Paddy Power plc

Annual Report 2007

WIN
1 of 10 exclusive
Father Ted
gift sets!
See page 1...

2007 got off to a divine start with our sponsorship of the world's first Father Ted festival, "TedFest". This three day hedonistic festival was a celebration of the iconic comedy series that ran on Channel 4 from 1995 to 1998. Father Ted revolves around the lives of three priests outcast by the Catholic Church to the imaginary parish of Craggy Island, somewhere off the Irish coast. In the decade since the final show was broadcast Father Ted has earned a very special place in the hearts and minds of comedy fans across the UK and Ireland.

So why would a bookie sponsor a festival in the depths of winter on a remote island in the middle of nowhere? Well, put simply, why not? In fact, our association with the Father Ted festival set the tone for what was to follow in 2007. Whether it was making a new world record for Elvis performances or asking a Tongan international rugby player to change his name to Paddy Power for the World Cup, there was a dash of the unexpected running through everything we touched.

Betting with Paddy Power has always been about entertainment and fun so to add a little sparkle to this Annual Report we've sprinkled in a few of our fun moments from 2007. And sticking with a Father Ted theme, we present them all Craggy Island style.

For those of you still scratching your heads about this whole Father Ted thing, why not try your luck with our Father Ted competition where you can win one of ten exclusive gift packs which include a DVD box set of the entire series.

Do we have too much time on our hands?
Well, that would be an ecumenical matter!

God bless,

Paddy Power

Paddy

paddypower.com

Ted Fest

23-25 Feb 2007

Win one of ten exclusive Father Ted gift sets!

Be the envy of the congregation with your very own limited edition Father Ted gift set. Each pack includes a DVD Box set of the series, a "Good Book" with a silver hip flask, miniature bottles of Paddy and Power whiskey (get it?), a "Lovely Girls" T-shirt and glow-in-the-dark rosary beads.

We've got ten to give away and to be in with a chance of winning simply e-mail your contact details to FrTed@paddypower.com before 30 May 2008. Ten winners will be chosen at random and contacted by e-mail. Good luck and God bless!

Directors and Other Information

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

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

Registered number
16956

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2007 Group Financial Highlights

Amounts staked (million)*

€2,028 +13%

Total income (million)*

€279.0 +28%

Profit before tax (million)

€75.8 +53%

Profit after tax (million)

€62.8 +52%

Earnings per share**

€1.274 +62%

Dividends per share

51.0c +58%

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

** Earnings per share growth is calculated excluding a once-off after-tax property gain of €1,677,000 that was recorded in the year ended 31 December 2006.

“My Lovely

...title of Ted and Dougal’s classic Song for Europe entry (episode 5, series 2)

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%

(Percentage changes in profitability are calculated based on 2006 results excluding an exceptional property gain)

Increased profits were recorded across all our business channels, with 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!

"Increased profits were recorded across all our business channels, with two particular highlights being the 44% growth in online gaming gross win, and the turnaround in UK Retail, which traded profitably in 2007 compared to a loss of €6.0m in 2006."

"If any Irish trained horse wins the National today, I'll buy everyone in Liverpool a pint tonight" bellowed a slightly tipsy Paddy Power to Angus Loughran live on BBC TV shortly before the off time of the Aintree Grand National. 33/1 shot Silver Birch duly obliged for the Emerald Isle and Paddy was suddenly a very popular man. Thankfully fellow "Irishman" John Aldridge came to the rescue and opened the doors of his popular Liverpool watering hole, Aldo's Place. Paddy got his cheque book out, rolled up his sleeves and kept his word.

Horse"

Chairman's Statement
(continued)

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

"Total cash dividends paid to shareholders in 2007 were €19.5m, an increase of 73% over 2006. In addition, €54.2m was spent on returning cash to shareholders via a share buyback programme."

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.

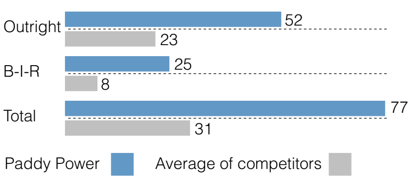
The significant ongoing investment in our brand, through these and many other initiatives, is what creates differentiation and loyalty, and ultimately the required financial payback through higher revenues and profits per shop and lower customer acquisition costs than our competitors.

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!

"Many who join us remark on the two very different sides to the Group. The first is a fun, fair, brand-led business. There is however another and equally vital side to Paddy Power - one which is analytical and data-led, driven and challenging."

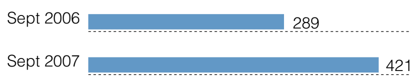
More markets...

Champions League Final Betting Markets



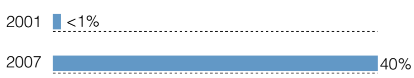
+ More matches...

Football Matches Offered In Running



= More turnover

Betting-In-Running in Non-Retail Sports Betting



“Drink, feck girls…

…says Father Jack as he judges the Lovely Girls Wet T-shirt competition (episode 7, series 2)

Chief Executive's Statement
(continued)

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

"Neither of the two sides to Paddy Power could on their own generate long-term competitive advantage. However, when blended it works... It is this blend that ultimately differentiates us."

In August we came galloping to the rescue of thirsty punters during Galway race week. We distributed 50,000 bottles of Paddy Power branded natural spring water free of charge during the race festival. Galway City was in the grip of the country's worst water pollution crisis which made tap water undrinkable. Each bottle also featured details of the 'Golden Turd' promotion offering five lucky punters the chance of winning €1,000 by revealing special labels on their bottles. All five winning labels were found (no sh*t!).

more water!"

"I'm Elvis;

...Ted and Dougal's surprised exchange as they prepare for the "All Priests Stars in Their Eyes Lookalike Competition" (episode 4, series 1)

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 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.

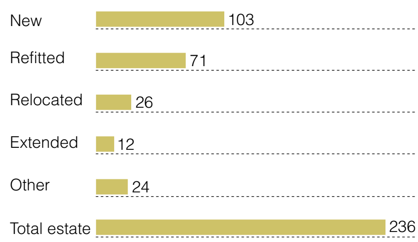
The Retail Division

	2007	2006	% Change
Irish Retail gross win %	13.6%	12.5%	
UK Retail gross win %	12.6%	12.6%	
Retail division operating profit (€m)	**33.7**	**16.0**	**+110%**
Average slip value	€21.72	€20.82	+4%

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.

"Exceptionally favourable sporting results were a key profitability driver but not the only one."

Irish & UK Retail Estate Investment - 90% of shops newly opened or redeveloped in last 5 years



The 16th of August 2007 marked the 30th anniversary of the death of Elvis Presley. Being the massive Elvis fans that we are, we teamed up with Elvis Tribute Artist Andy Woodward in an attempt to set a new world record of thirty live Elvis tribute performances by one person in one day. The first performance took place live on GMTV at 7.30am. Twelve hours later we broke the record live on BBC1's The Seven Show. In between we held performances at Abbey Road studios, live on Talksport radio and even outside Buckingham Palace.

I'm Elvis too"

Operating & Financial Review
(continued)

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 ten new shops and expect to continue to open six to ten 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.

"During 2007, we opened ten new shops in Ireland and expect to continue to open six to ten shops per annum... In addition, we acquired eight shops from other operators."

Operating & Financial Review
(continued)

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 five 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%
OTC 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.

"UK Retail like-for-like gross win grew by 22%, with OTC growth of 12% and machine growth of 46%."

"I'm mad with the hunger

...says Dougal to Ted as they both struggle with their Lenten abstinence (episode 8, series 2)

Operating & Financial Review
(continued)

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%**

"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 UK estate over the next three years."

After several well-documented delays Wembley Stadium finally opened its gates in summer 2007. And whilst looking very impressive it seemed the football fans were being asked to pay for the stadium with prices for food and drink higher than the Wembley arch itself. To ease the burden Paddy gave away free burgers from our "Paddy Wagon" ahead of England's first international game against Russia in the new stadium. To help serve the burgers Paddy enlisted help from former footballer and winner of Celebrity Fit Club, Micky Quinn. The pair of heavyweights couldn't resist tucking in ahead of the game.

Ted!"

Operating & Financial Review
(continued)

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 Dec 2007	31 Dec 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 Dec 2007	31 Dec 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

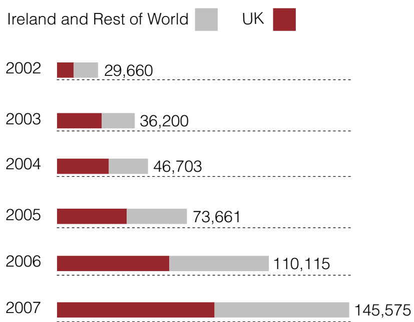
The amounts staked on the online sportsbook increased by 18% to €589m - thanks in no small part to the Football Association of Ireland being unable to appoint a new manager leading to one of the most open contests since an Anna Nicole Smith paternity test. Within this turnover increase, bet volumes grew 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.

"Customer numbers in the online channel continued to grow strongly with a 32% increase at the end of 2007 compared to 2006."

Online Channel Active Customers



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

Operating & Financial Review
(continued)

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.

"Our commitment to a fully localised Spanish offering was demonstrated by our introduction of the world's first bull fighting betting markets."

“Down with this sort of thing

...Ted and Dougal protest against immoral behaviour on Craggy Island (episode 3, series 1)

Operating & Financial Review
(continued)

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.

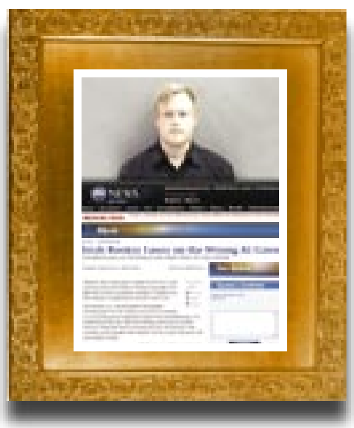
Telephone Channel Active Customers	31 Dec 2007	31 Dec 2006	% Change
Ireland and Rest of World	11,417	11,048	+3%
UK	10,064	8,923	+13%
Total	**21,481**	**19,971**	**+8%**

(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.

“We have been investing heavily in recruitment and the average number employed in the Group during 2007 increased by 9% to 1,536.”



As part of our 4th of July themed betting last year we offered odds on which high profile American would next be arrested. Amongst the list was ex-Vice President Al Gore at odds of 14/1. By a bizarre coincidence Al Gore’s youngest son, Al Gore Junior, was arrested for marijuana possession on Wednesday, July 4th. Punters who backed Al Gore wasted no time in making a case to be paid. We took over 50 bets on Al Gore costing us over €10,000. The story of our misfortune went around the world like wildfire and ended up on several international news networks.

...careful now!”

Operating & Financial Review
(continued)

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 stablemate 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

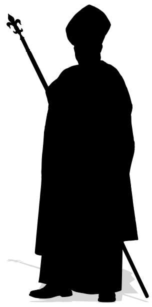
The significant turnaround in UK Retail and Non Retail's increased profits from UK customers in 2007 means that net sterling denominated income now represents approximately half of Group EBIT. An average sterling euro exchange rate for 2008 in line with the current rate of approximately 0.76 - a ten percent 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
Chief Executive

Jack Massey
Finance Director

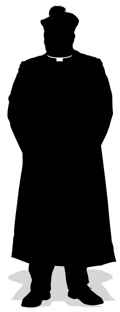
29 February 2008

Board of Directors



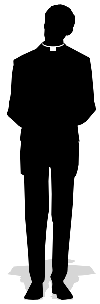
Patrick Kennedy*

(aged 38) 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.



Breon Corcoran*

(aged 36) 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 39) 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.

Fintan Drury

(aged 49), Chairman, is Chairman of sports and conference management company Platinum One and is a director of a number of other private companies. He is also a non-executive director of Anglo Irish Bank plc, and 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 appointed Chairman in May 2003.

Stewart Kenny

(aged 56) 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.

Tom Grace

(aged 59) was appointed as a non-executive director in January 2006. 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.

Nigel Northridge

(aged 52) was appointed as a non-executive director in July 2003 and became Senior Independent Director in December 2007. He was Chief Executive of Gallaher Group plc up to April 2007, when the company was sold to Japan Tobacco. He is currently fulfilling his commitment to assist with the integration of this transaction until April 2008. Nigel is also Senior Independent Director of Aggreko plc.

David Power

(aged 61) 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 47) 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, which has over 300 outlets in Ireland, the UK, Europe, Asia, Australia and Africa.

**Executive directors*

"You will address me by my proper title

....says an irate Bishop "Len" Brennan to Dougal (episode 3, series 1)

Directors' Report

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2007.

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 €62.8m reflects an increase of 52% on the 2006 profit figure of €41.2m. Basic earnings per share amounted to 127.4 cent compared with 81.9 cent in the previous year, an increase of 56%. The financial results for the year are set out in the consolidated income statement on page 40. Total equity at 31 December 2007 amounted to €117.4m (2006: €128.1m).

Dividends
An interim dividend amounting to 16.00 cent per share was paid during 2007. The directors recommend that a final dividend of 35.00 cent per share, amounting to €17.1m, be paid on 23 May 2008 to shareholders registered at close of business on 14 March 2008. This would make a total distribution of profit to shareholders of €25.0m in respect of the year ended 31 December 2007 (2006: €16.5m).

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 11 to 20.

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 regulatory, taxation or legislative environment applicable to the Group's activities;
- the intensity of competition in the Group's markets;
- the economic, demographic, technological and other macro factors (including exchange rates) affecting demand for, and revenue from, the Group's products;

Meet Epeli Taione, the Tongan centre who changed his name by deed poll to Paddy Power for the duration of the 2007 Rugby World Cup. With the luck of the Irish on loan, Paddy inspired his team to a famous victory over arch rivals Samoa in their World Cup opening match. Paddy even scored the match winning try early in the second half. The rest of the Tongan players were so grateful for our support that they all dyed their hair green for their next match against England. Sadly the IRB didn't see the funny side and made them dye it back as well as refusing to use Paddy's name in the official match programme!

you little bollocks!"

Directors' Report
(continued)

- 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 20. The composition and responsibilities of the Risk Committee are set out on page 32. 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 49 to 51.

Market research
The Group undertakes continuing market research across all business divisions in both Ireland and the UK. In 2007, 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 29 February 2008, the Company had 49,225,752 shares in issue, all of which are of the same class and carry the same rights and obligations (apart from 250,000 shares held by the Company as treasury shares which have no voting rights and no entitlements to dividends). With regard to the Company's shares: (i) there are no restrictions on their transfer; (ii) no person holds shares carrying special rights with regard to the control of the Company; (iii) there are no shares to which an employee share scheme relates carrying rights with regard to the control of the Company; (iv) there are no restrictions on the voting rights attaching to the Company's shares; and (v) there are no agreements between shareholders that are known to the Company that may result in restrictions on the transfer of securities or on voting rights. Further information on the Company's share capital is set out in Note 19 to the consolidated financial statements.

Own shares held
The Paddy Power plc Employee Benefit Trust (the 'Trust') was originally established to manage the Long Term Incentive Plan and also manages the Managers' Deferred Share Award Scheme (collectively referred to as the 'share award schemes'). Further information on these schemes is presented in the Remuneration Committee Report on pages 35 and 36. During the year ended 31 December 2007, the Trust purchased 325,000 (2006: 280,000) Paddy Power plc shares at a cost of €6.7m (2006: €3.7m). During 2007, the Trust transferred 183,472 (2006: 55,500) ordinary shares that had vested to beneficiaries of the Trust. At 31 December 2007, the Trust held 796,028 (2006: 654,500) ordinary shares in Paddy Power plc, representing 1.62% (2006: 1.28%) of the issued share capital. Further information is set out in Note 21 to the consolidated financial statements.

Directors' Report
(continued)

During 2007, the Company purchased 2,389,443 of its own shares. Of the shares purchased, 2,139,443 shares were subsequently cancelled and the remaining 250,000 were held as treasury shares as of 31 December 2007 and represent 0.51% (2006: nil) of the issued share capital. The treasury shares have no voting rights and have no entitlement to dividends. Further information is set out in Note 19 to the consolidated financial statements.

Substantial holdings
As at 29 February 2008, 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	%
Nordea Investment Funds SA	**3,814,800**	7.79%
Fidelity Investments Limited	**3,505,050**	7.16%
Deutsche Bank AG	**1,597,942**	3.26%
John Corcoran	**1,500,000**	3.06%

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
Patrick Kennedy, Stewart Kenny, Nigel Northridge and David Power were re-elected as directors by the shareholders at the AGM in May 2007 after retiring by rotation. Brody Sweeney and Breon Corcoran retire from the Board by rotation in 2008 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 36. On 2 March 2007, Nuala Hunt resigned as Company Secretary and David Johnston was appointed as Company Secretary in her place.

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 36.

Directors' remuneration
Details of directors' remuneration are given in the Remuneration Committee Report on page 35 and in Note 7 to the financial statements on page 55. 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 2007 in the share capital of Paddy Power plc, all of which were beneficially owned, were as follows:

	Number of ordinary shares of 0.10 each	
	31 December 2007	31 December 2006 (or date of appointment if later)
Fintan Drury	**19,400**	19,400
Patrick Kennedy	**23,500**	16,000
Breon Corcoran	**108,620**	70,448
Jack Massey	**5,000**	5,000
Tom Grace	**5,000**	5,000
Stewart Kenny	**403,832**	419,832
Nigel Northridge	**3,000**	3,000
David Power	**4,398,788**	4,398,788
Brody Sweeney	**5,550**	-
David Johnston (Secretary)	-	-

There have been no changes in the above shareholdings between 31 December 2007 and the date the directors approved these financial statements.

Directors' Report
(continued)

The directors and the Company Secretary, who held office at 31 December 2007, had the following movements in share options during the year and held the following share options at 31 December 2007:

	Number of options at start of year	Options exercised during the year	Options granted during the year	Number of options at end of year	Exercise price (a)	Exercise period
Patrick Kennedy	1,785	-	-	1,785	€11.29	5 December 2011 – 5 June 2012
Breon Corcoran	20,000	-	-	20,000	€8.15	24 February 2007 – 24 February 2011
Breon Corcoran	1,020	-	-	1,020	€11.60	6 October 2008 – 6 April 2009
Jack Massey (b)	-	-	614	614	€19.26	4 December 2010 – 4 June 2011
David Johnston (Secretary)	-	-	4,000	4,000	€24.17	5 September 2010 – 5 September 2017

(a) The market price of the Company's shares at 31 December 2007 was €22.51 and, for the year then ended, the Company's daily closing share price ranged between €15.05 and €28.55 (2006: ranged from €11.90 to €16.29 and was €15.06 at year end).

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

During the financial year ended 31 December 2007, the executive directors had the following interests and were conditionally granted the following shares under the Long Term Incentive Plan scheme:

	Grants outstanding at start of year	Granted during year	Vested during year	Grants outstanding at end of year	Date shares granted	Share price at date of grant	Cost of shares vested to directors during the year €'000
Patrick Kennedy	150,000	80,000	-	230,000	5 March 2007	€17.15	-
Breon Corcoran	180,000	70,672	(30,672)	220,000	5 March 2007	€17.15	294
Jack Massey	35,000	30,000	-	65,000	5 March 2007	€17.15	-

The awards are subject to the rules of the scheme and will vest if testing growth performance targets are met over the minimum vesting period. Further details of the scheme are outlined in the Remuneration Committee Report and in detail in Note 21 to the consolidated financial statements. The cost of shares vested during the year included in the table above represent the value of shares at original cost vested from the Long Term Incentive Plan (see Note 21) to directors during the year. No shares were vested to directors in office during the year ended 31 December 2006.

During the financial year ended 31 December 2007, the Company Secretary was conditionally granted 2,721 shares under the Managers' Deferred Share Award Scheme. Further details of the scheme are outlined in the Remuneration Committee Report on page 36 and in Note 21 to the consolidated financial statements.

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

Employees

Enthusiastic, energised and customer focused employees are critical to Paddy Power's success. These employee qualities have been a recurring feature at the Group, with a particular highlight in 2007 being our William Street, Limerick, shop manager, Ian Madigan, winning the Irish section of the Racing Post/ SIS Betting Shop Manager of the Year competition. The Group continues to attract new talent as well as focusing on the development and retention of employees. We launched a dedicated careers website in 2007, 'www.workwithpaddy.com', which has improved our exposure and reduced our dependencies on agencies to find key talent. We continue to invest in the sourcing of the next generation of management talent through our dedicated in-house recruitment function.

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. Employee policies are aligned to our business needs and take into account external legislation and internal codes of conduct as well as Paddy Power's values as an organisation. We continue to engage proactively with our staff, for example through our established retail employee communications group, staff intranet and employee surveys.

Safety, Health and Welfare at Work Act 2005

Paddy Power is committed to the safety and well being of employees at work and has taken all the necessary steps to ensure 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.

Directors' Report
(continued)

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.

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

Corporate and Social Responsibility
Paddy Power appreciates that it has important responsibilities to its customers and the broader community, as well as to its employees and shareholders. The Group is committed to acting fairly and properly in all 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. Set out below are brief overviews of some areas of particular focus for the Group:

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 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 help to fund Gamcare via contributions to the Responsibility in Gambling Trust.

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 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 head office and retail shops nationwide and we now recycle 100% of all waste.

"Paddy Power appreciates that it has important responsibilities to its customers and the broader community, as well as to its employees and shareholders."

“That money was only resting

...says Ted regularly denying his involvement in the embezzlement of the church funds, the reason for his exile to Craggy Island

Directors' Report
(continued)

Examples of environmental initiatives in place during 2007 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 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. Shareholders are also encouraged to elect to receive electronic means of communication.

Charities

Paddy Power maintains 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. During the year the Group spent €171,869 on charitable donations (2006: €111,279).

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 accounts 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

Patrick Kennedy

Jack Massey

29 February 2008

When it comes to beating the banks there is nobody more qualified than Rogue Trader, Nick Leeson. Nick is a pal of ours since 2001 when he was on hand to flip the ceremonial switch on our online betting site, paddypower.com. This time Barings' least favourite employee posed for photos at the launch of our new financial spread betting business, paddypowertrader.com, at Dublin's International Financial Services Centre.

in my account!"

Corporate Governance

The Board is committed to maintaining the highest standards of corporate governance and this commentary describes how the Group applies the main and supporting principles of the 2006 Combined Code on Corporate Governance, which sets out principles of good governance and a code of best practice and which is appended to the Listing Rules of the Irish and London Stock Exchanges.

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 final financial statements, reviews the Group's systems of internal control and approves any significant changes in accounting policies. It approves all resolutions and related documentation put before shareholders at general meetings. The Board sets the Group's dividend policy, approves the interim dividend and recommends the final dividend.

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

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

It is essential that all Board members have sufficient time to add real value to your Company. With this in mind and, reflecting the regulatory obligations and the wider demands of this Board, it has been agreed that 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. Executive directors should hold non-executive directorships with no more than one other group.

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 nine 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 at least one additional independent non-executive director in 2008. After this appointment the Board membership will increase to ten, five of whom will be independent non-executive directors, two of whom will be non-executive founder directors and three of whom will be executive directors.

In 2004, the Board decided that, effective from the date of flotation, all non-executive directors of Paddy Power would serve a maximum of two three-year terms. It was agreed that the Nominations Committee would retain the right, in special circumstances, to extend the tenure of any non-executive director for a further term, up to an absolute maximum of nine years in total.

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

The non-executive directors' responsibilities
In addition to their statutory responsibilities as outlined in the Statement of Directors' Responsibilities on page 37, it has been agreed by your Board that all directors will have three specific responsibilities:

- Attendance at Board meetings;
- Membership of at least one Board sub-committee; and
- Role as a 'mentor' to a particular area of the business.

Regular contact 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.

In addition to their 'standard' roles, the Board felt it would be very beneficial if individual non-executive directors were in a position to act as mentors to an individual or a team within the business, especially on strategic issues to which the director involved could contribute their relevant skills, experience and guidance. This is not about non-executives straying into operational affairs that are the business of management. It is about giving life to the Board's real desire to provide business counsel that can help grow the business and, with it, shareholder value. It is also a further check on the growing pressures on a Board to just supervise, dot i's and cross t's.

In that context, it is important too that non-executives do not feel either restricted by the corporate governance rules of engagement or feel that simple compliance with them will be sufficient to meet their obligations. That has never been the Paddy Power way and a commitment to corporate governance should not be interpreted as a change in our drive for innovation.

Corporate Governance
(continued)

The Chairman's role
The Chairman is a non-executive director and carries the same responsibilities as all his non-executive colleagues. His, however, is a wider role. As well as conducting Board meetings and being a member of sub-committees, your Chairman is the one constant in the management of Board affairs.

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.

A performance evaluation of the Board, its committees and its individual directors is undertaken annually. Your Chairman 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.

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 2005 Annual Report, the standard non-executive fee was set at €55,000 in 2006. It was also agreed that chairs of committees would be paid an additional fee of €10,000 and that the Chairman would receive an annual fee of €160,000. These fees were set for a two year period until 2008.

New fees have now been agreed and are as follows:

Chairman of the Board	€200,000
Committee chairman	€12,000
Audit Committee chairman	€20,000
Non-executive director	€70,000

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 I have previously said, it is my responsibility to ensure that the performance of all directors is at the levels required. In addition to the formal Board meetings, I have met with all directors individually to discuss their performance. David Power has conducted a detailed review of my performance with all directors, the results of which have been discussed with me. As Nigel Northridge was not appointed as the Senior Independent Director until December 2007, we felt that David Power was in the best position to undertake this review. David has conducted this review for the past three years, was not appointed during my tenure and has had the added benefit of serving under each of the chairmen of Paddy Power. The review of the Chairman's performance in 2008 and in subsequent years will be conducted by the Senior Independent Director.

Board operations and committees
The Board holds at least eight full Board meetings each year. Each non-executive member of the Board sits on at least one committee and each non-executive director mentors one part of the business where it is felt they can provide additional specialist advice to senior management. I expect all Board members to be available to me between meetings.

The composition of the Board committees as at 29 February 2008 was as follows:

Audit
Tom Grace (Chair); David Power; Brody Sweeney.

Remuneration
David Power (Chair); Fintan Drury; Nigel Northridge.

Nominations
Fintan Drury (Chair); Nigel Northridge; Patrick Kennedy; Stewart Kenny.

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

Corporate Governance
(continued)

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 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.

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 35 to 36.

Nominations Committee

The Nominations 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 the Committee agrees the preferred profile of the director with the Board as a whole and receives written recommendations from existing directors. Given the industry knowledge of the Board and the Committee members, as well as their general commercial experience, it is felt that this approach is more effective than using either advertised search or recruitment agencies. The quality of directors found using this approach has been excellent and the Board believes this is the best method 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 2007.

The attendance at Board and committee meetings by the directors who held office in 2007 are set out below:

	Note	Board	Audit	Remuneration	Nominations	Risk
Number of meetings held in 2007:		8	5	5	2	2
Attended by:						
F Drury*		8		5	2	
N Northridge*	a)	8		2	2	1
T Grace*		8	5			
B Sweeney*		8	5			
D Power**		7	4	5		2
S Kenny**		8			2	2
P Kennedy***		8			2	2
J Massey***		8				
B Corcoran***		8				2

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

a) Nigel Northridge moved from the Risk Committee to the Remuneration Committee on 3 July 2007. There was one Risk Committee meeting prior to that date, which Nigel attended, and there were two Remuneration Committee meetings after that date, both of which he also attended.

Corporate Governance
(continued)

The number of independent non-executive directors is now four (including the chairman) and there are five non-independent directors (including three executive directors).

Due to the number of independent directors serving in 2007 it was not possible to populate the Remuneration, Nominations and Audit Committees in accordance with the Combined Code at all times. The Group is committed to complying with corporate best practice and expects to complete the appointment of at least one additional non-executive director in 2008.

With regard to the Nominations Committee, which comprises four directors, two of whom are independent non-executive directors, the Board believes that the current balance of independence, industry knowledge and experience best suits the task at hand. The quality of their work is reflected in the excellent quality of the appointments and no changes to the composition of this Committee are planned.

Senior Independent Director
The Board has appointed Nigel Northridge as Senior Independent Director. Nigel 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, including financial, operational and compliance risk management.

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.
- Expenditure and income are regularly compared to previously approved budgets.
- The Board establishes appropriate treasury risk policies for implementation by executive management. Compliance with risk limits are 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.
- 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 organisation. 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 2007. The directors consider that the procedures necessary to implement the Turnbull guidelines on internal control in the Combined Code have been properly established.

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

There is regular discussion between Group management and analysts, brokers and institutional shareholders, ensuring that the market is appropriately informed on business activities. Visits to the Group 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.

Corporate Governance
(continued)

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
As in previous years, 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 fdrury@paddypower.com.

Fintan Drury
Chairman

29 February 2008

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:

- David Power (Chairman, Remuneration Committee);
- Fintan Drury;
- Nigel Northridge.

Nigel Northridge was appointed as a member of the Committee in July 2007. 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 five times in 2007 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 rewarded 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	32%	68%
Breon Corcoran *	26%	74%
Jack Massey	29%	71%
Non-executive		
Fintan Drury		100%
Tom Grace		100%
Stewart Kenny		100%
Nigel Northridge		100%
David Power		100%
Brody Sweeney		100%

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

Long Term Incentive Plan
It is Group policy to motivate its senior management to deliver superior performance over the long term and, at the Annual General Meeting held on 22 June 2004, the shareholders approved the 2004 Long Term Incentive Plan ('LTIP'). This plan, details of which are included in Note 21 to the consolidated financial statements, allows shares conditionally awarded to executives to be earned over a three to five year period subject to the achievement of testing earnings per share growth targets. Details of share grants to the executive directors are included with the directors' and secretary's interests in the Directors' Report on page 26.

Remuneration Committee Report
(continued)

Share options
The policy of the Remuneration Committee has been to motivate executives, excluding senior management eligible for LTIP awards, 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 21 to the consolidated financial statements. Details of options granted to the executive directors prior to the introduction of the LTIP and options granted to executive directors under the Sharesave Schemes are included with the directors' and secretary's interests in the Directors' Report on page 26. 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 2007 was €22.51 and, for the year then ended, the Company's daily closing share price ranged between €15.05 and €28.55.

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 operating profit in 2009 above predefined thresholds. Whilst a related accrual has been made at year end, no payment obligation has crystallised under the plan at this point. Payment under the plan is scheduled for 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 a means of rewarding strong performance in 2007 and retaining some key members of staff, 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 2007 was 86,221.

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. This is referred to in more detail in the Corporate Governance report. 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. Brody Sweeney and Breon Corcoran will retire at the 2008 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	17 May 2005	AGM 2008
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
David Power	1 June 1988	22 May 2007	AGM 2010
Brody Sweeney	16 February 2005	17 May 2005	AGM 2008

Directors' detailed emoluments
Full details of the emoluments of the directors are set out in Note 7 to the consolidated financial statements on pages 55 and 56.

David Power
Chairman, Remuneration Committee

29 February 2008

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 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 these Acts to financial statements giving a true and fair view are references to their achieving a fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; 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.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2006. 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.

Under company 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.

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

On behalf of the Board

Patrick Kennedy

Jack Massey

29 February 2008

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 2007, which comprise the consolidated Income Statement, the consolidated and Company Balance Sheets, the consolidated Cash Flow Statement, the consolidated Statement of Recognised Income and Expense 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 accounting 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 37.

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 financial statements are 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.

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

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 2007 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 2007; 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 23 to 29 is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet on page 78, 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 2007 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

29 February 2008

Consolidated Income Statement
Year ended 31 December 2007

	Note	2007 €'000	Before exceptional item 2006 €'000	Exceptional item (Note 8) 2006 €'000	Total 2006 €'000
Amounts staked by customers		**2,027,777**	1,795,090	-	1,795,090
Continuing operations					
Income	4	**278,952**	218,706	-	218,706
Direct betting costs	5	**(36,534)**	(35,090)	-	(35,090)
Gross profit		**242,418**	183,616	-	183,616
Employee expenses	6	**(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	9	**3,722**	2,139	-	2,139
Profit before tax		**75,828**	47,601	2,098	49,699
Income tax expense	11	**(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	12	**€1.274**			€0.819
Diluted	12	**€1.252**			€0.811

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

Notes 1 to 33 on pages 44 to 77 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

29 February 2008

Consolidated Statement of Recognised Income and Expense
Year ended 31 December 2007

	2007	2006
	€'000	€'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 33 on pages 44 to 77 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

29 February 2008

Consolidated Balance Sheet
As at 31 December 2007

	Note	31 December 2007	31 December 2006
		€'000	€'000
Assets			
Property, plant and equipment	13	**69,432**	76,240
Intangible assets	14	**9,947**	9,260
Goodwill	15	**5,473**	1,880
Deferred tax assets	22	**364**	195
Total non current assets		**85,216**	87,575
Trade and other receivables	17	**4,206**	4,203
Cash and cash equivalents	18	**87,885**	87,061
Total current assets		**92,091**	91,264
Total assets		**177,307**	178,839
Equity			
Issued capital	19	**4,923**	5,124
Share premium	19	**10,819**	10,163
Treasury shares	19	**(5,975)**	-
Shares held by long term incentive plan trust	19	**(13,089)**	(8,137)
Other reserves	19	**11,149**	6,536
Retained earnings	19	**109,535**	114,445
Total equity		**117,362**	128,131
Liabilities			
Trade and other payables	23	**51,850**	45,016
Derivative financial instruments - sports betting open positions	23	**3,556**	2,848
Current tax payable		**667**	1,568
Total current liabilities		**56,073**	49,432
Trade and other payables	23	**3,685**	1,247
Derivative financial instruments - sports betting open positions	23	**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 33 on pages 44 to 77 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

29 February 2008

Consolidated Cash Flow Statement
Year ended 31 December 2007

	Note	31 December 2007	31 December 2006
		€'000	€'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	16	**(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	18	**87,885**	87,061

Notes 1 to 33 on pages 44 to 77 form part of these consolidated financial statements.

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

29 February 2008

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 page 2.

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 the following notes and in Note 33:

- Note 15 – measurement of the recoverable amounts of cash-generating units containing goodwill.
- Note 16 – business combinations.
- Note 21 – measurement of share-based payments.
- Note 22 – utilisation of UK tax losses.
- Note 22 – provisions and contingencies.
- Notes 23 and 28 – valuation of derivative financial instruments.

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 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.

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 retail and non retail are the primary reporting segments.

Foreign currency

The consolidated financial statements are presented in euro, which is the Company's functional currency. Transactions denominated in foreign currencies are translated into the functional currency of the respective Group entities at the exchange rates ruling at the dates of the transactions. Non-monetary assets are not subsequently translated as they are carried at historical cost. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into the functional currency of the respective Group entities at the rates of exchange ruling at that date. Foreign exchange differences arising on such translations are recognised in the income statement. The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated into euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into euro at rates approximating the foreign exchange rates ruling at the dates of the transactions.

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.

Notes to the Consolidated Financial Statements
(continued)

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

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 the 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 lists, are capitalised at cost and amortised over their estimated useful economic lives on a straight line basis, with the exception of customer lists 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 lists represent the fair value of customer lists acquired as part of purchases of other businesses.

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

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

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 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.

Notes to the Consolidated Financial Statements
(continued)

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

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions 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.

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.

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.

Notes to the Consolidated Financial Statements
(continued)

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

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. The fair value is measured at the grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

Share capital

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

Own shares held
Purchases of the Company's shares by the long term incentive plan trust, which have been conditionally awarded to executives under the terms of the share award schemes, and purchases of the Company's own shares held as treasury shares are shown separately as deductions from equity in the consolidated 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 32.

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.

Notes to the Consolidated Financial Statements
(continued)

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

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 24 to 28.

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.

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 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 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 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.

Foreign currency risk
The Group is exposed to currency risk in respect of income, costs, 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. During the years ended 31 December 2007 and 2006, the Group did not utilise either foreign currency forward contracts or derivatives to manage foreign currency risk on expected future net cash flows. The Group may make use of forward contracts and derivatives subject to Investment Committee approval.

Interest rate risk
The Group had no borrowings at either 31 December 2007 or 2006, and consequently there has been no requirement to manage interest rate risk on borrowings. Excess cash funds are generally 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 to the terms over which cash can be placed on deposit.

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 partners.

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 Aaa3 or higher and a Moody's (or equivalent) short term credit rating of P1, unless otherwise specifically approved (there are currently no such specific approvals). 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. There are also restrictions on the types of cash products that can be invested in. 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.

Guarantees
The Group policy is in general to only provide guarantees to wholly-owned subsidiaries of the Group. The guarantees entered into are in respect of third party obligations of subsidiaries, such as in respect of player funds. As of 31 December 2007 there were no amounts outstanding in the consolidated financial statements under these guarantees (2006: €nil).

Liquidity risk
This represents the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy for liquidity management is to ensure that there is sufficient liquidity in place to meet its liabilities as they fall due, 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 2007 and 2006 is set out in Note 18.

The Group has the following lines of credit:
- €2.0m unsecured bank overdraft facility for working capital purposes. Interest is payable thereon at the bank's prime overdraft rate.
- Stg£0.5m unsecured bank overdraft facility for working capital purposes. Interest is payable thereon at the rate of LIBOR plus 0.5%.

At 31 December 2007, neither of these facilities had been utilised.

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 capital structure is kept under review by the Board. 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.

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. The first time shares were bought back by the Group was in 2007, when 2,389,443 ordinary shares were acquired (see Note 19). Shares bought back may either be cancelled or 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.

Notes to the Consolidated Financial Statements
(continued)

3. Financial risk management (continued)

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

In the year ended 31 December 2007, the Group earned a return on capital of 51.1% (2006: 36.8%). Capital is defined by the Group as total shareholders' equity.

4. 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 31/12/07 €'000	Non retail 31/12/07 €'000	Other unallocated 31/12/07 €'000	Total 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

Notes to the Consolidated Financial Statements
(continued)

4. Segment reporting (continued)

Business segment information for the year ended 31 December 2006:

	Retail 31/12/06 €'000	Non retail 31/12/06 €'000	Other unallocated 31/12/06 €'000	Total 31/12/06 €'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 31/12/07 €'000	Ireland & other 31/12/06 €'000	**UK 31/12/07 €'000**	UK 31/12/06 €'000	**Total 31/12/07 €'000**	Total 31/12/06 €'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

Notes to the Consolidated Financial Statements
(continued)

4. Segment reporting (continued)

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

	2007 €'000	2006 €'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

Notes to the Consolidated Financial Statements
(continued)

5. Direct betting costs

Direct betting costs comprise:

	2007 €'000	2006 €'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 two percent customer based betting tax with a one percent 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.

6. Employee expenses and numbers

	2007 €'000	2006 €'000
Wages and salaries	**60,585**	50,661
Social security costs	**5,639**	4,891
Defined contribution pension and life assurance costs	**1,672**	1,677
Share-based payments (Note 21)	**6,216**	3,184
Other staff costs	**4,778**	3,814
	78,890	64,227

	2007	2006
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	**1,536**	1,414

Notes to the Consolidated Financial Statements
(continued)

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 2007 €'000	Total 2006 €'000
Executive							
Patrick Kennedy	-	610	183	36	505	1,334	1,248
Breon Corcoran	-	404	61	14	225	704	579
Jack Massey (1)	-	248	49	27	164	488	334
Non-executive							
Fintan Drury	160	-	-	-	-	160	160
Tom Grace (2)	65	-	-	-	-	65	65
Stewart Kenny	55	-	-	-	-	55	55
Nigel Northridge	55	-	-	-	-	55	55
David Power (3)	75	-	-	-	-	75	71
Brody Sweeney	55	-	-	-	-	55	55
Stephen Thomas (4)	-	-	-	-	-	-	25
	465	1,262	293	77	894	2,991	2,647
Cost of shares vested from Long Term Incentive Plan	-	-	-	-	-	294	-
	465	1,262	293	77	894	3,285	2,647

1. Jack Massey was appointed to the Board on 25 April 2006.
2. Tom Grace was appointed to the Board on 3 January 2006. He is Chairman of the Audit Committee.
3. David Power is Chairman of the Remuneration Committee and the Risk Committee.
4. Stephen Thomas resigned from the Board on 16 May 2006.

Benefits provided to executive directors include provision of a company car or car allowance, life and medical insurance. Not included in the above table are accruals made in respect of the long term incentive bonus plan and share-based payment costs in respect of unvested shares in the Group's Long Term Incentive Plan (see Note 21). Details of the number and value of shares vested to executive directors from the Long Term Incentive Plan are set out in the Directors' Report on page 26.

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 26. Other related party transactions between the Group and the directors, all of which were conducted on an arm's length basis and on normal commercial terms, are set out below.

In addition to the directors' emoluments disclosed above, in the year ended 31 December 2007 directors were paid the amounts set out below:

Stewart Kenny received €60,000 (2006: €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 losing €8,505 (2006: losing €224,793) with Richard Power On-Course Bookmakers and that firm placed bets with the Group losing €15,809 (2006: losing €74,454).

The Group paid rent of €38,727 (2006: €38,727) during the year for retail properties owned by David Power and occupied by the Group under long term leases.

Notes to the Consolidated Financial Statements
(continued)

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

Transactions with key management personnel comprising executive and other senior management

Key management personnel compensation is as follows:

	2007 €'000	2006 €'000
Wages and salaries	**4,260**	3,883
Social security costs	**577**	477
Defined contribution pension and life assurance costs	**588**	490
Provision for executive director long term incentive bonus plan (1)	**601**	625
Share-based payments	**3,579**	2,546
Other staff costs	**227**	228
	9,832	8,249

	2007 €'000	2006 €'000
Executive directors (excluding share-based payments)	**2,526**	2,161
Other key management personnel	**2,549**	2,440
Provision for executive director long term incentive bonus plan (1)	**601**	625
Social security costs	**577**	477
Share-based payments	**3,579**	2,546
	9,832	8,249

(1) An amount of €601,000 (2006: €625,000), accrued by the Company 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 55. As set out in the Remuneration Committee Report on page 36, 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. Exceptional item

	2007 €'000	2006 €'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.

9. Financial income and expense

	2007 €'000	2006 €'000
Recognised in profit or loss:		
Financial income:		
Interest income on short term bank deposits	**3,722**	2,139

Notes to the Consolidated Financial Statements
(continued)

10. Statutory and other information

	2007 €'000	2006 €'000
Directors' emoluments	**3,285**	2,647
Auditor's remuneration for audit services	**165**	140
Depreciation	**15,445**	13,190
Impairment charges – property, plant and equipment	**1,940**	-
Amortisation of intangible assets	**3,161**	2,322
Impairment charges – intangible assets	**302**	-
Loss / (gain) on disposal of property, plant and equipment and intangible assets	**211**	(1,183)
Operating lease rentals, principally premises	**11,678**	10,230
Operating lease income	**(164)**	(158)

Amounts paid to the auditor in respect of non-audit services, comprising tax and advisory fees, were €147,000 (2006: €152,000).

11. Income tax expense

	2007 €'000	2006 €'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 (Note 22)	**(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 €'000		2006 €'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.

Notes to the Consolidated Financial Statements
(continued)

12. 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 share award schemes	**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

Notes to the Consolidated Financial Statements
(continued)

13. 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 2006	41,501	53,300	13,713	1,092	109,606
Additions	5,875	10,929	2,890	229	19,923
Disposals	(1,619)	(989)	(151)	(215)	(2,974)
Transfers (Note 14)	-	-	(1,294)	-	(1,294)
Balance at 31 December 2006	45,757	63,240	15,158	1,106	125,261
Additions	2,495	5,677	2,088	200	10,460
Additions – business combinations (Note 16)	208	238	-	-	446
Disposals	(170)	(485)	(6)	(383)	(1,044)
Balance at 31 December 2007	**48,290**	**68,670**	**17,240**	**923**	**135,123**
Accumulated depreciation					
Balance at 1 January 2006	8,806	20,223	7,716	461	37,206
Depreciation charges	2,255	8,242	2,528	165	13,190
Disposals	(566)	(586)	(66)	(157)	(1,375)
Balance at 31 December 2006	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**
Net book value					
At 31 December 2007	**34,061**	**30,832**	**3,968**	**571**	**69,432**
At 31 December 2006	35,262	35,361	4,980	637	76,240

The net book value of land, buildings and leasehold improvements at 31 December 2007 includes €29.5m (2006: €30.4m) in respect of leasehold improvements.

During 2006, an amount of €1,294,000, relating to computer equipment either not available for use or in test as of 31 December 2006 and included in property, plant and equipment additions in 2005, was reclassified as computer software and transferred to intangible assets (see Note 14).

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. The pre-tax discount rate used to determine value in use was 10%. 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.

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14. Intangible assets

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

	Computer software €'000	Licences €'000	Customer lists €'000	Total €'000
Cost				
Balance at 1 January 2006	6,632	1,669	-	8,301
Additions	4,526	2,396	-	6,922
Disposals	-	(250)	-	(250)
Transfers (Note 13)	1,294	-	-	1,294
Balance at 31 December 2006	12,452	3,815	-	16,267
Additions	2,539	222	-	2,761
Additions – business combinations (Note 16)	-	-	1,455	1,455
Disposals	(172)	(31)	-	(203)
Balance at 31 December 2007	**14,819**	**4,006**	**1,455**	**20,280**
Amortisation				
Balance at 1 January 2006	4,545	141	-	4,686
Amortisation charges	2,038	284	-	2,322
Disposals	-	(1)	-	(1)
Balance at 31 December 2006	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**
Net book value				
At 31 December 2007	**5,770**	**2,876**	**1,301**	**9,947**
At 31 December 2006	5,869	3,391	-	9,260

Included in the impairment charges in respect of the year ended 31 December 2007 are €157,000 relating to the retail business segment and €145,000 relating to the non retail business segment. 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. 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%. The impairment charges are included in 'depreciation and amortisation' in the consolidated income statement.

15. Goodwill

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

	Irish retail €'000	UK retail €'000	Total €'000
Balance at 1 January 2006 and 31 December 2006	904	976	1,880
Arising on acquisition (Note 16)	3,593	-	3,593
Balance at 31 December 2007	**4,497**	**976**	**5,473**

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 16).

Goodwill on UK retail properties arose from the acquisition of two London bookmaking businesses in 2004.

Notes to the Consolidated Financial Statements
(continued)

15. Goodwill (continued)

Impairment tests for cash generating units containing goodwill

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 2007.

The retail divisions in Ireland and the UK include the following amounts in respect of goodwill:

	31 December 2007 €'000	31 December 2006 €'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 flows for thereafter have been extrapolated assuming a weighted average income growth rate of 4% (2006: 5%) and a gross win of 14% (2006: 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. Cash flow growth for the extrapolated period is projected to be approximately 3% (2006: 3%) per annum. 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% (2006: 9%), 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 2007 €'000	31 December 2006 €'000
Irish retail – acquisition of three bookmakers in 2007	**3,593**	-

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 flows for thereafter have been extrapolated assuming a weighted average income growth rate of 4% and a gross win of 13% which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. Cash flow growth for the extrapolated period is projected to be approximately 2% per annum. 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 Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

Notes to the Consolidated Financial Statements
(continued)

15. Goodwill (continued)

	31 December 2007 €'000	31 December 2006 €'000
UK retail	**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 flows for thereafter have been extrapolated assuming a weighted average income growth rate of 4% (2006: 5%) and a gross win of 13% (2006: 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. Cash flow growth for the extrapolated period is projected to be approximately 3% (2006: 3%) per annum. 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% (2006: 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.

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 - amalgamation	Irish retail – 2007 acquisitions	UK retail
Growth in number of bets per annum	2%	2%	2%
Growth in average stake per bet per annum	2%	2%	2%
Gross win % (of amounts staked)	11% - 13%	11% - 13%	11% - 13%
Cost of sales % (of amounts staked)	1%	1%	3%
Cost inflation per annum	5%	5%	3.5% reducing to 3%

The assumptions above are based on past experience, management's expectations for market development, growth in market share, gross win percentage margins 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 relatively high rate of return earned on the Irish equity market over the period used in the discount rate calculations.

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

Notes to the Consolidated Financial Statements
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16. Purchase of businesses

During January, June and August 2007, the Group acquired a 100% interest in eight retail shops, and their associated bookmaking businesses, in Dublin and Mullingar through three separate acquisitions, which were individually considered immaterial and disclosures below are therefore aggregated. Details of the net assets acquired and the goodwill arising on these acquisitions are as follows:

	Cost on acquisition €'000	Fair value adjustments €'000	Provisional fair values €'000
Net assets acquired:			
Property, plant and equipment	800	(354)	446
Intangible assets (customer lists)	-	1,455	1,455
	800	1,101	1,901
Goodwill arising on acquisition			3,593
Consideration (including associated purchase costs)			5,494
Satisfied by:			
Cash consideration (including associated purchase costs)			5,415
Accrued acquisition expenses			79
			5,494

The value attributed to goodwill reflects both the low fair values of the property, plant and equipment 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.

Since the dates of acquisition to 31 December 2007, the acquired businesses have contributed €15.3m, €2.4m and €1.0m to amounts staked, income and operating profit, respectively.

If the acquisitions had occurred on 1 January 2007, then their contribution to income for the year ended 31 December 2007 would have been an estimated €4.0m (including the €2.4m actually contributed) and their contribution to operating profit for the year ended 31 December 2007 would have been an estimated €1.6m (including the €1.0m actually contributed).

17. Trade and other receivables

	31 December 2007 €'000	31 December 2006 €'000
Trade and sundry receivables	**1,151**	1,454
Prepayments	**3,055**	2,749
	4,206	4,203

Trade and other receivables are non-interest bearing.

18. Cash and cash equivalents

	31 December 2007 €'000	31 December 2006 €'000
Cash at bank and on hand	**5,922**	7,670
Short term bank deposits	**81,963**	79,391
Cash and cash equivalents in the cash flow statement	**87,885**	87,061

The effective interest rate on short term bank deposits was 4.76% (2006: 3.95%); these deposits have an average original maturity date of 43 days (2006: 30 days). The short term bank deposits have an average maturity date of 17 days from 31 December 2007 (2006: ten days).

Short term bank deposits are analysed by currency as follows:

	31 December 2007 €'000	31 December 2006 €'000
Euro	**72,864**	66,000
GBP	**8,146**	13,391
USD	**953**	-
	81,963	79,391

Notes to the Consolidated Financial Statements
(continued)

19. Share capital and reserves

	Number of ordinary shares in issue	Issued share capital €'000	Share premium €'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 2006	50,397,168	5,040	7,548	922	-	(4,929)	3,220	84,250	96,051
Shares issued	841,269	84	2,663	-	-	-	-	-	2,747
Share issue costs	-	-	(48)	-	-	-	-	-	(48)
Own shares acquired:									
By the long term incentive plan trust - 280,000 ordinary shares (Note 21)	-	-	-	-	-	(3,742)	-	-	(3,742)
Total recognised income and expense	-	-	-	1	-	-	-	41,245	41,246
Equity-settled transactions	-	-	-	-	-	534	2,636	-	3,170
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	(243)	243	-
Dividends to shareholders (Note 20)	-	-	-	-	-	-	-	(11,293)	(11,293)
Balance at 31 December 2006	51,238,437	5,124	10,163	923	-	(8,137)	5,613	114,445	128,131
Balance at 1 January 2007	51,238,437	5,124	10,163	923	-	(8,137)	5,613	114,445	128,131
Shares issued	126,758	13	656	-	-	-	-	-	**669**
Own shares acquired:									
By the long term incentive plan trust - 325,000 ordinary shares (Note 21)	-	-	-	-	-	(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	-	-	-	-	-	1,763	4,529	(43)	**6,249**
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	(129)	129	**-**
Dividends to shareholders (Note 20)	-	-	-	-	-	-	-	(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**

Notes to the Consolidated Financial Statements
(continued)

19. Share capital and reserves (continued)

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2006: 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, 126,758 ordinary shares of €0.10 each (2006: 841,269 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for total consideration of €669,000 (2006: €2,747,000), giving rise to a share premium of €656,000 (2006: €2,663,000).

During 2007, the Company also purchased 2,389,443 of its own shares on the market at prices ranging from €21.40 to €23.90 (average price of €22.42). The total cost of the shares purchased was €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, a total of 2,139,443 shares were subsequently cancelled and the remaining 250,000 shares were held in treasury at 31 December 2007. All rights (including voting rights and the right to receive dividends) in the shares held in treasury are suspended until such time as the shares are reissued. The Company's distributable reserves are restricted by the value of the treasury shares, which amounted to €5,975,000 as of 31 December 2007.

At 31 December 2007, the Company held a further 796,028 of its own shares (2006: 654,500), which were acquired at a total cost of €13,089,000 (2006: €8,137,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan (see Note 21). The Company's distributable reserves at 31 December 2007 are further restricted by this amount. In the year ended 31 December 2007, 183,472 shares originally valued at €1,763,000 were transferred from the long term incentive plan trust to beneficiaries of the Trust consequent to the vesting thereof (2006: 55,500 shares originally valued at €534,000).

Other reserves comprise the net foreign exchange translation differences together with a capital redemption reserve fund and a capital conversion reserve fund. The capital redemption reserve fund of €876,000 (2006: €662,000) 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 share capital to the capital redemption reserve fund. The capital conversion reserve fund of €260,000 (2006: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. The foreign exchange reserve at 31 December 2007 was €nil (2006: €1,000).

In 2007, an amount of €129,000 (2006: €243,000) 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 €38.4m (2006: €25.1m).

20. Dividends paid on equity shares

	2007	2006
	€'000	€'000
Ordinary shares:		
- final paid of 22.77 cent per share (2006: 12.84 cent)	**11,674**	6,476
- interim paid of 16.00 cent per share (2006: 9.43 cent)	**7,833**	4,817
	19,507	11,293
Proposed final dividend of 35.00 cent (2006: 22.77 cent) per share (see Note 32)	**17,142**	11,665

Notes to the Consolidated Financial Statements
(continued)

21. Share schemes

Summary of share-based payments expense

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

	2007 €'000	2006 €'000
Share option schemes	**453**	312
Sharesave scheme	**268**	274
Long Term Incentive Plan	**4,035**	2,598
Managers' Deferred Share Award Scheme	**1,460**	-
Total	**6,216**	3,184

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 2007 was 1,025,043 (2006: 946,684). These options had exercise prices ranging from €8.15 to €24.17 (2006: €1.16 to €14.80).

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**

For the year ended 31 December 2006:

	Options outstanding at 1 January 2006	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2006
Executive share option scheme	384,000	-	-	(327,000)	57,000
Share option scheme	843,257	299,300	(57,041)	(513,881)	571,635
Sharesave scheme	265,331	105,025	(51,919)	(388)	318,049
Total	1,492,588	404,325	(108,960)	(841,269)	946,684

Notes to the Consolidated Financial Statements
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21. Share schemes (continued)

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 2007 (2006: 57,000). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2006	Options exercised during year	Options outstanding at 31 December 2007	Earliest exercise date*	Exercise price	Market price at date of exercise
18,000	(18,000)	-	1 May 2004	€1.16	€17.15 - €20.47
39,000	(39,000)	-	1 May 2005	€1.16	€17.15 - €25.22
57,000	**(57,000)**	**-**			

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

During 2006, 300,000 options were exercised at an exercise price of €1.16 when the market price was €13.35, 9,000 options were exercised at an exercise price of €1.16 when the market price was €15.07 and a further 18,000 options were exercised at an exercise price of €1.16 when the market price ranged from €12.70 to €13.10.

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

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 2007, 36,283 ordinary shares (2006: 49,588) owned by employees were held on their behalf by 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.

Notes to the Consolidated Financial Statements
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21. Share schemes (continued)

Since November 2000, options over 768,171 shares have been exercised and options over 155,866 shares have lapsed. Options over 676,435 shares were outstanding at 31 December 2007 (2006: 571,635), of which 100,635 were exercisable at 31 December 2007 (2006: 10,000). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2006	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2007	Earliest exercise date*	Exercise price	Market price at date of exercise
Granted before 7 November 2002							
10,000	-	-	(10,000)	-	July 2005	€5.25	€21.73 – €27.05
Granted after 7 November 2002							
53,951	-	-	(8,000)	45,951	February 2007	€8.15	€17.15
8,000	-	-	(8,000)	-	March 2007	€8.90	€22.40
84,000	-	-	(43,000)	41,000	June 2007	€9.43	€21.80 - €24.95
13,684	-	-	-	13,684	September 2007	€9.80	-
138,000	-	-	-	138,000	September 2008	€14.80	-
21,000	-	-	-	21,000	March 2009	€12.55	-
243,000	-	(3,000)	-	240,000	September 2009	€14.40	-
-	176,800	-	-	176,800	September 2010	€24.17	-
571,635	**176,800**	**(3,000)**	**(69,000)**	**676,435**			

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

During 2006, 56,300 options at an exercise price of €12.55 and 243,000 options at an exercise price of €14.40 were granted. In 2006, options over 302,466 shares were exercised at an exercise price of €3.59 when the market price was between €14.10 and €14.60, 65,000 shares were exercised at an exercise price of €5.25 when the market price was between €12.80 and €14.15, options over 85,000 shares were exercised at an exercise price of €5.00 when the market price per share was between €14.15 and €16.29, options over 51,415 shares were exercised at an exercise price of €8.15 when the market price per share was between €15.40 and €15.55, and options over 10,000 shares were exercised at an exercise price of €9.43 when the market price per share was €15.95. During 2006, options in respect of 15,741 shares at an exercise price of €12.89 per share, options in respect of 6,000 shares at an exercise price of €14.80 per share and options in respect of 35,300 shares at an exercise price of €12.55 per share lapsed.

The fair value of share options granted under the above scheme during the year has been determined using a Black Scholes model and amounts to €669,000 (2006: €786,000). The significant inputs into the model were the share price at the grant date of €24.17 (2006: share prices for two grant dates of €12.55 and €14.40), the exercise price shown above, the standard deviation of expected share price returns of 25% (2006: 26%), the expected term as disclosed above, and an annual risk free rate of 4.06% (2006: 3.61%). 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 €320.

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.

Notes to the Consolidated Financial Statements
(continued)

21. Share schemes (continued)

Options outstanding at 31 December 2006	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2007	Earliest exercise date*	Exercise price
Granted after 7 November 2002						
215,284	-	(17,526)	(758)	197,000	October 2008	€11.60
96,197	-	(14,004)	-	82,193	December 2009 & December 2011	€11.29
6,568	-	(1,034)	-	5,534	December 2009 & December 2011	€12.04
-	57,999	(614)	-	57,385	December 2010 & December 2012	€19.26
-	6,629	(133)	-	6,496	December 2010 & December 2012	€20.54
318,049	**64,628**	**(33,311)**	**(758)**	**348,608**		

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

During 2007, options over 758 shares were exercised when the market price ranged from €21.94 to €23.79.

In 2006, options over 98,457 shares at an exercise price of €11.29 and options over 6,568 shares at an exercise price of €12.04 were granted. Options over 388 shares were exercised during 2006 when the market price was €12.75. During 2006, options in respect of 672 shares at an exercise price of €4.95 per share, options in respect of 48,987 shares at an exercise price of €11.60 per share and options in respect of 2,260 shares at an exercise price of €11.29 lapsed.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €403,000 (2006: €374,000). The significant inputs into the model were the share price of €27.10 (2006: €15.05) at the grant date, the exercise prices of €19.26 and €20.54 (2006: €11.29 and €12.04), the standard deviation of expected share price returns of 26% (2006: 26%), the option life disclosed above, and an annual risk free rate of 4.09% (2006: 3.69%). 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.

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 2005, 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 260,000 and 59,000 shares (2006: 250,000 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €17.15 and €24.17, respectively (2006: €12.55 and €13.68). The total cost of this grant is estimated at €5,885,000 (2006: €3,234,000) and is expensed in the Group income statement over the minimum vesting period of the grant (being the expected term of the grant), i.e. three years. The operating profit for the year ended 31 December 2007 is stated after an LTIP charge of €4,035,000 (2006: €2,598,000).

Notes to the Consolidated Financial Statements
(continued)

21. Share schemes (continued)

During 2007, a total of 183,472 shares (2006: 55,500 shares) in respect of 2004 awards and related dividends were vested from the Trust to senior management. In 2006, as a result of the resignation of a director of the Company in 2005, an award of 30,000 shares granted in 2005 lapsed.

The Paddy Power plc Employee Benefit Trust (the 'Trust') was established to manage the Long Term Incentive Plan. Purchases of Paddy Power plc ordinary shares from the date of the establishment of the Trust to 31 December 2007 and shares vested from the Trust are shown below:

	Number of Paddy Power plc ordinary shares	Cost of purchase €'000
Purchased 28 June 2004	240,000	2,306
Purchased 18 May 2005 to 23 May 2005	190,000	2,623
Purchased 21 June 2006 to 28 June 2006	280,000	3,742
Total purchased to 31 December 2006	710,000	8,671
Vested from the Trust in 2006	(55,500)	(534)
Shares held by the Trust at 31 December 2006	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

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 19).

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.

The total cost of this grant is estimated at €1,895,000. Of this amount, the estimated bonus element of the grant cost of €1,460,000 has been expensed in the year ended 31 December 2007, with the remaining €435,000 (being the estimated value of the staff retention element of the grant cost) to be expensed in the Group income statement over the three year vesting period of the grant.

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.

Notes to the Consolidated Financial Statements
(continued)

22. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2007			31 December 2006		
	Assets 2007 €'000	Liabilities 2007 €'000	Total 2007 €'000	Assets 2006 €'000	Liabilities 2006 €'000	Total 2006 €'000
Property plant and equipment	-	(265)	(265)	99	-	99
Lease premiums – income element	-	(98)	(98)	-	(196)	(196)
Employee benefits	713	-	713	292	-	292
Other	14	-	14	-	-	-
Net assets / (liabilities)	727	(363)	364	391	(196)	195

All of the above deferred tax balances are in respect of Irish corporation tax. The deferred tax assets and liabilities have been offset at 31 December 2007 as there is a legally enforceable right to such set-off.

Unrecognised deferred tax assets:

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

	31 December 2007 €'000	31 December 2006 €'000
UK tax losses	2,646	2,842

A deferred tax asset has not been recognised in respect of the UK tax losses as it is not certain when taxable profits will be generated against which to offset these losses (see also Note 33).

Movement in temporary differences during the year:

	Balance at 1 January 2006 €'000	Recognised in income 2006 €'000	Balance at 31 December 2006 €'000	Recognised in income 2007 €'000	Balance at 31 December 2007 €'000
Property, plant and equipment	(783)	882	99	(364)	(265)
Lease premiums – income element	(60)	(136)	(196)	98	(98)
Freehold and leasehold interest	156	(156)	-	-	-
Employee benefits	11	281	292	421	713
Other	-	-	-	14	14
	(676)	871	195	169	364

Notes to the Consolidated Financial Statements
(continued)

23. Trade and other payables and derivative financial instruments

Current liabilities:

	31 December 2007 €'000	31 December 2006 €'000
Trade and other payables:		
Trade payables	**6,110**	6,261
Customer balances	**15,326**	13,410
PAYE and social security	**1,399**	1,659
Value added tax	**654**	582
Betting duty	**4,200**	3,647
Accruals and other liabilities	**24,161**	19,457
	51,850	45,016
Derivative financial instruments:		
Sports betting open positions	**3,556**	2,848

Non current liabilities:

	31 December 2007 €'000	31 December 2006 €'000
Trade and other payables:		
Accruals and other liabilities	**3,685**	1,247
Derivative financial instruments:		
Sports betting open positions	**187**	29

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.

24. 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	
	2007 €'000	2006 €'000
Trade receivables	**850**	1,183
Sundry receivables	**301**	271
Cash and cash equivalents	**87,885**	87,061
	89,036	88,515

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

	2007 €'000	2006 €'000
Ireland	**100**	126
United Kingdom	**25**	49
Other	**725**	1,008
	850	1,183

Notes to the Consolidated Financial Statements
(continued)

25. Liquidity risk

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

	31 December 2007						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	3-4 years	4 years and over
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**

	31 December 2006						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	3-4 years	4 years and over
Non-derivative financial liabilities:							
Trade and other payables	46,263	46,263	45,016	-	-	84	1,163
Derivative financial liabilities:							
Sports betting open positions	2,877	2,877	2,446	402	29	-	-
	49,140	49,140	47,462	402	29	84	1,163

26. Currency risk

Currency risk exposure

As of 31 December 2007 and 31 December 2006, the Group's foreign currency risk exposure in respect of the principal foreign currencies in which the Group operates was as follows:

	31 December 2007				31 December 2006			
	Euro €'000	GBP €'000	USD €'000	Total Euro €'000	Euro €'000	GBP €'000	USD €'000	Total Euro €'000
Trade receivables	**100**	**25**	**725**	**850**	1,134	49	-	1,183
Cash and cash equivalents	**76,360**	**10,572**	**953**	**87,885**	69,931	17,130	-	87,061
Trade payables	**(3,523)**	**(2,207)**	**(380)**	**(6,110)**	(2,692)	(3,206)	(363)	(6,261)
Customer balances	**(6,598)**	**(7,531)**	**(1,197)**	**(15,326)**	(6,276)	(7,134)	-	(13,410)
Other payables (excluding accruals)	**(3,751)**	**(2,502)**	**-**	**(6,253)**	(3,389)	(2,499)	-	(5,888)
Gross balance sheet exposure	**62,588**	**(1,643)**	**101**	**61,046**	58,708	4,340	(363)	62,685

The Group had no forward foreign currency contracts or derivatives that are cash flow hedges in place at either 31 December 2007 or 2006.

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

To 1 Euro	Average rate		31 December (mid-spot rate)	
	2007	2006	**2007**	2006
1 GBP	**0.6843**	0.6818	**0.7366**	0.6712
1 USD	**1.3705**	1.2557	**1.4709**	1.3185

Notes to the Consolidated Financial Statements
(continued)

26. Currency risk (continued)

Sensitivity analysis

A ten percent strengthening and weakening of the euro against the following currencies at 31 December 2007 and 2006 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		Equity	
	10 % increase	10% decrease	10 % increase	10% decrease
	€'000	€'000	€'000	€'000
31 December 2007				
GBP	**131**	**(160)**	**-**	**-**
USD	**(8)**	**10**	**-**	**-**
31 December 2006				
GBP	(345)	422	-	-
USD	29	(35)	-	-

27. Interest rate risk

Profile

At 31 December 2007 and 31 December 2006, the interest rate profile of the Group's interest-bearing financial instruments was as follows:

	Carrying amount	
	2007	2006
	€'000	€'000
Variable rate instruments		
Financial assets – cash at bank and on hand	**5,922**	7,670
Financial assets – short term bank deposits	**81,963**	79,391
	87,885	87,061

The Group had no fixed rate financial instruments at either 31 December 2007 or 2006.

Cash flow sensitivity analysis for variable rate instruments

A change of 50 basis points ('bps') in interest rates at 31 December 2007 and 2006 would have increased / (decreased) profit 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		Equity	
	50 bps increase	50 bps decrease	50 bps increase	50 bps decrease
	€'000	€'000	€'000	€'000
31 December 2007				
Variable rate instruments	**307**	**(307)**	**-**	**-**
31 December 2006				
Variable rate instruments	298	(298)	-	-

Notes to the Consolidated Financial Statements
(continued)

28. 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 2007		31 December 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
	€'000	€'000	€'000	€'000
Trade and sundry receivables	1,151	1,151	1,454	1,454
Cash and cash equivalents	87,885	87,885	87,061	87,061
Derivative financial instruments	(3,743)	(3,743)	(2,877)	(2,877)
Trade and other payables	(55,535)	(55,535)	(46,263)	(46,263)
	29,758	29,758	39,375	39,375

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

Trade and sundry receivables
The fair value of trade and sundry receivables is estimated using the present value of future cash flows discounted at the market rate of interest at the reporting date.

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.

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.

29. Commitments and contingencies

(a) Guarantees
The Group has working capital overdraft facilities of €2.7m with Allied Irish Banks plc. These facilities are unsecured.

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

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

	31 December 2007	31 December 2006
	€'000	€'000
Property, plant and equipment	569	115
Intangible assets	-	-
	569	115

Notes to the Consolidated Financial Statements
(continued)

29. Commitments and contingencies (continued)

(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 2007		31 December 2006	
	Annual commitment €'000	Total commitment €'000	Annual commitment €'000	Total commitment €'000
Within 1 year	**854**	**854**	501	501
Between 2 and 5 years	**1,377**	**4,102**	1,209	4,102
After 5 years	**9,386**	**153,128**	8,583	147,433
	11,617	**158,084**	10,293	152,036

30. Related parties

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

31. Group entities

The Company had the following subsidiaries, all of which are 100% equity owned, at 31 December 2007:

	Country of incorporation	Activity	Registered office
Power Leisure Bookmakers Limited	United Kingdom	Bookmaker	5th Floor, Crowne House, 56-58 Southwark St, London SE1 1UN
Leisurebet Limited	Ireland	Non-trading	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Zephyr Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
KOR Enterprises	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Rexbury Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
QC Holdings Limited	Ireland	Non-trading	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Pridepark Developments Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Paddy Power Financials Limited	Ireland	Marketing services	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Paddy Power Call Centre Services Limited	Isle of Man	Call centre administration	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
Paddy Power Isle of Man Limited	Isle of Man	Bookmaker	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power Games Limited	Isle of Man	Non-trading	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power BCI Limited	Alderney	Non-trading	York House, Victoria Street, Alderney, GY9 3TA
Paddy Power Alderney Limited	Alderney	Non-trading	York House, Victoria Street, Alderney, GY9 3TA
Paddy Power Bookmakers (Malta) Limited	Malta	Non-trading	'Abacus', Suite 2, Psaila Street, St Venera, SVR 9017, Malta

In addition to the above subsidiaries, 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.

Notes to the Consolidated Financial Statements
(continued)

32. Events after the balance sheet date

In respect of the current year, the directors propose that a final dividend of 35.00 cent per share (2006: 22.77 cent 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).

33. 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 key assumptions made in respect of goodwill are set out in Note 15.

The share-based payment reserve, which includes amounts in relation to the share award schemes 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. These assumptions are set out in Note 21.

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.

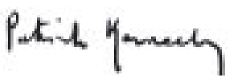
A potential deferred tax asset of €2,646,000 (2006: €2,842,000) relating to the UK retail business (see Note 22) has not been recognised as of 31 December 2007. Management continue to believe that there is considerable uncertainty as to the future profitability of the UK retail business and the timing 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.

Company Balance Sheet
As at 31 December 2007

	Note	31 December 2007 €'000	31 December 2006 €'000
Fixed assets			
Intangible assets	3	**1,034**	1,189
Goodwill	4	**4,209**	854
Tangible assets	6	**46,256**	48,806
Financial assets	7	**8,309**	3,764
		59,808	54,613
Current assets			
Trade and other receivables	8	**21,370**	28,127
Cash at bank and in hand		**76,257**	74,503
		97,627	102,630
Creditors (amounts falling due within one year)	9	**(85,508)**	(51,428)
Net current assets		**12,119**	51,202
Total assets less current liabilities		**71,927**	105,815
Creditors (amounts falling due after more than one year)	10	**(1,062)**	(84)
Provision for liabilities and charges	11	**(271)**	-
Net assets		**70,594**	105,731
Capital and reserves			
Called-up share capital	12	**4,923**	5,124
Share premium	13	**10,819**	10,163
Capital redemption reserve fund	14	**876**	662
Capital conversion reserve fund	14	**260**	260
Share-based payment reserve	14	**10,013**	5,613
Treasury shares	14	**(5,975)**	-
Shares held by long term incentive plan trust	14	**(13,089)**	(8,137)
Profit and loss account		**62,767**	92,046
Shareholders' funds – all equity interests		**70,594**	105,731

Notes 1 to 19 on pages 79 to 86 form part of these financial statements.

On behalf of the Board



Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

29 February 2008

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 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 €38.4m (2006: €25.1m).

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:

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.

Notes to the Company Financial Statements
(continued)

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.

Share-based payments
The Company 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 / increase in financial asset 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 financial asset 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 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 financial asset 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 financial asset 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 executives and other key 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 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 32 to the consolidated financial statements.

Notes to the Company Financial Statements
(continued)

2. Employee expenses and numbers

	2007 €'000	2006 €'000
Wages and salaries	**28,616**	27,154
Social security costs	**2,612**	2,453
Defined contribution pension and life assurance costs	**567**	713
Share-based payments (see below)	**1,670**	1,275
Other staff costs	**1,467**	1,348
	34,932	32,943

	2007	2006
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	**797**	783

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:

	2007 €'000	2006 €'000
Share option schemes	**2**	21
Sharesave scheme	**163**	176
Long Term Incentive Plan	**1,459**	1,078
Managers' Deferred Share Award Scheme	**46**	-
Total	**1,670**	1,275

Summary of options outstanding

The total number of options outstanding at 31 December 2007 was 249,881 (2006: 269,999). These options had exercise prices ranging from €8.15 to €24.17 (2006: €3.59 to €14.80).

	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**

	Options outstanding at 1 January 2006	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2006
Executive share option scheme	327,000	-	-	(300,000)	27,000
Share option scheme	327,466	12,000	-	(302,466)	37,000
Sharesave scheme	163,610	61,105	(18,328)	(388)	205,999
Total	818,076	73,105	(18,328)	(602,854)	269,999

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

Notes to the Company Financial Statements
(continued)

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 2007	1,363	1,363
Additions	127	127
Disposals	-	-
Balance at 31 December 2007	**1,490**	**1,490**
Amortisation		
Balance at 1 January 2007	174	174
Amortisation for year	248	248
Impairment charge	34	34
Disposals	-	-
Balance at 31 December 2007	**456**	**456**
Net book value		
At 31 December 2006	1,189	1,189
At 31 December 2007	**1,034**	**1,034**

The impairment charge in respect of the year ended 31 December 2007 relates to the retail business segment. The impairment charge has arisen from a review of the carrying value of shop properties. 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%.

4. Goodwill

	€'000
Cost	
Balance at 1 January 2007	2,421
Arising on business combinations during the year (Note 5)	3,593
Balance at 31 December 2007	**6,014**
Amortisation	
Balance at 1 January 2007	1,567
Amortisation for year	238
Balance at 31 December 2007	**1,805**
Net book value	
At 31 December 2006	854
At 31 December 2007	**4,209**

The goodwill balance as of 1 January 2007 arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc in 1988.

Notes to the Company Financial Statements
(continued)

5. Purchase of businesses

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	Provisional fair values €'000
Net assets acquired:			
Property, plant and equipment	800	(354)	446
Intangible assets (customer lists)	-	1,455	1,455
	800	1,101	1,901
Goodwill arising on acquisition			3,593
Consideration (including associated purchase costs)			5,494
Less: Intangible asset (customer lists) transferred to subsidiary company			(1,455)
			4,039
Satisfied by:			
Cash consideration (including associated purchase costs)			5,415
Intangible asset transferred to subsidiary company			(1,455)
Accrued acquisition expenses			79
			4,039

The intangible asset balance of €1,455,000 was acquired as part of the purchase of a retail shop chain during the year. The asset was transferred to Paddy Power Isle of Man Limited on the date of acquisition thereof.

The value attributed to goodwill reflects both the low fair values of the property, plant and equipment 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.

Since the dates of acquisition to 31 December 2007, the acquired businesses have contributed €15.3m, €2.4m and €1.0m to Company amounts staked, income and operating profit, respectively.

If the acquisitions had occurred on 1 January 2007, then their contribution to Company income for the year ended 31 December 2007 would have been an estimated €4.0m (including the €2.4m actually contributed) and their contribution to Company operating profit for the year ended 31 December 2007 would have been an estimated €1.6m (including the €1.0m actually contributed).

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 2007	31,001	39,325	1,866	3,720	192	76,104
Additions	2,431	5,750	336	72	-	8,589
Arising on business combinations during the year (Note 5)	208	238	-	-	-	446
Transfers	-	(1,287)	652	(1,293)	-	(1,928)
Disposals	(160)	(484)	(4)	-	-	(648)
At 31 December 2007	**33,480**	**43,542**	**2,850**	**2,499**	**192**	**82,563**
Accumulated depreciation						
At 1 January 2007	8,417	17,277	1,265	269	70	27,298
Charge for year	1,442	5,372	820	529	29	8,192
Impairment charges	529	640	32	45	-	1,246
Transfers	-	-	-	-	-	-
Disposals	(69)	(356)	(4)	-	-	(429)
At 31 December 2007	**10,319**	**22,933**	**2,113**	**843**	**99**	**36,307**
Net book value						
At 31 December 2006	22,584	22,048	601	3,451	122	48,806
At 31 December 2007	**23,161**	**20,609**	**737**	**1,656**	**93**	**46,256**

Notes to the Company Financial Statements
(continued)

6. Tangible assets (continued)

The net book value of land, buildings and leasehold improvements at 31 December 2007 includes €21.1m (2006: €20.5m) in respect of leasehold improvements.

Included in transfers for the year ended 31 December 2007 are assets with a value of €1,928,000 that were transferred at cost to a subsidiary company, Power Leisure Bookmakers Limited.

The impairment charges 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%.

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 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 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.

7. Financial assets

	Unlisted investments in subsidiary companies €'000	Capital contributions €'000	Total €'000
Balance at 1 January 2007	103	3,661	3,764
Movement during year	-	4,545	4,545
Balance at 31 December 2007	**103**	**8,206**	**8,309**

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 €103,000 (2006: €103,000). The Company's subsidiaries are listed in Note 31 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 2007 €'000	31 December 2006 €'000
Sundry debtors and prepayments	**890**	1,079
Amounts owed by fellow Group companies	**20,480**	25,641
Deferred tax (Note 11)	**-**	1,407
	21,370	28,127

All of the above debtors fall due within one year.

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

Notes to the Company Financial Statements
(continued)

9. Creditors (amounts falling due within one year)

	31 December 2007 €'000	31 December 2006 €'000
Trade creditors	**4,962**	5,609
Accruals	**11,381**	6,429
Corporation tax	**666**	639
PAYE and social welfare	**1,110**	603
Betting duty	**2,249**	2,060
Sports betting open positions	**697**	689
Value added tax	**260**	157
Amounts owed to fellow Group companies	**64,183**	35,242
	85,508	51,428

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

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

	31 December 2007 €'000	31 December 2006 €'000
Accruals	**1,062**	84
	1,062	84

11. Provision for liabilities and charges

Deferred tax

	2007 €'000	2006 €'000
Cost		
At beginning of year	**(1,407)**	1,247
Charged / (credited) to the profit and loss account for year	**1,678**	(2,654)
At end of year	**271**	(1,407)

Deferred tax at 31 December 2007 and 2006 is analysed by category as follows:

	31 December 2007 €'000	31 December 2006 €'000
Capital allowances	**435**	(1,127)
Employee benefits	**(6)**	(280)
Share schemes	**(208)**	-
Capitalised rents	**50**	-
Deferred tax liability / (asset)	**271**	(1,407)

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

12. Called-up share capital

See Note 19 to the consolidated financial statements.

13. Share premium

See Note 19 to the consolidated financial statements.

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

See Note 19 to the consolidated financial statements.

Notes to the Company Financial Statements
(continued)

15. Dividends paid on equity shares

	2007 €'000	2006 €'000
Ordinary shares:		
- final paid of 22.77 cent per share (2006: 12.84 cent)	**11,674**	6,476
- interim paid of 16.00 cent per share (2006: 9.43 cent)	**7,833**	4,817
	19,507	11,293
Proposed final dividend of 35.00 cent (2006: 22.77 cent) per share (see Note 32 to the consolidated financial statements)	**17,142**	11,665

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 €503,000 (2006: €616,000) and the amount due to the schemes at 31 December 2007 amounted to €150,000 (2006: €71,000).

17. Commitments and contingencies

(a) Guarantees
The Company has working capital overdraft facilities of €2.0m with Allied Irish Banks plc. These facilities are unsecured.

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

(b) Capital commitments
The Company has entered into commitments for capital expenditure not provided for in the financial statements amounting to €535,000 (2006: €115,000).

(c) Operating lease commitments
The Company has annual commitments of €7,899,000 (2006: €7,027,000) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2007 €'000	31 December 2006 €'000
Within 1 year	**817**	501
Between 2 and 5 years	**961**	1,164
After 5 years	**6,121**	5,362
	7,899	7,027

18. Statutory information

	2007 €'000	2006 €'000
Directors' remuneration	**3,285**	2,647
Auditor's remuneration	**110**	105
Depreciation	**8,192**	7,144
Impairment charges – tangible fixed assets	**1,246**	-
Amortisation of intangible assets	**248**	132
Impairment charge – intangible assets	**34**	-
Amortisation of goodwill	**238**	121
Operating lease rentals, principally premises	**7,767**	6,542

19. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2007 were approved for issue by the Board of Directors on 29 February 2008.

Five Year Financial Summary

Financial information for the Group for the five years ended 31 December 2007 is set out below in euro and pounds sterling.

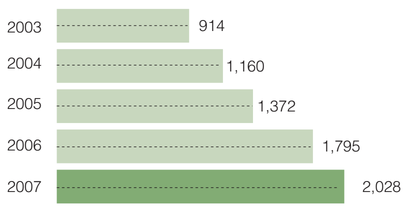
	2007 €'000	2006 €'000	2005 €'000	2004 €'000	2003 €'000
Amounts staked	**2,027,777**	1,795,090	1,371,710	1,159,658	913,624
Income	**278,952**	218,706	160,848	134,110	94,610
Operating profit	**72,106**	47,560	30,118	31,103	19,632
Profit before tax	**75,828**	49,699	31,344	32,109	20,410
Profit for the year	**62,778**	41,245	26,954	27,447	17,551
Net cash inflow from operating activities	**97,549**	67,743	41,410	41,167	32,144
Total equity	**117,362**	128,131	96,051	78,697	52,274

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

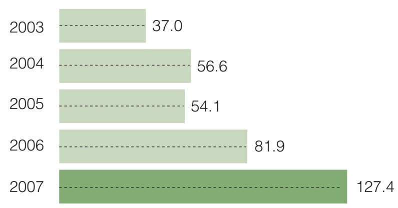
	2007 Stg£'000	2006 Stg£'000	2005 Stg£'000	2004 Stg£'000	2003 Stg£'000
Amounts staked	**1,387,653**	1,223,730	937,986	797,399	630,390
Income	**190,893**	149,094	109,989	92,216	65,280
Operating profit	**49,344**	32,422	20,595	21,387	13,546
Profit before tax	**51,891**	33,880	21,433	22,079	14,083
Profit for the year	**42,960**	28,117	18,431	18,873	12,110
Net cash inflow from operating activities	**66,755**	46,181	28,316	28,307	22,179
Total equity	**80,313**	87,348	65,680	54,113	36,068
Exchange rates used are	**1.4613**	1.4669	1.4624	1.4543	1.4493

Note: 2007, 2006, 2005 and 2004 amounts are reported under IFRS, while amounts for 2003 are reported under Irish GAAP. The principal differences between IFRS and Irish GAAP relate to the non-amortisation of goodwill and the treatment of share-based payments according to IFRS.

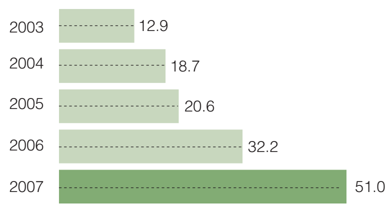
Amounts staked (€m)



Earnings per share (cent per share)



Dividends per share (cent per share)



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 Comissioners, 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 of 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 88. 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 88, 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 entered into a double taxation agreement.*

Information concerning conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown on page 88. 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 88.

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.

Additional Information for Shareholders
(continued)

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 89.

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 2007	3 March 2008
Ex-dividend date	12 March 2008
Record date for dividend	14 March 2008
Annual General Meeting	15 May 2008
Dividend payment date	23 May 2008

Letter to Shareholders

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 Shelbourne Hotel, St. Stephens Green, Dublin 2 at 11.00 am on Thursday, 15 May 2008. 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 (a) and (b) of the ordinary business propose the reappointment of two directors. Messrs Brody Sweeney and Breon Corcoran, having served on the Board for three years, retire in accordance with Regulation 87 of the Articles of Association and being eligible, offer themselves for reappointment. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the reappointment of each of these directors. Biographical information on these directors is given on page 21 in the Annual Report.

Shareholders are being asked in resolution 5 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 2009 or 14 November 2009, whichever is earlier.

Shareholders are being asked in resolution 6 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 2 April 2008 is 1,025,043, and represents 2.1% of the total voting rights of the Company on that date. This percentage would increase to 2.3% 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 14 November 2009, 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. It is the Board's current intention to exercise this power to purchase shares in 2008.

Shareholders are also being asked in resolution 7 to pass a resolution authorising the Company to reissue 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 14 November 2009, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990.

Shareholders are being asked in resolutions 8, 9 and 10 to approve certain amendments to the Paddy Power plc November 2000 Share Option Scheme, the Paddy Power plc Second Tier Share Option Scheme and the Paddy Power plc 2004 Long Term Incentive Plan, respectively. The purpose of the proposed amendments is to allow the Company to use the reserve of shares previously authorised by the shareholders for issuance under these incentive plans in a more flexible manner.

The Remuneration Committee of the Board has determined that these amendments are necessary to ensure that the Company can operate its existing equity incentive programs for executives and key employees to the maximum benefit of the Company and its shareholders.

The Company has sought the views of the Irish Association of Investment Managers ('IAIM') in relation to the proposed amendments and it has confirmed that they are acceptable.

Details of the proposed amendments to the Paddy Power plc November 2000 Share Option Scheme, the Paddy Power plc Second Tier Share Option Scheme and the Paddy Power plc 2004 Long Term Incentive Plan are set out in the attached Appendix.

Copies of the Rules of the Paddy Power plc November 2000 Share Option Scheme, the Paddy Power plc Second Tier Share Option Scheme and the Paddy Power plc 2004 Long Term Incentive Plan will be available for inspection during normal business hours on any weekday (public holidays excepted) at the registered office of the Company at Airton House, Airton Road, Tallaght, Dublin 24 and at the offices of William Fry, Fitzwilton House, Wilton Place, Dublin 2 from the date of this letter until the close of the AGM and at the location of the AGM for at least 15 minutes before and during the 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 13 May 2008. 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.

The recommendation to shareholders in respect of Resolutions 8, 9 and 10 are given by the non-executive directors only, who are not eligible to participate in the Paddy Power plc November 2000 Share Option Scheme, the Paddy Power plc Second Tier Share Option Scheme or the Paddy Power plc 2004 Long Term Incentive Plan.

Yours sincerely

Fintan Drury
Chairman

2 April 2008

Appendix

Proposed amendments to the Paddy Power plc November 2000 Share Option Scheme (the 'Basic Tier Option Scheme'), the Paddy Power plc Second Tier Share Option Scheme (the 'Second Tier Option Scheme') and the Paddy Power plc 2004 Long Term Incentive Plan (the 'LTIP').

Summary
In brief summary, the following are the effects of the proposed amendments to the Basic Tier Option Scheme, the Second Tier Option Scheme and the LTIP (collectively the 'Schemes'):

- Currently, over any three year period the Company may grant options and awards under the Schemes over a maximum of three percent of the Company's total issued share capital. An amendment is proposed which will allow the Company to exceed this limit in exceptional circumstances.
- Up to ten percent of the Company's total issued share capital may be subject to options and awards granted under the Schemes over any ten year period. Within that ten percent limit, no more than five percent of the Company's total issued share capital may be subject to share options granted under the Second Tier Option Scheme and awards made under the LTIP. An amendment is proposed to each of the Second Tier Option Scheme and the LTIP which will remove this five percent limit. This will allow the Company flexibility to grant a greater proportion of the overall ten percent limit under share options and share awards with more challenging performance conditions.
- The Schemes impose maximum limits on the aggregate number of shares that may be subject to share options and awards granted to any individual over any ten year period. Currently, share options that have been exercised and awards under the LTIP that have vested continue to be included in the calculation of the individual's maximum allowed shares. An amendment is proposed to each of the Schemes to exclude share options that have been exercised and awards under the LTIP that have vested from this calculation.

The amendments proposed to each Scheme are described in more detail below. The amendments proposed to the Second Tier Option Scheme and the LTIP are interlinked and accordingly replicated in each scheme.

Amendments to the Basic Tier Option Scheme – Resolution 8

General
The Basic Tier Option Scheme provides for the grant of share options to executives and employees selected by the Remuneration Committee of the Board (the 'Remuneration Committee'). Options may be exercised after the third anniversary of the date of grant if the Company's earnings per share ('EPS') for the third financial year of the Company, beginning with the financial year in which the option was granted, or any subsequent year, is greater than the EPS for the financial year ended before the financial year in which the option was granted by a percentage which is not less than, on a year on year basis, the annual percentage increase in the Consumer Price Index ('CPI') plus five percent per annum, compounded, during the relevant period.

Options may be granted under the Basic Tier Option Scheme over up to five percent of the Company's total issued share capital over any ten year period. Shares subject to options which lapse or expire prior to exercise are excluded from the calculation of this limit.

The proposed amendments to the Basic Tier Option Scheme can be summarised as follows:

Overall three percent limit
Current provision: Options, whether granted under the Basic Tier Option Scheme, the Second Tier Option Scheme or any other share option scheme (but excluding options granted under any employee-wide share option scheme) and awards made under the LTIP, may not be granted over more than three percent of the Company's issued ordinary share capital over any three year period.

Amended provision: The limit described above may be exceeded in exceptional circumstances. Where such limit is exceeded, appropriate disclosure will be made to shareholders in the Annual Report for the year in which that occurs.

Individual limit
Current provision: The aggregate value (based on the exercise price) of all shares issued or remaining to be issued under Basic Tier Options granted over a ten year period to an individual may not exceed four times' his total annual remuneration. Shares subject to share options that have been exercised are included in the calculation of an individual's maximum allowance.

Amended provision: The same limit will apply. However, shares subject to options which have been exercised will be excluded from the calculation.

Appendix
(continued)

Amendments to the Second Tier Option Scheme – Resolution 9

General
The Second Tier Option Scheme provides for the grant of share options to executives and employees selected by the Remuneration Committee. Options may be exercised after the fifth anniversary of the date of grant if (i) the Company's EPS for the fifth financial year of the Company, beginning with the financial year in which the option was granted, or any subsequent year, is greater than the EPS for the financial year ended before the financial year in which the option was granted by a percentage which is not less than, on a year on year basis, the annual percentage increase in the CPI plus ten percent per annum, compounded, during the relevant period and (ii) the growth in the Company's EPS over that period is in the upper quartile of the companies in the ISEQ Index.

The proposed amendments to the Second Tier Option Scheme can be summarised as follows:

Overall three percent limit
The same amendment as described above in relation to the Basic Tier Option Scheme will be made to the Second Tier Option Scheme.

Five percent combined limit for Second Tier Option Scheme and LTIP
Current provision: The aggregate number of shares subject to options granted under the Second Tier Option Scheme and awards made under the LTIP may not exceed five percent of the Company's issued ordinary share capital over any five year period.

Amended provision: This limit will be removed.

Individual limit
Current provision: The aggregate value (based on the exercise price) of all shares issued or remaining to be issued under options granted under the Basic Tier Option Scheme and the Second Tier Option Scheme and of shares subject to LTIP awards (based on the market value of the shares at the time the award is made) over a ten year period may not exceed eight times' the employee's total annual remuneration. Shares subject to share options that have been exercised and awards under the LTIP that have vested are included in the calculation of an individual's maximum allowance.

Amended provision: The same limit will apply. However, share options which have been exercised and awards under the LTIP that have vested will be excluded from the calculation.

Amendments to the LTIP – Resolution 10

General
The LTIP provides for the grant of share awards to executives and employees selected by the Remuneration Committee. An award entitles the holder to receive the shares subject to the award, for no consideration, if the Company's EPS growth over a minimum period of three years is at least equal to the annual percentage increase in the Consumer Price Index ('CPI') plus 12% per annum, compounded, over that period.

The proposed amendments to the LTIP can be summarised as follows:

Overall three percent limit
The same amendment as described above in relation to the Basic Tier Option Scheme will be made to the LTIP.

Five percent combined limit for Second Tier Scheme and LTIP
The same amendment as described above in relation to the Second Tier Option Scheme will be made to the LTIP.

Individual limit
The same amendment as described above in relation to the Second Tier Option Scheme will be made to the LTIP.

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 Shelbourne Hotel, St Stephens Green, Dublin 2 at 11.00 am on Thursday, 15 May 2008 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 2007 and the reports of the Directors and Auditors thereon.

2. To declare a final dividend of 35.00 cent per share for the year ended 31 December 2007.

3. To re-elect by separate resolution
   Resolution 3 (a) Brody Sweeney
   Resolution 3 (b) Breon Corcoran

who retire in accordance with Regulation 87 of the Articles of Association and, being eligible, offer themselves for re-election.

4. To authorise the directors to fix the remuneration of the Auditors for the year ending 31 December 2008.

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

5. 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 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 14 November 2009 unless previously renewed, varied or revoked by the Company in general meeting."

6. 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 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 14 November 2009 unless, in any such case, previously renewed, varied or revoked by the Company in general meeting."

7. 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 14 November 2009 unless, in any such case, previously renewed, varied or revoked in accordance with the provisions of Section 209 of the Companies Act 1990."

8. As an ordinary resolution
   "That the amendments to the Rules of the Paddy Power plc November 2000 Share Option Scheme summarised in the Appendix to the Letter from the Chairman of the Company dated 2 April 2008 be approved and that such rules as so amended and produced in draft to this meeting and, for the purposes of identification, signed by the Chairman, be adopted and the directors be authorised to do all acts and things as they may consider appropriate to implement the amended Paddy Power plc November 2000 Share Option Scheme."

9. As an ordinary resolution
   "That the amendments to the Rules of the Paddy Power plc Second Tier Share Option Scheme summarised in the Appendix to the Letter from the Chairman of the Company dated 2 April 2008 be approved and that such rules as so amended and produced in draft to this meeting and, for the purposes of identification, signed by the Chairman, be adopted and the directors be authorised to do all acts and things as they may consider appropriate to implement the amended Paddy Power plc Second Tier Share Option Scheme."

10. As an ordinary resolution
    "That the amendments to the Rules of the Paddy Power plc 2004 Long Term Incentive Plan summarised in the Appendix to the Letter from the Chairman of the Company dated 2 April 2008 be approved and that such rules as so amended and produced in draft to this meeting and, for the purposes of identification, signed by the Chairman, be adopted and the directors be authorised to do all acts and things as they may consider appropriate to implement the amended Paddy Power plc 2004 Long Term Incentive Plan."

By Order of the Board

David Johnston
Company Secretary

2 April 2008

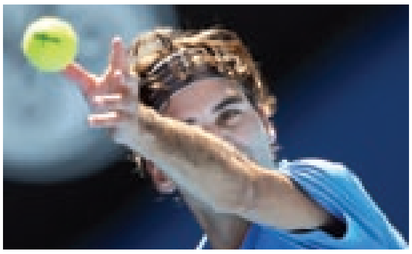
Registered Office:
Airton House
Airton Road
Tallaght
Dublin 24

2007 Betting Review

The short-term financial performance of Paddy Power can be significantly influenced month to month by the run of sporting results, as well as the absolute amount of money staked. 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 amount of outsiders winning will have the opposite effect. The experience of the industry is that this typically balances out over a more extended period.

But enough of the financials, lets talk sport.....



January

The year began with a punt landed and English cricket fans finally put out of their misery when Australia won the Ashes 5-0 which was an 11/2 shot before the tournament. We really should have taken note and backed them for the World Cup there and then!

January is always a busy month for Irish racing and the first big one was the Pierse Hurdle which was won by 16/1 shot Spring the Que from the Robert Tyner stable - most of the cheers were from bookies.

Punters got their own back in the tennis when red hot 2/5 favourite Roger Federer cruised to victory in the Australian Open setting up a possible Grand Slam tilt. He was hot favourite for a reason.

And then we had the best hurdle race ever run in Ireland, the AIG Champion Hurdle at Leopardstown. Brave Inca was hot favourite to beat Macs Joy, Hardy Eustace and a load of young lads like Iktitaf and Lounaos. Hardy lived up to his name and out braved Brave Inca to win at unbelievably good odds of 9/1. Was he our best hope come Cheltenham?

February

February kicked off with an away victory against Wales in the Six Nations. The start we were dreading as Ireland had been more heavily backed than ever before to win the Grand Slam, Championship and Triple Crown. It wasn't pretty in Cardiff, but the knees were beginning to knock!

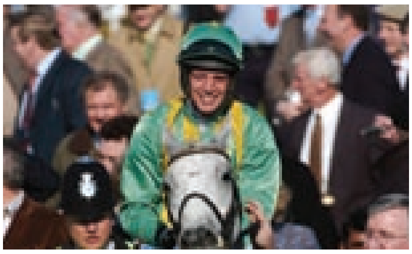
Just three days later we got another away victory, this time in the soccer. It was probably a career saving last minute winner for Steve Staunton's team in San Marino. Ireland were 1/33 to win the match - it would have been one of the biggest ever upsets.

And from one last minute winner to another - just four days later and the first rugby match in Croke Park. We shouldn't have been in the game and were sorely missing O'Driscoll and Stringer but it was a kick in the gut that France scored that last minute winner to blow our best ever chance of a grand slam - albeit swelling our coffers at the same time.

11/4 second favourite Beef or Salmon did us a favour for a change when coming from a mile back to collar the odds-on 9/10 favourite The Listener in the Hennessy Gold Cup at Leopardstown. It was an incredible 10th Grade 1 win for Michael Hourigan's 11 year old stable star.

But then it was the big one, England in Croker. And the best thing was that we were 4/11 certainties to beat them. So certain in fact that we paid out the day before, not only on the match but also on the triple crown. The only question on punters' lips was whether we'd cover the 7 point handicap - we didn't disappoint - the Championship dream was still alive. 43-13... say it again 43-13!

While we were handing out a beating to the old enemy, Inis Oirr were warming up to take on Inis Mór in a five a-side football match to win the right to be called Craggy Island in the Paddy Power sponsored Fr Ted Festival. As I'm sure you know, Inis Mór won the title.



March

One of a couple of defining moments in the Premiership was when John O'Shea scored a last minute winner at Anfield to keep United on track. Just a couple of days later Liverpool's luck changed with them knocking reigning champs Barcelona out of the Champions League. Barcelona had been 2/5 favs to qualify before the first leg of the tie but all those shrewdies who got on Liverpool at 28/1, 25/1, 20/1, 16/1 etc were sitting pretty. They were now 10/3 favourites and we were left staring down the barrel of a whopper of a payout if they went on to glory in Athens.

Cheltenham is one the punters will want to forget. It was low blow after low blow. The week kicked off with Ebaziyan who won the race for Ireland, great except he was 40/1 - the only sound as he walked back in was the rustle of notes as the bookies counted their money.

The Champion Hurdle was always going to be one for the fancied horses but Brave Inca and Hardy Eustace went off at a breakneck pace and the 6/4 fav Detroit City just went off the boil - Sublimity (who?) came swinging off the bit and stormed away to win at 16/1.

Wednesday didn't start much better for punters with Massini's Maguire winning the Ballymore Properties Hurdle at 20/1, hot 5/2 favourite Aran Concerto could only trail in fifth. But then there was finally a result for backers when Denman justified short odds of 6/5 in the Sun Alliance Chase. It was Well Chief that would get them fully back on track in the Queen Mother, he was backed into even money favourite before crashing out at the very first fence - ouch!

Another early faller for punters on Thursday when 2/1 favourite Black Jack Ketchum hit the deck in the World Hurdle to leave Inglis Drever just hold off Mighty Man in a thriller.

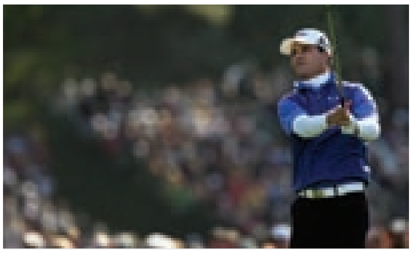
By now we were feeling a bit guilty, our punters hadn't a shilling left, what could we do to give something back? We decided to refund all losing bets on any horse that finished second to a favourite on Friday. What a day to do this special!

The well backed 11/2 shot Katchit started off winning the first, then it was a double for favourites - Wichita Lineman hacked up at 11/8 and then the crème de la crème - 5/4 favourite Kauto Star won the Gold Cup with second favourite Exotic Dancer in second. Ouch, ouch, ouch, ouch. Thanks be to God Whyso Mayo was only second in the next race or we'd still be paying out! It's not often we cheer home a Jonjo O'Neill/JP McManus winner, but Drombeag is now our favourite horse!

Then came St Patrick's day, and what a day. We hammered Italy to lay down our marker for the Six Nations. Then we beat Pakistan in the cricket - honestly! This was turning into a proper day of paddywhackery. And then those bloody French again. The scored a dubious last minute try against Scotland to win the Six Nations on points difference. After a week of punter pummelling, this was getting ridiculous.

We also played soccer at Croke Park and managed to beat both Wales and Slovakia 1-0. The Euro 2008 dream limps on!

March ended with both Munster and Leinster being dumped out of the Heineken Cup.



April

In April, Italian police left their mark on United fans as Roma won their Champions League first leg 2-1. United hit back though, in the best possible way - by hammering them 7-1 in the return leg. We had one punter - from Russia - who had £10 on the correct score at 500/1.

Northern Ireland's Marty Smith won the biggest ever poker tournament in Europe, the paddypowerpoker.com Irish Open. And while he was upsetting the odds at the final table, Tiger Woods was struggling to keep up as Zach Johnson won his first Masters at a whopping 175/1.

The Irish Grand National was won by an English trained outsider, Butler's Cabin at 14/1, while just a few days later 33/1 outsider Silver Birch won the Aintree National for Ireland and the bookies. A record Grand National, or so we thought.

The luckiest man in Ireland was about to strike. Six €1 doubles, four €1 trebles and a €5 each way accum. That cost our punter in Bantry in Cork just €20 to place. It cost us €500,000 when he picked four winners including the Grand National winner Silver Birch at 33/1, Kings Quay at 16/1, Al Eile at 12/1 and the aptly named Paymaster General at 10/1 - champagne all round!

The final nail in Chelsea's Premiership coffin was on the last Saturday in April when United came from 2-0 down to beat Everton 4-2, while at the same time Chelsea let a 2-1 lead slip at Bolton. Game, set and match!

To finish off a week to be forgotten by Chelsea, Liverpool cruelly knocked them out of the Champions League in a penalty shoot-out.

2007 Betting Review

May

Punters were dealt a massive blow when hot ante-post favourite for the 2000 Guineas, Teofilo, was declared a non-runner which meant all bets on him were losers. We said enough bad news for punters was enough and refunded losers on Teofilo and announced an extra place for each way bets on the race.

In the end it was another bookies benefit with 25/1 shot Cockney Rebel leading home a 33/1 shot and three 14/1 shots. Cockney Rebel went on to double up in the Irish Guineas at the far less rewarding but more popular odds of 6/4 favourite.

The next day there was a little bit of respite for punters when Jim Bolger's flying filly Finsceal Beo justified favouritism at 5/4 and also put up the fastest time ever for a classic at Newmarket. She went on to get caught on the line in the French Guineas, but won the Irish Guineas justifying favourite odds of 9/10.

Bertie Ahern landed a bit of a touch when he won a third term as Taoiseach, he wasn't even favourite at one stage but became unbackable at the death. The last price we laid was 1/100!

Outside of the main market though, there were a few upsets which caught punters unaware. We offered odds on all 46 constituencies for the first time and made a surprisingly healthy profit! Overall the election was a massive beano for us with turnover exceeding even our wildest expectations.

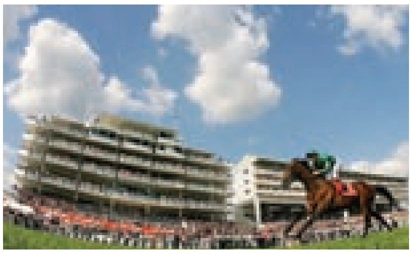
In the Snooker World Championships, John Higgins landed a blow for punters when backed from 12/1 all the way down to 1/100 during his final against Mark Selby.

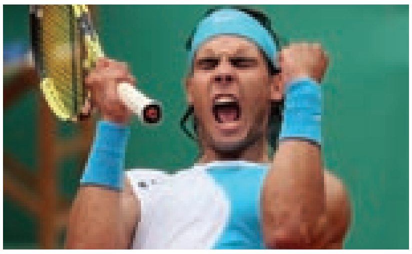
The Champions League final was one of those where we were damned if we do and damned if we don't. Liverpool were a disastrous result ante-post having been backed at all odds from 25/1 down. However, every shrewdie in Europe seemed to think AC Milan were good things in the final.

Milan won it, so we were cleaned out - the only consolation was that it wasn't quite as bad as if Liverpool had won.

The FA Cup final was a little bit easier on the pallet. It was all the hype of the first game in Wembley, Chelsea v Utd, sure to be a goal fest. It was left to Didier Drogba to score the winner in extra time. A draw after normal time, ch-ching!

In the Heineken Cup, Wasps did us yet another favour. They were certainly the bookies team this season, upsetting the odds on numerous occasions en route to the final.





June

Frankie – the one word that will make bookies shudder. It was bound to happen at some stage, but this year was the year when he broke his Derby duck. The horse was Authorized, and there was so much hype in advance of the race that anyone who had a bet on the race backed Frankie. To say he was a bad result is an understatement, but if Frankie was ever going to do it, wasn't it better he did it on a 5/4 favourite than a 10/1 shot. It's hard to argue with the result considering he pulverised the field by five lengths.

The positive of the Derby is that punters must have been getting sick of surprise after surprise - maybe, just maybe God's not a bookie after all!

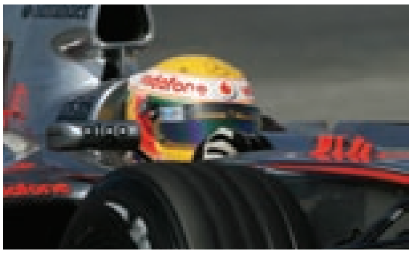
Our knees were knocking when the first two favourites obliged at Royal Ascot, it looked like it was pay back time for punters. However, unfortunately for punters, usual service was resumed.

The shortest priced winner of the week was 8/13 favourite Yeats who won the Gold Cup easily, and the longest was 50/1 shot Nijoom Dubai who won the Albany Stakes on the Friday.

Some of the punter-bashing horses that were scalped included George Washington, US Ranger, Cockney Rebel & Finsceal Beo.

Rafael Nadal justified odds on favouritism when winning his third French Open on the trot. He was almost as certain to win this as Federer is to win Wimbledon every year. Looking on the positive side, it put an early end to Federer's Grand Slam dream which had been heavily backed.

The US Open Golf was an edge of the seat job for us. As is always the case when the going gets tough, the punters get Tiger. Any price was a good price and we ended up with an incredibly lopsided book. It was the unlikely Argentinian Angel Cabrera who saved us from a proper bashing. He just clung on and clung on to land a 125/1 touch for the bookies. Tiger finished second for the second major in a row - it was around a million euro swing.



July

The Irish Derby saw a bit of a plunge landed with the Aidan O'Brien second string Soldier of Fortune, turning around Epsom form with Eagle Mountain and running away with the race at 5/1 by an incredible nine lengths.

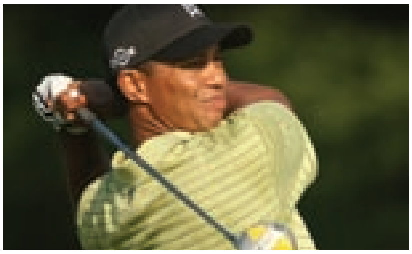
The British Grand Prix was an amazing event in that it epitomised everything about Lewis Hamilton. eight out of every ten bets we took on the race were on Hamilton and we ended up with more on him than we would have had on Schumacher in his heyday. Thankfully he could only finish third, but he's put F1 back on the betting map.

Zzzzz! Federer won Wimbledon for the fifth time in a row. We paid out on him as winner before the first ball was even struck in the tournament. The only jitter of nerves we felt was when Nadal outplayed him in the final - but the reliable Fed express obliged.

The GAA was another eye opener for us this season. The punters had their hardest season ever with a far higher than average number of drawn games. The rule of thumb is that if it ends up a draw, the bookie wins. So, despite the fact that Dublin won Leinster, Waterford won Munster and Tyrone won Ulster - we were cleaning up.

The British Open was the one where we were finally caught by Harrington. He nearly threw it all away on the 18th but managed to get into a four hole play-off with Sergio Garcia. Harrington was two shots up after the first play-off hole and didn't look back. All that remained was to fill the cup with ladybirds and give the poor bookies a loan. We paid out over €1 million on a Harrington win......but we're still ahead on him over the years!

Dylan Thomas ended the month with an easy odds-on success in the King George at Ascot - he was beginning to turn into a bit of a bookie basher for Aidan O'Brien!



August

Everyone says that Galway is a punters' graveyard, but it was more like a gravy train this year when Farmer Brown was backed from 16/1 to 9/2 favourite and ran away with the Galway Hurdle.

The rout continued when the first three favourites won on Galway Plate day but thankfully our luck changed with Sir Frederick doing us a favour in the big one.

We were bizarrely toasting Frankie when he got Ramonti up to beat the heavily backed Aidan O'Brien trained Excellent Art in the Sussex Stakes. However, O'Brien backers got their own back when the incredible Peeping Fawn won the Nassau. And that was followed in by favourite Zidane in the Stewards Cup cavalry charge - a bad hour for the bookies!

In the USPGA it was normal service resumed for Tiger backers with Tiger winning his 13th major and fourth USPGA by a shot from Woody Austin who would have been a skinner. Tiger was as bad a result for us as ever.

One thing to look forward to was the start of the Premiership....It was going to be the most open title race for years with all of the big four in contention. Thankfully most money was for Liverpool early doors!

September

The month kicked off with the Hurling final which was a bit of a change of fortune for punters but normal service for Hurling with Kilkenny hosing up against Waterford.

A couple of weeks later it was Kerry once again, and that turned out to be a double whammy result for punters with many having backed the two All Ireland champs in doubles at the start of the season.

The horse we bookies love to hate, Dylan Thomas, lead home an Aidan O'Brien 1-2-3 in the Irish Champion Stakes at Leopardstown. He may have been odds on, but that was for a reason - the punters piled in!

The country was never so optimistic as before the Rugby World Cup. English fans feared the worst, while Irish fans expected the best.

When Argentina upset the odds beating France in the very first game, we should have known this was not going to go to plan.

Tonga came so close to beating England and even closer to playing them with green hair! Beating Tonga was the turning point in England's tournament.

2007 Betting Review


October

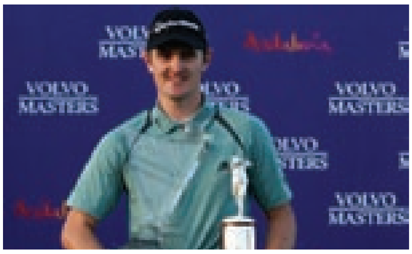
Dylan Thomas' head was becoming more and more familiar and that's the distance he won by in the Prix de l'Arc, just holding off Youmzain. He landed a lovely touch for punters but had to survive a lengthy stewards inquiry - Paddy Power punters needn't have worried though, we declared him the winner regardless of the inquiry.

They say the French don't travel but they certainly did to Cardiff to stun not only New Zealand but the rest of the world too. France were massive underdogs and were the toast of every bookie when they knocked out the mighty Blacks - what a result that was.

Rugby gurus the world over were left scratching their heads wondering how on earth France beat New Zealand and England beat Australia and France for that matter.

The competition trundled on and surprisingly England were a winner on our book so we were cheering them on. South Africa weren't the best result ever but there were so many ups and downs along the way that we were sitting pretty regardless.

The Breeders Cup was pretty good for us with the Europeans drawing a blank but unfortunately we saw the end of Gorgeous George Washington in the knee deep puddles of Monmouth Park.



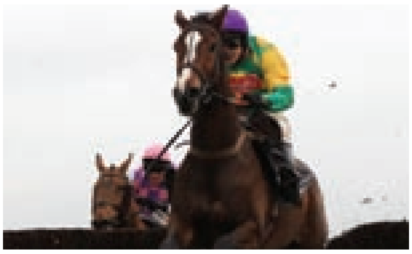
November

Padraig Harrington was denied the European Order of Merit by Justin Rose winning the Volvo Masters to claim the title - thanks Justin!

England going out of World Cup qualification was a short term good result for bookies, but one we'll no doubt regret when the competition comes around. Punters were having a really tough end to the year.

The Paddy Power Gold Cup at Cheltenham was the highlight of the month and we were a bit nervous after the bloodbath of last year. You'd think as sponsors we'd be entitled to expect to win a few quid but the big day went to the punters again.

L'Antartique was an okay result in the big race winning at 13/2, but three heavily backed earlier winners had left their mark.

December

December was a quiet month with just the usual football and rugby fixtures keeping us ticking along nicely. The results kept falling our way and we went into the Christmas racing festivals brimming with confidence.

Kauto Star trounced the King George field across the water and had firmly rubber-stamped his position as the best chaser around. If he wins, we lose - simple as that!

However he may not have it all his own way - his stable companion, Denman, won the Lexus and was building a lofty reputation in his own right.

The Paddy Power Chase is often a bookies benefit (funny that considering the sponsor!) and this year we dodged a bullet with the ultimate gambling stable, Tony Martin, landing the spoils in the dying strides with Newbay Prop. There wasn't too much cash for him before hand so we can count ourselves lucky.

Overall a very good year for bookies. But you know what they say - what goes around, comes around!

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We want to keep the environmental impact of our annual report to a minimum. The paper used was produced at a mill with ISO1 4001 accreditation and is both FSC-certified [Forestry Stewardship Council] and PEFC-certified [Programme for the Endorsement of Forest Certification]. The report contains 80% minimum de-linked post consumer waste content. Shareholders are also encouraged to elect to receive electronic means of communication.

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