



“ 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 tournamentif 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.

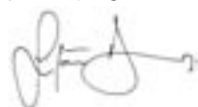
In line with a dividend payout ratio of 40%, the Board is proposing a final dividend of 35 cent per share, payable to shareholders on the register at 14 March 2008. This brings the total dividend in respect of 2007 to €25.0m or 51 cent per share, an increase of 58% on the 32.2 cent paid in respect of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

"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."