

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 Highlights included returning losing bets on heavy ante-post favourite Teofilo when he was withdrawn from the 2000 Guineas, paying out in June on Lewis Hamilton to be 2007 BBC Sports Personality of the Year (doh!)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.

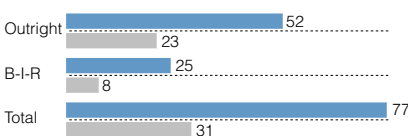
The significant ongoing investment in our brand, through these and many other initiatives, is what creates differentiation and loyalty, and ultimately the required financial payback through higher revenues and profits per shop and lower customer acquisition costs than our competitors.

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!

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More markets...

Champions League Final Betting Markets



Paddy Power ■ Average of competitors ■

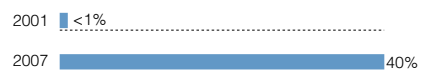
More matches...

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.

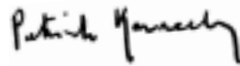
Innovation is not just at the product level - we continue to invest in new businesses which will bring Paddy Power to new consumers and new geographies. In the last twelve months we have launched an online financial spread betting business and Spanish language website, as well as a sports risk management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

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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!