €1,201,000 (consisting of employee costs of €1,156,000 and interest of €45,000) has been released as a credit to the consolidated income statement in the six months ended 30 June 2009.

16. Trade and other payables and derivative financial instruments

Current liabilities

	30 June 2009 €'000	31 December 2008 €'000
Trade and other payables		
Trade payables	**6,491**	6,357
Customer balances	**17,949**	16,584
PAYE and social security	**1,844**	1,611
Value added tax	**544**	878
Betting duty and data rights	**3,007**	2,906
Employee benefits	**6,605**	8,168
Accruals and other liabilities	**18,771**	17,438
	55,211	53,942
Derivative financial instruments		
Sports betting open positions	**3,176**	3,658

Non current liabilities

	30 June 2009 €'000	31 December 2008 €'000
Trade and other payables		
PAYE and social security	**61**	142
Employee benefits	**2,216**	4,031
Accruals and other liabilities	**1,466**	1,484
	3,743	5,657
Derivative financial instruments		
Sports betting open positions	**16**	11

Derivative financial instruments - sports betting open positions

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

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

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

Notes to the Condensed Consolidated Interim Financial Statements
(continued)

17. Commitments and contingencies

(a) Guarantees

The Group has working capital overdraft facilities of €15.1m with Allied Irish Banks plc. These facilities are secured by a Letter of Guarantee from Paddy Power plc.

The Group has a bank guarantee in favour of the Isle of Man Gambling Supervision Commission as security for player funds owed by Paddy Power Isle of Man Limited to its customers. This guarantee is required as part of Paddy Power Isle of Man Limited's Online Gambling Licence. The maximum amount of the guarantee at 30 June 2009 was £16,000,000 (euro equivalent of €18,777,000) (31 December 2008: £12,000,000 and euro equivalent of €12,598,000). No claims had been made against the guarantee as of 30 June 2009 (31 December 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 £4,000,000 (euro equivalent €4,700,000) (31 December 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 30 June 2009 was €300,000 (31 December 2008: €300,000). No claims had been made against the guarantee as of 30 June 2009 (31 December 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.

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

17. Commitments and contingencies (continued)

(b) Capital commitments

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

	30 June 2009 €'000	31 December 2008 €'000
Property, plant and equipment	912	1,742
Intangible assets	104	-
	1,016	1,742

(c) Operating lease commitments

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

	30 June 2009		31 December 2008	
	Annual commitment €'000	Total commitment €'000	Annual commitment €'000	Total commitment €'000
Within 1 year	1,193	1,193	1,264	1,264
Between 2 and 5 years	1,340	3,898	1,328	3,721
After 5 years	10,414	156,323	9,421	145,664
	12,947	161,414	12,013	150,649

18. Related parties

There were no transactions with related parties during the six months ended 30 June 2009 or 30 June 2008 or the year ended 31 December 2008 that materially impacted the financial position or performance of the Group.

Notes to the Condensed Consolidated Interim Financial Statements (continued)

19. Events after the statement of financial position date

Dividends

In respect of the current period, the directors propose an interim dividend of 19.5 cent per share (2008: 18.6 cent per share) which will be paid to shareholders on 25 September 2009. This dividend has not been included as a liability in these condensed consolidated interim financial statements. The proposed dividend will be payable to all shareholders on the Register of Members on 4 September 2009. The total estimated dividend to be paid amounts to €9,315,000 (2008: €8,848,000).

Acquisition of Sportsbet Pty Limited

On 1 July 2009, the Group purchased a 51% shareholding in Sportsbet Pty Limited ('Sportsbet'), a provider of internet and telephone sportsbetting services in Australia. The initial estimated purchase consideration payment made on 1 July 2009 amounted to €26.5m, comprised of a cash payment of €24.9m and the granting of 100,000 ordinary shares of the Company valued at €1.6m. This consideration payment is subject to amendment on finalisation and agreement of the Sportsbet Completion Accounts as of 1 July 2009, at which time a further payment may be required by either the Group or the vendors of Sportsbet. An additional payment of AUD10m (€5.9m) may be payable in 2010 if certain profitability targets are achieved by Sportsbet. Under the terms of the acquisition, in the event that Sportsbet's earnings before interest, taxation and depreciation and amortisation ('EBITDA') for any of the years ending 30 June 2010, 2011 or 2012 is less than an agreed threshold, the Group has the right to claw equity from Sportsbet's existing shareholders on a proportionate basis to the shortfall in profitability. In addition, the Group 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, depending on the level of EBITDA achieved by Sportsbet. In the event that the Group elects not to exercise the call option, the minority shareholders in Sportsbet will have the option to acquire the Group's shareholding.

Sportsbet is currently in the process of acquiring a 100% shareholding in another Australian internet and telephone sportsbetting company, International All Sports Limited ('IAS'). Sportsbet already owns a 19.98% interest in IAS. IAS is a publicly quoted company whose shares are listed on the Australian Stock Exchange and the acquisition is to be implemented via a Scheme of Arrangement. Subject, inter alia, to the approval of IAS's shareholders and the approval of the Supreme Court of Victoria, the acquisition of IAS is expected to complete in October 2009. The acquisition values the entire issued share capital of IAS at AUD40m (€23.5m). The Group and Sportsbet's existing shareholders have agreed to subscribe for new equity in Sportsbet to the extent required to fund the acquisition, with the maximum funding required from the Group being an estimated AUD16.3m (€9.6m).

As the acquisition of 51% of Sportsbet did not occur until 1 July 2009, neither the results, cash flows, assets nor liabilities of Sportsbet have been included in these condensed consolidated interim financial statements.

Independent Review Report to Paddy Power plc

Introduction
We have been engaged by the Company to review the condensed consolidated interim financial statements for the six months ended 30 June 2009 which comprise the condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of financial position, condensed consolidated interim statement of cash flows, condensed consolidated interim statement of changes in equity and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

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

Directors' responsibilities
The condensed consolidated interim financial statements are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the condensed consolidated interim financial statements in accordance with the TD Regulations, the Transparency Rules of the Republic of Ireland's Financial Regulator and the Disclosure and Transparency Rules of the UK FSA.

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

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

Independent Review Report to Paddy Power plc (continued)

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements for the six months ended 30 June 2009 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations, the Transparency Rules of the Republic of Ireland's Financial Regulator and the Disclosure and Transparency Rules of the UK FSA.

KPMG

Chartered Accountants
Dublin

25 August 2009

Additional Information for Shareholders

Listings

Paddy Power plc is an Irish registered company. Its ordinary shares are quoted on the Irish Stock Exchange and the London Stock Exchange.

Registrar

Enquiries concerning shareholdings should be addressed to the Company's Registrar:
Computershare Investor Services (Ireland) Limited,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland.

Telephone:	+353-1-216 3100
Facsimile:	+353-1-216 3151
Website:	www.computershare.com

Payment of dividends direct to a bank account

Dividends are paid by cheque; however shareholders resident in Ireland or in the UK may have their dividends paid by electronic transfer direct to a designated bank account. Shareholders who wish to avail of this facility should contact the Company's Registrar (see above).

Payment of dividends in euro

Dividend payments are made in euro by default. However, shareholders wishing to opt for payments in Pounds Sterling either by cheque or direct to their bank account may do so by contacting the Registrar (see above).

Crest

Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

Additional Information for Shareholders (continued)

Dividend Withholding Tax ('DWT')

With certain exceptions, dividends paid by Irish resident companies on or after 6 April 2000 are subject to DWT at the standard rate of income tax of 20%. DWT, where applicable, is deducted by the Company from all dividends. Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted there from. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from:
DWT Section, Office of the Revenue Commissioners, Government Offices, St Conlon's Road, Nenagh, Co. Tipperary, Ireland.

Telephone:	+353-67-33533
Facsimile:	+353-67-33822
E-mail:	infodwt@revenue.ie

Electronic communications

To register for Electronic Shareholder Communications go to www.computershare.com/register/ie. Scroll down on 'Company Selection' and select 'Paddy Power plc' from the drop down menu. Click on 'Submit'. Complete the shareholder details including the SRN number which is on the share certificate or dividend counterfoil. Once the request is processed a confirmation e-mail will be returned.

2009 financial calendar

Announcement of interim results for 2009	26 August 2009
Ex-dividend date for interim dividend	2 September 2009
Record date for interim dividend	4 September 2009
Interim dividend payment date	25 September 2009

Paddy Power plc

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