



“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.

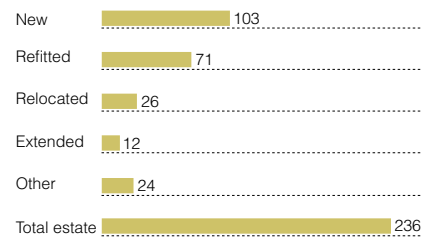
The Retail Division

	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 Product Usage	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	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

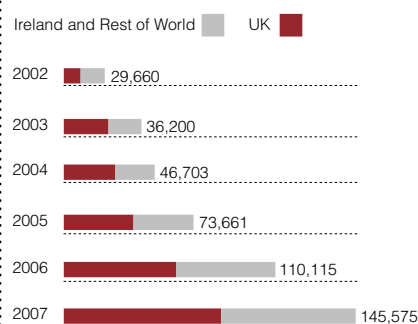
The amounts staked on the online sportsbook increased by 18% to €589m - thanks in no small part to the Football Association of Ireland being unable to appoint a new manager leading to one of the most open contests since an Anna Nicole Smith paternity test. Within this turnover increase, bet volumes grew 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-tastrophe' 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	31 Dec 2007	31 Dec 2006	% Change
Active Customers	2007	2006	Change
Ireland and Rest of World	11,417	11,048	+3%
UK	10,064	8,923	+13%
Total	21,481	19,971	+8%

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

People

Our people are pivotal to everything we do and we are fortunate to have such a range of talented people that epitomise our devotion to customer service, our dedication to product excellence and our brand values of 'fun, fair and friendly'. We have been investing heavily in recruitment and the average number employed in the Group during 2007 increased by 9% to 1,536.

"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

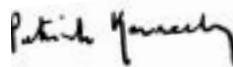
The corporation tax charge for 2007 was €13.0m, an effective tax rate of 17.2%, compared to 17.0% in 2006. No corporation tax is currently payable in the UK due to tax losses. A deferred tax asset has not been recognised in respect of accumulated UK losses given the expected losses from the planned initial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