RNS Number:
Paddy Power plc
3 March 2008

Paddy Power plc
2007 Preliminary Results Announcement

Paddy Power plc today announces its preliminary results for the year ended 31 December 2007.

Highlights:

- Operating profit growth of 59% to €72.1m;

- Online gross win growth of 41%, including gaming gross win growth of 44%;

- Continued trading profitability in our UK Retail business compared to a loss of €6.0m in 2006;

- Operating profit growth of 57% in our Irish Retail business;

- Operating profit growth of 36% and 7% in our online and telephone businesses respectively;

- Expanding UK Retail estate into Manchester and Glasgow with an expectation to at least double the size of our estate over the next three years;

- Continued investment to drive future growth including:
    - the introduction of online financial spread betting, online Spanish language betting and sports risk management businesses;
    - the addition of 18 shops in Ireland, 10 new openings and eight acquisitions;

- Significantly increased cash returns to shareholders to €73m in 2007 from €11m in 2006 through both dividends and share buybacks;

- Last, but not least, a favourable run of sporting results.

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

"We have grown our business very substantially in 2007. Pre-tax profits have grown by 53% to €75.8 million, with strong growth in every division. Particular highlights included the 57% profit growth in Irish Retail, 44% growth in online gaming gross win and the turnaround of our UK Retail business. Furthermore, we have conducted a detailed review of the UK retail market, and will open shops in Glasgow and Manchester as well as in London this year.

The outlook for Paddy Power remains strong, underpinned by our momentum and our strong market positions. We are confident in our prospects for 2008 and beyond."

ENDS

3 March 2008
Issued on behalf of Paddy Power plc by Drury Communications Ltd

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Chairman's Statement

Dear Shareholder,

I am delighted to report on a year of increased profitability at Paddy Power.

	2007	% Change
Amounts staked	€2,028m	+13%
Pre tax profit	€75.8m	+59%
Basic EPS	127.4 cent	+62%
Dividends	51 cent	+58%
Cash balances	€87.9m	+1%

(Amounts staked or turnover represents amounts placed on sporting events and net winnings on gaming activities)
(Percentage changes in profitability are calculated based on 2006 results excluding the exceptional property gain of €2.1m pre tax)

Increased profits were recorded across all our business channels, with the two particular highlights being the 44% growth in online gaming gross win, achieved despite increased competition and a challenging year for our poker business, and the turnaround in UK Retail, which traded profitably in both the first and second half of 2007 compared to a loss of €6.0m in 2006.

This marked improvement in UK Retail performance achieved our target of September 2006 to have an optimised proposition coinciding with UK market deregulation. Following a detailed market review, we have identified two further cities with high potential for our UK Retail offering and will open shops in Glasgow and Manchester as well as in London this year. We expect to at least double the size of our UK estate over the next three years.

We are also investing in new online businesses and launched an online financial spread betting business and a Spanish language betting business in 2007. We continue to expand our Irish Retail business, growing our estate by 18 shops (11%) last year via organic openings and acquisitions, and increasing its operating profit by 57% to €34.6m.

We experienced significant once-off benefits in 2007 from favourable sporting results. An unprecedented set of bookmaker friendly results in the first half of the year was followed by "glorious Goodwood", a "lovely Listowel" and a "riotous Rugby World Cup" (Ireland out in the group stages, New Zealand out in the quarter finals and England in the Final – 1,440/1 available pre tournament ….if you saw that coming you were a genius!).

We didn't get it all our own way though with the man who saved Ireland's sporting blushes in 2007, Padraig Harrington, costing us our biggest ever pay out when he won the Open Golf Championship. It was an expensive afternoon but well deserved for golf punters after lightly backed long shots won the Masters (Zach Johnson at 175/1) and the US Open (Angel Cabrera at 125/1). Punters came with a further late rattle close to home in October and November, but we cleared the final hurdle in December with room to spare, combining a decent run of sporting results in the second half with outrageous good fortune in the first.

2007 saw us run some of our most generous 'specials', including refunding money on any horse that fell over the three days of our nemesis meeting of recent years - Cheltenham in November. Predictably enough they dropped like Ricky Hatton on the Las Vegas canvas!

Regulation

2007 was a year of significant regulatory developments. In continental Europe, there was a further mix of pro and anti-competition events. From a positive perspective, Spain became the second major continental European market to pursue deregulation with two regions progressing licensing, following Italy's decision to issue licenses in 2006. From a negative perspective, in December 2007 the German state legislatures voted through a new gaming treaty, effective 1 January 2008, extending the state monopolies and making internet betting and gaming activity illegal.

The market in Germany is consequently in a state of flux as the interaction of European law and its new domestic law remains to be resolved. This creates a series both of commercial and legal uncertainties in providing internet-based services in the country. Having assessed these uncertainties (along with the importance of Germany within our overall market for German speakers), we have concluded that the balance of commercial risk and reward is not favourable in the short term and have suspended our German language website. This decision does not give rise to any material closure costs or impact on our expected profits over the next number of years.

The Board

The Board has appointed Nigel Northridge as senior independent director. Nigel, a former Chief Executive of Gallaher Group plc and a non-executive director of Paddy Power since 2003, brings a wealth of valuable experience to this important position. He is also the senior independent director of Aggreko plc.

Dividends, Share Buyback Programme and Capital Structure

During 2007, we returned a total of €73.1m of cash to shareholders through a combination of dividends and share buybacks. Total cash dividends paid to shareholders in 2007 were €19.5m, an increase of 73% over 2006. In addition, further to the programme announced last March, €54.2m was spent on returning cash to shareholders via a share buyback programme. This comprised purchases of 2.39m shares or 4.7% of the Company's share capital at an average price of €22.42.

In line with a dividend payout ratio of 40%, the Board is proposing a final dividend of 35 cent per share, payable to shareholders on the register at 14 March 2008. This brings the total dividend in respect of 2007 to €25.0m or 51 cent per share, an increase of 58% on the 32.2 cent paid in respect of 2006.

Despite these significantly increased cash returns to shareholders, the exceptional growth and cash generative nature of the business meant that cash balances at the end of 2007 remained strong at €88m, broadly unchanged from 2006. While the Board is committed to capital discipline, as evidenced by the increasing dividend payout ratio and share buybacks, it also continues to maintain flexibility for future growth, both organic and possibly via acquisitions. These objectives of capital discipline and flexibility for growth are not mutually exclusive, and it is the Board's current intention to consider further share buybacks in line with the approval granted by shareholders. The timing and amount of shares bought back will depend on the Group's pipeline of development opportunities as well as equity market conditions.

Outlook

The outlook for Paddy Power remains strong. Although Britain and Ireland - the two principal economies in which we operate - are projected to grow at a slower pace than in recent years, we are encouraged by the Group's strong market positions and momentum. Broadly half of our operating profits come from online betting and gaming, the overall market for which is projected to continue to grow well; we have a strong leadership position in both the Irish Retail and telephone markets; and the prospects for our UK Retail business have substantially improved over the last 12 months.

While sterling depreciation against the euro will negatively impact the translation of our sterling profit stream by approximately €4m in 2008 at current exchange rates, trading in the year to date has benefited from good sportsbook gross win percentages. The Group is confident of its prospects for 2008 and beyond, and I look forward to updating you on progress at our AGM in May.

Fintan Drury
Chairman

29 February 2008

Chief Executive's Statement

Paddy Power continues to grow strongly on many fronts and we had 12% more employees at the end of the year than the start. Many who join us remark on the two very different sides to the Group, and the healthy dynamic that exists between them - both are sources of competitive advantage for Paddy Power, and both were advanced well in 2007.

The first is how many external observers perceive us – a fun, fair, brand-led business. For Paddy Power betting has always been about entertainment. Betting with Paddy Power is a fun experience that means a lot more than simply winning or losing money. We offer more novelty bets than other bookmakers along with great customer service. My favourite novelty market of 2007 was on the next high profile American to get arrested; Al Gore was rated a 14-to-1 outsider, but was backed by over 50 "shrewdies". Problem was we had neglected to specify which Al Gore we had in mind, and the former US vice president's son – Al Gore III - duly obliged, being arrested the next day on drugs charges. Needless to say, we paid out!

This approach is backed up with stunts and sponsorship that make existing customers smile and hopefully attract some new ones into the fold. Highlights in 2007 included sponsoring the world's first Father Ted festival, having a Tongan player change his name by deed poll to Paddy Power for the duration of the 2007 Rugby World Cup (as well as all his team mates dyeing their hair green in support) and buying punters over 5,000 pints in Liverpool to celebrate an Irish trained winner at the English Grand National (Paddy's one-for-you-one-for-me policy accounting for a large percentage of this total).

Being fair, and being perceived by our punters to be fair, is just as important in distinguishing our brand against the competition. Our punters benefited from over 200 early payouts and refunds of losses during the year. Highlights included returning losing bets on heavy ante-post favourite Teofilo when he was withdrawn from the 2000 Guineas, paying out in June on Lewis Hamilton to be 2007 BBC Sports Personality of the Year (doh!) and refunding on all losers in the Tour de France, following the stream of drug abuse revelations. Meanwhile, our London shops pushed this approach to a whole new level, with money back on all losers for three selected races on Turf TV days.

The significant ongoing investment in our brand, through these and many other initiatives, is what creates differentiation and loyalty, and ultimately the required financial payback through higher revenues and profits per shop and lower customer acquisition costs than our competitors.

There is however another and equally vital side to Paddy Power – one which is analytical and data-led, driven and challenging. We see this in our 52-strong technology team, who not only produce in excess of 150 different daily reports to ensure that business performance is monitored in minute detail, but also have facilitated the very strong growth in our online business. They underpin 35 different active websites, and enable us to take over 1,000 bets per minute on Grand National day. Just think how many shops we'd need for that!

When Paddy Power floated at the end of 2000, we had nine risk and trading personnel; today we have 48, with a trading room not dissimilar to that of any financial institution – only slightly less sub-prime exposure… This team also have responsibility for product innovation, which has been key to the success of the Group. For example, we had 59 markets available for the Rugby World Cup final and 77 for the Champions League final – our competitors had on average 23 and 31 respectively. The team has developed Betting-In-Running product for most of our key sports, and Betting-In-Running now accounts for 40% of our Non Retail sports betting.

Innovation is not just at the product level – we continue to invest in new businesses which will bring Paddy Power to new consumers and new geographies. In the last twelve months we have launched an online financial spread betting business and Spanish language website, as well as a sports risk management business targeted at companies with exposure to sporting events.

Neither of the two sides to Paddy Power – the fun, fair brand-led external face, or the analytical, data-led, challenge culture – could on its own generate long-term competitive advantage. However, when blended it works, each element complements and stimulates the other, generating passionate, (mostly) intelligent, and noisy debate. This debate focuses on delivering the best possible consumer experience, and that is what truly drives long-term competitive advantage. It is this blend that ultimately differentiates us.

Each element is founded on offering customers something different to the competition – better value, better service, better product and overall entertainment. Furthermore, their value to Paddy Power grows as our scale increases, and they differentiate us against all competition, particularly smaller operators whose scale cannot justify an attempt to match them. Finally both can be applied to add value when we expand by acquisition, as we did last year with three modest acquisitions in our Irish Retail business.

Although our markets are increasingly competitive and are exposed to economies whose growth has slowed, our ongoing investment in these very different yet complementary sources of advantage give us confidence for the current year and beyond.

Patrick Kennedy
Chief Executive

29 February 2008

Operating & Financial Review

Paddy Power is a multi-channel, multi-national betting and gaming Group. It operates through two main divisions: the Retail division, which operates bookmaking shops in the Republic of Ireland and the UK, and the Non Retail division, which provides telephone betting services to customers in the Republic of Ireland and the UK together with an online channel that provides both betting and gaming services to English and Spanish speaking customers in the UK, the Republic of Ireland and continental Europe.

€m	**2007**	**2006**	**% Change**
Amounts staked	2,028	1,795	+13%
Gross win	**279.0**	**218.7**	**+28%**
Gross profit	242.4	183.6	+32%
Operating costs	(170.3)	(138.1)	+23%
Operating profit	**72.1**	**45.5**	**+59%**
Exceptional property gain	-	2.1	
Interest income	3.7	2.1	+74%
Profit before tax	**75.8**	**49.7**	**+53%**
Profit after tax	**62.8**	**41.2**	**+52%**

2007 was a terrific year for Paddy Power with operating profit increasing by 59% to €72.1m. Exceptionally favourable sporting results were a key profitability driver but not the only one. Despite the run of bookmaker-friendly results inevitably reducing growth in the amounts staked, and the absence of the World Cup, we achieved growth of 12% in Group sportsbook turnover. In addition within Retail, a turnaround in the profitability of our UK estate, combined with a full year's benefit from lower Irish betting tax, drove an increase in profits of 110% to €33.7m. In Non Retail, additional key profit drivers were a 44% increase in gaming gross win and a lower level of betting taxes achieved through restructuring, which combined to drive 30% profit growth to €38.4m.

The Retail Division

€m	**2007**	**2006**	**% Change**
Irish Retail gross win %	*13.6%*	*12.5%*	
UK Retail gross win %	*12.6%*	*12.6%*	
Retail division operating profit	**33.7**	**16.0**	**+110%**

While retail punters had the worst of the sporting results in 2007, they did enjoy a better second half in 2007 than 2006, helped by many generous Paddy Power 'specials' including 'guaranteed early and board prices' across all our Irish estate in December. The gross win percentages in the second half of 2007 were down 0.2% compared to 2006 in both Irish and UK Retail at 12.4% and 12.5% respectively, but still slightly above the 12.0% mid-point of the guided range. For the full year there were certainly no complaints about sporting results from our end and we enjoyed gross win percentages of 13.6% in Irish Retail and 12.6% in UK Retail, compared to 12.5% and 12.6% in 2006. The relatively higher percentage in Irish Retail was explained in large part by little evidence of the 'luck of the Irish' in the first half with a succession of fancied Irish horses beaten at Cheltenham and Ascot.

The Electronic Point of Sale ('EPOS') system implemented in 2006 has, as expected, contributed to these gross win percentages, as well as other areas of operational efficiency. We continue to be particularly pleased with the customer service benefits of EPOS, for example in product range and delivery. Thousands of betting markets and more niche betting coupons are now available in each shop every day through data transfer via EPOS, enabling us to serve efficiently a huge range of national and non-national customer tastes. This speed of data delivery also facilitates the introduction of new services such as the 'Paddy Times', a newspaper style form and price guide for the main racing and sports fixtures each weekend, including specials exclusive to Paddy Power, distributed free in shops on Friday and Saturday afternoons.

The launch of Turf TV in April with picture rights from six of the UK's 59 racecourses was a significant development in the supply of pictures to shops. Paddy Power was the first major chain of bookmakers to sign up for Turf TV. Call us old fashioned, but we believe if you place a bet on a race, it's nice to watch the race. In addition, our infrared shop television control technology and central production studio ensures seamless integration of the SIS and Turf TV pictures.

Prior to other major UK bookmakers signing up to Turf TV at the start of 2008, we focussed on winning customers from those competitors, complementing the pictures differentiation with an unbeatable offer - money back on all losers - for three races over the day, announced immediately after the off. Overall, while some new customers may now return to a more conveniently located competitor's shop, Turf TV showcased what drives our long term success – an unrelenting commitment to differentiating customer service, product quality and our brand values.

(i) Irish Retail

€m	**2007**	**2006**	**% Change**
Amounts staked	930.0	833.1	+12%
Gross win	**126.1**	**104.4**	**+21%**
Gross win %	*13.6%*	*12.5%*	
Gross profit	116.5	91.5	+27%
Operating costs	(81.9)	(69.5)	+18%
Operating profit	**34.6**	**22.0**	**+57%**
Shops at year end	**178**	**160**	**+11%**

The amounts staked within Irish Retail grew by 12% to €930m with a 21% increase in gross win to €126m. Excluding the impact of new shops, like-for-like amounts staked and gross win increased by 5% and 14% respectively. The growth in the amounts staked was notwithstanding an exceptionally high gross win percentage inevitably affecting turnover ('negative recycling'). There was also a 4% reduction in Irish and UK horse racing during Irish shop opening hours in the second half of 2007 compared to 2006, primarily due to adverse weather conditions in July and December. While additional racing arose from new evening openings allowed during floodlit all-weather meetings in Dundalk, this was offset by the loss in 2007 of certain late afternoon UK winter meetings rescheduled to after Irish shop closing time.

Gross profit in 2007 as compared to 2006 benefited from the change in Irish retail betting tax. Paddy Power had incurred an additional cost of 1% of turnover or €4m in the first half of 2006 from giving its customers the benefit of tax free betting early, which did not arise in the first half of 2007. Operating costs increased by 18% driven by a 10% increase in average shop numbers, increased depreciation (primarily related to EPOS and additional shops) and growth in divisional and central variable costs due to increased levels of activity. Operating profits grew 57% to €34.6m.

During the year, we opened 10 new shops and expect to continue to open six to 10 shops per annum organically in line with our medium term guidance. In addition, we acquired eight shops from other operators. While we continue to prefer the economics of organic expansion in the Republic of Ireland, these small acquisitions offered prime locations in areas in which we have wished to expand for some time; an excellent fit with our existing estate; and significant potential to increase the units' profitability with the Paddy Power brand, product and customer service. We have been pleased with the trading of the units since acquisition.

The 18 additional shops trading in 2007 took our total Irish estate to 178 as at 31 December 2007. The estate is very well invested with over 88% of shops newly opening or redeveloped within the last 5 years. In 2007 nine units were refurbished (seven refits and two relocations). The significant programme of redevelopment during 2003 to 2006, combined with the use of high quality and well wearing materials, allowed us to maintain the quality of the estate in 2007 with more modest redevelopment spending.

(ii) UK Retail

€m	2007	2006	% Change
Amounts staked	171.5	129.9	+32%
Over-the-counter gross win	20.2	15.5	+30%
Gross win %	*12.6%*	*12.6%*	
Machine gross win*	10.8	6.9	+58%
Total gross win*	**31.0**	**22.4**	**+39%**
Gross profit	25.8	18.0	+43%
Operating costs	(25.5)	(24.0)	+6%
Trading profit / (loss)	**0.3**	**(6.0)**	**n/a**
Provision for shop closure costs	(1.2)	-	n/a
Operating loss	**(0.9)**	**(6.0)**	**n/a**
Shops at year end	***58***	***58***	**-**

*(*Machine gross win above excludes VAT)*

UK Retail achieved its first trading profit in 2007, generating €0.3m prior to a provision for shop closure costs of €1.2m. This compares to ongoing losses since the initial openings in 2002 and a loss of €6.0m in 2006. We announced in 2006 that we would prioritise enhancing the performance of our existing estate, rather than further shop openings, in the period prior to deregulation of the UK market in September 2007. As a result, we implemented a range of initiatives to increase revenues and reduce costs which came to fruition in 2007 resulting in a once off step change increase in profitability.

From a revenue perspective, turnover grew by 32% to €171m. Gross win growth of 39% to €31m was comprised of 58% growth in gaming machine gross win to €10.8m, and 30% growth in over-the-counter (‘OTC’) gross win to €20.2m. Like-for-like gross win grew by 22%, with OTC growth of 12% and machine growth of 46%. There were 232 gaming machines installed as at 31 December 2007, an increase of 3% compared to 31 December 2006. The average gross win per machine per week including VAT was £725, an increase of 28% compared to £565 in 2006. While the smoking ban introduced in England in July had a negative effect on machine gross win, this was subsequently offset by the implementation of the Gambling Act in September which allowed for longer shop opening hours and higher payout and more varied content on machines. The longer shop opening hours resulted in 8% more opening hours in 2007 compared to 2006, with a further 6% increase in opening hours expected in a full year.

An aggressive review of the cost base of our UK Retail estate delivered substantial savings in 2007 where, amongst other things, we successfully leveraged the growth in our estate and the increased levels of activity within each shop to achieve economies. Excluding the shop closure provision of €1.2m, operating cost growth was restricted to 6%, despite a 15% increase in the average number of shops and a 4% increase in costs due to extended evening opening hours and the imposition of Amusement Machine License Duty. The shop closure provision relates to two specific units, one of which has already ceased trading.

This progress on costs and revenues has resulted in each of the group of shops we opened in the four years 2003 to 2006 achieving an EBIT positive result in 2007. The overall EBIT of the shop estate was €4.0m, before central overheads of €3.7m, comprising the London head office and an allocation of central costs. From a cashflow perspective, the shop estate before central overheads achieved EBITDA of €8.1m or €139K per shop. The shop depreciation charge of €4.1m reflects a historical capital cost per new shop of over €0.5m. The removal of the ‘demand test’ for new openings within the Gambling Act gives us important additional flexibility in the format and size of our new shops, as well as reducing legal expenses, thereby giving an opportunity to reduce the capital cost of new shops.

Given the marked improvement in the performance of the UK estate, together with the improved regulatory environment for shop opening, we conducted a detailed review of the potential for expansion in other UK cities last year. The review leveraged our experience of what drives the performance of our best shops and comprehensive local area profiles to produce a shortlist of cities. A rigorous investigation of this shortlist was completed including numerous shop visits, market research and site assessments, to test and refine our financial projections. Based on the results of this work, in addition to opening further shops in London, we will also open shops in Manchester and Glasgow this year and expect to at least double the size of the estate over the next three years. We expect new shops opened to be loss-making initially with up-front central costs also arising from the appropriate investment in a local office infrastructure in both Manchester and Glasgow.

The Non Retail Division

€m	**2007**	**2006**	**% Change**
Sportsbook gross win %	*9.2%*	*7.9%*	
Divisional operating profit	**38.4**	**29.4**	**+30%**

The Non Retail division comprises online betting and gaming and telephone betting. In 2007, we added a sports risk management service to the sportsbook targeting companies with exposure to sporting results from marketing or player bonus arrangements. Operating profit from the division increased by 30% to €38.4m, comprising €32.0m from the online channel, an increase of 36%, and €6.4m from the telephone channel, an increase of 7%.

Sportsbook turnover within the Non Retail division is broadly an even mix from Irish and UK based customers. This influenced the average gross win percentage in 2007 of 9.2%, with an exceptionally high percentage achieved from Irish customers, partially diluted by a lower percentage in line with expectations from UK customers. This rate of 9.2% in 2007 compares to an expected mid-point for the division of 8.0% and a rate in 2006 of 7.9%.

As a result of tax developments that became effective last September, we saved €1.8m in betting tax within the Non Retail division in 2007. Assuming a continuation of the new tax situation, the impact of these changes in a full year based on 2007 levels of activity would be approximately €5m, thereby increasing Non Retail gross profit by approximately another €3.2m.

(i) The Online Channel

€m	**2007**	**2006**	**% Change**
Amounts staked	629.7	525.4	+20%
Sportsbook gross win	54.1	39.1	+38%
Sportsbook gross win %	*9.2%*	*7.9%*	
Gaming gross win	40.7	28.3	+44%
Total gross win	**94.8**	**67.4**	**+41%**
Gross profit	75.4	51.7	+46%
Operating costs	(43.4)	(28.3)	+53%
Operating profit	**32.0**	**23.4**	**+36%**

The online channel continues to be characterised by strong growth, combined with a significant level of investment to drive future growth. Operating profit increased by 36% or €8.6m in 2007, notwithstanding investments of approximately €6m made to expand online activities into new geographies through the German and Spanish language betting businesses, and into new product markets such as bingo and financial spread betting. The major drivers of the total €15.1m increase in operating costs were:

- The launch of new businesses and expansion of businesses recently launched;
- Investment in people to drive further development and growth;
- Volume driven promotional spend and marketing spend; and
- Growth in variable costs due to increased activity levels.

Customer numbers in the online channel continued to grow strongly with a 32% increase at the end of 2007 compared to 2006. The growing customer base has also demonstrated a strong propensity towards multi product usage, highlighting the importance of Paddy Power's broad and expanding product offering. We continue to invest in people and technology to optimise our online customer acquisition, through both affiliate and non-affiliate sources, and our customer retention. For example, we added our newly developed affiliate management system to paddypower.com during the year, automating the process for other web site operators to promote our products on their websites. An Irish general election micro site also attracted political punters and media to our site and gave them a taste of Paddy Power early payouts when we paid out on Bertie Ahern to lead the incoming government before the count commenced.

Online Channel Active Customers	31 December 2007	31 December 2006	% Change
Ireland and Rest Of World	57,852	42,735	+35%
UK	87,723	67,380	+30%
Total	**145,575**	**110,115**	**+32%**

Online Customers Product Usage	31 December 2007	31 December 2006	% Change
Sportsbook only	80,578	60,811	+33%
Gaming only	29,957	25,885	+16%
Multi product customers	35,040	23,419	+50%
Total	**145,575**	**110,115**	**+32%**

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

(a) Sportsbook

The amounts staked on the online sportsbook increased by 18% to €589m - thanks in no small part to the Football Association of Ireland being unable to appoint a new manager leading to one of the most open contests since an Anna Nicole Smith paternity test. Within this turnover increase, bet volumes grew 24% to 20.0m while the average bet value declined by 4% to €29.40, affected somewhat by a higher average gross win percentage. Gross win in the sportsbook increased by 38% to €54.1m, helped by a 9.2% gross win percentage as compared to 7.9% in the comparative period and our mid-point expectation of 8.0%.

Sports punters benefited from a range of refunds and early payouts. Following the disappointment for Irish rugby backers of the team's last minute defeat to France, we reacted with a high profile early payout on bets on Ireland to beat England and win the Triple Crown, the day before the historic encounter with England at Croke Park, and two weeks before the trip to Murrayfield. Equally, we refunded backers of Lewis Hamilton following concerns that team orders cost him victory at his maiden Monaco Grand Prix. While England's failure to secure at least a draw against Croatia and qualify for Euro 2008 was a financial disappointment for us, we took some of the financial sting out of it for customers who took advantage of our 'Cro-tastrophy' Money-Back Special - money slipping out to hurting punters like a tamely struck football through Scott Carson's fingers.

Our trademark product innovation continues to give more choice to the customer with over 80 new markets added in 2007. Highlights included horse racing betting-in-running for all races on terrestrial TV, Asian and alternative Asian handicap markets (don't ask!) in soccer and total tries and points betting-in-running markets for rugby and gaelic football.

Despite the recent German legislation, we remain encouraged by prospects in the medium term for expansion in continental Europe. We developed our knowledge, product offering and technology significantly through experience with the German language site. The Spanish language online betting site we launched in August is performing in line with expectations. Our commitment to a fully localised offering, combined with a Paddy Power approach, was demonstrated by our introduction of the world's first bull fighting betting markets. These businesses represent investments for the medium term, as we tackle the significant challenge of attempting to replicate our successful penetration of the UK online market, in the face of regulatory, competitive and cultural hurdles.

(b) Gaming

Our online channel generates gaming revenues from casino, games, poker, bingo and financial spread betting. Revenue from these sources, representing the operator's 'hold' or commission income, increased by 44% to €40.7m. This was driven by a very strong performance in Casino and Games, aided by particularly strong growth in Poker in the first quarter and all gaming in the summer with the absence of the distractions for players in 2007 of the World Cup and sunshine!

While standing out from the pack in online Casino and Games is particularly challenging, their revenue growth last year highlights what can be achieved with the Paddy Power combination of breadth and depth of product, brand, customer service and technology expertise. In 2007, these capabilities were used to deliver a wide and expanded selection of quality games for customers including new big brand games such as 'Monopoly', 'Deal Or No Deal' and 'MegaJackpots' (the world's largest seeded network progressive game with a £1.5 million jackpot); a redesign and upgrade to the Games website to improve navigation, download times and promotion of the expanded product range; and highly effective customer service, segmentation and cross selling activity.

During March 2007, we migrated our poker customers to another network, Playtech, which had acquired our supplier. We subsequently implemented a range of initiatives to counter the negative impact of the change in software and the loss of liquidity from high staking customers of other members of the previous network, both of which adversely affected yield per player. These initiatives included leveraging relative strengths of the new software such as the availability of side card games; focussing hard on our normal growth drivers to offset the peak in customer churn at migration; and advancing software changes with the supplier to improve the customer experience, where work is still continuing. These initiatives had a positive impact but were hampered by an average 8% depreciation in the US dollar relative to the Euro in 2007 compared to 2006, online poker being generally played in dollars even on sites like ours without US resident players. While the poker business therefore faced new challenges last year, we have made progress since the migration and our commitment is underlined by our sponsorship of the Irish Open poker tournament. The 2007 event set a further landmark as Europe's largest ever tournament with over 700 players and Paddy Power is guaranteeing the 2008 event with a €3 million prize fund, an additional €1 million over 2007.

Bingo increased its contribution to revenue benefiting from significant early growth in the market and a gradually increasing level of investment. In September, the growth in our liquidity enabled us to transition to a standalone platform supplied by Parlay. This has given us greater independence to build community, offer value and innovate, consistent with core Paddy Power values. In December, we also invested in a billboard advertising campaign for bingo, playing on the fact that 80% of the industry's online bingo players are reportedly female. We used the strap line 'where have all the women gone?' discovering in the process that a picture of a man's naked 'breast' is now also liable to be censored – I guess that's equality for you.

We launched paddypowertrader.com, an online financial spread betting business, in July. Paddy Power Trader markets spread betting opportunities on equities, commodities, currencies and indices with a differentiating emphasis on education and, of course, entertainment giving the customer the roller-coaster excitement experience of investing in Northern Rock with the added bonus of the chance of seeing their money again. We are satisfied with the initial performance and increased our level of investment in this attractive market with a print media advertising campaign in January.

(ii) The Telephone Channel

€m	2007	2006	% Change
Amounts staked	296.6	306.6	-3%
Gross win	**27.0**	**24.5**	**+10%**
Gross win %	*9.1%*	*8.0%*	
Gross profit	24.8	22.4	+11%
Operating costs	(18.4)	(16.4)	+12%
Operating profit	**6.4**	**6.0**	**+7%**

Active customers in the telephone channel increased by 10% in full year 2007 compared to 2006 and the average stake per bet was broadly unchanged at €102.52. However bet volumes were 3% lower at 2.9m. This resulted overall in a 3% reduction in the amounts staked driven by:

- Negative recycling as a result of the high gross win percentage in the first half of the year (10.1% compared to 8.0% in the comparable period);
- A reduction in betting events due to the absence of the football World Cup and an increase in cancelled racing in the second half of the year;
- Increased net migration of customer spending from our telephone to our online channel; and
- Continued competition in the market.

Profitable growth continues to be the priority within the telephone channel and, despite a tough comparative following the 65% increase in operating profit achieved in 2006, we were pleased to achieve growth in operating profit of 7% in 2007.

Telephone Channel Active Customers	**2007**	**2006**	**% Change**
Ireland and Rest Of World	11,417	11,048	+3%
UK	10,064	8,923	+13%
Total	**21,481**	**19,971**	**+8%**

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

People

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'. We have been investing heavily in recruitment and the average number employed in the Group during 2007 increased by 9% to 1,536. The additional people employed augment teams in our growing existing businesses and those developing our portfolio of newer businesses. During 2007 we also introduced the workwithpaddy.com site to showcase working life and job opportunities at Paddy Power. Once employees are on board, we believe in developing people and giving talented individuals the best informal and formal training in the industry. Eight out of ten senior managers at Paddy Power have grown through the ranks, (the other two of the ten having stumbled into the wrong office one morning, liked what they saw, sobered up and stayed). 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.

Marketing

Needless to say, we take our business, and growing and investing in it, very seriously. But we're committed to never letting this driven, analytical and disciplined aspect of Paddy Power overrule what remains our greatest asset and source of difference – our brand.

Our brand – and brand values of fun, occasional irreverence, and putting the customer first – differentiates us from the rest of the pack, and we continuously invest in it to stay ahead. We apply these values in numerous ways to give something extra to customers such as the 50,000 bottles of branded water we gave away at the Galway races. You couldn't drink tap water in Galway City during the races because it was contaminated with…...well suffice to say our bottles were branded 'free refreshing natural spring water – no s**t!'

Our traditional racing and sports sponsorship deals, also received a new stable mate in 2007 with our sponsorship of the inaugural Ted Fest – a weekend of feck, arse and girls for Father Ted aficionados on Inis Mór. Great fun, and great 'on brand' cost effective marketing, like the many examples referenced in this report.

Trading & Risk Management

Trading and risk management is pivotal to our business and we have continuously invested to build a function that can maintain a leadership position in the industry. Not only does it give us better management of the volatility inherent with sporting results, but also superior product and operational efficiency. In sampled high profile soccer matches, we actually increased our leadership position in the number of markets offered from the position a year earlier. We had introduced a further seven betting-in-running markets while our competitors on average had withdrawn one such market. This highlights the necessity for absolute operational efficiency in order to profitably introduce incremental betting markets. We now provide betting-in-running for pretty much every soccer game for which the UK or Irish punter can get TV pictures – that's over 100 matches a week during the Premiership. Racing product also stays ahead of the competition. For example we offer betting-without-the-favourite on all UK races, a product our competitors only offer on a rare ad-hoc basis. This culture of innovation also facilitates cross fertilisation of ideas with for instance the 'insure bet' product we introduced for horse racing (with the punter getting refunded if his horse is second) now extended to football, rugby and golf. This range of product is not merely a source of turnover but also a source of competitive advantage and a barrier to any new entrant considering entering the market.

Taxation

The corporation tax charge for 2007 was €13.0m, an effective tax rate of 17.2%, compared to 17.0% in 2006. No corporation tax is currently payable in the UK due to tax losses. A deferred tax asset has not been recognised in respect of accumulated UK losses given the expected losses from the planned 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 passive interest income which is taxed above the standard rate.

Cash Flow and Cash Balances

Cash balances at 31 December 2007 were €87.9m compared to €87.1m at 31 December 2006. This included cash balances held on behalf of customers of €15.3m compared to €13.4m at 31 December 2006. Net cash generated from operating activities was €97.5m in 2007 compared to €67.7m in 2006, an increase of 44% or €29.8m. This was driven by operating profit growth of 52% or €24.5m. Capital expenditure on tangible and intangible assets was €15.4m, comprising primarily the organic opening and upgrading of retail outlets. Additional capital expenditure of €5.4m was incurred on purchase consideration and transaction expenses for the acquisition of eight shops. Cash returns to shareholders were €73.7m, an increase of €62.5m over 2006 driven by share buybacks of €54.2m.

Foreign Exchange Risk and Impact of Sterling Weakness

The significant turnaround in UK Retail and Non Retail's increased profits from UK customers in 2007 means that net sterling denominated income now represents approximately half of Group EBIT. An average sterling euro exchange rate for 2008 in line with the current rate of approximately 0.76 - a 10% depreciation compared to last year's average rate of approximately 0.68 - would have a negative impact on Group operating profit of approximately €4m. From a cashflow perspective, this is partially offset by the Group's need for sterling for capital expenditure as it expands in the UK, with in turn lower future depreciation costs. A similar but significantly smaller currency exposure also arises in relation to any depreciation in the US dollar against the euro as a result of poker activity being transacted in US dollars. Group policy allows the Group to hedge foreign exchange exposure. At the year end, no foreign exchange contracts were open.

Patrick Kennedy	Jack Massey
Chief Executive	*Finance Director*

29 February 2008

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2007

	Note	**2007** **€'000**	Before exceptional item 2006 €'000	Exceptional item (Note 5) 2006 €'000	Total 2006 €'000
Amounts staked by customers		**2,027,777**	1,795,090	-	1,795,090
Continuing Operations					
Income	*3*	**278,952**	218,706	-	218,706
Direct betting costs	*4*	**(36,534)**	(35,090)	-	(35,090)
Gross profit		**242,418**	183,616	-	183,616
Employee expenses		**(78,890)**	(64,227)	-	(64,227)
Property expenses		**(23,403)**	(21,174)	-	(21,174)
Marketing expenses		**(23,705)**	(17,309)	-	(17,309)
Technology and communications		**(13,685)**	(11,537)	-	(11,537)
Depreciation and amortisation		**(20,848)**	(15,512)	-	(15,512)
Other expenses, net		**(9,781)**	(8,395)	2,098	(6,297)
Total operating expenses		**(170,312)**	(138,154)	2,098	(136,056)
Operating profit		**72,106**	45,462	2,098	47,560
Financial income		**3,722**	2,139	-	2,139
Profit before tax		**75,828**	47,601	2,098	49,699
Income tax expense	*6*	**(13,050)**	(8,033)	(421)	(8,454)
Profit for the year from continuing operations – all attributable to equity holders of the Company		**62,778**	39,568	1,677	41,245
Earnings per share					
Basic	*7*	**€1.274**			€0.819
Diluted	*7*	**€1.252**			€0.811

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

Notes 1 to 9 on pages 18 to 26 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE
Year ended 31 December 2007

	2007 €'000	2006 €'000
Profit for the year	**62,778**	**41,245**
Foreign exchange translation difference	**(1)**	**1**
Total recognised income and expense	**62,777**	**41,246**

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

Notes 1 to 9 on pages 18 to 26 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
As at 31 December 2007

	31 December 2007	31 December 2006
	€'000	€'000
Assets		
Property, plant and equipment	**69,432**	76,240
Intangible assets	**9,947**	9,260
Goodwill	**5,473**	1,880
Deferred tax assets	**364**	195
Total non current assets	**85,216**	87,575
Trade and other receivables	**4,206**	4,203
Cash and cash equivalents	**87,885**	87,061
Total current assets	**92,091**	91,264
Total assets	**177,307**	178,839
Equity		
Issued capital	**4,923**	5,124
Share premium	**10,819**	10,163
Treasury shares	**(5,975)**	-
Shares held by long term incentive plan trust	**(13,089)**	(8,137)
Other reserves	**11,149**	6,536
Retained earnings	**109,535**	114,445
Total equity	**117,362**	128,131
Liabilities		
Trade and other payables	**51,850**	45,016
Derivative financial instruments – sports betting open positions	**3,556**	2,848
Current tax payable	**667**	1,568
Total current liabilities	**56,073**	49,432
Trade and other payables	**3,685**	1,247
Derivative financial instruments – sports betting open positions	**187**	29
Total non current liabilities	**3,872**	1,276
Total liabilities	**59,945**	50,708
Total equity and liabilities	**177,307**	178,839

Notes 1 to 9 on pages 18 to 26 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2007

	2007 €'000	2006 €'000
Cash flows from operating activities		
Profit before tax	**75,828**	49,699
Financial income	**(3,722)**	(2,139)
Depreciation and amortisation	**20,848**	15,512
Cost of employee share-based payments	**6,216**	3,184
Loss / (gain) on disposal of property, plant and equipment and intangible assets	**211**	(1,183)
Cash from operations before changes in working capital	**99,381**	65,073
Decrease / (increase) in trade and other receivables	**61**	(2,013)
Increase in trade and other payables	**12,251**	13,209
Cash generated from operations	**111,693**	76,269
Income taxes paid	**(14,144)**	(8,526)
Net cash from operating activities	**97,549**	67,743
Cash flows from investing activities		
Purchase of property, plant and equipment	**(12,466)**	(17,855)
Purchase of intangible assets	**(2,945)**	(7,921)
Purchase of businesses	**(5,415)**	-
Proceeds from disposal of property, plant and equipment and intangible assets	**184**	3,028
Interest received	**3,712**	2,084
Net cash used in investing activities	**(16,930)**	(20,664)
Cash flows from financing activities		
Proceeds from the issue of new shares	**669**	2,699
Purchase of treasury shares	**(54,242)**	-
Purchase of shares by long term incentive plan trust	**(6,715)**	(3,742)
Dividends paid	**(19,507)**	(11,293)
Net cash used in financing activities	**(79,795)**	(12,336)
Net increase in cash and cash equivalents	**824**	34,743
Cash and cash equivalents at start of year	**87,061**	52,318
Cash and cash equivalents at end of year	**87,885**	87,061

Notes 1 to 9 on pages 18 to 26 form part of these consolidated financial statements.

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 consolidated financial statements of the Group for the year ended 31 December 2007 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 29 February 2008.

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 at 31 December 2007. 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 financial statements are those that were effective at 31 December 2007. 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' (effective for periods beginning on or after 1 January 2009). This standard replaces IAS 14, 'Segment Reporting'. The Directors are currently considering the impact of this standard on Group reporting.
- IFRIC 11, IFRS 2 – 'Group and Treasury Share Transactions' (effective for periods beginning on or after 1 March 2007). This IFRIC is not expected to be material in terms of 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 Note 9.

Income
The services provided by the Group comprise sports betting, fixed odds games betting, online casino and games and peer to peer games, including online poker and bingo. 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 on which commission income and tournament fees are earned, are classified as derivative financial instruments.

Income from retail, telephone and online sportsbook 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 casino represents net winnings ('customer drop'), being amounts staked net of customer winnings.

Income from peer to peer games 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 accounts.

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

3. Segment reporting

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 2007 and 2006 is analysed as follows:

	2007 €'000	2006 €'000
Income in respect of sportsbook and gaming activities	**264,191**	207,101
Other commission revenue (included in non retail income)	**14,761**	11,605
Total income	**278,952**	218,706

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, as these activities do not involve customers taking a direct position against the Group, it is not classified as income from derivative financial instruments.

(a) By business segment

The Group considers its primary business segments to be 'retail' and 'non retail'. The retail business segment comprises the Group's Irish and UK licensed bookmaking shop estates. The non retail business segment comprises the Group's online and telephone sports betting businesses and its online gaming businesses, primarily casino, games, poker and bingo.

Business segment information for the year ended 31 December 2007:

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

Business segment information for the year ended 31 December 2006:

	Retail	Non retail	Other unallocated	Total
	31/12/06	31/12/06	31/12/06	31/12/06
	€'000	€'000	€'000	€'000
Income	126,783	91,923	-	218,706
Direct betting costs	(17,250)	(17,840)	-	(35,090)
Gross profit	109,533	74,083	-	183,616
Depreciation and amortisation	(12,035)	(3,449)	(28)	(15,512)
Other operating costs	(79,258)	(36,911)	(6,473)	(122,642)
Operating profit before property gain	18,240	33,723	(6,501)	45,462
Property gain	2,098	-	-	2,098
Operating profit	20,338	33,723	(6,501)	47,560
Financial income	-	-	2,139	2,139
Profit before tax	20,338	33,723	(4,362)	49,699
Total assets	87,970	12,350	78,519	178,839
Segment liabilities	14,559	22,466	13,683	50,708
Capital expenditure	22,422	4,421	2	26,845

The amounts shown in the 'other unallocated' category above, representing items that cannot be allocated to either the retail or non 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 retail bookmaking business, online and telephone sports betting from UK customers, and online gaming from UK customers.

	Ireland & other	Ireland & other	**UK**	UK	**Total**	Total
	31/12/07	31/12/06	**31/12/07**	31/12/06	**31/12/07**	31/12/06
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Income	**188,407**	148,462	**90,545**	70,244	**278,952**	218,706
Segment assets	**128,331**	131,269	**48,976**	47,570	**177,307**	178,839
Capital expenditure	**11,787**	14,369	**1,434**	12,476	**13,221**	26,845

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

	2007	2006
	€'000	€'000
Amounts staked by customers		
Retail – Ireland	**930,005**	833,125
Retail – UK	**171,497**	129,936
Retail	**1,101,502**	963,061
Online	**629,671**	525,425
Telephone	**296,604**	306,604
	2,027,777	1,795,090
Income		
Retail – Ireland	**126,086**	104,385
Retail – UK	**31,029**	22,398
Retail	**157,115**	126,783
Online (including commission revenue)	**94,794**	67,404
Telephone	**27,043**	24,519
	278,952	218,706
Gross profit		
Retail – Ireland	**116,451**	91,510
Retail – UK	**25,784**	18,023
Retail	**142,235**	109,533
Online	**75,394**	51,731
Telephone	**24,789**	22,352
	242,418	183,616
Operating profit before exceptional item		
Retail – Ireland	**34,607**	22,025
Retail – UK	**(904)**	(5,995)
Retail	**33,703**	16,030
Online	**31,962**	23,428
Telephone	**6,441**	6,004
	72,106	45,462

4. Direct betting costs

Direct betting costs comprise:

	2007	2006
	€'000	€'000
Betting taxes	18,263	12,895
Software supplier costs	8,711	7,487
Data rights	3,269	2,411
Other direct betting costs	6,291	12,297
	36,534	35,090

Betting taxes comprise taxes levied on gross win and tax levied on Irish retail amounts staked generated in the period 1 July 2006 to 31 December 2007. On 1 July 2006, the Irish government replaced the previous 2% customer based betting tax with a 1% tax levied on the bookmaker.

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

Data rights mainly comprise costs incurred in respect of British Horseracing Board and UK statutory levies.

Other direct betting costs comprise discounts on bets granted in the Irish retail estate prior to 1 July 2006, payments to third parties for new online customers acquired, prize and tournament costs and other miscellaneous direct betting costs.

5. Exceptional item

	2007	2006
	€'000	€'000
Gain on disposal of Irish retail shop property	-	2,098

During the 2006 financial year, the Group disposed of a shop property. This property, which formed part of the Group's Irish retail licensed bookmaking operations, was originally held under an operating lease. The Group exercised a purchase option contained in the lease and subsequently sold the property at arm's length to a third party, simultaneously entering into a leaseback agreement at arm's length with that third party.

6. Income tax expense

	2007	2006
	€'000	€'000
Recognised in the income statement:		
Current tax charge	**13,336**	8,536
Prior year (over) / under provision	**(117)**	789
	13,219	9,325
Deferred tax (credit)	**(169)**	(403)
Prior year (over) provision	**-**	(468)
(Decrease) in deferred tax	**(169)**	(871)
Total income tax expense in income statement	**13,050**	8,454

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:

		2007		2006
		€'000		€'000
Profit before tax		**75,828**		49,699
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5% (2006: 12.5%)	12.5%	**9,479**	12.5%	6,212
Depreciation on non-qualifying property, plant and equipment	2.1%	**1,576**	0.6%	285
Betting duty	1.5%	**1,165**	1.1%	528
Other differences	0.6%	**475**	0.4%	221
Chargeable gains	0.0%	**-**	0.3%	159
Interest income taxable at the higher rates	0.6%	**472**	0.5%	260
(Over) / under provision in prior year	(0.1%)	**(117)**	1.6%	789
Total income tax expense	17.2%	**13,050**	17.0%	8,454

No corporation tax is payable in the UK due to the availability of tax losses. A deferred tax asset of €2,646,000 (2006: €2,842,000) 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, however there will be a decrease in the UK corporation tax rate from 30% to 28% as and from 1 April 2008.

7. Earnings per share

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

	2007	2006
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**62,778**	41,245
Numerator in respect of adjusted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**62,778**	41,245
Less: Property gain after tax	**-**	(1,677)
Profit for adjusted earnings per share calculation	**62,778**	39,568
Denominator in respect of basic earnings per share:		
Ordinary shares in issue at beginning of year	**51,238,437**	50,397,168
Adjustments for weighted average number of:		
- ordinary shares issued during year	**65,971**	494,991
- ordinary shares purchased and cancelled or held in treasury	**(1,317,283)**	-
- ordinary shares held by long term incentive plan trust	**(727,302)**	(547,905)
Weighted average number of ordinary shares	**49,259,823**	50,344,254
Basic earnings per share	**€1.274**	€0.819
Adjusted earnings per share	**n/a**	€0.786
Denominator in respect of diluted earnings per share:		
Basic weighted average number of ordinary shares in issue during year	**49,259,823**	50,344,254
Adjustments for dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and long term incentive plan	**871,785**	501,021
Weighted average number of ordinary shares	**50,131,608**	50,845,275
Diluted earnings per share	**€1.252**	€0.811
Adjusted diluted earnings per share	**n/a**	€0.778

8. Events after the balance sheet date

In respect of the current year, the directors propose that a final dividend of 35.00c per share (2006: 22.77c per share) will be paid to shareholders on 23 May 2008. 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 14 March 2008. The total estimated dividend to be paid amounts to €17,142,000 (2006: €11,665,000).

9. Accounting estimates and judgements

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

Goodwill of €5,473,000 (2006: €1,880,000) 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.

The share-based payment reserve, which includes amounts in relation to the Long Term Incentive Plan and various share option schemes, amounted to €10,013,000 at 31 December 2007 (2006: €5,613,000). The fair value of share options granted after 7 November 2002 has been determined using a Black Scholes valuation model. The significant inputs into the model include certain management assumptions with regard to the standard deviation of expected share price returns, expected option life and annual risk free rates.

The fair value of the Group's sports betting open positions amounted to €3,743,000 at 31 December 2007 (2006: €2,877,000) and the Group considers such arrangements to be derivative. 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 2007 and 2006, all retail premises leases qualify as operating leases.

A potential deferred tax asset of €2,646,000 (2006: €2,842,000) relating to the UK retail business has not been recognised as of 31 December 2007. Management continue to believe that there is considerable uncertainty as to the future profitability of the UK retail business and the timing of that profitability due to future business expansion plans. Management therefore deem it prudent not to recognise the potential deferred tax asset as at 31 December 2007.