



**“ 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 recycling 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 ISO1 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.

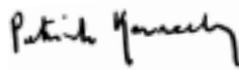
Auditor

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



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!"