YES WE CAN

2008 ANNUAL REPORT

Paddy Power plc

2008 - YES WE CAN!

2008, what an interesting year! America elects its first black president, an emphatic 'NO' to Lisbon from the Irish, Boris Johnson gets elected as Mayor of London and the world experiences a global banking credit crisis followed by a financial battering. The challenging economic conditions and intense competition in our markets required resolute and swift action. While we have always focused on providing the best value in the market, we took this to a new level in 2008 as our customers faced tighter times. With literally hundreds of Money-Back Specials and early payouts across sport, political and novelty betting, along with offering odds on everything from the unexpected to the downright bizarre, we continued to lead the way in providing unparalleled betting entertainment. As Barack Obama spread his message of 'YES WE CAN', we continued to prove that when it comes to betting there's only one bookie worth voting for!

Directors and other information

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

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

Stockbrokers
Goodbody Stockbrokers
Ballsbridge Park, Ballsbridge, Dublin 4

Investec
2 Gresham Street, London, EC2V 7QP

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

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

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

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

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

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

Registered number
16956

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2008 Group Financial Highlights

Amounts staked**
€2,101m
+4%
2007: €2,028m

Total income**
€283.7m
+2%
2007: €279.0m

Adjusted earnings per share*
€1.405
+10%
2007: €1.274

Profit before tax
€81.7m
+8%
2007: €75.8m

Profit after tax
€68.8m
+10%
2007: €62.8m

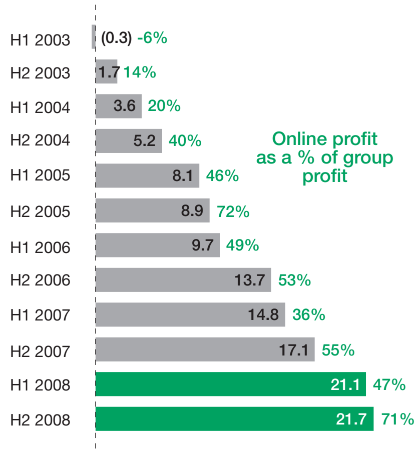
Dividends per share
54.0c
+6%
2007: 51.0c

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

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

Chairman's Statement

Online Profit (€m)



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

Despite challenging economic conditions and the adverse impact on profit from less favourable sporting results of €9m and from weaker sterling of €5m, 2008 was another year of growth for Paddy Power. Pre-tax profit increased by €3m to €79m and earnings per share was up by 10%. This growth was driven by an €11m or 34% increase in online operating profit to €43m. This online performance was by no means surprising in that it reflects the continued development of a proven online business model centred on Paddy Power's unique brand, 'best of breed' products and great value and service for customers. Our online profits have increased every reporting period since they moved into profit over five years ago and accounted for over 70% of Group operating profit in the second half of 2008.

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

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

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

2008 Results (€m)

	2008	2007	% Change	% Change in Constant Currency ('CC')*
Amounts staked	2,101	2,028	+4%	+9%
Sportsbook gross win %	*11.0%*	*11.5%*		
Gross win	283.7	279.0	+2%	+7%
Gross profit**	253.7	242.4	+5%	+9%
Operating costs	(178.0)	(170.3)	+5%	+9%
Operating profit**	75.7	72.1	+5%	+11%
Profit before tax**	79.0	75.8	+4%	+14%
EPS, adjusted basic**	140.5 cent	127.4 cent	+10%	
Dividends	54 cent	51 cent	+6%	
Cash balances	77	88		

* *Percentage changes in constant currency reflect the foreign currency content in 2007 translated at 2008 exchange rates*
** *Results above and throughout this statement and the Operating & Financial Review exclude an exceptional gain of €2.7m pre-tax*

PREDICT ELECTION RESULTS? YES WE CAN!

Domestic and international politics took centre stage in 2008, so much so that we developed a bespoke political betting website, electionbetting.com. We kicked off the year by paying out on Barack Obama as the Democratic nominee in early January, a full eight months ahead of time. We also paid out on Boris Johnson as the new London Mayor on polling day and again on Obama three weeks before the American Presidential election. Mind you we didn't always get it right, our decision to pay out early on a 'YES' vote in the Lisbon Treaty left us with eighty thousand euro worth of egg on our face and our early payout on Obama didn't go down well with everyone (see actual e-mail from Todd above!).

Chairman's Statement
(continued)

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

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

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

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

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

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

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

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

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

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

Nigel Northridge

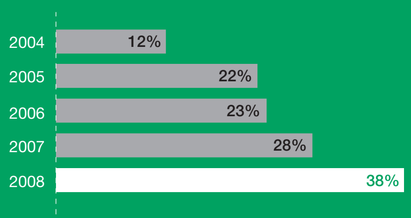
Nigel Northridge
Chairman

27 February 2009

Chief Executive's Statement

UK Profit Growth

EBIT from UK Customers as % of Group EBIT (CC)



(Online and telephone UK EBIT based on average divisional profit margins applied to UK revenues)

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

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

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

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

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

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

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

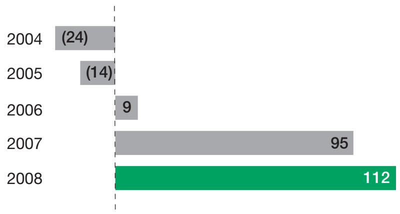
- It is a very substantial market, on our doorstep, which is forecast to continue growing: the UK sports betting market grew at 12% per annum between 2003 and 2007, and is forecast to grow at 3% per annum up to 2013. Furthermore, it is some three times bigger than the Italian, German and Spanish markets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

Chief Executive's Statement
(continued)

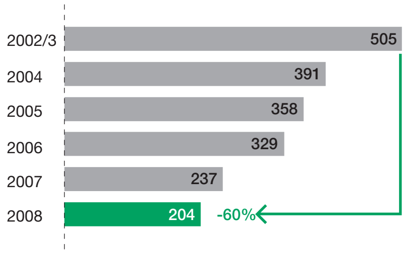
> While cognisant of shifting economic conditions, we remain on track to grow our UK estate – in London, Scotland, the North West of England and Northern Ireland - from 68 shops to at least 150 by 2011.

GB Retail: Return on Capital

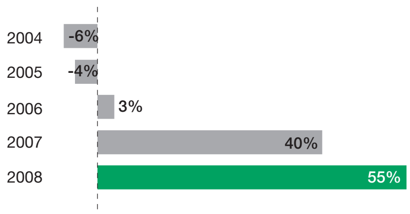
EBITDA Per GB Shop (Stg £'000)



Total Cost Per GB New Shop (Stg £'000)



EBITDA Per Shop / Capital Cost Per New Shop



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

The 2008 performance of our London shops highlights the attractive investment opportunity we have in the UK. The 60 shops generated EBITDA of €8.2m before central costs in 2008, or approximately €140,000 per shop, an increase of 17% in local currency over 2007. Meanwhile, the average capital cost per new unit in 2008 was below €300,000, or less than half the average cost in local currency of the units we opened in our first year in London. While cognisant of shifting economic conditions, we remain on track to grow our UK estate – in London, Scotland, the North West of England and Northern Ireland - from 68 shops to at least 150 by 2011, and are confident that this will provide very attractive medium term returns. While economic conditions pose a challenge to the initial trading of new shops, they also create an opportunity to secure attractive locations at the right cost for the long term. In the first nine weeks of 2009, we have opened our first three shops in Scotland and hope to have our first shops in Manchester open in the next two months.

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

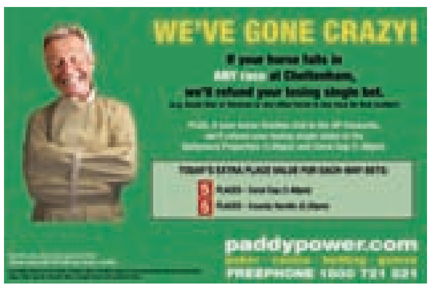
We will also continue to evaluate opportunities in other international geographies, in particular for our non retail activities where a local presence is not a prerequisite. Therefore, in summary, despite a more challenging environment, there remain many opportunities which we intend to progress over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

Patrick Kennedy
Chief Executive

27 February 2009

CHANGE FOR THE BETTOR? YES WE CAN!

As the economy slowed we tried hard to put some more change back in the pockets of our customers. Along with our usual array of early payouts, Money-Back Specials, extra places and enhanced odds, we also launched our most generous ever concession, Paddy's Price Promise. With Paddy's Price Promise we guarantee all early and board prices for all UK and Irish horse and greyhound races meaning that Paddy Power punters always got the best odds available between those prices and the SP. We also launched our Last Man Standing football prediction competition, where you pick a different Premier League team each week to win their match and leave you standing. You don't have to be a man to enter but selecting teams based on the prettiness of their shirts, names or players has to date been unsuccessful!



Operating & Financial Review

The Online division has grown rapidly in recent years and generated over 70% of Group operating profit in the second half of 2008.

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

Operating Profit by Division (€m)

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

Operating Profit by Geography (€m)

	2008	% of Group	2007	% of Group
UK	29.1	38%	23.3	32%
Ireland and Rest of World	46.6	62%	48.8	68%
Group	75.7	100%	72.1	100%

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

Sporting Results and Trading

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

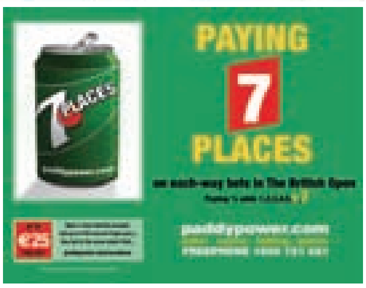
We needn't have worried. Over the summer, results, like a well balanced portfolio of blue chip shares, went pear-shaped. Euro 2008 went almost completely to form – 21 of the 31 matches won by the favourites and a final with the two shortest price starters, Spain and those ever reliable Germans, meant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

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

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

PAYOUT EARLY, PAYOUT OFTEN? YES WE CAN!

After getting hit by a maelstrom of mid-year bookie bashing results including four Aidan O'Brien winners at Royal Ascot and Harrington's historic British Open double, we decided it was unlikely that lightning would strike twice. We offered the biggest odds in town (20/1) against the Dubliner winning the USPGA. 2-0 to Pádraig. It was also turning into a memorable year for soccer punters. In May, we offered to refund all losing bets on the Champions League Final if Ronaldo scored – 26 minutes into the match we had our cheque book out! We had already paid out early on Man Utd as League winners and Ronaldo as top scorer and we also paid out fairly early on Stoke City for relegation, in fact 90 minutes after their Premier League season debut back in August! Backers of a white Christmas got an early Christmas present too when we paid out on a white one on December 15th.



Operating & Financial Review
(continued)

While online gaming revenues showed the stronger growth, sports betting remains our bigger revenue stream.

Online Division

The online channel continues to grow in importance and is expected to be the main engine of Paddy Power's profitability in 2009. Last year, online operating profit increased by €11m or 48% in constant currency to €43m. Operating margins were also increased with operating profit as a percentage of gross win up from 34% to 41% notwithstanding increased value for customers and investment in our product and newer businesses.

While online gaming revenues showed the stronger growth, sports betting remains our bigger revenue stream. We see this as a positive in the intensely competitive online market given that sports betting is generally accepted as the largest individual segment, with the highest potential for product differentiation and hurdles for new entrants. A strong sportsbook position can also enhance gaming profitability and growth through cross selling.

(A) Sportsbook

The amounts staked on the online sportsbook increased by 20% in constant currency to €646m. Within this, bet volumes grew 37% to 27.4m while the average stake per bet decreased by 20%, or 12% in constant currency, to €23.58. The reduction in average stake per bet is due to a combination of factors, including the significant growth in active customers and more challenging economic circumstances. Gross win in the sportsbook increased by 17% in constant currency to €58.6m, on a slightly lower gross win percentage.

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

Online 2008 Results (€m)

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

Online Channel Active Customers

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

Online Customers Product Usage

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

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

While exceptional market volatility and media interest boosted Paddy Power Trader in 2008, we continue to see an attractive underlying opportunity.

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

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

(B) Gaming

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

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

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

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

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

Operating & Financial Review
(continued)

Retail

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

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

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

Within our recession busting range of promotions, there were some campaigns specific to Retail. Top of these was our free to enter Last Man Standing competition. You pick a different football team each week you think is going to win their match and you continue 'standing' if they do. The first run of the competition in August had a prize fund of €250,000, which could have bought you a small apartment. We definitely all needed more cheering up by the day of the Irish Budget in October so we ran it again with a prize fund of €500,000, which by then could have bought you a large apartment block. Retail punters shared our enthusiasm with the number of entrants also doubling in the second run.

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

Irish Retail Division

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

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

Irish Retail Division 2008 Results (€m)

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

SPONSOR UNUSUAL EVENTS? YES WE CAN!

Easily our most colourful sponsorship of 2008 was the Bingham Cup, more commonly known as the Paddy Power Gay Rugby World Cup. With 31 teams from 12 countries taking part it was the biggest international team sports event to take place in Ireland in 2008 and the biggest ever commercial sponsorship of an Irish gay event. The billboards advertising the event were dreamt up by the tournament organisers and certainly managed to raise an eyebrow or two! After three days of fierce competition at DCU Sports Campus in North Dublin the title was successfully defended by reigning champions, the Sydney Convicts. All in all we enjoyed a great bang for our buck!

Operating & Financial Review
(continued)

Irish retail operating cost growth was restricted to 5%, despite a 10% increase in the average number of shops.

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

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

UK Retail Division

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

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

UK Retail Division 2008 Results (€m)

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

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

Great Britain Estate (€m)

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

(Great Britain refers to the UK excluding Northern Ireland)

We acquired McGranaghan Racing, an eight shop Northern Irish bookmaking chain, in May 2008.

Local sporting legends AP McCoy and Gerry Armstrong lent a helping hand when it came to our Northern Ireland betting shop launch. The dynamic duo toured our Belfast betting shops along with Paddy Power and enjoyed a hero's welcome at each location on the day.

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

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

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

Telephone Division

The amounts staked within the telephone channel grew by 6% in constant currency. Within this, bet volumes grew 13% to 3.3m while the average stake per bet decreased by 6% in constant currency to €91.20. There was strong growth in active customers of 18% in the year overall and 12% during the last quarter driven in part by new reactivation and retention techniques.

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

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

Telephone Division 2008 Results (€m)

	2008	2007	% Change	% Change in Constant Currency ('CC')
Amounts staked	297.1	296.6	+0%	+6%
Gross win	21.1	27.0	-22%	-18%
Gross win %	*7.1%*	*9.1%*		
Gross profit	21.1	24.8	-15%	-11%
Operating costs	(17.7)	(18.4)	-4%	-1%
Operating profit	3.4	6.4	-47%	-42%

Telephone Channel Active Customers

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

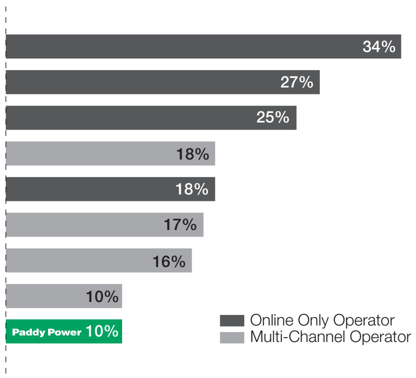
(Active customers are defined as those who have bet in the last three months)

Operating & Financial Review
(continued)

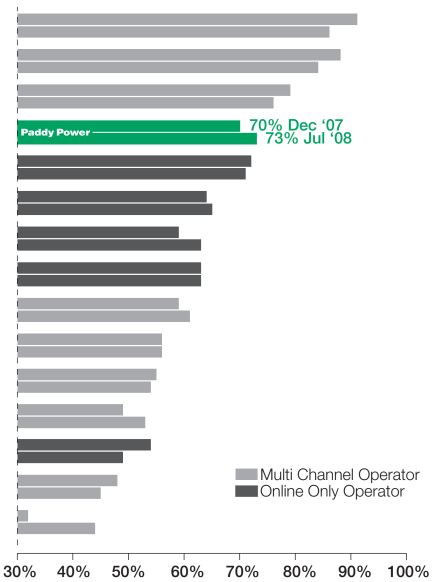
> "He's a busy man but even U.S. Presidents need to let their hair down and where better than at the Grand National - we'll treat him to a slap up meal, a rake of pints and a couple of free bets!"
>
> (Paddy invites President Obama to Aintree).

Brand Benefit: Best UK Online Customer Loyalty

% of UK Bookmakers' Online Customers who Switched their Main Account in Last 12 Months



Brand Benefit: High & Growing UK Brand Awareness



Trading & Risk Management

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

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

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

Marketing

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

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

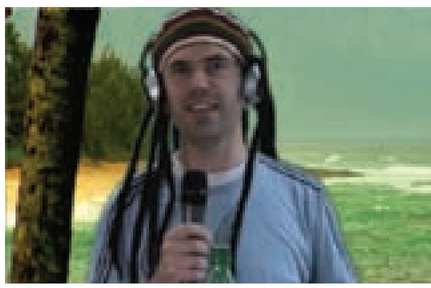
As Paddy Power has grown online, it has combined the established strength of its brand and marketing creativity with an appreciation of new technologies and changing patterns of media usage. 'Eggycam' was a novelty betting opportunity streamed live on a dedicated website allowing people to bet on which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

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

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

HATCH FUN INITIATIVES? YES WE CAN!

"Eggycam" offered customers the unique opportunity to place bets on which of ten numbered hens' eggs would hatch first from a specially commissioned incubator. All the action from inside the incubator was streamed live 24/7 on a special website www.eggycam.com. Three weeks later we were left shell-shocked after dozens of shrewd punters caught us napping in the early hours of the morning in a carefully organised betting coup on already hatched egg number six that cost us over €5,000! The techies further convinced us that IT wasn't just for geeks with the 'You've been selected for Europe' Ryder Cup e-mail viral video which had over 65,000 individual downloads and even made its way around the press room in Valhalla. Our weekly Premier League video also built up a loyal following on the Paddy Power blog.



Operating & Financial Review
(continued)

> Irish retail betting tax has been made a tax deductible expense from January 2009 which will lower the Group's effective corporation tax rate by approximately 2% to 14%.

Taxation

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

As a result of tax and related developments which became effective in September 2007, we significantly reduced the cost of deductions between gross win and gross profit within the Online and Telephone divisions. The reduced costs apply from that date and beyond so long as this situation remains unchanged.

Cash Flow and Cash Balances

Cash balances at the end of 2008 were €76.7m, a decrease of €11.2m compared to €87.9m at the end of 2007. This included cash balances held on behalf of customers of €16.6m compared to €15.3m at 31 December 2007. Net cash generated from operating activities was €95.3m in 2008 compared to €98.8m in 2007. While growth in the business again resulted in a working capital inflow, this was at a lower level than in 2007 driving lower net cash from operations. Capital expenditure on tangible and intangible assets was €17.3m, comprising primarily the organic opening and upgrading of retail outlets. Additional investment expenditure of €23.6m was incurred in relation to the McGranaghan acquisition. Cash returns to shareholders, including stamp duty and related costs, were €54.5m.

Foreign Exchange Risk and Impact of Sterling Weakness

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

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

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

27 February 2009

Corporate Social Responsibility

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

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

Employees

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

The Group focuses heavily on employee communication, development and retention. In 2008, we introduced an improved employee appraisal process, bringing greater focus to the personal development planning of all our employees. We also want people to have a longer term stake in the Group's performance and have introduced schemes to encourage share ownership amongst all employees and to retain key staff. We also launched an enhanced staff intranet website for internal communications in our head office and increased the frequency of meetings of our employee communications groups. In addition, we gather feedback from staff through employee surveys. We are committed to communications from the top down and our Chief Executive attends at employee consultation forums and at induction meetings for new staff.

We continued to invest heavily in our dedicated in-house recruitment function to source the next generation of management talent. In 2008, we improved our recruitment processes and the functionality of our dedicated careers website 'www.workwithpaddy.com', further reducing our dependency on agencies.

Opportunities for employment, training and development are determined on the basis of each individual's ability and performance record, irrespective of their gender, ethnic origin, nationality, age, religion, sexual orientation or disability. The number of staff employed in the Group increased by almost 8% over the course of the year to 1,886.

Safety, Health and Welfare at Work Act 2005

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

Responsible gambling

We strive to protect the small number of our customers who may have difficulties with gambling. For most people gambling is a harmless and fun leisure activity, however, if a customer does develop a problem with gambling, we actively refer them to the relevant experts who can help. Our close association with Gamcare, a registered UK charity and a leading authority on the provision of information, advice and practical help to promote responsible gambling, helps us to protect our customers. We also provide significant funding to Gamcare via agreed contributions to the Responsibility in Gambling Trust. We have also been working with the Irish Bookmakers Association to assist them in setting up an Irish version of Gamcare.

Corporate Social Responsibility
(continued)

The Group has introduced a complete waste management policy in its head office and retail shops and we now recycle almost 100% of all their waste.

We provide our customers with comprehensive information about problem gambling including recognising behaviour signs, the various forms of treatment available, together with the relevant contact information and advice on blocking software. This information is available in the responsible gambling section of our website, with a link to this section included on every page of the site. We also display information about Gamcare in all of our shops.

We empower our customers to stay in control of their own gambling activity by allowing them to set limits on the maximum value and frequency of deposits to their account. In addition, we have strict processes in place to ensure that any customers who wish to go further and exclude themselves completely from transactions with Paddy Power can do so. We offer this self exclusion option to our customers directly through our customer service agents and police it rigorously. All of our customer service agents are certified by Gamcare and undergo regular Gamcare training to ensure they offer the most professional service possible to those who might be suffering from a problem with gambling.

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

Environment

Paddy Power has a proactive approach to helping all its personnel conduct business in a manner that protects the environment. The Group encourages efficient use of resources, recycling wherever possible and is compliant with all relevant environmental legislation. The Group has introduced a complete waste management policy in its head office and retail shops and we now recycle almost 100% of all their waste. Examples of environmental initiatives in place during 2008 include:

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

We also want to keep the environmental impact of our 2008 annual report package to a minimum. The paper used was manufactured in a mill with IS01 4001 accreditation and the report contains 80% minimum de-linked post consumer waste content. As part of the Group’s commitment to reduce its carbon footprint and to reduce the quantities of paper used, we are seeking shareholder approval this year to move from a ‘paper first’ to a ‘web first’ system of shareholder communication, so that electronic communications will become the default method of communicating with shareholders who have not requested documentation in paper form.

BET ON ANYTHING? YES WE CAN!

After several high profile commercial airlines hit the wall we offered betting on which airline would be next to take a nosedive. It wasn't long before a massive gamble emerged on XL Airways which saw their odds tumble from big outsiders to 4/6 favourites not long before news broke of their collapse. Subsequently we saw significant bets on other well known airlines but Ryanair somehow always managed to remain complete outsiders! God was also on the agenda in 2008 when scientists flipped the switch on the world's most powerful particle accelerator – the Large Hadron Collider. Punters wasted no time backing the existence of God being scientifically proven from fancy prices into 4/1. Sadly no proof was forthcoming, just a large repair bill for the scientists after the "God machine" popped a very expensive gasket.

Corporate Social Responsibility
(continued)

We maintain relationships with a large number of charitable organisations, ranging from those supporting the local communities in which our shops play a key role, through to national charities focusing on the welfare of specific groups.

Community

Paddy Power believes that a responsible approach to developing relationships between companies and the communities they serve is a vital part of delivering business success. We maintain relationships with a large number of charitable organisations, ranging from those supporting the local communities in which our shops play a key role, through to national charities focusing on the welfare of specific groups. In 2008, we set up a Charity Committee, comprised of employees from across the Group, which has responsibility for maximising the effectiveness of the Group's charitable strategy and for the implementation and management of that strategy.

During the year, the Group spent a total of €325,122 on charitable donations (2007: €171,869) and was involved in a number of major charitable initiatives, some of which are further described below by the Charity Committee.

"We got 2008 off to a back-breaking but good-hearted start when we teamed up with the Father Ted Festival organisers and Down Syndrome Associations of Ireland and Northern Ireland for one of the biggest All Ireland cross border charity initiatives of recent times, TED40 (www.ted40.com). The genesis of this wacky event can be traced back to 2007 when, under somewhat strange circumstances, we purchased the actual milk float from the Father Ted television series to promote the Group's sponsorship of the inaugural Father Ted Festival on the remote Aran Islands, off the west coast of Ireland.

TED40 brought the milk float to the people with an epic 40 day round Ireland marathon journey. Each day was sponsored by a local company with their staff pushing the milk float and helping to raise funds and awareness for the Down Syndrome Associations. Through the work of the hundreds of volunteers and the titanic efforts of the Down Syndrome Associations, the event raised over €200,000.

As in previous years, for the Cheltenham festival we teamed up with the well known Irish radio programme, the Gerry Ryan Radio Show, and the popular Irish celebrity, Hector Ó hEochagáin, to raise funds for Temple Street Children's Hospital in Dublin. Each day during the festival, Hector, under the watchful eye of Paddy Power himself, placed numerous charity bets on the big races and in 2008 managed to raise a very respectable €20,000 for the Children's Hospital.

During the year, we also formed a partnership with one of Ireland's most celebrated athletes, Sonia O'Sullivan. At the time, Sonia was in training for the Boston Marathon and we decided to dangle a carrot in the form of a €1,000 pledge for each minute under three hours in which she completed the race. True to form, Sonia completed the marathon in a very impressive 2 hours 50 minutes and in doing so secured €10,000 for the Irish Guide Dogs for the Blind Association. A clear-cut case of woof justice for the bookies!

During the summer, we supported the partnership of Irish Olympians, Chantal Gibney, Ciarán Power and Catherina McKiernan who were collectively competing in the Gatorade Dublin City Triathlon. Similar to our Sonia initiative, we offered the gallant trio €1,000 for each minute under two hours in which they completed the event. Another €10,000 donation, this time going to the Irish Cancer Society.

In October, we had a hoppingly good success when we teamed up with one-legged marathon runner, Simon Baker, in his bid to set a new Guinness World Record for the fastest ever marathon completed by a person with one leg. Simon was raising funds for the Irish children's charity, the Bubblegum Club, and we came on board as sponsor helping the Limerick man achieve his goal and raise over €10,000 along the way.

The Charity Committee has chosen The Irish Hospice Foundation as the Group's Charity of the Year for 2009 and a number of fund raising initiatives are already under way."

Board of Directors

Nigel Northridge
(aged 53), Chairman, was appointed as a non-executive director in July 2003 and as Chairman on 1 January 2009. He was Chief Executive of Gallaher Group plc up to April 2007, when the company was sold to Japan Tobacco. Nigel is also Senior Independent Director and Chairman of the Remuneration Committee of Aggreko plc and a non-executive director of Thomas Cook Group plc.

Patrick Kennedy*
(aged 39) is the Chief Executive. He joined the Group in an executive capacity in September 2005 and became Chief Executive on 1 January 2006. Patrick was already a Board member, having been appointed as a non-executive director in March 2004. Before joining Paddy Power, Patrick was Chief Financial Officer of Greencore Group plc, having previously been Group Development Director. Patrick has also worked with KPMG Corporate Finance both in Ireland and the Netherlands, and as a strategy consultant with McKinsey and Company Management Consultants in London, Dublin and Amsterdam. Patrick is also a non-executive director of Elan Corporation, plc.

Breon Corcoran*
(aged 37) is the Managing Director - Non Retail and Development. He joined the Group in April 2001 with responsibility for development of the non retail business. In May 2006, his role was expanded to include responsibility for new business development, strategy and acquisitions. He previously worked with JPMorgan and Bankers Trust. He is a graduate of Trinity College Dublin and holds an MBA from INSEAD. He was appointed to the Board in August 2004.

Jack Massey*
(aged 40) is the Finance Director. He joined the Group and was appointed to the Board in April 2006. He previously worked with ITG Europe, the European division of the NYSE quoted company, Investment Technology Group Inc., where he had been Chief Operating Officer since 2002. Jack joined ITG Europe in 1998 as Finance Director. Prior to that, he worked with Ulster Bank Markets as Head of Financial and Management Reporting and previous to that as a Manager with Arthur Andersen. He is a Fellow of the Institute of Chartered Accountants in Ireland and a graduate of University College Dublin.

Tom Grace
(aged 60) was appointed as a non-executive director in January 2006 and became senior independent director in January 2009. Tom was a partner with PricewaterhouseCoopers from 1983 to 2005, where he led the Insolvency Department from 1987 onwards. With 34 years experience in total at PricewaterhouseCoopers, Tom also worked in the audit and management consultancy divisions, principally in the area of financial advice. Tom is also well known as a former rugby international and is currently honorary treasurer of the Irish Rugby Football Union. He won 25 international rugby caps for Ireland between 1972 and 1978 and captained the side on eight occasions. He also toured as a British and Irish Lion in 1974.

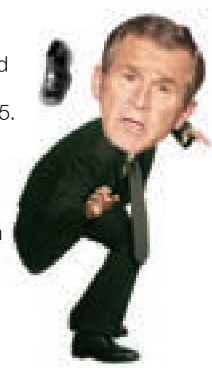
Fintan Drury
(aged 50) is Chairman of sports and conference management company Platinum One and is a director of a number of other private companies. He is a former non-executive Chairman of RTÉ, the Irish state broadcaster. A former news journalist with RTÉ, Fintan founded Drury Communications, a leading corporate communications consultancy, in 1988. He retired from this business in 1999 when he sold his controlling interest in the company. He joined the Board of Paddy Power in August 2002, and was Chairman of the Group from May 2003 to 31 December 2008.

Stewart Kenny
(aged 57) was a co-founder of Paddy Power in 1988. He has considerable experience in the betting industry, training with Ladbrokes in London for two years before establishing a chain of betting shops, Kenny O'Reilly Bookmakers. He sold that business to Coral in 1986 and subsequently re-entered the business, opening ten betting shops between 1986 and 1988. He was Group Chief Executive from 1988 to 2002, and Chairman from 2002 to 2003.

Pádraig Ó Ríordáin
(aged 43) was appointed as a non-executive director in July 2008. Pádraig is Managing Partner of Arthur Cox, a leading Irish law firm. He trained as a lawyer in the National University of Ireland and Harvard Law School and has practiced in New York and Dublin. In addition to his role in managing Arthur Cox, Pádraig advises a range of public companies, private companies and State related entities on their transactional and business issues and has a specialist expertise in regulated industries. He acts as the Independent Chairman of the Irish Government's Advisory Forum on Financial Legislation and is also a non-executive director of TVC Holdings.

David Power
(aged 62) co-founded Paddy Power in 1988 and has been a non-executive director since that date. He merged a significant proportion of the betting shops controlled by him and trading as Richard Power Bookmakers with Paddy Power in 1988. He is an on-course bookmaker.

Brody Sweeney
(aged 48) was appointed as a non-executive director in February 2005. He is one of Ireland's leading entrepreneurs, being the founder and Executive Chairman of O'Brien's Irish Sandwich Bars.



Secretary
David Johnston
(aged 36) was appointed as the Company Secretary in March 2007. A solicitor, David was previously company secretary and chief legal counsel of O2 Ireland, the mobile telecommunications operator, and prior to that was in private practice with McCann FitzGerald Solicitors.

*Executive directors

Directors' Report

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2008.

Principal activities

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

Results

The Group's profit after tax of €68.8m reflects an increase of 10% on the 2007 profit figure of €62.8m. Basic earnings per share amounted to 145.7 cent compared with 127.4 cent in the previous year, an increase of 14%. The financial results for the year are set out in the consolidated income statement on page 38. Total equity at 31 December 2008 amounted to €127.2m (2007: €117.4m).

Dividends

An interim dividend amounting to 18.60 cent per share was paid during 2008. The directors recommend that a final dividend of 35.40 cent per share (2007: 35.00 cent per share), amounting to €16.8m (2007: €17.1m), be paid on 22 May 2009 to shareholders registered at close of business on 13 March 2009. This would make a total distribution of profit to shareholders of €25.7m in respect of the year ended 31 December 2008 (2007: €24.9m).

Business review and key performance indicators

A detailed commentary incorporating key performance indicators by channel including like-for-like growth, active customers, average bet values, bet volumes, gross win and gross profit is contained in the Operating & Financial Review on pages 8 to 18.

Principal risks and uncertainties

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

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

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

Further details in relation to the Group's trading risk function are included in the Trading & Risk Management section of the Operating & Financial Review on page 16. The composition and responsibilities of the Risk Committee are set out on pages 29 and 30. The Board has also established financial risk management objectives and policies which have been implemented by executive management, details of which are given in Note 3 to the consolidated financial statements on pages 48 to 51.

Research and development

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

Market research

The Group undertakes market research across all business divisions in both Ireland and the UK. In 2008, research undertaken included brand research and customer satisfaction surveys.

Events since the year end and future developments

There have been no significant events affecting the Group since the year end other than the recommendation to pay dividends to shareholders as noted above. The directors do not anticipate any substantial changes to the nature of the business.

Amendment of Articles of Association

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

Rights and obligations attaching to the Company's shares

As at 27 February 2009, the Company had 49,279,727 shares in issue, all of which are of the same class and carry the same rights and obligations (apart from 1,734,000 shares held by the Group as treasury shares which have no voting rights and no entitlement to dividends). With regard to the Company's shares: (i) there are no restrictions on their transfer; (ii) no person holds shares carrying special rights with regard to the control of the Company; (iii) there are no shares to which an employee share scheme relates carrying rights with regard to the control of the Company; (iv) there are no restrictions on the voting rights attaching to the Company's shares; and (v) there are no agreements between shareholders that are known to the Company that may result in restrictions on the transfer of securities or on voting rights. Further information on the Company's share capital is set out in Note 18 to the consolidated financial statements.

PIONEER NEW PRODUCT? YES WE CAN!

Our product development team hardly stopped to catch breath in 2008. Along with introducing betting markets on over 20 new football leagues and all 50 states in the US election, they also found time to revamp our betting-in-running site completely and redesign both our online bingo site and shop screens. Following the popularity of the Last Man Standing competition in our shops we introduced a web version, launched a new betslip and added new horse racing and soccer pages for our online customers. Finally we analysed and modelled thousands of historic matches to give football fans every betting option they wanted - 104 markets per match at the last count!

Directors' Report
(continued)

Own shares held
The Paddy Power plc Employee Benefit Trust (the 'Trust') was originally established to manage the Long Term Incentive Plan and also manages the Managers' Deferred Share Award Scheme (collectively referred to as the 'share award schemes'). Further information on these schemes is presented in the Remuneration Committee Report on page 34. During the year ended 31 December 2008, the Trust purchased 599,000 (2007: 325,000) Paddy Power plc shares at a cost of €11.6m (2007: €6.7m). During 2008, the Trust transferred 228,173 (2007: 183,472) ordinary shares that had vested to beneficiaries of the Trust. At 31 December 2008, the Trust held 1,166,855 (2007: 796,028) ordinary shares in Paddy Power plc, representing 2.37% (2007: 1.62%) of the issued share capital. Further information is set out in Note 20 to the consolidated financial statements.

During 2008, the Group purchased 1,484,000 (2007: 2,389,443) of the Company's own shares, all of which were held as treasury shares at 31 December 2008. In 2007, of the 2,389,443 shares purchased, 2,139,443 shares were subsequently cancelled and the remaining 250,000 were held as treasury shares as of 31 December 2007. As of 31 December 2008, the shares held in treasury totalled 1,734,000 shares and represented 3.52% (2007: 0.51%) of the issued share capital. The treasury shares have no voting rights and have no entitlement to dividends. Further information is set out in Note 18 to the consolidated financial statements.

Substantial holdings
As at 27 February 2009, details of interests of over three percent in the ordinary share capital carrying voting rights (excluding directors) which have been notified to the Company are:

	Holding	%
Fidelity Investments Limited	**4,300,054**	9.04%
Deutsche Bank AG	**1,925,659**	4.05%
John Corcoran	**1,500,000**	3.15%
Bank of America	**1,427,511**	3.00%

Directors' and Secretary's interests in the share capital of Paddy Power plc

	Number of ordinary shares of €0.10 each	
	31 December 2008	31 December 2007 (or date of appointment if later)
Fintan Drury	**34,200**	19,400
Patrick Kennedy	**95,067**	23,500
Breon Corcoran	**100,174**	108,620
Jack Massey	**5,000**	5,000
Tom Grace	**10,000**	5,000
Stewart Kenny	**438,505**	403,832
Nigel Northridge	**3,000**	3,000
Pádraig Ó Ríordáin	**-**	-
David Power	**4,398,788**	4,398,788
Brody Sweeney	**5,550**	5,550
David Johnston (Secretary)	**-**	-

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

Board of Directors and Company Secretary
Pádraig Ó Ríordáin was appointed to the Board on 8 July 2008 and is proposed for election by the shareholders at the AGM in May 2009. Nigel Northridge succeeded Fintan Drury as Chairman with effect from 1 January 2009. Brody Sweeney and Breon Corcoran were re-elected as directors by the shareholders at the AGM in May 2008 after retiring by rotation. Fintan Drury, Tom Grace and Jack Massey retire from the Board by rotation in 2009 and, being eligible, offer themselves for re-election. Further information on the dates of appointment of the directors is given in the Remuneration Committee Report on page 34.

The shareholders, by an ordinary resolution, or the Board may appoint a new director to fill a vacancy or as an additional director. All directors appointed by the Board may only hold office until the next Annual General Meeting at which they may put themselves forward for reappointment. Further information on the appointment and replacement of directors is contained in the Remuneration Committee Report on page 34.

Directors' remuneration
Details of directors' remuneration are given in the Remuneration Committee Report on page 33 and in Note 7 to the financial statements on page 54. No director or employee is entitled to any compensation for loss of office or employment occurring as a result of a takeover of the Company.

Directors' and Secretary's interests
The interests of the directors and secretary who held office at 31 December 2008 in the share capital of Paddy Power plc, all of which were beneficially owned, were as per the table above.

There have been no changes in the above shareholdings between 31 December 2008 and the date the directors approved these financial statements.

The directors and the Company Secretary, who held office at 31 December 2008, had the following movements in share options during the year and held the following share options at 31 December 2008:

	Number of options at start of year	Options exercised during the year	Options granted during the year (a)	Options lapsed during the year	Number of options at end of year	Exercise price (b)	Exercise period
Patrick Kennedy	1,785	-	-	-	1,785	€11.29	4 December 2011 – 3 June 2012
	-	-	1,236	-	1,236	€9.45	4 December 2013 – 3 June 2014
Breon Corcoran	20,000	-	-	-	20,000	€8.15	24 February 2007 – 24 February 2011
	1,020	-	-	-	1,020	€11.60	9 November 2008 – 8 May 2009
	-	-	1,989	-	1,989	€9.45	4 December 2011 – 3 June 2012
Jack Massey	614	-	-	614	-	€19.26	-
	-	-	1,989	-	1,989	€9.45	4 December 2011 – 3 June 2012
David Johnston	4,000	-	-	-	4,000	€24.17	5 September 2010 – 5 September 2017
(Secretary)	-	-	1,989	-	1,989	€9.45	4 December 2011 – 3 June 2012

(a) The options granted during the year were under the terms of the Company's Sharesave Scheme (see Note 20).

(b) The market price of the Company's shares at 31 December 2008 was €13.11 and, for the year then ended, the Company's daily closing share price ranged between €9.60 and €24.25 (2007: ranged between €15.05 and €28.55 and was €22.51 at year end).

During the year ended 31 December 2008, the executive directors and the Company Secretary had the following interests and were conditionally granted the following shares under the Long Term Incentive Plan scheme:

	Grants outstanding at end of year	Granted during year	Vested during year	Grants outstanding at end of year	Date shares granted	Weighted average share price at date of grant	Cost of shares vested to directors during the year €'000
Patrick Kennedy	230,000	1,567	(71,567)	160,000	2006 and 2007	€14.85	1,042
	-	80,000	-	80,000	3 March 2008 & 15 May 2008	€22.21	-
Breon Corcoran	220,000	1,554	(66,554)	155,000	2006 and 2007	€14.99	876
	-	60,000	-	60,000	19 September 2008	€13.79	-
Jack Massey	65,000	-	-	65,000	2006 and 2007	€15.28	-
	-	25,000	-	25,000	3 March 2008 & 15 May 2008	€22.21	-
David Johnston (Secretary)	-	2,500	-	2,500	19 September 2008	€13.79	-

The awards are subject to the rules of the scheme and will vest if testing growth performance targets are met over the allowable vesting period. Further details of the scheme are outlined in the Remuneration Committee Report and in detail in Note 20 to the consolidated financial statements. Included in current year grants and vestings are a small number of vested shares which relate to dividends earned over the vesting period in respect of the shares vested during the year. The cost of shares vested during the year included in the table above represent the value of shares at original cost vested from the Long Term Incentive Plan (see Note 20) to directors during the year. During 2007, 30,672 shares were vested to Breon Corcoran at an original cost of €294,000.

The Company Secretary has also been conditionally granted 2,721 shares under the Managers' Deferred Share Award Scheme. Further details of the scheme are outlined in the Remuneration Committee Report and in Note 20 to the consolidated financial statements.

Transactions with directors and parties related to them have been disclosed in Note 7 to the financial statements on pages 54 and 55. The directors and secretary have no interests in shares in any other Group companies.

Political donations

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

Books of account

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

Auditor

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

Going concern

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

On behalf of the Board

Patrick Kennedy

Jack Massey

27 February 2009

Corporate Governance

The Board is committed to maintaining the highest standards of corporate governance. This commentary describes how the Group applies the main and supporting principles of section 1 of the 2006 Combined Code on Corporate Governance, which sets out principles of good governance and a code of best practice.

Our policy on corporate governance is as follows:

Board role and responsibilities

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

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

In addition to the matters formally reserved to the Board, regular contact by the directors with each other, and availability to the Chairman and to the Chief Executive for advice and ideas, remain critical. Effective Paddy Power Board members are enthusiasts for the business. Mere attendance at meetings is not sufficient, what matters is the director's active participation and contribution in these meetings.

The non-executive directors also meet once a year without their executive director colleagues or your Chairman.

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

Board composition

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

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

Tenure

The current Board comprises a mix of executive directors, founding directors and directors recruited for the particular skill and experience they would bring to Paddy Power. Of the ten directors currently serving on the Board, just two have been members since the Company was launched on the Stock Exchange in December 2000. The Board expects to appoint one additional independent non-executive director in 2009 and another in 2010.

The standard terms of the letter of appointment of non-executive directors is available, on request, from the Company Secretary.

Directors' independence

As stated in the Directors' Report on page 26, Mr Pádraig Ó Ríordáin was appointed as a non-executive director in July 2008. In considering his appointment, the Board evaluated Pádraig's independence, given his role as Managing Partner of Arthur Cox, which is one of the Group's legal advisors. The Board concluded that notwithstanding this relationship, Pádraig is independent in character and judgment. He has a demonstrated record of such independence, including his appointment by the Minister for Finance to the Irish Government's Advisory Forum on Financial Legislation, on which he serves as Independent Chairman, and the role of Managing Partner which he plays at his firm. The Board took account of the fees paid to Arthur Cox for its legal services and concluded that they are not material to Pádraig's independent judgment given the scale of the operations and financial results of Arthur Cox and the Group. Pádraig has not provided any legal services to the Group since his appointment to the Board.

The Board concluded that Pádraig is an independent non-executive director within the spirit and meaning of the Combined Code on Corporate Governance.

The Chairman's role

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

While there may be a perception that Board business revolves exclusively around meetings, this is not the case. Board counsel must be available to senior management at all times. Your Chairman is the normal source of such advice and encouragement, but by no means the only one. The need to source the most relevant expertise at short notice means that the Chairman must have regular contact with individual Board members to ensure that there is a seamless interaction between the senior executive team and the non-executive directors.

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

Directors' fees

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

These fees were set for a two year period and, barring exceptional circumstances, will not be reviewed again until 2010.

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

Board effectiveness

Each director is expected to perform to the highest standards with regard to both their general contribution and their contribution through committees and mentoring.

As Chairman, it is my responsibility to ensure that the performance of all directors is at the levels required. A performance evaluation of the Board, its committees and its individual directors is undertaken annually. I will act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, appointing new members to the Board or seeking the resignation of existing directors. The Senior Independent Director will conduct a detailed review of my performance as Chairman at the end of my first year in the role.

Board operations and committees

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

The composition of the Board committees as at 27 February 2009 was as follows:

Audit
Tom Grace (Chair); Pádraig Ó Ríordáin; Brody Sweeney.

Remuneration
Pádraig Ó Ríordáin (Chair); Nigel Northridge.

Nomination
Nigel Northridge (Chair); Fintan Drury; Patrick Kennedy; Stewart Kenny; Brody Sweeney.

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

Audit Committee

The Audit Committee's responsibilities include:

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

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

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

Corporate Governance
(continued)

Remuneration Committee
The Remuneration Committee is primarily responsible for making recommendations to the Board on remuneration policy for the Group's executive directors and selected senior management. The report of the Remuneration Committee is set out on pages 33 and 34.

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

In appointing new non-executive directors, although it has made some use of external search consultancies, the primary method used by the Committee has been to agree the preferred profile of the director with the Board as a whole and receive written recommendations from existing directors. Given the industry knowledge of the Board and the Committee members, as well as their general commercial experience, this has proved an effective method of sourcing high quality directors for your Company.

Risk Committee
The Risk Committee is responsible for ensuring that policies in respect of betting risk are appropriate to a group of Paddy Power's size, for monitoring that such policies are being correctly applied and that the expertise and systems within the organisation are consistent with the level of risk undertaken. The Committee also sets overall policy for betting risk. Limits are agreed with the Committee and set annually but are subject to review by the Committee at any time. Compliance with these risk limits is reported daily to senior management and internal audit. Internal audit also carries out reviews of the risk function. The Group does not offer credit betting.

Attendance at Board and Committee meetings
There were eight full meetings of the Board in 2008.

The attendance at Board and committee meetings by the directors who held office in 2008 are set out below:

	Note	Board	Audit	Remuneration	Nomination	Risk
Number of meetings held in 2008:		8	5	7	4	2
Attended by:						
F Drury *		8		7	3	
N Northridge *		8		7	4	
T Grace *		8	5			
B Sweeney *		7	4			
D Power **	a)	8	3	4		2
S Kenny **		8			4	2
P Ó Ríordáin *	b)	3	2	3		
P Kennedy ***		8			4	2
J Massey ***		8				
B Corcoran ***		8				2

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

a) David Power was a member of the Audit Committee and chair of the Remuneration Committee until 21 August 2008. There were three Audit Committee and four Remuneration Committee meetings prior to that date, all of which he attended.
b) Pádraig Ó Ríordáin was appointed as a director on 8 July 2008 and as a member of the Audit Committee and chair of the Remuneration Committee on 21 August 2008. There were three Board meetings, two Audit Committee meetings and three Remuneration Committee meetings after his appointments, all of which he attended.

The number of independent non-executive directors is now five (including the Chairman) and there are five non-independent directors (including three executive directors). The Combined Code requires a majority of the Board to be independent non-executive directors.

Until the appointment of Pádraig Ó Ríordáin as a member of the Audit Committee on 21 August 2008, the Audit Committee was not populated in accordance with the Combined Code as the Committee did not consist of a majority of independent directors. Since his appointment, the Audit Committee has been populated in accordance with the Combined Code.

At 31 December 2008 and throughout the year, the Nomination Committee was not populated in accordance with the Combined Code as it did not consist of a majority of independent non-executive directors. Brody Sweeney was appointed as a member of the Nomination Committee on 24 February 2009 and since his appointment, the Committee has been populated in accordance with the Combined Code.

The Board is in a state of transition and it is currently not possible to populate the Remuneration Committee in accordance with the Combined Code. The Group is committed to complying with corporate best practice and expects to complete the appointment of one additional non-executive director in 2009 and another in 2010.

Senior Independent Director
The Board appointed Tom Grace as Senior Independent Director in January 2009, on Nigel Northridge becoming Chairman. Tom is available to shareholders who have concerns that cannot be addressed through the Chairman, Chief Executive or Finance Director.

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

Internal control
The Combined Code on Corporate Governance states that:

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

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

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

The principal processes comprising the system of internal control are:

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

The Board, through the Audit Committee, is responsible for conducting a review of the effectiveness of the Group’s systems of internal controls. This review has been performed in respect of the year ended 31 December 2008. The directors consider that the procedures necessary to implement the Turnbull guidelines on internal control in the Combined Code have been properly established.

Corporate Governance
(continued)

Relations with shareholders

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

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

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

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

Compliance

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

Conclusion

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

Nigel Northridge
Chairman

27 February 2009

Remuneration Committee Report

The report on directors' remuneration and interests has been prepared by the Remuneration Committee on behalf of the Board of Directors in accordance with the requirements of the Irish Stock Exchange's Combined Code on Corporate Governance.

The Remuneration Committee

As at the date of this report, the Remuneration Committee consisted of the following non-executive directors:

- Pádraig Ó Ríordáin (Chairman, Remuneration Committee)
- Nigel Northridge.

Pádraig Ó Ríordáin was appointed as Chairman of the Committee, replacing David Power, in August 2008. Fintan Drury stepped down from the Committee in January 2009. The members of the Committee have no personal financial interest (other than as shareholders) in the matters addressed by the Committee, and have no conflicts of interest arising from cross-directorships. The Committee met seven times in 2008 and operated within agreed terms of reference. The Remuneration Committee has responsibility for making recommendations to the Board on the Group's general policy relating to executive remuneration, and to determine, on behalf of the Board, specific remuneration packages for the executive directors. Outside independent professional advice is sought where necessary. In addition to the remuneration of the executive directors, the Committee is also responsible for approving the remuneration of five of the most senior executives ('senior executives') as well as the bonus schemes in operation within the Group.

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

Remuneration Policy

General

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

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

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

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

Basic salaries and benefits

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

Performance bonus

Under current arrangements, which are reviewed annually by the Remuneration Committee, executive directors have targeted bonuses of 40% to 50% of salary subject to the attainment of specific and stretching targets set for each individual. The level earned in any one year depends on the Committee's assessment of each individual's performance and the overall performance of the Group against predetermined targets for the year. The maximum payout under the bonus scheme can be twice the bonus target and this will only be achieved with substantial out-performance of strict financial targets that are set annually. The minimum payment is 30% of bonus target.

Pension entitlements

The Group does not operate any defined benefit pension plan or Group defined contribution scheme for non-executive directors. The Group makes no pension provision in respect of the non-executive directors. Each executive director has an independent pension trust into which the Group makes defined contributions.

Targeted remuneration

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

	Performance related	Non-performance related
Executive		
Patrick Kennedy	28%	72%
Breon Corcoran *	29%	71%
Jack Massey	26%	74%
Non-executive		
Fintan Drury		100%
Tom Grace		100%
Stewart Kenny		100%
Nigel Northridge		100%
Pádraig Ó Ríordáin		100%
David Power		100%
Brody Sweeney		100%

** this percentage excludes the possible impact of the long term incentive bonus plan outlined below.*

Remuneration Committee Report
(continued)

Long Term Incentive Plan
It is Group policy to motivate its key executives to deliver superior performance over the long term and, at the Annual General Meeting held on 22 June 2004, the shareholders approved the 2004 Long Term Incentive Plan ('LTIP'). This plan, details of which are included in Note 20 to the consolidated financial statements, allows shares conditionally awarded to executives to be earned over a three to five year period subject to the achievement of testing earnings per share growth targets. Details of share grants to the executive directors and the Company Secretary are included with the directors' and secretary's interests in the Directors' Report on page 27.

Share options
The policy of the Remuneration Committee was previously to motivate executives, other than senior management, by granting them share options. Accordingly, options have been granted under the terms of employee share incentive plans approved by shareholders. Further details of these plans are given in Note 20 to the consolidated financial statements. Details of options granted to the executive directors prior to the introduction of the LTIP and options granted to executive directors under the Sharesave Schemes are included with the directors' and secretary's interests in the Directors' Report on page 27. All options are granted at the market price on the date of grant and, with the exception of options granted under Revenue approved sharesave schemes, no options are granted at a discount.

The market price of the Company's shares at 31 December 2008 was €13.11 and, for the year then ended, the Company's daily closing share price ranged between €9.60 and €24.25.

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 in favour of Breon Corcoran. 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, Breon Corcoran has the potential to earn a cash payment of between €1.0m and €2.5m 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. Should the targets under the plan be reached, payment would be due around March 2010, at which date Breon Corcoran must also be employed by the Group for a payment to be made to him. Payments under the plan are not pensionable. See Note 7 to the consolidated financial statements.

The Group has other cash-based long term incentive bonus schemes in place for some of its executives under which the executives are entitled to receive a cash bonus based on achievement of exacting performance targets.

Managers' Deferred Share Award Scheme
As first disclosed in the 2007 Annual Report, the Board, on the recommendation of the Remuneration Committee, established in December 2007 a scheme to offer already issued shares to a small number of key Group employees (not including directors). The employees will only become entitled to receive these shares if they remain employed by the Group until March 2011. The total number of shares offered to employees under the scheme at 31 December 2008 was 85,129 (2007: 86,221), see Note 20.

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

Non-executive directors' service contracts
Non-executive directors, in accordance with best practice, are not appointed on service contracts, rather they are issued with a letter confirming the terms of their appointment. They are appointed for a fixed initial period of three years, and may be reappointed for further fixed periods, up to a total of six years unless there are exceptional circumstances. Non-executive directors are expected to give three months' notice of resignation, but this is without prejudice to their right to resign immediately if they feel it appropriate. None of the non-executive directors have an entitlement to a termination payment.

Retirement of directors by rotation
At each Annual General Meeting of the Company, every director who has been in office at the completion of each of three successive Annual General Meetings since he was last appointed or reappointed, shall retire from office. Fintan Drury, Tom Grace and Jack Massey will retire at the 2009 AGM, and have indicated their willingness to be reappointed.

Details of the service periods of the directors are:

	Appointed by the Board	Last elected by shareholders	Term expires
Fintan Drury	29 August 2002	16 May 2006	AGM 2009
Patrick Kennedy	23 March 2004	22 May 2007	AGM 2010
Breon Corcoran	31 August 2004	15 May 2008	AGM 2011
Jack Massey	25 April 2006	16 May 2006	AGM 2009
Tom Grace	3 January 2006	16 May 2006	AGM 2009
Stewart Kenny	1 June 1988	22 May 2007	AGM 2010
Nigel Northridge	22 July 2003	22 May 2007	AGM 2010
Pádraig Ó Ríordáin	8 July 2008	Proposed for AGM 2009	AGM 2012
David Power	1 June 1988	22 May 2007	AGM 2010
Brody Sweeney	16 February 2005	15 May 2008	AGM 2011

Directors' detailed emoluments
Full details of the emoluments of the directors are set out in Note 7 to the consolidated financial statements on pages 54 and 55.

Pádraig Ó Ríordáin
Chairman, Remuneration Committee

27 February 2009

Statement of Directors' Responsibilities
In respect of the Annual Report and the Financial Statements

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

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

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Acts 1963 to 2006 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the Group financial statements comply with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with that law and those Rules. In particular, in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the 'Transparency Regulations'), the directors are required to include in their report a fair review of the business and a description of the principal risks and uncertainties facing the Group and the Company and a responsibility statement relating to these and other matters.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2006 and, as regards the Group financial statements, Article 4 of IAS Regulation (EC1606/2002) ('Accounting standards adopted for use in the EU') (the 'IAS Regulation'). They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement, in accordance with the Transparency Regulations

Each of the directors, whose names and functions are listed in the Board of Directors section on page 23, confirm that, to the best of each person's knowledge and belief:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2008 and of the profit of the Group for the year then ended;
- the Company financial statements, prepared in accordance with generally accepted accounting practice in Ireland, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2008;
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

27 February 2009

Independent Auditor's Report
to the Members of Paddy Power plc

We have audited the Group and Company financial statements (the 'financial statements') of Paddy Power plc for the year ended 31 December 2008, which comprise the consolidated Income Statement, the consolidated Statement of Recognised Income and Expense, the consolidated and Company Balance Sheets, the consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the EU, and for preparing the Company financial statements in accordance with applicable law and the financial reporting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland ('Generally Accepted Accounting Practice in Ireland'), are set out in the Statement of Directors' Responsibilities on page 35.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts 1963 to 2006 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you our opinion as to: whether proper books of account have been kept by the Company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company balance sheet is in agreement with the books of account.

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

We review whether the Corporate Governance statement reflects the Company's compliance with the nine provisions of the 2006 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006 and Article 4 of the IAS Regulation;
- the Company financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs as at 31 December 2008; and
- the Company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006.

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

In our opinion the information given in the Directors' Report on pages 24 to 27 is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet on page 79, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2008 a financial situation which under Section 40(1) of the Companies (Amendment) Act 1983 would require the convening of an extraordinary general meeting of the Company.

KPMG

Chartered Accountants
Registered Auditor

Dublin

27 February 2009

Consolidated Income Statement
Year ended 31 December 2008

	Note	Before exceptional item 2008 €'000	Exceptional item (Note 5) 2008 €'000	Total 2008 €'000	Total 2007 €'000
Amounts staked by customers		**2,100,926**	**-**	**2,100,926**	2,027,777
Continuing operations					
Income	4	**283,657**	**-**	**283,657**	278,952
Direct betting costs	5	**(29,975)**	**2,735**	**(27,240)**	(36,534)
Gross profit		**253,682**	**2,735**	**256,417**	242,418
Employee expenses	6	**(85,600)**	**-**	**(85,600)**	(78,890)
Property expenses		**(25,318)**	**-**	**(25,318)**	(23,403)
Marketing expenses		**(26,553)**	**-**	**(26,553)**	(23,705)
Technology and communications expenses		**(13,742)**	**-**	**(13,742)**	(13,685)
Depreciation and amortisation		**(16,919)**	**-**	**(16,919)**	(20,848)
Other expenses, net		**(9,855)**	**-**	**(9,855)**	(9,781)
Total operating expenses		**(177,987)**	**-**	**(177,987)**	(170,312)
Operating profit		**75,695**	**2,735**	**78,430**	72,106
Financial income	8	**3,297**	**-**	**3,297**	3,722
Profit before tax		**78,992**	**2,735**	**81,727**	75,828
Income tax expense	10	**(12,642)**	**(268)**	**(12,910)**	(13,050)
Profit for the year from continuing operations – all attributable to equity holders of the Company		**66,350**	**2,467**	**68,817**	62,778
Earnings per share					
Basic	11			**€1.457**	€1.274
Diluted	11			**€1.429**	€1.252

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

Notes 1 to 32 on pages 42 to 78 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

27 February 2009

Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2008

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

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

Notes 1 to 32 on pages 42 to 78 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

27 February 2009

Consolidated Balance Sheet
As at 31 December 2008

	Note	31 December 2008 €'000	31 December 2007 *restated* €'000
Assets			
Property, plant and equipment	12	**68,041**	69,432
Intangible assets	13	**31,612**	8,492
Goodwill	14	**15,003**	6,928
Deferred tax assets	21	**1,244**	364
Total non current assets		**115,900**	85,216
Trade and other receivables	16	**5,641**	4,206
Cash and cash equivalents	17	**76,661**	87,885
Total current assets		**82,302**	92,091
Total assets		**198,202**	177,307
Equity			
Issued share capital	18	**4,927**	4,923
Share premium	18	**11,318**	10,819
Treasury shares	18	**(34,177)**	(5,975)
Shares held by long term incentive plan trust	18	**(21,526)**	(13,089)
Other reserves	18	**14,523**	11,149
Retained earnings	18	**152,175**	109,535
Total equity		**127,240**	117,362
Liabilities			
Trade and other payables	22	**53,942**	51,850
Derivative financial instruments – sports betting open positions	22	**3,658**	3,556
Current tax payable		**1,496**	667
Total current liabilities		**59,096**	56,073
Trade and other payables	22	**5,657**	3,685
Derivative financial instruments – sports betting open positions	22	**11**	187
Deferred tax liabilities	21	**6,198**	-
Total non current liabilities		**11,866**	3,872
Total liabilities		**70,962**	59,945
Total equity and liabilities		**198,202**	177,307

Notes 1 to 32 on pages 42 to 78 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

27 February 2009

Consolidated Cash Flow Statement
Year ended 31 December 2008

	Note	2008 €'000	2007 *restated* €'000
Cash flows from operating activities			
Profit before tax		**81,727**	75,828
Financial income		**(3,297)**	(3,722)
Depreciation and amortisation		**16,919**	20,848
Cost of employee share-based payments		**6,874**	6,216
Foreign currency exchange loss		**110**	117
Loss on disposal of property, plant and equipment and intangible assets		**418**	211
Cash from operations before changes in working capital		**102,751**	99,498
(Increase) / decrease in trade and other receivables		**(1,516)**	62
Increase in trade and other payables		**7,159**	13,412
Cash generated from operations		**108,394**	112,972
Income taxes paid		**(13,107)**	(14,144)
Net cash from operating activities		**95,287**	98,828
Cash flows from investing activities			
Purchase of property, plant and equipment		**(14,334)**	(12,466)
Purchase of intangible assets		**(2,993)**	(2,945)
Purchase of businesses, net of cash acquired	15	**(23,181)**	(5,155)
Acquisition expenses paid	15	**(399)**	(260)
Proceeds from disposal of property, plant and equipment and intangible assets		**62**	184
Interest received		**3,474**	3,712
Net cash used in investing activities		**(37,371)**	(16,930)
Cash flows from financing activities			
Proceeds from the issue of new shares		**503**	669
Purchase of treasury shares		**(28,554)**	(54,242)
Purchase of shares by long term incentive plan trust		**(11,582)**	(6,715)
Dividends paid		**(25,902)**	(19,507)
Net cash used in financing activities		**(65,535)**	(79,795)
Net (decrease) / increase in cash and cash equivalents		**(7,619)**	2,103
Cash and cash equivalents at start of year		**87,885**	87,061
Foreign currency exchange loss in cash and cash equivalents		**(3,605)**	(1,279)
Cash and cash equivalents at end of year	17	**76,661**	87,885

Notes 1 to 32 on pages 42 to 78 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

27 February 2009

Notes to the Consolidated Financial Statements

1. General information

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

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

The consolidated financial statements of the Group for the year ended 31 December 2008 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 27 February 2009.

2. Basis of preparation and summary of significant accounting policies

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

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

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

Recent accounting pronouncements

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

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

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

- IFRS 8, 'Operating Segments' introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segmental information in respect of its business and geographical segments (see Note 4). The directors believe that the implementation of this standard will increase the number of segments for which information is presented from the current classification of non retail and retail, and the current geographical segment information will no longer be required. The standard focuses on disclosure and will have no impact on recognition and measurement.
- IFRIC Interpretation 13, 'Customer Loyalty Programmes' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IAS 23, 'Borrowing Costs' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Amendments to IAS 1, 'Presentation of Financial Statements: A Revised Presentation' (effective for the Group's 2009 consolidated financial statements). This amendment will result in some presentational changes to the Group financial statements.

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

- Amendments to IFRS 2, 'Share-based Payments: Vesting Conditions and Cancellations' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have a material impact on Group reporting.
- Amendments to IAS 32 and IAS 1, 'Puttable Financial instruments and Obligations arising on Liquidation' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC Interpretation 15, 'Agreements for the Construction of Real Estate' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC Interpretation 16, 'Hedges of a Net Investment in a Foreign Operation' (effective for the Group's 2009 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- IFRIC Interpretation 17, 'Distributions of Non-cash Assets to Owners' (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.
- Revised IFRS 3, 'Business Combinations (2008)' (effective for the Group's 2010 consolidated financial statements) will impact on the amounts recorded in goodwill and in the income statement for business combinations, and incorporates the following changes that are likely to be relevant to the Group's operations:
  - o The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - o Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - o Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - o Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - o Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Amendments to IAS 39, 'Financial Instruments: Recognition and Measurement': Eligible Hedged Items (effective for the Group's 2010 consolidated financial statements). The directors do not believe that this will have any significant impact on Group reporting.

Basis of consolidation

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

Judgements and estimates

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes and in Note 32:

- Note 14 – measurement of the recoverable amounts of cash-generating units containing goodwill and indefinite life licence intangible assets.
- Note 15 – business combinations.
- Note 20 – measurement of share-based payments.
- Note 21 – utilisation of UK tax losses.

Notes to the Consolidated Financial Statements
(continued)

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

Income

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

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

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

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

Income from peer to peer games and financial spread betting represents commission income ('rake') and tournament fees earned from games completed by the period end.

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

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

Finance income

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

Segment reporting

Business segments are distinguishable components of the Group that provide products and services that are subject to risks and returns that are different from other business segments. Geographical segments provide services within a particular economic environment that are subject to risks and rewards that are different from those components operating in alternative economic environments. The Group has determined that its business segments of non retail and retail are the primary reporting segments.

Foreign currency

Functional and presentation currency

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

Foreign currency transactions

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

Financial statements of foreign operations

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

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

Business combinations

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

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

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

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

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

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

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

Notes to the Consolidated Financial Statements
(continued)

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

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

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

The licences intangible assets recognised on the acquisition of the D McGranaghan Limited business are not amortised for the reasons set out in Note 13.

Impairment
The carrying amounts of property, plant and equipment, intangible assets and goodwill are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the recoverable amount of the asset, or the cash generating units to which it relates, is estimated. For intangible assets that are not yet available for use or that have an indefinite life and goodwill, the recoverable amount is estimated at each annual balance sheet date, regardless of whether any indication of impairment exists. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of such assets or cash generating units is the greater of their fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

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

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

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

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

All other leases are classified as operating leases and are not recognised on the balance sheet.

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

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

Income tax

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

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

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

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

Employee benefits

Pensions

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

Long term incentive bonus plans

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

Share-based payments

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

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

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

Notes to the Consolidated Financial Statements
(continued)

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

Share capital

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

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

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

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

Dividends
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in Note 31.

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.

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

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

3. Financial risk management

The Group has the following risk exposures in relation to its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

Set out below is information on the Group's exposure to each of the above risks, and what its objectives, policies and processes for measuring and managing those risks are. Information is also provided on how the Group manages its capital. Quantitative disclosures in respect of these risks are included throughout these consolidated financial statements and, in particular, in Notes 23 to 28.

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

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

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

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

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

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

It is Group policy to ensure that foreign currency denominated liabilities, primarily customer balances, are broadly matched by foreign currency denominated assets, primarily cash deposits. This is generally achieved by monthly sales of net foreign currency inflows into euro at spot rates. Subject to Investment Committee approval, the Group may make use of forward contracts, planned imbalances between foreign currency denominated liabilities and assets, and derivatives to manage foreign currency risks on expected future net cash flows. During the years ended 31 December 2008 and 2007, the Group did not utilise either foreign currency forward contracts or derivatives.

While the Group maintained a hedged balance sheet, as described in the preceding paragraph, during the year ended 31 December 2008, its foreign currency denominated income and expense remained un-hedged during the year. The average GBP exchange rate against the euro fell by approximately 14% in 2008 versus 2007, while the USD exchange rate fell by approximately 7%. The appreciation in the value of the euro against these two currencies adversely impacted the Group's profit for the year ended 31 December 2008 by approximately €5.0m, contributed primarily from the decrease in the value of the GBP.

The loss on retranslation of cash and cash equivalent balances in the year ended 31 December 2008 was €3,605,000 (2007: €1,279,000). This loss has been included within 'other expenses' in the income statement rather than as a financial expense, as the directors consider that the loss relates to operations as the Group broadly matches its foreign currency denominated assets and liabilities to ensure that foreign exchange gains and losses are minimised (as described above). Gains and losses on retranslation of non-cash assets and liabilities are also dealt with as operating items. Gains and losses on foreign currency retranslation are separately analysed into their components in the cash flow statement.

Interest rate risk
The Group had no borrowings at either 31 December 2008 or 2007, and consequently there has been no requirement to manage interest rate risk on borrowings. Excess cash funds are invested in short term interest-bearing bank deposits on which the interest rate is fixed for the term of the deposit. Group treasury policy imposes limits on the terms over which cash can be placed on deposit. As a consequence of the financial market instability in 2008 and to minimise the credit risk of cash deposits, the Group at times reduced the average maturity period of deposits placed. This has some adverse impact on the interest rate earned on deposits. While the Group was able to take advantage of the higher interest rate premiums being offered by banks during 2008, significant reductions in both the European Central Bank (euro) and Bank of England (GBP) interest rates in the second half of the year negatively impacted interest earned. The Group was however able to maintain an average interest rate on its cash deposits in 2008 that was broadly in line with that earned in 2007.

Notes to the Consolidated Financial Statements
(continued)

3. Financial risk management (continued)

Credit risk

The Group's credit risk represents the risk that a financial loss may result in the event that a counterparty to a financial instrument or a trading partner fails to meet their contractual obligations. The Group's credit risk principally arises from cash invested with financial institutions and receivables from trading suppliers.

Trade and other receivables

The Group's sports betting and gaming businesses are cash and credit card/ debit card businesses where there is a requirement that the customer pays in advance when a transaction is entered into with the Group. There is no material concentration of sales with individual customers.

Cash investments

It is Group treasury policy to limit investments in cash deposits to counterparties that have a Moody's (or equivalent) long term credit rating of Aa2 or higher and a Moody's (or equivalent) short term credit rating of P1, unless otherwise specifically approved (as at the date of this report there are specific approvals for a number of Aa3 rated banks). A list of approved counterparties is maintained by the Group. There are also limits on the percentage of total cash on deposit that can be invested with an individual counterparty. Management does not expect any counterparty to fail to meet its obligations as of the balance sheet date and the date of this report. There are also restrictions on the types of cash products that can be invested in.

During 2008, in response to the turmoil in the financial markets, the Group at certain times restricted its cash deposit investments to counterparties that had AAA or Aa1 long term credit ratings and shortened the maturities of deposits placed. The Group continues to closely monitor counterparty risk, using rating agency credit ratings, traded Credit Default Swap ('CDS') spread prices and other public information, and to take action to mitigate such risks as are identified.

Guarantees

The Group policy is to only provide guarantees in respect of certain commitments of wholly-owned subsidiaries of the Group. The guarantees entered into are generally in respect of certain third party obligations of subsidiaries, such as overdraft facilities. As of 31 December 2008, there were no amounts outstanding in the consolidated financial statements under these guarantees (2007: €nil).

During 2008, the Group put in place certain third party bank guarantees in favour of the Isle of Man and Maltese gambling regulatory bodies. These guarantees (which are more fully described in Note 28) are required by the terms of gambling licences and cover the value of player funds held by certain Group companies.

Liquidity risk

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

The Group performs regular cash projections to ensure that there is sufficient cash on hand to meet its expected obligations as they fall due. The nature of the Group's business and the potential volatility in sporting results can result in significant differences between expected and actual cash flows. Consequently a conservative approach is applied to cash forecasting and flexibility is built into the forecast to cover potentially adverse sporting results. Cash deposit maturities are determined by reference to cash inflows forecast and expected requirements in respect of the Group's financial obligations. The Group's treasury policy sets a maximum maturity on deposits of nine months. The overall maturity of deposits at 31 December 2008 and 2007 is set out in Note 17. It is the directors' belief that the Group's cash deposit balances can be withdrawn without significant penalty.

The Group has the following lines of credit:

- Unsecured bank overdraft facilities for working capital purposes totalling €7.5m. Interest is payable thereon at the bank's prime overdraft rate. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of Allied Irish Banks plc.
- Unsecured bank overdraft facility for working capital purposes totalling Stg£6.5m (euro equivalent €6.8m). Interest is payable thereon at the bank's sterling base rate plus 0.5%. Bank overdraft facilities for certain subsidiaries of the Company are guaranteed by way of a Letter of Guarantee issued by Paddy Power plc in favour of AIB Group (UK) plc.

At 31 December 2008, none of these facilities were being utilised.

3. Financial risk management (continued)

Capital management

The Group has historically funded its operations through internally generated cash, and borrowings have not formed part of its capital structure. The Group's financing and capital structure is kept under review by the Board. The Board is committed to capital discipline, however in the current environment a strong cash balance gives Paddy Power financial strength and flexibility for expansion organically or via acquisition, thereby creating more opportunity for the Group. While the Board does not rule out further share buybacks, retention of cash has therefore become more attractive.

The Group has the authority to buy back up to ten percent of the Company's issued share capital between the dates of its Annual General Meetings ('AGM's), subject to the annual approval of its shareholders at the Company's AGM. During 2008, the Group acquired 1,484,000 Paddy Power plc ordinary shares (2007: 2,389,443 ordinary shares) (see Note 18). Shares bought back may either be cancelled or held in treasury. Since the start of the Group's share buyback programme, a total of 3,873,443 of the Company's own shares have been bought back, of which 2,139,443 were cancelled and the remaining 1,734,000 are held in treasury.

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

There were no significant changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

In the year ended 31 December 2008, the Group earned a return on capital of 56% and a return of 55% when the exceptional item is excluded (2007: 51%). Capital is defined by the Group as total shareholders' equity.

4. Segmental information

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

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

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

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

(a) By business segment

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

Notes to the Consolidated Financial Statements
(continued)

4. Segmental information (continued)

Business segment information for the year ended 31 December 2008:

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

Business segment information for the year ended 31 December 2007:

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

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

(b) By geographic segment

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

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

4. Segmental information (continued)

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

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

5. Direct betting costs

Direct betting costs comprise:

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

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

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

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

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

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(continued)

6. Employee expenses and numbers

	2008 €'000	2007 €'000
Wages and salaries	**66,029**	60,585
Social security costs	**6,315**	5,639
Defined contribution pension and life assurance costs	**2,007**	1,672
Share-based payments (Note 20)	**6,874**	6,216
Other staff costs	**4,375**	4,778
	85,600	78,890

	2008	2007
The average number of persons employed by the Group (including executive directors), all of whom were involved in the provision of betting and gaming services, during the year was	**1,787**	1,536

7. Directors' emoluments and transactions with key management personnel

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

	Fees €'000	Salary €'000	Pension costs €'000	Benefits €'000	Annual bonus €'000	Total 2008 €'000	Total 2007 €'000
Executive							
Patrick Kennedy	-	668	200	40	485	1,393	1,334
Breon Corcoran	-	452	68	16	283	819	704
Jack Massey	-	292	58	29	172	551	488
Non-executive							
Fintan Drury (1)	200	-	-	-	-	200	160
Tom Grace (2)	90	-	-	-	-	90	65
Stewart Kenny	70	-	-	-	-	70	55
Nigel Northridge	70	-	-	-	-	70	55
Pádraig Ó Ríordáin (3)	37	-	-	-	-	37	-
David Power (4)	90	-	-	-	-	90	75
Brody Sweeney	70	-	-	-	-	70	55
	627	1,412	326	85	940	3,390	2,991
Cost of shares vested from Long Term Incentive Plan	-	-	-	-	-	1,918	294
	627	1,412	326	85	940	5,308	3,285

1. Fintan Drury was Chairman of the Company during the years ended 31 December 2008 and 2007.
2. Tom Grace is Chairman of the Audit Committee.
3. Pádraig Ó Ríordáin was appointed to the Board on 8 July 2008 and was appointed as Chairman of the Remuneration Committee on 21 August 2008.
4. David Power was Chairman of the Remuneration Committee until 21 August 2008 and is Chairman of the Risk Committee.
5. Patrick Kennedy was appointed as a non-executive director of Elan Corporation, plc in May 2008 for which he received fees of €25,000 in the year ended 31 December 2008. He was also conditionally awarded 20,000 options over Elan Corporation, plc shares, whose earliest and latest exercise dates are 22 May 2009 and 21 May 2018, respectively.

Benefits provided to executive directors include provision of a company car or car allowance, life and medical insurance. Not included in the above table are accruals made in respect of the long term incentive bonus plan and share-based payment costs in respect of unvested shares in the Group's Long Term Incentive Plan (see Note 20). Details of the number and value of shares vested to executive directors from the Long Term Incentive Plan are set out in the Directors' Report on page 27.

Other transactions with directors

There were no loans outstanding to any director at any time during the year. Details of directors' interests in share awards and share options are set out on page 27. Other related party transactions between the Group and the directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

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

In addition to the directors' emoluments disclosed above, in the year ended 31 December 2008 directors were paid the amounts set out below:

Stewart Kenny received €80,000 (2007: €60,000) in respect of consulting fees.

The Group engages in transactions with David Power in his capacity as an on-course bookmaker. In aggregate, the Group placed bets winning €93,700 (2007: losing €8,505) with Richard Power On-Course Bookmakers and that firm placed bets with the Group losing €74,426 (2007: losing €15,809).

The Group paid rent of €38,727 (2007: €38,727) during the year for retail properties owned by David Power and occupied by the Group under long term leases.

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

Transactions with key management personnel comprising executive and other senior management

Key management personnel compensation is as follows:

	2008 €'000	2007 €'000
Wages and salaries	**4,388**	4,260
Social security costs	**678**	577
Defined contribution pension and life assurance costs	**550**	588
Provision for executive director long term incentive bonus plan (1)	**-**	601
Share-based payments	**4,173**	3,579
Other staff costs	**209**	227
	9,998	9,832

	2008 €'000	2007 €'000
Executive directors (excluding share-based payments)	**2,763**	2,526
Other key management personnel	**2,384**	2,549
Provision for executive director long term incentive bonus plan (1)	**-**	601
Social security costs	**678**	577
Share-based payments	**4,173**	3,579
	9,998	9,832

(1) An amount of €601,000, accrued by the Group in respect of Breon Corcoran's long term incentive bonus plan for the year ended 31 December 2007, has not been included in the table of directors' emoluments on page 54. No further accrual was made for liabilities under this plan during the year ended 31 December 2008. As set out in the Remuneration Committee Report on page 34, no payment obligation has crystallised under the plan at this point and payment is dependent on the non retail division achieving very challenging operating profit targets in the year ended 31 December 2009. However the provision represents the Group's best estimate of the most likely amount payable.

8. Financial income and expense

	2008 €'000	2007 €'000
Recognised in profit or loss:		
Financial income:		
Interest income on short term bank deposits	**3,297**	3,722

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(continued)

9. Statutory and other information

	2008 €'000	2007 €'000
Directors' emoluments	**5,308**	3,285
Auditor's remuneration for audit services (including value added tax)	**165**	165
Depreciation	**14,214**	15,445
Impairment charges – property, plant and equipment	**643**	1,940
Impairment reversals – property, plant and equipment	**(595)**	-
Amortisation of intangible assets	**2,660**	3,161
Impairment charges – intangible assets	**43**	302
Impairment reversals – intangible assets	**(46)**	-
Loss on disposal of property, plant and equipment and intangible assets	**418**	211
Operating lease rentals, principally premises	**13,255**	11,678
Operating lease income (representing sub-lease income)	**(182)**	(164)

Amounts paid to the auditor in respect of non-audit services, comprising tax and advisory fees and including value added tax, were €454,000 (2007: €147,000).

10. Income tax expense

	2008 €'000	2007 €'000
Recognised in the income statement:		
Current tax charge	**13,771**	13,336
Prior year under / (over) provision	**84**	(117)
	13,855	13,219
Deferred tax (credit)	**(573)**	(169)
Prior year (over) provision	**(372)**	-
(Decrease) in deferred tax (Note 21)	**(945)**	(169)
Total income tax expense in income statement	**12,910**	13,050

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

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

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

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

11. Earnings per share

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

	2008	2007
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**68,817**	62,778
Numerator in respect of adjusted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**68,817**	62,778
Less: Exceptional item - BHB VAT refund after tax (Note 5)	**(2,467)**	-
Profit for adjusted earnings per share calculation	**66,350**	62,778
Denominator in respect of basic earnings per share:		
Ordinary shares in issue at beginning of year	**48,975,752**	51,238,437
Adjustments for weighted average number of:		
- ordinary shares issued during year	**4,703**	65,971
- ordinary shares purchased and cancelled or held in treasury	**(793,104)**	(1,317,283)
- ordinary shares held by long term incentive plan trust	**(957,798)**	(727,302)
Weighted average number of ordinary shares	**47,229,553**	49,259,823
Basic earnings per share	**€1.457**	€1.274
Adjusted earnings per share	**€1.405**	n/a
Denominator in respect of diluted earnings per share:		
Basic weighted average number of ordinary shares in issue during year	**47,229,553**	49,259,823
Adjustments for dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and share award schemes	**921,123**	871,785
Weighted average number of ordinary shares	**48,150,676**	50,131,608
Diluted earnings per share	**€1.429**	€1.252
Adjusted diluted earnings per share	**€1.378**	n/a

Notes to the Consolidated Financial Statements
(continued)

12. Property, plant and equipment

	Land, buildings & leasehold improvements €'000	Fixtures & fittings €'000	Computer equipment €'000	Motor vehicles €'000	Total €'000
Cost					
Balance at 1 January 2007	45,757	63,240	15,158	1,106	125,261
Additions	2,495	5,677	2,088	200	10,460
Additions – business combinations (Note 15)	208	238	-	-	446
Disposals	(170)	(485)	(6)	(383)	(1,044)
Balance at 31 December 2007	48,290	68,670	17,240	923	135,123
Additions	2,780	8,696	1,793	372	13,641
Additions – business combinations (Note 15)	-	36	-	-	36
Disposals	(238)	(1,031)	(3)	(132)	(1,404)
Foreign currency retranslation adjustment	(50)	(271)	(29)	-	(350)
Balance at 31 December 2008	**50,782**	**76,100**	**19,001**	**1,163**	**147,046**
Accumulated depreciation					
Balance at 1 January 2007	10,495	27,879	10,178	469	49,021
Depreciation charges	2,894	9,323	3,060	168	15,445
Impairment charges	909	993	38	-	1,940
Disposals	(69)	(357)	(4)	(285)	(715)
Balance at 31 December 2007	14,229	37,838	13,272	352	65,691
Depreciation charges	2,115	9,156	2,765	178	14,214
Impairment charges / (credits)	(51)	100	(1)	-	48
Disposals	(52)	(782)	(3)	(87)	(924)
Foreign currency retranslation adjustment	(1)	(21)	(2)	-	(24)
Balance at 31 December 2008	**16,240**	**46,291**	**16,031**	**443**	**79,005**
Net book value					
At 31 December 2008	**34,542**	**29,809**	**2,970**	**720**	**68,041**
At 31 December 2007	34,061	30,832	3,968	571	69,432

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

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

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

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

13. Intangible assets

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

	Computer software €'000	Licences €'000	Customer relationships €'000	Total €'000
Cost				
Balance at 1 January 2007	12,452	3,815	-	16,267
Additions	2,539	222	-	2,761
Additions – business combinations (Note 15)	-	-	1,455	1,455
Transfer to goodwill (Note 14)	-	-	(1,455)	(1,455)
Disposals	(172)	(31)	-	(203)
Balance at 31 December 2007	14,819	4,006	-	18,825
Additions	3,188	340	-	3,528
Additions – business combinations (Note 15)	-	22,258	-	22,258
Disposals	-	-	-	-
Foreign currency retranslation adjustment	(2)	(8)	-	(10)
Balance at 31 December 2008	**18,005**	**26,596**	**-**	**44,601**
Amortisation				
Balance at 1 January 2007	6,583	424	-	7,007
Amortisation charges	2,535	472	154	3,161
Impairment charges	66	236	-	302
Disposals	(135)	(2)	-	(137)
Balance at 31 December 2007	9,049	1,130	154	10,333
Amortisation charges	2,270	544	(154)	2,660
Impairment charges / (credits)	3	(6)	-	(3)
Disposals	-	-	-	-
Foreign currency retranslation adjustment	-	(1)	-	(1)
Balance at 31 December 2008	**11,322**	**1,667**	**-**	**12,989**
Net book value				
At 31 December 2008	**6,683**	**24,929**	**-**	**31,612**
At 31 December 2007	5,770	2,876	(154)	8,492

IFRS 3, 'Business Combinations' permits fair values relating to business combinations to be finalised with 12 months of the acquisition date. The customer relationships intangible asset amounting to €1,455,000 recognised in the financial statements in respect of the year ended 31 December 2007 was deemed to have a €nil value on finalisation of the fair value accounting for 2007 licensed bookmaking shop acquisitions. Accordingly, the value of the customer relationships intangible asset has been transferred to goodwill and the year end 31 December 2007 balances have been restated accordingly (see also Note 14). Amortisation charged in respect of the customer relationships in the year ended 31 December 2007 of €154,000 has not been restated in 2007 on grounds of immateriality and the adjustment has been included as a credit against the depreciation and amortisation charge in respect of the year ended 31 December 2008.

The value of betting shop licences acquired as a result of the purchase of D McGranaghan Limited (see Note 15) are not being amortised as the directors consider these licences to have an indefinite life because:

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

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

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

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(continued)

14. Goodwill

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

	Irish retail *restated* €'000	UK retail €'000	Total *restated* €'000
Balance at 1 January 2007	904	976	1,880
Arising on acquisitions during the year (Note 15)	3,593	-	3,593
Transfer from intangible assets (Note 13)	1,455	-	1,455
Balance at 31 December 2007	5,952	976	6,928
Arising on acquisitions during the year (Note 15)	-	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**

As stated in Note 13 and in accordance with IFRS 3, 'Business Combinations', comparatives for the year ended 31 December 2007 have been restated to reflect the finalisation of fair values relating to 2007 business combinations.

Goodwill on Irish retail properties arose from the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and from the acquisition of three retail bookmaking businesses during the year ended 31 December 2007 (see Note 15).

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 (see Note 15).

Impairment tests for cash generating units containing goodwill and indefinite life intangible assets
In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2008.

The retail divisions in Ireland and the UK include the following amounts in respect of goodwill and indefinite life intangible assets (comprising licences acquired as part of the purchase of the D McGranaghan Limited business in the year ended 31 December 2008 – see Notes 13 and 15):

		31 December 2008 €'000	31 December 2007 *restated* €'000
Irish retail – amalgamation of three bookmaking businesses in 1988	Goodwill	**904**	904
Irish retail – acquisition of three bookmakers in 2007	Goodwill	**5,019**	5,048
UK retail – 2004 acquisitions	Goodwill	**976**	976
UK retail – Northern Ireland acquisition 2008	Goodwill	**8,104**	-
Total	Goodwill	**15,003**	6,928
UK retail – Northern Ireland acquisition 2008	Intangible assets - licences	**22,258**	-
Total	Goodwill and licences	**37,261**	6,928

The details of the impairment reviews in respect of the businesses above as of 31 December 2008 are presented below:

	31 December 2008 €'000	31 December 2007 €'000
Irish retail – amalgamation of three bookmaking businesses in 1988	**904**	904

The recoverable amount of the Irish retail underlying cash generating units (relating to 37 retail units) was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2007: 3%) per annum and is based on an weighted average income growth rate of 3% (2007: 4%) and a gross win of 14% (2007: 14%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2007: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

14. Goodwill (continued)

	31 December 2008 €'000	31 December 2007 *restated* €'000
Irish retail – acquisition of three bookmakers in 2007	**5,019**	5,048

The recoverable amount of the Irish retail underlying cash generating units for the 2007 acquired businesses was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2007: 2%) per annum and is based on a weighted average income growth rate of 3% (2007: 4%) and a gross win of 13% (2007: 13%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2007: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2008 €'000	31 December 2007 €'000
UK retail – 2004 acquisitions	**976**	976

The recoverable amount of the two London underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets and forecasts approved by management covering a five year period. Cash flow growth for the extrapolated period (following the initial five year period) is projected to be approximately 2% (2007: 3%) per annum and is based on a weighted average income growth rate of 3% (2007: 4%) and a gross win of 13% (2007: 13%), which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2007: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the UK retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2008 €'000	31 December 2007 €'000
UK retail – Northern Ireland acquisition 2008	**30,362**	-

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

Notes to the Consolidated Financial Statements
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14. Goodwill (continued)

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

	Irish retail - 1988 amalgamation	Irish retail – 2007 acquisitions	UK retail – 2004 acquisitions	UK Retail – NI acquisition 2008
Growth in number of bets per annum (on compound annual growth rate basis)	1%	1%	0%	2%
Growth in average stake per bet per annum (on compound annual growth rate basis)	1%	1%	1%	1%
Gross win % (average and as percentage of amounts staked)	14%	13%	12% - 13%	12%
Cost of sales % (of amounts staked)	2%	2%	4%	2%
Cost inflation per annum	2%	1% - 3%	1% - 3%	2% - 3%

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

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

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

15. Business combinations

D McGranaghan Limited

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

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

	Book value on acquisition €'000	Fair value adjustments €'000	Fair values 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	23,465

15. 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

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

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

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

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

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

Notes to the Consolidated Financial Statements
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16. Trade and other receivables

	31 December 2008 €'000	31 December 2007 €'000
Other receivables	**1,015**	894
Prepayments and accrued income	**4,626**	3,312
	5,641	4,206

Trade and other receivables are non-interest bearing.

17. Cash and cash equivalents

	31 December 2008 €'000	31 December 2007 €'000
Cash at bank and on hand	**10,414**	5,922
Short term bank deposits	**66,247**	81,963
Cash and cash equivalents in the cash flow statement	**76,661**	87,885

The effective interest rate on short term bank deposits was 3.31% (2007: 4.76%); these deposits have an average original maturity date of 50 days (2007: 43 days). The short term bank deposits have an average maturity date of 39 days from 31 December 2008 (2007: 17 days).

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

Short term bank deposits are analysed by currency as follows:

	31 December 2008 €'000	31 December 2007 €'000
Euro	**58,449**	72,864
GBP	**6,625**	8,146
USD	**1,173**	953
	66,247	81,963

18. Share capital and reserves

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'000	Foreign exchange translation €'000	Other reserves €'000	Treasury shares €'000	Shares held by long term incentive plan trust €'000	Share-based payment reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2007	51,238,437	5,124	10,163	1	922	-	(8,137)	5,613	114,445	128,131
Shares issued (Note 20)	126,758	13	656	-	-	-	-	-	-	669
Own shares acquired:										
By the long term incentive plan trust - 325,000 ordinary shares (Note 20)	-	-	-	-	-	-	(6,715)	-	-	(6,715)
By the Company - 2,389,443 ordinary shares	-	-	-	-	-	(53,573)	-	-	(669)	(54,242)
Cancellation of own shares acquired	(2,139,443)	(214)	-	-	214	47,598	-	-	(47,598)	-
Total recognised income and expense	-	-	-	(1)	-	-	-	-	62,778	62,777
Equity-settled transactions - expense recorded in income statement	-	-	-	-	-	-	-	6,216	-	6,216
Equity-settled transactions - vestings	-	-	-	-	-	-	1,763	(1,687)	(43)	33
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	-	(129)	129	-
Dividends to shareholders (Note 19)	-	-	-	-	-	-	-	-	(19,507)	(19,507)
Balance at 31 December 2007	49,225,752	4,923	10,819	-	1,136	(5,975)	(13,089)	10,013	109,535	117,362
Shares issued (Note 20)	44,990	4	499	-	-	-	-	-	-	503
Own shares acquired:										
By the long term incentive plan trust - 599,000 ordinary shares (Note 20)	-	-	-	-	-	-	(11,582)	-	-	(11,582)
By the Group - 1,484,000 ordinary shares	-	-	-	-	-	(28,202)	-	-	(352)	(28,554)
Total recognised income and expense	-	-	-	(346)	-	-	-	-	68,817	68,471
Equity-settled transactions - expense recorded in income statement	-	-	-	-	-	-	-	6,874	-	6,874
Equity-settled transactions - vestings	-	-	-	-	-	-	3,145	(3,033)	(44)	68
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	-	(121)	121	-
Dividends to shareholders (Note 19)	-	-	-	-	-	-	-	-	(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 Consolidated Financial Statements
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18. Share capital and reserves (continued)

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

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

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

At 31 December 2008, the Company held a further 1,166,855 of its own shares (2007: 796,028), which were acquired at a total cost of €21,526,000 (2007: €13,089,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan (see Note 20). The Company's distributable reserves at 31 December 2008 are further restricted by this cost amount. In the year ended 31 December 2008, 228,173 shares originally valued at €3,145,000 were transferred from the long term incentive plan trust to beneficiaries of the Trust consequent to the vesting thereof (2007: 183,472 shares originally valued at €1,763,000).

The foreign exchange translation reserve at 31 December 2008 was a deficit of €346,000 (2007: €nil) which arose from the retranslation of the Group's net investment in GBP functional currency subsidiary companies. Other reserves comprise a capital redemption reserve fund and a capital conversion reserve fund. The capital redemption reserve fund of €876,000 (2007: €876,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. During 2007, an amount of €214,000, representing the nominal value of the Company's own shares purchased by the Company and subsequently cancelled, was transferred from issued share capital to the capital redemption reserve fund. The capital conversion reserve fund of €260,000 (2007: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro.

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

As permitted by section 148(8) of the Companies Act 1963 no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year (measured in accordance with Irish GAAP) of €70.5m (2007: €38.4m), which includes a €40.0m dividend receivable from a subsidiary company.

19. Dividends paid on equity shares

	2008 €'000	2007 €'000
Ordinary shares:		
- final paid of 35.00 cent per share (2007: 22.77 cent)	**17,054**	11,674
- interim paid of 18.60 cent per share (2007: 16.00 cent)	**8,848**	7,833
	25,902	19,507
Proposed final dividend of 35.40 cent (2007: 35.00 cent) per share (see Note 31)	**16,830**	17,054

20. Share schemes

Summary of share-based payments expense

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

	2008 €'000	2007 €'000
Share option schemes	**488**	453
Sharesave scheme	**279**	268
Long Term Incentive Plan	**5,899**	4,035
Managers' Deferred Share Award Scheme	**208**	1,460
Total	**6,874**	6,216

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.

Summary of options outstanding

The total number of options outstanding at 31 December 2008 was 1,322,687 (2007: 1,025,043). These options had exercise prices ranging from €8.15 to €24.17 (2007: €8.15 to €24.17).

For the year ended 31 December 2008:

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

For the year ended 31 December 2007:

	Options outstanding at 1 January 2007	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2007
Executive share option scheme	57,000	-	-	(57,000)	-
Share option scheme	571,635	176,800	(3,000)	(69,000)	676,435
Sharesave scheme	318,049	64,628	(33,311)	(758)	348,608
Total	946,684	241,428	(36,311)	(126,758)	1,025,043

The Group has the following employee share schemes:

The Paddy Power plc May 2000 Executive Share Option Scheme (the 'Executive Share Option Scheme')

Under the May 2000 Executive Share Option Scheme, options over a total of 3,543,000 shares have been granted at an exercise price of €1.16 per share. These options were granted prior to 7 November 2002 and accordingly, do not fall within the scope of IFRS 2 'Share-based Payment'.

Since May 2000, options over 3,453,000 shares have been exercised and options over a further 90,000 shares have lapsed. No options over shares were outstanding at 31 December 2008 (2007: nil).

During 2007, 18,000 options were exercised at an exercise price of €1.16 when the market price ranged from €17.15 to €20.47 and 39,000 options were exercised at an exercise price of €1.16 when the market price ranged from €17.15 to €25.22.

On 21 November 2000, the shareholders approved the termination of this scheme, and thus no further options may be granted pursuant to it.

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20. Share schemes (continued)

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

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

At 31 December 2008, 13,758 ordinary shares (2007: 36,283) owned by employees were held on their behalf by Power Leisure Employee Benefit Trust. The movement in ordinary shares held is due to shares being granted to beneficiaries by the Power Leisure Employee Benefit Trust.

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

Since November 2000, options over 772,171 shares have been exercised and options over 191,366 shares have lapsed. Options over 636,935 shares were outstanding at 31 December 2008 (2007: 676,435), of which 225,635 were exercisable at 31 December 2008 (2007: 100,635). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2007	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2008	Earliest exercise date*	Exercise price	Market price at date of exercise
Granted after 7 November 2002							
45,951	-	-	-	45,951	February 2007	€8.15	-
41,000	-	-	(4,000)	37,000	June 2007	€9.43	€13.40
13,684	-	-	-	13,684	September 2007	€9.80	-
138,000	-	(9,000)	-	129,000	September 2008	€14.80	-
21,000	-	(6,000)	-	15,000	March 2009	€12.55	-
240,000	-	(10,000)	-	230,000	September 2009	€14.40	-
176,800	-	(10,500)	-	166,300	September 2010	€24.17	-
676,435	**-**	**(35,500)**	**(4,000)**	**636,935**			

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

During 2007, 176,800 options at an exercise price of €24.17 were granted. In 2007, options over 10,000 shares were exercised at an exercise price of €5.25 when the market price per share was between €21.73 and €27.05, options over 8,000 shares were exercised at an exercise price of €8.15 when the market price was €17.15, options over 8,000 shares were exercised at an exercise price of €8.90 when the market price was €22.40, and options over 43,000 shares were exercised at an exercise price of €9.43 when the market price per share was between €21.80 and €24.95. During 2007, options in respect of 3,000 shares at an exercise price of €14.40 per share lapsed.

20. Share schemes (continued)

There were no options granted under this scheme in the year ended 31 December 2008. The fair value of share options granted under the above scheme during the year ended 31 December 2007 was determined using a Black Scholes model and amounted to €669,000. The significant inputs into the model were the share price at the grant date of €24.17, the exercise price of €24.17, the standard deviation of expected share price returns of 25%, the expected term as disclosed above, and an annual risk free rate of 4.06%. The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's share price over the last three years.

The Paddy Power plc Sharesave Scheme (the 'Sharesave Scheme')
The Sharesave Scheme was adopted by shareholders on 21 November 2000 and was subsequently approved by the Revenue Commissioners.

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

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

Options outstanding at 31 December 2007	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2008	Earliest exercise date*	Exercise price	Market price at date of exercise
Granted after 7 November 2002							
197,000	-	(11,035)	(40,990)	144,975	November 2008	€11.60	€11.40 - €14.06
82,193	-	(18,073)	-	64,120	December 2009 & December 2011	€11.29	-
5,534	-	(1,960)	-	3,574	December 2009 & December 2011	€12.04	-
57,385	-	(38,598)	-	18,787	December 2010 & December 2012	€19.26	-
6,496	-	(2,009)	-	4,487	December 2010 & December 2012	€20.54	-
-	433,313	(2,776)	-	430,537	December 2011 & December 2013	€9.45	-
-	19,272	-	-	19,272	December 2011 & December 2013	€10.08	-
348,608	**452,585**	**(74,451)**	**(40,990)**	**685,752**			

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

In 2007, options over 57,999 shares at an exercise price of €19.26 and options over 6,629 shares at an exercise price of €20.54 were granted. Options over 758 shares were exercised during 2007 when the market price ranged from €21.94 to €23.79. During 2007, options in respect of 17,526 shares at an exercise price of €11.60 per share, options in respect of 14,004 shares at an exercise price of €11.29 per share, options in respect of 1,034 shares at an exercise price of €12.04 per share, options in respect of 614 shares at an exercise price of €19.26 per share and options in respect of 133 shares at an exercise price of €20.54 per share lapsed.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €1,533,000 (2007: €403,000). The significant inputs into the model were the share price of €11.70 (2007: €27.10) at the grant date, the exercise prices of €9.45 and €10.08 (2007: €19.26 and €20.54), the standard deviations of expected share price returns of 33% and 40% (2007: 26%), the option lives disclosed above and annual risk free rates of 3.95% and 4.23% (2007: 4.09%). The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's daily share price over the last three years.

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20. Share schemes (continued)

Long Term Incentive Plan

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

Until the vesting of the award in accordance with the rules of the scheme, the grantholder will have no rights over or in respect of the shares subject to the grant and on vesting, the grantholder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the scheme. The grants are not transferable. In relation to the awards of shares granted in 2006, the relevant growth target has been met and eligible awards are expected to vest. Upon the vesting of a share award, as part of the grantholders' rights they shall now receive a small number of additional shares purchased from the dividends received by the LTIP trustee in respect of those shares prior to the vesting date, regarded as a de facto part of the original share award.

During the year, awards of 122,900 shares, 97,100 shares and 263,750 shares (2007: 260,000 shares and 59,000 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €21.60, €24.25 and €13.79, respectively (2007: €17.15 and €24.17). The total cost of this grant is €8,646,000 (2007: €5,885,000) if the testing performance targets are achieved along with the other conditions for vesting. The cost is being expensed in the Group income statement over the expected vesting period of the grant. The operating profit for the year ended 31 December 2008 is stated after an LTIP charge of €5,899,000 (2007: €4,035,000).

During 2008, a total of 225,179 shares (2007: 183,472 shares) in respect of 2005 awards and related dividends were vested from the Trust to senior management.

Managers' Deferred Share Award Scheme

As a means of rewarding strong performance in 2007 and retaining some key members of staff, in December 2007 the Board approved the establishment of the Managers' Deferred Share Award Scheme (the 'Share Award Scheme'). Under the Share Award Scheme, 86,221 ordinary shares were conditionally granted to a small number of key Group employees (not including directors) on 20 December 2007 when the Company's share price was €23.14. The award was conditional on the achievement of profitability targets in respect of 2007 and there is no further performance vesting condition under the scheme rules. Employees will only become entitled to receive these shares if they remain employed by the Group until March 2011. Until the vesting of the award in accordance with the rules of the scheme, the grantholder will have no rights over or in respect of the shares subject to the grant. The grants are not transferable.

During 2008, a further 3,457 ordinary shares were conditionally granted to employees under the Share Award Scheme when the Company's share price was €24.00, a total of 2,994 ordinary shares were vested from the Trust to beneficiaries of the scheme and 1,555 share awards lapsed. At 31 December 2008, there were 85,129 share awards outstanding under the Share Award Scheme (2007: 86,221).

The total cost of the grant is estimated at €1,943,000 (2007: €1,895,000). Of this amount, the estimated bonus element of the grant cost of €1,460,000 was expensed in the year ended 31 December 2007, a further €208,000 of the grant cost was expensed in the year ended 31 December 2008, with the remaining €275,000 (being the remaining estimated unrecognised value of the staff retention element of the grant cost) to be expensed in the Group income statement over the remaining two year vesting period of the grant.

20. Share schemes (continued)

Paddy Power plc Employee Benefit Trust

The Paddy Power plc Employee Benefit Trust (the 'Trust') was established to manage the Long Term Incentive Plan and also manages the Managers' Deferred Share Award Scheme. Purchases of Paddy Power plc ordinary shares from 1 January 2007 to 31 December 2008, and shares vested from the Trust during that period, are shown below:

	Number of Paddy Power plc ordinary shares	Cost of purchase €'000
Shares held by the Trust at 1 January 2007	654,500	8,137
Purchased 7 March 2007	260,000	5,138
Purchased 7 September 2007	65,000	1,577
	979,500	14,852
Vested from the Trust in 2007	(183,472)	(1,763)
Shares held by the Trust at 31 December 2007	796,028	13,089
Purchased 3 March 2008	250,000	5,440
Purchased 16 May 2008	85,000	2,091
Purchased 1 September 2008	264,000	4,051
	1,395,028	24,671
Vested from the Trust in 2008	(228,173)	(3,145)
Shares held by the Trust at 31 December 2008	1,166,855	21,526

The results of the Trust are included in the Paddy Power plc Company financial statements. The shares held by the Trust at the balance sheet date are shown as a deduction from equity in the consolidated balance sheet in accordance with the Group's accounting policy (see Note 18).

Paddy Power 2004 Second Tier Option Scheme

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

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

General

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

21. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2008			31 December 2007		
	Assets 2008 €'000	**Liabilities 2008 €'000**	**Total 2008 €'000**	Assets 2007 €'000	Liabilities 2007 €'000	Total 2007 €'000
Property, plant and equipment	**332**	**-**	**332**	-	(265)	(265)
Purchase of business – licence intangible assets (Note 15)	**-**	**(6,232)**	**(6,232)**	-	-	-
Lease premiums – income element	**-**	**(114)**	**(114)**	-	(98)	(98)
Employee benefits	**1,048**	**-**	**1,048**	713	-	713
Other	**12**	**-**	**12**	14	-	14
Net assets / (liabilities)	**1,392**	**(6,346)**	**(4,954)**	727	(363)	364
Analysed by Irish and UK corporation tax:						
Irish corporation tax	**1,358**	**(114)**	**1,244**	727	(363)	364
UK corporation tax	**34**	**(6,232)**	**(6,198)**	-	-	-
Net assets / (liabilities)	**1,392**	**(6,346)**	**(4,954)**	727	(363)	364

The above deferred tax balances are in respect of Irish and UK corporation tax. The deferred tax assets and liabilities have been offset at 31 December 2008 as there is a legally enforceable right to such set-off. The net balances as of 31 December 2008 comprised an Irish corporation tax net deferred tax asset of €1,244,000 (2007: €364,000) and a UK corporation tax net deferred tax liability of €6,198,000 (2007: €nil).

Notes to the Consolidated Financial Statements
(continued)

21. Deferred tax assets and liabilities (continued)

Unrecognised deferred tax assets:

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

	31 December 2008 €'000	31 December 2007 €'000
UK tax losses	**2,380**	2,646

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 when taxable profits will be generated against which to offset these losses (see also Note 32).

Movement in temporary differences during the year:

	Balance at 1 January 2007 €'000	Recognised in income 2007 €'000	Balance at 31 December 2007 €'000	Recognised in income 2008 €'000	Purchase of business 2008 €000	Foreign currency retranslation 2008 €'000	Balance at 31 December 2008 €'000
Property, plant and equipment	99	(364)	**(265)**	**628**	**(38)**	**7**	**332**
Intangible assets – licences (Note 15)	-	-	**-**	**-**	**(6,232)**	**-**	**(6,232)**
Lease premiums – income element	(196)	98	**(98)**	**(16)**	**-**	**-**	**(114)**
Employee benefits	292	421	**713**	**335**	**-**	**-**	**1,048**
Other	-	14	**14**	**(2)**	**-**	**-**	**12**
	195	169	**364**	**945**	**(6,270)**	**7**	**(4,954)**

22. Trade and other payables and derivative financial instruments

Current liabilities

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

Non current liabilities

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

22. Trade and other payables and derivative financial instruments (continued)

Sports betting open positions

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

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

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

23. Credit risk

Exposure to credit risk

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

	Carrying amount	
	2008 €'000	2007 €'000
Other receivables	**1,015**	894
Cash and cash equivalents	**76,661**	87,885
	77,676	88,779

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

	2008 €'000	2007 €'000
Ireland	**165**	144
United Kingdom	**226**	25
Other	**624**	725
	1,015	894

24. Liquidity risk

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

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

Notes to the Consolidated Financial Statements
(continued)

24. Liquidity risk (continued)

	31 December 2007						
	Carrying amount €'000	Contractual cash flows €'000	6 months or less €'000	6-12 months €'000	1-2 years €'000	3-4 years €'000	4 years and over €'000
Non-derivative financial liabilities							
Trade and other payables	55,535	56,194	51,782	67	537	2,673	1,135
Derivative financial liabilities							
Sports betting open positions	3,743	3,743	3,181	375	187	-	-
	59,278	59,937	54,963	442	724	2,673	1,135

25. Currency risk

Currency risk exposure

As of 31 December 2008 and 31 December 2007, the Group's foreign currency risk exposure in respect of the principal foreign currencies in which the Group operates was as follows:

	31 December 2008				31 December 2007			
	Euro €'000	**GBP €'000**	**USD €'000**	**Total Euro €'000**	Euro €'000	GBP €'000	USD €'000	Total Euro €'000
Other receivables	**252**	**139**	**624**	**1,015**	144	25	725	894
Cash and cash equivalents	**64,432**	**11,056**	**1,173**	**76,661**	76,360	10,572	953	87,885
Trade payables	**(2,806)**	**(3,512)**	**(39)**	**(6,357)**	(3,523)	(2,207)	(380)	(6,110)
Customer balances	**(7,670)**	**(7,305)**	**(1,609)**	**(16,584)**	(6,598)	(7,531)	(1,197)	(15,326)
Other payables (excluding accruals)	**(3,860)**	**(1,677)**	**-**	**(5,537)**	(3,751)	(2,502)	-	(6,253)
Gross balance sheet exposure	**50,348**	**(1,299)**	**149**	**49,198**	62,632	(1,643)	101	61,090

The Group had no forward foreign currency contracts or derivatives that are cash flow hedges in place at either 31 December 2008 or 2007.

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

To 1 Euro:	**Average rate**		**31 December (mid-spot rate)**	
	2008	2007	**2008**	2007
1 GBP	**0.7963**	0.6843	**0.9525**	0.7366
1 USD	**1.4708**	1.3705	**1.3917**	1.4709

Sensitivity analysis

A ten percent strengthening and weakening of the euro against the following currencies at 31 December 2008 and 2007 would have increased / (decreased) profit and equity by the amounts below as a consequence of the retranslation of foreign currency denominated financial assets and liabilities at those dates. It is assumed that all other variables, especially interest rates, remain constant in the analysis.

	Profit		**Other equity**	
	10 % increase €'000	**10% decrease €'000**	**10 % increase €'000**	**10% decrease €'000**
31 December 2008				
GBP	**103**	**(126)**	-	-
USD	**(12)**	**15**	-	-
31 December 2007				
GBP	**131**	**(160)**	-	-
USD	**(8)**	**10**	-	-

26. Interest rate risk

Profile

At 31 December 2008 and 31 December 2007, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	2008 €'000	2007 €'000
Variable rate instruments		
Financial assets – cash at bank and on hand	**10,414**	5,922
Financial assets – short term bank deposits	**66,247**	81,963
	76,661	87,885

The Group had no fixed rate financial instruments at either 31 December 2008 or 2007.

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points ('bps') in interest rates at 31 December 2008 and 2007 would have increased / (decreased) profit for a full year and equity by the amounts set out in the table below. It is assumed that all other variables, including foreign currency exchange rates, remain constant.

	Profit		Other equity	
	50 bps increase €'000	**50 bps decrease €'000**	**50 bps increase €'000**	**50 bps decrease €'000**
31 December 2008				
Variable rate instruments	**294**	**(294)**	**-**	**-**
31 December 2007				
Variable rate instruments	307	(307)	-	-

27. Fair values

Fair values versus carrying amounts

The following are the fair values and carrying amounts of financial assets and liabilities in the balance sheet:

	31 December 2008		31 December 2007	
	Carrying amount €'000	**Fair value €'000**	Carrying amount €'000	Fair value €'000
Other receivables	**1,015**	**1,015**	894	894
Cash and cash equivalents	**76,661**	**76,661**	87,885	87,885
Derivative financial instruments	**(3,669)**	**(3,669)**	(3,743)	(3,743)
Trade and other payables	**(59,599)**	**(59,599)**	(55,535)	(55,535)
	14,408	**14,408**	29,501	29,501

Basis for determining fair values

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

Trade and other receivables

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

Cash and cash equivalents

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

Derivative financial instruments

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

Trade and other payables

Fair value is calculated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

Notes to the Consolidated Financial Statements
(continued)

28. Commitments and contingencies

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

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

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

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

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

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

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

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

29. Related parties

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

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

30. Group entities

The Company had the following subsidiary undertakings (all of which are 100% equity owned) carrying on businesses which principally affect the profits and assets of the Group at 31 December 2008:

Name	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited	United Kingdom	Bookmaker	5th Floor, Crowne House, 56-58 Southwark St, London, SE1 1UN
Paddy Power Isle of Man Limited	Isle of Man	Bookmaker	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power Entertainment Limited	Isle of Man	Poker and gaming	14 Athol Street, Douglas, Isle of Man, IM1 1JE
D McGranaghan Limited	Northern Ireland	Bookmaker	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU
Paddy Power Financials Limited	Ireland	Marketing services	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Paddy Power Luxembourg s.à.r.l.	Luxembourg	Treasury services	16 Avenue Pasteur, L-2310, Luxembourg
Paddy Power Northern Ireland Limited	Northern Ireland	Holding company	Capital House, 3 Upper Queen Street, Belfast, BT1 6PU

The above subsidiary undertakings have the same year end date as the Company and have been included in the Group consolidated financial statements.

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

31. Events after the balance sheet date

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

Notes to the Consolidated Financial Statements
(continued)

32. Accounting estimates and judgements

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

Goodwill of €15,003,000 (2007: €6,928,000) continues to be carried in the Group balance sheet as the directors believe that there has been no impairment in the fair value of the net identifiable assets of the acquired businesses. During the year ended 31 December 2008, the acquisition of the D McGranaghan Limited business in Northern Ireland contributed additional goodwill of €8,104,000, including €6,232,000 of deferred tax on the value of licences intangible assets recognised on the application of fair value accounting to the acquisition. The directors believe that this goodwill and the licences intangible assets of €22,258,000 have not been impaired as of 31 December 2008. The key assumptions made in respect of goodwill are set out in Note 14.

The share-based payment reserve, which includes amounts in relation to the share award schemes and various share option schemes, amounted to €13,733,000 at 31 December 2008 (2007: €10,013,000). The fair value of share options granted after 7 November 2002 has been determined using a Black Scholes valuation model. The significant inputs into the model include certain management assumptions with regard to the standard deviation of expected share price returns, expected option life and annual risk free rates. These assumptions are set out in Note 20.

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

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

A potential deferred tax asset of €2,380,000 (2007: €2,646,000) relating to the Great Britain retail business (see Note 21) has not been recognised as of 31 December 2008. Management continue to believe that there is considerable uncertainty as to the future profitability of the Great Britain retail business and the timing of that profitability due to future business expansion plans. Management therefore deem it prudent to continue to not recognise the potential deferred tax asset as at 31 December 2008.

Company Balance Sheet
As at 31 December 2008

	Note	31 December 2008 €'000	31 December 2007 €'000
Fixed assets			
Intangible assets	3	**719**	1,034
Goodwill	4	**5,240**	4,209
Tangible assets	6	**45,501**	46,256
Financial assets	7	**13,180**	8,309
		64,640	59,808
Current assets			
Trade and other receivables	8	**108,172**	21,370
Cash at bank and in hand		**26,144**	76,257
		134,316	97,627
Creditors (amounts falling due within one year)	9	**(86,464)**	(85,508)
Net current assets		**47,852**	12,119
Total assets less current liabilities		**112,492**	71,927
Creditors (amounts falling due after more than one year)	10	**(1,454)**	(1,062)
Provision for liabilities	11	**-**	(271)
Net assets		**111,038**	70,594
Capital and reserves			
Called-up share capital	12	**4,927**	4,923
Share premium	13	**11,318**	10,819
Capital redemption reserve fund	14	**876**	876
Capital conversion reserve fund	14	**260**	260
Share-based payment reserve	14	**13,733**	10,013
Treasury shares	14	**(5,975)**	(5,975)
Shares held by long term incentive plan trust	14	**(21,526)**	(13,089)
Profit and loss account		**107,425**	62,767
Shareholders' funds – all equity interests		**111,038**	70,594

Notes 1 to 19 on pages 80 to 87 form part of these financial statements.

On behalf of the Board

Patrick Kennedy **Jack Massey**

27 February 2009

Notes to the Company Financial Statements

1. Basis of preparation and accounting policies

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

As permitted by section 148(8) of the Companies Act 1963, no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €70.5m (2007: €38.4m), which includes a dividend receivable from a subsidiary company, Paddy Power Isle of Man Limited, amounting to €40.0m.

Financial assets

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

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

Tangible assets and depreciation

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

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

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

Goodwill

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

Intangible assets

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

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

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

Licences - shop licences and EPOS software licences	5 years

Leases

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

Pensions

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

Foreign currency

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

1. **Basis of preparation and accounting policies** (continued)

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

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

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

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

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

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

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

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

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

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

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

Dividends
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in Note 31 to the consolidated financial statements.

Notes to the Company Financial Statements
(continued)

2. Employee expenses and numbers

	2008 €'000	2007 €'000
Wages and salaries	**28,806**	28,616
Social security costs	**2,862**	2,612
Defined contribution pension and life assurance costs	**634**	567
Share-based payments (see below)	**2,097**	1,670
Other staff costs	**1,475**	1,467
	35,874	34,932

	2008	2007
The average number of persons employed by the Company (including executive directors), all of whom were involved in the provision of betting services, during the year was	**839**	797

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

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

	2008 €'000	2007 €'000
Share option schemes	**7**	2
Sharesave scheme	**176**	163
Long Term Incentive Plan	**1,908**	1,459
Managers' Deferred Share Award Scheme	**6**	46
Total	**2,097**	1,670

Summary of options outstanding to employees of the Company
The total number of options outstanding at 31 December 2008 was 406,271 (2007: 249,881). These options had exercise prices ranging from €8.15 to €24.17 (2007: €8.15 to €24.17).

For the year ending 31 December 2008:

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

For the year ending 31 December 2007:

	Options outstanding at 1 January 2007	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2007
Executive share option scheme	27,000	-	-	(27,000)	-
Share option scheme	37,000	4,000	-	-	41,000
Sharesave scheme	205,999	32,023	(29,051)	(90)	208,881
Total	269,999	36,023	(29,051)	(27,090)	249,881

Further details of the Company's employee share schemes are set out in Note 20 to the consolidated financial statements.

3. Intangible assets

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

	Licences €'000	Total €'000
Cost		
Balance at 1 January 2008	1,490	1,490
Additions	-	-
Disposals	-	-
Balance at 31 December 2008	**1,490**	**1,490**
Amortisation		
Balance at 1 January 2008	456	456
Amortisation for year	320	320
Impairment credit	(5)	(5)
Disposals	-	-
Balance at 31 December 2008	**771**	**771**
Net book value		
At 31 December 2007	1,034	1,034
At 31 December 2008	**719**	**719**

The impairment credit in respect of the year ended 31 December 2008 relates to the retail business segment and has arisen from a review of the carrying value of shop properties. The impairment credit in the year ended 31 December 2008 is comprised of new impairment charges of €14,000 and the reversal of previously recorded charges of €19,000. The recoverable amounts used in the calculation of the impairment charge are based on value in use. The pre-tax discount rate used to determine value in use was 10% (2007: 10%).

4. Goodwill

	€'000
Cost	
Balance at 1 January 2008	6,014
Adjustments in respect of finalisation of fair values in respect of 2007 acquisitions (Note 5)	1,426
Balance at 31 December 2008	**7,440**
Amortisation	
Balance at 1 January 2008	1,805
Amortisation for year	395
Balance at 31 December 2008	**2,200**
Net book value	
At 31 December 2007	4,209
At 31 December 2008	**5,240**

The goodwill balance as of 1 January 2008 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988 and the acquisition of eight licensed bookmaking shops in Ireland in 2007.

Notes to the Company Financial Statements
(continued)

5. Purchase of businesses

Final fair value adjustments relating to 2007 acquisitions

During January, June and August 2007, the Company acquired a 100% interest in eight retail shops, and their associated bookmaking businesses, in Dublin and Mullingar through three separate acquisitions. Details of the net assets acquired and the goodwill arising on these acquisitions are as follows:

	Acquired cost €'000	Fair value adjustments €'000	Fair values 2008 €'000	Provisional fair values 2007 €'000
Net assets acquired:				
Tangible assets	800	(354)	446	446
Intangible assets (customer relationships)	-	-	-	1,455
	800	(354)	446	1,901
Goodwill arising on acquisition			5,019	3,593
Consideration (including associated purchase costs)			5,465	5,494
Less: Intangible asset (customer relationships) transferred to subsidiary company at cost			-	(1,455)
			5,465	4,039
Satisfied by:				
Cash consideration (including associated purchase costs)			5,465	5,415
Intangible asset transferred to subsidiary company			-	(1,455)
Accrued acquisition expenses			-	79
			5,465	4,039

A customer relationships intangible asset of €1,455,000 was provisionally recognised at 31 December 2007 in respect of certain 2007 acquisitions. On finalisation of the fair values for these acquisitions, the customer relationships were deemed to have a value of €nil. See Note 15 to the consolidated financial statements for further information.

The value attributed to goodwill reflects both the low fair values of the tangible assets acquired as part of the purchases due to the required post-acquisition re-branding of the shops and to the premium required to acquire established businesses.

6. Tangible assets

	Land, buildings & leasehold improvements €'000	Fixtures, fittings & equipment €'000	Computer equipment €'000	Computer software €'000	Motor vehicles €'000	Total €'000
Cost						
At 1 January 2008	33,480	43,542	2,850	2,499	192	82,563
Additions	1,986	5,862	275	106	-	8,229
Disposals	(238)	(1,031)	(3)	-	-	(1,272)
At 31 December 2008	**35,228**	**48,373**	**3,122**	**2,605**	**192**	**89,520**
Accumulated depreciation						
At 1 January 2008	10,319	22,933	2,113	843	99	36,307
Charge for year	1,539	5,496	941	506	16	8,498
Impairment charges / (credits)	(51)	100	(1)	3	-	51
Disposals	(52)	(782)	(3)	-	-	(837)
At 31 December 2008	**11,755**	**27,747**	**3,050**	**1,352**	**115**	**44,019**
Net book value						
At 31 December 2007	23,161	20,609	737	1,656	93	46,256
At 31 December 2008	**23,473**	**20,626**	**72**	**1,253**	**77**	**45,501**

The net book value of land, buildings and leasehold improvements at 31 December 2008 includes €19.0m (2007: €21.1m) in respect of leasehold improvements.

The impairment charges / (credits) relate to the retail business segment and have arisen from a review of the carrying value of shop properties. The recoverable amounts used in the calculation of the impairment charges are based on value in use. The pre-tax discount rate used to determine value in use was 10% (2007: 10%). The impairment charge of €51,000 recorded in the year ended 31 December 2008 includes €673,000 relating to new impairment charges and is stated net of impairment reversals of €622,000.

6. Tangible assets (continued)

The directors do not consider the remaining useful lives of tangible fixed assets to be materially different from the period over which the assets are being depreciated.

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

7. Financial assets

	Unlisted investments in subsidiary companies €'000	Capital contributions €'000	Total €'000
Balance at 1 January 2008	103	8,206	8,309
Movement during year	94	4,777	4,871
Balance at 31 December 2008	**197**	**12,983**	**13,180**

In the opinion of the directors, the value to the Company of the unlisted investments in subsidiary companies is not less than the carrying amount of €197,000 (2007: €103,000). The Company's principal subsidiaries are listed in Note 30 to the consolidated financial statements.

Capital contributions represent amounts included in the Company's share-based payment reserve, and relates to share-based payment awards made to employees of certain of the Company's subsidiary undertakings.

8. Trade and other receivables

	31 December 2008 €'000	31 December 2007 €'000
Other debtors and prepayments	**298**	890
Amounts owed by fellow Group companies	**107,182**	20,480
Deferred tax (Note 11)	**692**	-
	108,172	21,370

All of the above debtors fall due within one year.

Amounts owed by fellow Group companies are unsecured, interest free and repayable on demand.

9. Creditors (amounts falling due within one year)

	31 December 2008 €'000	31 December 2007 €'000
Trade creditors	**4,851**	4,962
Accruals	**10,362**	11,381
Corporation tax	**566**	666
PAYE and social welfare	**1,262**	1,110
Betting duty	**2,253**	2,249
Sports betting open positions	**994**	697
Value added tax	**221**	260
Amounts owed to fellow Group companies	**65,955**	64,183
	86,464	85,508

Amounts owed to fellow Group companies are unsecured, interest free and repayable on demand.

Notes to the Company Financial Statements
(continued)

10. Creditors (amounts falling due after more than one year)

	31 December 2008 €'000	31 December 2007 €'000
Accruals	**1,454**	1,062
	1,454	1,062

11. Provision for liabilities

Deferred tax	2008 €'000	2007 €'000
Cost		
At beginning of year	**271**	(1,407)
(Credited) / charged to the profit and loss account for year	**(963)**	1,678
At end of year	**(692)**	271

Deferred tax at 31 December 2008 and 2007 is analysed by category as follows:

	31 December 2008 €'000	31 December 2007 €'000
Capital allowances	**296**	435
Employee benefits	**(13)**	(6)
Share schemes	**(1,030)**	(208)
Capitalised rents	**59**	50
Other	**(4)**	-
Deferred tax (asset) / liability	**(692)**	271

All of the above deferred tax balances are in respect of Irish corporation tax.

12. Called-up share capital

See Note 18 to the consolidated financial statements.

13. Share premium

See Note 18 to the consolidated financial statements.

14. Other reserves, shares held by long term incentive plan trust and treasury shares

See Note 18 to the consolidated financial statements.

15. Dividends paid on equity shares

	2008 €'000	2007 €'000
Ordinary shares:		
- final paid of 35.00 cent per share (2007: 22.77 cent)	**17,054**	11,674
- interim paid of 18.60 cent per share (2007: 16.00 cent)	**8,848**	7,833
	25,902	19,507
Proposed final dividend of 35.40 cent (2007: 35.00 cent) per share (see Note 31 to the consolidated financial statements)	**16,830**	17,054

16. Pension arrangements

The Company operates defined contribution pension schemes for certain employees and executive directors. The assets of the schemes are held separately from those of the Company in independently administered funds.

Pension costs for the year were €565,000 (2007: €503,000) and the amount due to the schemes at 31 December 2008 amounted to €169,541 (2007: €150,000).

17. Commitments and contingencies

(a) Guarantees
The Company has working capital overdraft facilities of €5.1m with Allied Irish Banks plc. These facilities are unsecured.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within 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. The Company has issued a letter of guarantee totalling €9.2m in favour of Allied Irish Banks plc in respect of working capital overdraft facilities provided to certain of the Company's subsidiaries.

(b) Capital commitments
The Company has entered into commitments for capital expenditure not provided for in the financial statements amounting to €1,235,000 (2007: €535,000).

(c) Operating lease commitments
The Company has annual commitments of €8,634,000 (2007: €7,899,000) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2008 €'000	31 December 2007 €'000
Within 1 year	**1,083**	817
Between 2 and 5 years	**915**	961
After 5 years	**6,636**	6,121
	8,634	7,899

18. Statutory information

	2008 €'000	2007 €'000
Directors' remuneration	**5,308**	3,285
Auditor's remuneration	**100**	110
Depreciation	**8,498**	8,192
Impairment charges – tangible fixed assets	**673**	1,246
Impairment reversals – tangible fixed assets	**(622)**	-
Amortisation of intangible assets	**320**	248
Impairment charges – intangible assets	**14**	34
Impairment reversals – intangible assets	**(19)**	-
Amortisation of goodwill	**395**	238
Operating lease rentals, principally premises	**9,217**	7,767

19. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2008 were approved for issue by the Board of Directors on 27 February 2009.

Five Year Financial Summary

Financial information for the Group reported under IFRS for the five years ended 31 December 2008 is set out below in euro and pounds sterling. The net cash inflow from operating activities in respect of the year ended 31 December 2007 has been restated to be consistent with the treatment adopted for the year ended 31 December 2008.

	2008	2007	2006	2005	2004
		restated			
	€'000	€'000	€'000	€'000	€'000
Amounts staked	**2,100,926**	2,027,777	1,795,090	1,371,710	1,159,658
Income	**283,657**	278,952	218,706	160,848	134,110
Operating profit	**78,430**	72,106	47,560	30,118	31,103
Profit before tax	**81,727**	75,828	49,699	31,344	32,109
Profit for the year	**68,817**	62,778	41,245	26,954	27,447
Net cash inflow from operating activities	**95,287**	98,828	67,743	41,410	41,167
Total equity	**127,240**	117,362	128,131	96,051	78,697

Set out below is the above financial information translated into pounds sterling at the exchange rates shown, for illustrative purposes only.

	2008	2007	2006	2005	2004
		restated			
	Stg£'000	Stg£'000	Stg£'000	Stg£'000	Stg£'000
Amounts staked	**1,672,978**	1,387,653	1,223,730	937,986	797,399
Income	**225,878**	190,893	149,094	109,989	92,216
Operating profit	**62,454**	49,344	32,422	20,595	21,387
Profit before tax	**65,080**	51,891	33,880	21,433	22,079
Profit for the year	**54,799**	42,960	28,117	18,431	18,873
Net cash inflow from operating activities	**75,878**	67,630	46,181	28,316	28,307
Total equity	**101,322**	80,313	87,348	65,680	54,113
Exchange rates used are	**1.2558**	1.4613	1.4669	1.4624	1.4543

Additional Information for Shareholders

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

Registrar
Enquiries concerning shareholdings should be addressed to the Company's Registrar:
Computershare Investor Services (Ireland) Limited,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
Telephone: +353-1-216 3100
Facsimile: +353-1-216 3151
Website: www.computershare.com

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

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

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

Dividend Withholding Tax ('DWT')
Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from:
DWT 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

General
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, which is currently 20%. DWT, where applicable, is deducted by the Company from all dividends. The following summarises the position in respect of different categories of shareholder:

A. Irish resident shareholders

Individuals
Individuals resident in the Republic of Ireland for tax purposes are liable to DWT in respect of dividends received. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT may be available for offset against their income tax liability; where the DWT exceeds such liability, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the excess.

Shareholders not liable for DWT
Shareholders who receive a dividend in a beneficial capacity can, in certain circumstances, be exempted from DWT. Provided the shareholder furnishes a properly completed declaration on a standard form to the Company's Registrar, and not less than three working days prior to the relevant dividend payment record date, the following classes of shareholders may receive their dividends gross:
- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Collective Investment Undertakings;
- Charities exempt from income tax on their income;
- Athletic/ amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ('SPIA');
- Qualifying fund managers of Approved Retirement Funds or an Approved Minimum Retirement Fund; and
- Persons exempt from tax on income from personal injury claims.

Additional Information for Shareholders
(continued)

Copies of the relevant declaration form may be obtained from the Company's Registrar or from the Revenue Commissioners at their addresses shown on page 89. Once lodged with the Company's Registrar, the declaration form remains current from its date of issue until 31 December in the fifth year following the year of issue, or, within such period, until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to shareholders not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown on page 89, for a refund of the DWT so deducted.

Qualifying intermediaries
Dividends received by qualifying intermediaries on behalf of a shareholder who is exempt from DWT may be received without deduction of DWT. A 'qualifying intermediary' is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory*, and:
- holds a licence under the Central Bank Act 1971, or a similar authorisation under the law of a relevant territory, or is owned by a company which holds such a licence; or
- is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
- otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary;

and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

** A "relevant territory" means a member state of the European Union (other than the Republic of Ireland) or a country with which the Republic of Ireland has concluded a double taxation agreement which is currently in force. With effect from 24 December 2008, this definition has been extended to include countries with which the Republic of Ireland has concluded a double tax agreement where that agreement has yet to come into force.*

Information concerning conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown on page 89. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company's Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT. A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown on page 89.

B. Non Irish-resident shareholders

The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:
(a) an individual who is neither resident nor ordinarily resident for the purpose of tax in the Republic of Ireland and who is resident for tax purposes in a relevant territory;
(b) an unincorporated entity which is not resident in the Republic of Ireland and is resident for tax purposes in a relevant territory;
(c) a company which is not resident in the Republic of Ireland and is resident in a relevant territory (by virtue of the law of that relevant territory) and which is not under the control, whether directly or indirectly, of a person or persons who is/ are residents for the purpose of tax in Ireland;
(d) a company which is not resident in the Republic of Ireland and is under the control, whether directly or indirectly, of a person or persons who is/ are resident for the purposes of tax in a relevant territory and who are not under the control, whether directly or indirectly, of a person or persons who is/ are not so resident; or
(e) a company not resident in the Republic of Ireland, the principal class of the shares of which,
    (i) where the company is a 75 per cent subsidiary of another company, of that other company, or
    (ii) where the company is wholly-owned by two or more companies, of each of those companies,

    is substantially and regularly traded on one or more than one recognised stock exchange in a relevant territory or on such other stock exchange as may be approved of by the Minister for Finance.

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form available from the Irish Revenue Commissioners and from the Company's Registrar, to the Company's Registrar not less than three working days in advance of the relevant dividend payment record date, accompanied by:

- Categories (a) and (b): The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary and a notice in writing from the Irish Revenue Commissioners stating that the Irish Revenue Commissioners have noted the contents of the certificate. However, it is important to note where trusts are concerned that only non-resident discretionary trusts, which are resident in a relevant territory, can obtain an exemption from DWT. In that circumstance, the trustee of the discretionary trust may make the declaration. The individual beneficiaries of a non-resident bare trust, where the beneficiaries are resident in a relevant territory, may obtain an exemption from DWT where:
  – the trustees of the trust have been authorised by the Revenue Commissioners to act as a Qualifying Intermediary, and
  – where an exemption declaration has been made to the Qualifying Intermediary by the beneficiaries.
- Category (c): The declaration must be certified by the tax authority of the country in which the company is resident for tax purposes. The company's auditor must also certify the declaration.
- Categories (d) and (e): The declaration must be certified by the company's auditor.

Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without declaration of DWT - see 'Qualifying intermediaries' under 'A. Irish resident shareholders' on page 90.

C. Dividend statements

Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

Financial calendar

Announcement of final results for 2008	2 March 2009
Ex-dividend date	11 March 2009
Record date for dividend	13 March 2009
Annual General Meeting	14 May 2009
Dividend payment date	22 May 2009

Letter to Shareholders

This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser being, in the case of shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations (Nos 1 to 3) 2007 or the Investment Intermediaries Act 1995 (as amended), or, in the case of shareholders in the United Kingdom, a firm authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your registered holding of Ordinary Shares in the Company, please forward this document and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through or by whom the sale or transfer was effected, for delivery to the purchaser or transferee.

To all shareholders

I am writing to you to outline the background to the resolutions to be proposed at the forthcoming Annual General Meeting ('AGM') of Paddy Power plc (the 'Company'), all of which are recommended by the Board for approval. Your attention is drawn to the notice of the AGM of the Company, to be held at The Burlington Hotel, Upper Leeson Street, Dublin 4 at 11.00 am on Thursday, 14 May 2009. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the reappointment of directors, and the Auditors' remuneration, there are various items of special business which are described further below.

Resolutions 3, 4(a), (b) and (c) of the ordinary business propose the appointment of Pádraig Ó Ríordáin and the reappointment of three directors. Pádraig Ó Ríordáin was appointed by the directors since the last Annual General Meeting and, in accordance with the Articles of Association of the Company, puts himself forward for election by the shareholders. Messrs Fintan Drury, Tom Grace and Jack Massey, having served on the Board for three years, retire in accordance with Regulation 87 of the current Articles of Association and, being eligible, offer themselves for reappointment. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the appointment/ reappointment of each of these directors. Biographical information on these directors is given on page 23 of the Annual Report.

Shareholders are being asked in resolution 6 to renew the directors' authority to allot shares for cash without being required to offer them first to shareholders. This authority is limited to an allotment of shares up to five percent of the issued ordinary share capital of the Company at the date of the resolution (currently equal to 2.46m shares). If renewed, this authority will expire at the next AGM in 2010 or 13 November 2010, whichever is earlier.

Shareholders are being asked in resolution 7 to renew the authority to empower the Company, or any subsidiary, to make market purchases of the Company's shares. No more than ten percent of the issued share capital of the Company may be acquired under this authority. The price range at which shares may be acquired cannot be less than the nominal value of the Company's shares and cannot be greater than 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or reissue.

The total number of options to subscribe for shares in the Company on 6 April 2009 is 1,278,008, and represents 2.7% of the total voting rights of the Company on that date. This percentage would increase to 3.0% if the full authority to buy shares is used. The authority sought will expire on the date of the next Annual General Meeting of the Company or 13 November 2010, whichever is earlier. The Board will only exercise the power to purchase shares in the future at price levels at which it considers purchases to be in the best interests of the shareholders generally after taking account of the Group's overall financial position. Given the potential opportunities created for the Company from having cash in the current environment, while not ruling out future share purchases, the Board has no immediate intention to exercise this power.

Shareholders are also being asked in resolution 8 to pass a resolution authorising the Company to re-issue shares purchased by it and not cancelled as treasury shares off market within a price range, which shall not be less than 95% nor more than 120% of the average price of the Company's shares over the ten dealing days prior to the date of re-issue by the Company. The authority sought will expire on the date of the next Annual General Meeting of the Company or 13 November 2010, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990.

Important changes will soon be made in regard to the conduct of shareholder meetings in public companies as a result of the implementation of the Shareholder Rights Directive (Directive 2007/36/EC), which Member States must implement by 3 August 2009. These changes will include new requirements for electronic communications with shareholders, notices of meetings, the right to participate and vote electronically at meetings and provisions relating to multiple proxies. As the Shareholder Rights Directive is required to be implemented into Irish law some time before the 2010 AGM, resolution 9 is being proposed so that the Company can comply with these changes.

In resolution 9, the Board is proposing that the Articles of Association of the Company be amended so as to facilitate electronic shareholder communication as well as allowing for the appointment of multiple proxies or corporate representatives by shareholders. As part of the Company's commitment to reduce waste and overall environmental impact, the Board wish to make increased use of electronic communications with shareholders, and to reduce by as much as possible the very significant quantities of paper traditionally used. The Electronic Commerce Act 2000 allows companies to communicate with their shareholders using electronic means where specifically requested by individual shareholders. This regime has recently been enhanced and revised through regulations (the ‘Transparency Regulations’) that have been made to give effect to the European Union Transparency Directive. Furthermore, these changes will become essential once the Shareholder Rights Directive is implemented into Irish law.

The new regime has the aim of moving from a ‘paper first’ to a ‘web first’ system, so that electronic communications will become the default method of communication, unless shareholders specify that they wish to receive communications in paper form (hard copy) instead. The Company is proposing in resolution 9 to amend its Articles of Association so as to authorise the use of its website as a means of communicating with shareholders who have not requested documentation in paper form (hard copy).

If the resolution is passed the Company will write to its shareholders individually asking whether they wish to receive information through the Company’s website. This communication will take place during the coming year. If a shareholder agrees, then future communications with that shareholder will be by electronic means. Alternatively, if a shareholder informs the Company that he or she wishes to receive all or specific information in paper form (hard copy), the Company will continue to send the information to him or her in this form. A shareholder who fails to respond to the notification from the Company within 28 days will be deemed by the Transparency Regulations to have agreed to receive communications by electronic means.

Notwithstanding any prior request or deemed consent to receive communications electronically, a shareholder may at any time tell the Company that he or she wishes to receive all or specific information in paper form (hard copy). In addition, the Company will notify each shareholder by post (if an email address has not been notified) when certain key information has been made available on the Company’s website.

In anticipation of another change that will be made to Irish law when the Shareholder Rights Directive is implemented in Ireland, resolution 9 will also amend the Company’s Articles of Association so as to delete Article 37 which currently allows the Directors to suspend the registration of share transfers.

The full terms of the proposed amendments to the Articles of Association will be available for inspection from the date of publication of this document until close of the Annual General Meeting at the registered office of the Company and at the place where the Annual General Meeting will be held for at least 15 minutes before and during the Annual General Meeting.

In resolution 10, shareholders are being asked to approve an amendment to the Company’s Long Term Incentive Plan (the ‘LTIP’) in relation to Awards granted under the LTIP in 2009 only.

Since listing on the Irish and London Stock Exchanges the Company has delivered a five fold increase in its share price and profit growth of circa 37% per annum in the 2001 to 2008 period. Awards granted under the LTIP have played a key role in motivating and incentivising our talented management team. For an Award to vest the Company must grow its Basic Earnings Per Share (‘EPS’) by no less than the growth in the Consumer Price Index plus 12% per annum over the vesting period of the Award, which is normally three years.

In the current fundamentally changed market conditions, the Remuneration Committee believes that to grant Awards in 2009 with vesting targets based off historic performance levels will render the Awards ineffective in achieving their objectives.

Consequently, the Board proposes that, for Awards granted in 2009 only, the Remuneration Committee will adjust the growth target for the first year to the estimated current consensus EPS for 2009 (‘Consensus EPS’), of 106 cent, rather than an EPS determined off 2008 performance. For the full Awards to vest, Consensus EPS must then be grown in the period to 31 December 2011 by not less than the compound growth in CPI plus 15% per annum in 2010 and 2011. For awards to vest in full, this would mean EPS required in 2011 of around 145 cent or higher, i.e. 12% above the current consensus EPS for 2011 of approximately 130 cent. This assumes Irish and UK CPI of 2% in 2010 and 2011. The proposed target is felt to be very stretching in the current environment and has the full support of the Remuneration Committee.

Copies of the Rules of the LTIP will be available for inspection from the date of publication of this document until close of the Annual General Meeting at the registered office of the Company and at the place where the Annual General Meeting will be held for at least 15 minutes before and during the Annual General Meeting.

Letter to Shareholders
(continued)

Action to be taken
A Form of Proxy for use at the Annual General Meeting is enclosed with this Annual Report. The Form of Proxy will be valid if lodged at the registered office of the Company or with the Company's Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, by no later than 11am on 12 May 2009. Alternatively you may wish to submit your votes via the internet and instructions on how to do so are shown on the form. All proxy forms must be lodged no later than 48 hours before the time appointed for the meeting. The completion and lodging of the Form of Proxy will not prevent you from attending and voting in person at the meeting should you so wish.

Recommendation
The directors believe that the resolutions proposed are in the best interests of the Company and its shareholders, and so they recommend that you vote in favour of these resolutions at the AGM, as they intend to themselves in respect of their shares.

Yours sincerely

Nigel Northridge
Chairman

6 April 2009

Notice of Annual General Meeting
of Paddy Power plc

NOTICE is hereby given that the Annual General Meeting of Paddy Power plc (the 'Company') will be held at The Burlington Hotel, Upper Leeson Street, Dublin 4 at 11.00 am on Thursday, 14 May 2009 for the following purposes:

To consider and if thought fit, to pass the following resolutions, which will be proposed as ordinary resolutions:

1. **To receive and consider the financial statements for the year ended 31 December 2008 and the reports of the Directors and Auditors thereon.**

2. **To declare a final dividend of 35.4 cent per share for the year ended 31 December 2008.**

3. **To elect Pádraig Ó Ríordáin as a director who is recommended by the Board for election.**

4. **To re-elect by separate resolution**
   Resolution 4(a) Fintan Drury
   Resolution 4(b) Tom Grace
   Resolution 4(c) Jack Massey
   who retire in accordance with Regulation 87 of the Articles of Association and, being eligible, offer themselves for re-election.

5. **To authorise the directors to fix the remuneration of the Auditors for the year ending 31 December 2009.**

As Special Business
As special business to consider and, if thought fit, pass the following resolutions:

6. **As a special resolution**
   "That for the purposes of Regulation 8(d) of the Articles of the Association of the Company, the directors are hereby empowered to allot equity securities (as defined in Section 23 of the Companies (Amendment) Act 1983) for cash pursuant to and in accordance with the provisions of their authority pursuant to Section 20 of the Companies (Amendment) Act 1983 as if sub-section (1) of Section 23 of the Companies (Amendment) Act 1983 did not apply to any such allotment provided that, pursuant to Regulation 8(d)(ii), the maximum aggregate nominal value of shares to which this authority relates shall be an aggregate nominal value of €240,383 or five percent of the Company's issued ordinary share capital at the close of business on the date on which this resolution shall be passed; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 13 November 2010 unless previously renewed, varied or revoked by the Company in general meeting."

7. **As a special resolution**
   "That the Company and/ or any subsidiary (being a body corporate referred to in the European Communities (Public Limited Companies Subsidiaries) Regulations 1997) of the Company be generally authorised to make market purchases (as defined by Section 212 of the Companies Act 1990) of shares of any class of the Company on such terms and conditions and in such manner as the directors may from time to time determine in accordance with and subject to the provisions of the Companies Act 1990 and to the restrictions and provisions set out in Regulation 47(a) of the Articles of Association of the Company and that the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 13 November 2010 unless, in any such case, previously renewed, varied or revoked by the Company in general meeting."

8. **As a special resolution**
   "That the re-issue price range at which any treasury share (as defined in Section 209 of the Companies Act 1990) for the time being held by the Company, may be re-issued off market, shall be the price range set out in Article 47(b) of the Articles of Association of the Company; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 13 November 2010 unless, in any such case, previously renewed, varied or revoked in accordance with the provisions of Section 209 of the Companies Act 1990."

9. **As a special resolution**
   "That the Articles of Association of the Company be and are hereby amended and replaced by the adoption of the new Articles of Association of the Company which have been signed by the Chairman of this meeting for identification purposes and which have been available for inspection at the registered office of the Company since the date of the notice of this meeting."

10. **As an ordinary resolution**
    "The Remuneration Committee of the Board of the Company is hereby authorised, notwithstanding the provisions of the Rules of the 2004 Long Term Incentive Plan (the 'LTIP'), to grant Share Awards during the period ending on 31 December 2009 only, where the growth target applicable to the minimum vesting period for such awards is an increase over the estimated consensus basic earnings per share of the Company for the financial year ending on 31 December 2009 as at 6 April 2009, being 106 cent, of the growth in the Consumer Price Index plus 15% per annum compounded in respect of each of the financial years ending 31 December 2010 and 31 December 2011. The Remuneration Committee is hereby empowered to make whatever adjustments to the Rules of the LTIP as are necessary to effect the amendments proposed in this resolution."

By Order of the Board

David Johnston
Company Secretary

6 April 2009

Registered Office:
Airton House
Airton Road
Tallaght
Dublin 24

2008 Betting Review

January

The New Year heralded a changing of the guard in the Australian Open. The greatest, Roger Federer, succumbed to Novak Djokovic the 9/1 third favourite. A sign of things to come for the Fed Express.

There were 123 league places and 5 divisions between Liverpool and Havant and Waterloo, so unsurprisingly the Premiership Goliaths were red hot favourites to win this FA Cup tie.

We dismissively offered 60/1 that Havant and Waterloo would take the lead in the match and punters with more money than sense snapped up the outrageous odds. After only 8 minutes a little known striker with the exotic name of Pacquette smashed them into the lead and left us with our pants around our ankles!

We decided to pay out on Barack Obama to get the Democratic Nomination as we thought he would run away with the race ahead of Hillary Clinton. We were due to sweat in eight months time!

The month ended with Ireland unearthing one of its Cheltenham festival bankers. Sizing Europe pulverised the field by 8 lengths to win the AIG Champion Hurdle at Leopardstown. He ended that day 5/2 favourite to do the same at Cheltenham.

February

In February the longest betting saga of all time ended with Giovanni Trappatoni landing the much coveted position as Republic of Ireland manager. Just five months and eleven favourites after Steve Staunton got the bullet, the FAI got their man. Trappatoni's odds of 150/1 were a thing of distant memory as he closed in on the hot seat and the last bet struck was at 1/33. Confidential my arse!

The 50 year anniversary of the Munich air crash was not enough to spur United on to victory in their cool looking retro shirts. The Manchester Derby was won by 11/1 outsiders Man City under an under pressure Sven-Goran Eriksson.

Speaking of upsets, who could possibly say they weren't surprised by the 55/1 4-0 drubbing of Arsenal at the hands of United in the FA Cup. This was to be the beginning of the end for the Wenger boys.

So, Arsenal are on the slide and the league looks to be between United and Chelsea. Chelsea are set to win their first silverware of the season by justifying odds of 4/9 in the Carling Cup Final. However, Spurs won it in extra time – we should have known, they had beaten Arsenal well in the semis.

It was a month of upsets so we shouldn't have been too surprised when Wales came from 13 points behind to beat England at Twickenham for the first time in 20 years. They were 100/1 at half time – not even one patriotic punter backed them. As the final whistle blew the 20/1 about a Welsh Grand Slam became a thing of the distant past.

March

Barnsley were the giant killers of the FA Cup knocking out both Liverpool and Chelsea. The semi final line up was a romantic's dream with Barnsley joined by Portsmouth, Cardiff and West Brom. Only one solitary Paddy Power punter clicked the 1187/1 accumulator, and only for 10p. So the bookies were left celebrating the best ever weekend of domestic football.

The English were marching on towards Champions League glory with Arsenal beating AC Milan, United beating Lyon, Liverpool beating Inter and Chelsea beating Olympiakos. That accum was more popular – ouch!

Tiger's six tournament winning streak came to an end in the World Golf Championships and the bookies breathed a collective sigh of relief while punters rued the closing of their very own cashpoint!

Cheltenham week began with a win for Ireland and JP McManus when Captain Cee Bee won the Supreme Novice Hurdle. He wasn't hugely backed on the day – the punters chose JP's other one in the race, Binocular. They shouldn't feel too bad as the jockey chose the wrong one too – Tony McCoy was sick as a dog to finish second to a horse he could have ridden!

The banker Sizing Europe pulled up injured in the Champion Hurdle and suddenly the punters were nervously biting their nails, three more days to go.

Actually make that two – Cheltenham 2008 will be remembered for one thing. I'd love to say it was the fact that Denman beat Kauto Star in the most hyped Gold Cup for years but it'll be for the weather.

The wind blew and the hospitality tent took off. Racing had to be abandoned on day two of the festival. It was pretty good news for those going racing on Thursday or Friday, they were about to get 10 Cheltenham races for the price of 6!

Lots of fancied horses won, lots got beaten but eventually we got to the main event and the punters didn't want to know Denman. He had less friends than Billy Nomates and his odds drifted right out to 9/4 while Kauto Star went odds-on. 3 miles, 2 1⁄2 furlongs and 7 lengths later we have a new champion. The monster Denman has roared.

April

In April we paid out on Man Utd as league winners and also on Ronaldo as top scorer. They were red hot favourites at the time but then they only went and got beaten by Chelsea to leave us feeling more than a little twitchy.

Meanwhile in the golf, 175/1 shot Trevor Immelman gave punters a right kick in the crown jewels by winning the Masters. He said in his interview after that he never thought he'd win it – you're not the only one Trev!

In the Champions League semi finals, Ronaldo proved that maybe he wasn't such a big game player after all by missing a penalty in Barcelona, however, somehow United went through.

As for Liverpool – John Arne Riise scored and absolute screamer to settle the tie. The only problem was that it was into his own net! So, Chelsea v United in the Champions League final.....this was going to be nasty for us no matter who won!

April wouldn't be April without the Grand National. Timmy Murphy rode Comply or Die to land yet another Grand National gamble – the 7/1 favourite proved that it's not really that hard a race to pick the winner of. And for good measure not only did we pay out each way down to fifth place which was filled by the very well backed Bewleys Berry, we also paid a 10% bonus on all winning bets....the person who came up with that idea is now sweeping the floors!

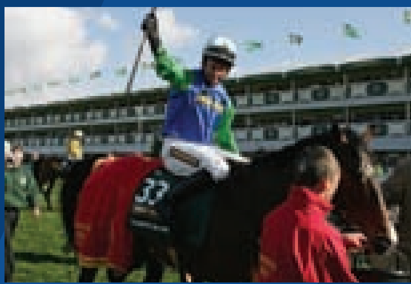
May

We'll never forget May 2008. That bloke who came up with Grand National idea was given one more chance and had the bright idea that we'd refund all losing bets on the Champions League final if Ronaldo scored at any stage during the match.

This is the same player who had scored about a million goals for United already this season. Surprise, surprise Ronaldo steps up and scores an early beauty. The result of the match doesn't really matter because whatever way you look at it we're in the red. We ended up giving back over €1m to 'losing' customers...what a great day for punters!

The FA Cup final wasn't quite as riveting – in fact it was about the worst betting FA Cup final ever. Pompey beating Cardiff...who cares!

The Heineken Cup final was a terrible, terrible match for any purist (except of course a Munster purist). Munster ground out a victory and we felt violated. Not just because they had been backed by every man, woman and child in Ireland, but also because we had to watch that load of sh*@£!



The Guineas were a sign of things to come if ever there was won. The great New Approach couldn't quite beat the even greater Henrythenavigator. Henry did us a favour, winning at 11/1. No that's not a mis-print he actually was 11/1 at one stage of his career. Whatever favour was done that day has been repayed in spades! Later on in May the same Henry confirmed the form at more realistic odds of 5/4. Mental note, Aidan O'Brien is quite good at training horses.

June

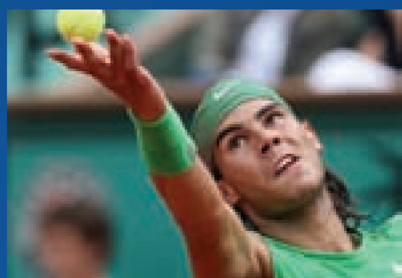
In the French Open, Rafa Nadal embarrassed Roger Federer with a proper thrashing in the final. In doing so he landed pre-tournament odds of 8/13 and won his fourth French Open in a row. It would all be different when they got back to grass – wouldn't it?

Our worst golf result of the year came when a one-legged Tiger won the US Open. We went biggest price in the village at 4/1 pre-tournament because let's face it, you just can't win a major if you're not fully fit. Another mental note, beware of the injured golfer.

We had almost forgotten what football was after that 10 minute off season, but don't worry the Euros are about to begin. They were destined to be the worst competition ever because of the lack of home interest. They turned out to be a punter bonanza with only 5 draws in 30 odd matches, and with 7 of the first 10 favourites winning.

Germany were 7/2 favourites from the start, but Spain were the punters' choice and were backed right down to joint favourites. Funnily enough they meet in the final. We watched the game hoping Germany would win and we'd lose heavily, sounds silly except if Spain won we'd be completely fleeced – dough done! The only respite is that Fernando Torres wasn't top scorer.

New Approach won the Derby after a hugely controversial will he won't he run saga. At the end of the day he turned out to be cracking value at 5/1 and his trainer Jim Bolger was the happiest man in Epsom. Some of the hacks weren't too happy mind you, and the press conference after it turned into handbags at dawn.



Aidan O'Brien wasn't to be outdone and to say he dominated Royal Ascot would be like saying Tiger Woods is okay at golf. We had decided before hand that we would take a chance with his fancied horses – they were the ones punters wanted to back, and we wanted to make sure they backed them with us.

He cleaned up, winning an incredible four out of the six Group 1 races at the famous meeting. The highlight was Yeats' Gold Cup treble – the closest Royal Ascot has ever come to an Irish winner at Cheltenham!

2008 Betting Review
(continued)

July
Someone wise once said to beware of the injured golfer. You'd think we'd take notice. Last year we paid out €5 million to Harrington backers after he won the British Open. This year it could only get worse, don't forget Tiger wasn't playing.

We went best price on him, as we always do, at 20/1 and then he tells the world that he has a sore wrist and that he can't play golf or do much else for that matter. His odds drift right out to 28/1 before a ball is struck, and unbelievably he's a winner for us in the book!

We had already announced an each way bonus of 7 places so it was our busiest Open ever, but with nobody backing Harrington we felt a little naked so offered a little insurance to punters that they'd get their money back if Harrington pulled out injured.

That did the trick and soon we were back where we belonged – up to our knickers in Harrington. He won and we lost. It's a case of the one that got away for punters though, we ended up paying out about €2 million but it should have been so much worse. Consider this bullet dodged!

August
Bullet dodged? Who said that? Along came the USPGA in August and once again we decided to go biggest price about the great man at 20/1 - after all Europeans never win the USPGA.

Cue Sergio Garcia, surely the new unluckiest man in golf. He goes out and plays pretty much flawless golf. But Harrington was trundling along nicely and much like Limestone Lad over hurdles it was a battle he wanted and a battle he got.

Garcia played brilliantly but Harrington played match play and faced him down. Everytime it needed to, the putt dropped. Every mistake Garcia made, Harrington capitalised. It was awesome to watch, but exceedingly expensive.

It's a bit boring now but we have finally figured out that if Harrington wins a major, we do our brains. Thirteen months and three majors later we have finally learned something!

But the question remains, will we be biggest price Harrington in the 2009 majors? Of course we will – maybe we have a bit more of a lesson to learn.

Worldwide the Beijing Olympics will be remembered for Usain Bolt's double whammy with Golds and World records in the 100 and 200 metres. In Ireland it will be for something completely different.

Bolt was very well backed and left us in his wake with a payout of well over €100k. He was very backable to win the 100 before the first heat and was 14/1 to break that World Record. However it was Michael Johnson's 200m record that was unbreakable and we offered 100/1 that he'd break them both.

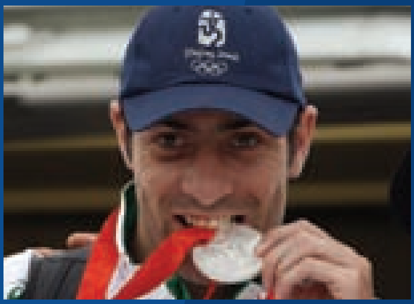
The Irish boxing captain Kenny Egan was 25/1 for Gold before a punch was thrown, but then suddenly he landed a good draw and his odds were punted down to just 8/1.

He crushed all before him and before we knew it he was in the final against a home town favourite. He won the fight everywhere bar the scoreboard and was robbed by a shocking hometown decision.

Everyone who watched the fight knew he should have won, so Paddy Power paid out on Egan as Olympic Champ despite him only coming home with a Silver. Punters benefited to the tune of €150,000 which went some way towards making up for the disappointment.

In the Premiership, Stoke were expected to struggle and after getting thumped 3-1 in their first game at Bolton, we decided in our wisdom to pay out on them to be relegated.

A 94th minute winner in their very next game at home to Aston Villa left the crowd singing "Are you watching Paddy Power!" live on Sky! Paddy was very lucky to win an award on the Stoke fan site, I'm pretty sure it was 'Banker of the week'!



We weren't exactly flavour of the month with Stoke fans but a Silver Lining offer of a free £50 bet for every season ticket holder shows that everyone truly does have a price!

Dublin did the bookies another favour in the All Ireland losing out to Tyrone in the semis, but it did leave the old Kilkenny/ Kerry double looking very dangerous.

September

Andy Murray showed his class for the first time and beat Rafa Nadal to reach the final of the US Open, unlucky for him and lucky for us he ran into a red hot Federer who showed him who's boss.

The World Cup Qualifiers heralded a new dawn for both Ireland and England with the beginning of the Italian job.

England beat Andorra and Ireland beat Georgia, suddenly things were looking up!

In the hurling, Kilkenny staked their claim as being one of the best teams ever to grace Croke Park with a mauling of Waterford that will leave the Déise with dark memories of that day.

Saturday 13th was unlucky for some, i.e. Man Utd. It was the day Liverpool chose to throw down the gauntlet for the season ahead. 2-1 Liverpool at Anfield, game on!

England won 4-1 in Croatia and suddenly they are going to win the World Cup again, punters couldn't get enough of the 10/1!

It was odds on that an English Club would win the Champions League and all four represented started well.

The Ryder Cup was the big news in September and climaxed on one of the greatest sporting days of the year so far. The Tigerless USA schooled Europe and Nick Faldo, easily leaving the European giants in their wake. Harrington had a week to forget, why didn't you have one of them in July or August Pádraig???

On that final day, Kerry lost the All Ireland final to outsiders Tyrone thus keeping alive that every growing monkey on their back about Northern teams. Chelsea and United only managed to draw 1-1, which lost them both ground to a jammily convincing Liverpool.

A lot of things didn't go to plan in September, and while the other three were ticking along nicely, Arsenal began to make a complete mess out of a set of seemingly easy early season fixtures.

Hull have the honour of being the longest priced winners in Premier League history, landing odds of 20/1 at the Emirates with a 2-1 defeat of their hosts.

October

In October England beat Kazakhstan, no surprise but good for the Borat jokes.

More importantly another monkey off another back – Ireland finally managed to beat the mighty Cyprus. Who said England were going to win the World Cup – they'll have to beat us first!

The Breeders Cup was a leveller for Europe with a record number of winners but unfortunately for Aidan O'Brien (and very fortunately for bookies!) he hit the bar a couple of times but ultimately drew a blank. Suddenly his target of a record number of Group 1 winners wasn't looking so likely after all.

The highlight of the night for Europe (and probably the lowlight for O'Brien) was Raven's Pass. Henrythenavigator had beaten him a couple of times earlier in the season but could only manage second place in the biggest race of them all, the Breeders Cup Classic, and all that after taking a bit too long to get going.

Spurs finally realised that they weren't too big to go down and that they needed to get some points. Juande Ramos became the first managerial casualty of the season and it seemed to work.

It may not sound like much but they managed to beat Bolton 2-0 which led to a 4-4 draw with Arsenal and victory over Liverpool.

Things were looking up for those we thought were going down.

It was a month for being bullish and we decided that the last Presidential debate was the last chance for McCain to land a blow. He didn't manage to and we decided that now was the time. We called the election and paid out over €1 million on Obama as new President of the USA.

Two days later there were reports of McCain making significant gains in the polls – woops!

2008 Betting Review
(continued)

November

November began with a week of football results to leave punters scratching their heads and wondering if God is actually a bookie.

Arsenal hammered Fenerbahce in Turkey but could only scrape a scoreless draw at home. Chelsea were stuffed by Roma in Rome and Liverpool scraped a dubious home draw with Atletico Madrid after a controversial late penalty from Stevie G. The surprise of the night though was United's failure to capitalise on a 3-0 win and to barely scrape a draw at Parkhead. Celtic were 9/2 to win that match, the biggest odds they have ever been for a home fixture.

Lewis Hamilton finally managed to win the drivers Championship, he made those punters who backed him sweat though – he had been backed at odds varying from 9/4 at the start of the season to 11/2 mid year and 2/9 before the last race.

The New Zealand rugby team did us all the pleasure of coming to this neck of the woods and as usual they didn't leave empty handed. Ireland were a walkover but Munster....ah the mighty Munster!

1/33 shots New Zealand are behind with only minutes to go on the clock. Munster on the brink of yet another famous Thomond Park victory. Then up pops Joe Rockokoko with a late cruel try. It was oh so close to being one of the biggest upsets in rugby history.

England fared worst out of the home internationals – they were stuffed by all three Southern Hemisphere powerhouses. I wonder if Martin Johnson is enjoying his first year in charge?

The biggest event of the year, and probably the decade, was the Presidential Election. Obamania swept the world and his victory justified odds of 1/14 before the first vote was counted. We thanked our lucky stars that we weren't looking down the barrel of a double whammy payout.

Now we are betting on the most important things about the US Presidency, like who'll play Obama in the first Hollywood film about him (Will Smith is 6/4 fav), what they'll name the Whitehouse puppy (100/1 it's a pit bull called Palin) and whether we'll hear the pitter patter of tiny feet (10/1 a White House baby).

December

Liverpool fans will look back fondly on December. They hammered Newcastle 5-1 while Chelsea could only draw with Fulham. This put the reds firmly on top of the table. The question remained, could they stay there?

The bookies said no and Liverpool remained only third in the betting at 4/1 behind the faltering Chelsea and Man Utd with oodles of games in hand.

A cold snap gave us the inspired idea of paying our early on a white Christmas. It was said to be the coldest December for years so surely we were set for a white blanket on Christmas morning.

Punters were delighted and were warming their cockles with €100,000 paid out on snow. We felt mildly silly when temperatures hit 15 degrees on Christmas Day!

On the racing front it was two horses that didn't even run over Christmas who fared best in the ante-post markets for Cheltenham. Masterminded's odds were slashed to 1/2 when his potential main market rival Petit Robin flopped, and Binocular hardened to 11/8 favourite for the Champion Hurdle when the Sizing Europe's bubble was burst at Leopardstown.

But Christmas belonged to Kauto Star, he hacked up in the King George to throw down a serious Gold Cup gauntlet to stable companion Denman. His odds were slashed from 4/1 to 9/4 to do the undoable and regain his Gold Cup crown. I wonder what Ruby will ride?

At Leopardstown Willie Mullins dominated. His biggest headache in the run up to Cheltenham looks like being which of his horses he'll win which of the races with! Hurricane Fly and Cousin Vinny set the crowd alight with brilliant displays which leave them dominating the markets for the Supreme Novice and Ballymore Hurdles come March.

One person is always welcome at Christmas time, he always joins us in our sitting room. No, it's not Santa – it's Phil 'The Power' Taylor. He justified odds of 1/2 to win an incredible 14th world darts title.....What an athlete!

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