

# Chief Executive's Statement

## UK Profit Growth

EBIT from UK Customers as % of Group EBIT (CC)



(Online and telephone UK EBIT based on average divisional profit margins applied to UK revenues)

In recent years the Group has expanded both its geographic and product range. While this remains "work-in-progress" our 2008 results demonstrate the success of the strategy:

- Online operating profit accounted for 57% of Group profitability;
- Operating profit from UK customers accounted for 38% of Group profitability.

The strategy was deployed to advance the Group's long term interests while retaining our traditional emphasis on the Irish marketplace. This approach has been successful to date as Paddy Power has taken advantage of growth opportunities, proven the strength of our proposition in these new markets, and at the same time continued to invest in Ireland.

In the last 12 months, our Irish shop business environment has been impacted both by a slowing economy and the government's decision to double betting tax. As our customers came under increasing pressure from the slowing economy, we responded by providing greater value – guaranteeing early and board prices, tightening football pricing, and more "specials" (enhanced odds, money back offers, early payouts) – and by increasing our product investment. This approach was not unique to our Irish shops: it was implemented across all channels, and accompanied by significant cost reduction initiatives in areas that would not impact customer experience.

We believe that the number of betting shops in Ireland will decline over the next number of years: a total of 40 closures have already been announced across all the major chains apart from Paddy Power, even though the tax increase does not take effect until May. We feel well placed to manage the business through such difficult times with average turnover per shop twice the average of the other players. We opened 13 new shops in Ireland this year and our aim is to increase our relative presence in the market.

This approach highlights our commitment to the Irish market. We have 191 shops in the Republic of Ireland and further strong Irish business through our online and telephone channels. As we have pushed forward with expanding the range of our business interests we have never lost focus on Ireland's importance to our growth. That will not change.

The fact remains however that the Group's fortunes over the next five years will, to a considerable extent, depend on how well we execute our expansion plans – in all channels – in the UK. There are potentially attractive opportunities for Paddy Power in a range of geographies, yet the UK is by some distance our most attractive market outside of Ireland because:

- It is a very substantial market, on our doorstep, which is forecast to continue growing: the UK sports betting market grew at 12% per annum between 2003 and 2007, and is forecast to grow at 3% per annum up to 2013. Furthermore, it is some three times bigger than the Italian, German and Spanish markets combined;
- Betting and gaming – in shops, online and by telephone – is legal, in contrast to the lack of clarity in many other international geographies;
- It has a sports betting culture, and customers bet on the same product that we are already pricing for our Irish customers;
- Our brand works well in the UK: our brand awareness is higher than that of all other betting providers – shop, online and exchanges – with the exception of the three large retail chains;
- Our progress to date in growing our online, shop and telephone businesses in the UK is reassuring.

EBIT from UK customers  
**almost half**  
of Group profits in H2 2008

Turnover per Irish shop  
**twice**  
the average of other players

# Chief Executive's Statement

(continued)

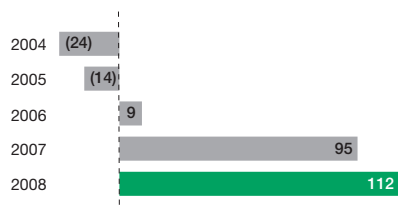
While cognisant of shifting economic conditions, we remain on track to grow our UK estate – in London, Scotland, the North West of England and Northern Ireland - from 68 shops to at least 150 by 2011.

A focus on brand, product quality and value has driven our very strong online growth in the UK, and our UK online customers now account for approximately two thirds of the revenues of our online division, the most profitable division in the Group. Given our strong track record, the hurdles to successful competitor entry and the expected continued structural market growth, we see this material online market position as one of our particular strengths.

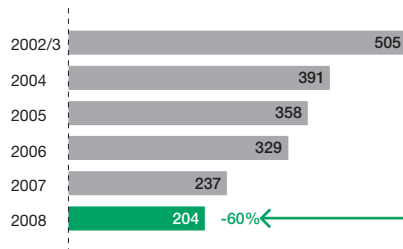
Notwithstanding our strong performance, our share of these markets remains very small and therefore our growth potential is considerable – we have between 5% and 10% of the fragmented online betting and gaming market and less than 1% of the retail betting market in the UK. We intend to continue expanding our share in these growing markets. Furthermore, we believe a multi-channel strategy in the UK is the correct approach: it provides scale over single channel operators, and in addition research shows that a multi-channel operator – an operator with both shops and an online offering – boosts its online share in areas where it has a shop.

## GB Retail: Return on Capital

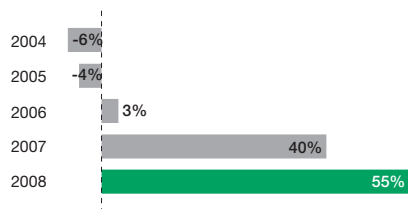
EBITDA Per GB Shop (Stg £'000)



Total Cost Per GB New Shop (Stg £'000)



EBITDA Per Shop / Capital Cost Per New Shop



The 2008 performance of our London shops highlights the attractive investment opportunity we have in the UK. The 60 shops generated EBITDA of €8.2m before central costs in 2008, or approximately €140,000 per shop, an increase of 17% in local currency over 2007. Meanwhile, the average capital cost per new unit in 2008 was below €300,000, or less than half the average cost in local currency of the units we opened in our first year in London.

While cognisant of shifting economic conditions, we remain on track to grow our UK estate – in London, Scotland, the North West of England and Northern Ireland - from 68 shops to at least 150 by 2011, and are confident that this will provide very attractive medium term returns. While economic conditions pose a challenge to the initial trading of new shops, they also create an opportunity to secure attractive locations at the right cost for the long term. In the first nine weeks of 2009, we have opened our first three shops in Scotland and hope to have our first shops in Manchester open in the next two months.

We will also continue to evaluate opportunities in other international geographies, in particular for our non retail activities where a local presence is not a prerequisite. Therefore, in summary, despite a more challenging environment, there remain many opportunities which we intend to progress over the next number of years in the UK, Ireland and further afield. Many of these will have the UK as one of, if not the, major market, as has been the case with recent initiatives such as online bingo, financial spread betting and sports risk management. In addition, successful expansion of our existing online, shop and telephone businesses in the UK will be a key driver of future success for Paddy Power.

**Patrick Kennedy**  
Chief Executive

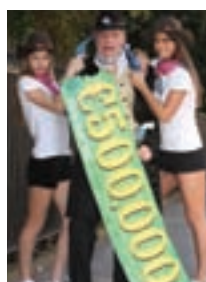
27 February 2009



# CHANGE FOR THE BETTOR? YES WE CAN!

As the economy slowed we tried hard to put some more change back in the pockets of our customers. Along with our usual array of early payouts, Money-Back Specials, extra places and enhanced odds, we also launched our most generous ever concession, Paddy's Price Promise. With Paddy's Price Promise we guarantee all early and board prices for all UK and Irish horse and greyhound races meaning that Paddy Power punters always got the best odds available between those prices and the SP. We also launched our Last Man Standing football prediction competition, where you pick a different Premier League team each week to win their match and leave you standing. You don't have to be a man to enter but selecting teams based on the prettiness of their shirts, names or players has to date been unsuccessful!

**€500,000**  
CASH PRIZE  
**LAST MAN STANDING**  
WIN BETTER PRIZES  
WIN PRIZES IN EVERY MATCH  
WINNING: BEST SHIRT  
**FREE BETS**  
Paddy Power



**WE'VE GONE CRAZY!**  
If your horse falls in ANY race at Cheltenham, we'll refund your losing single bet. And that's not all... we'll also refund you on the following: Paddy's Price Promise and Money-Back Specials.  
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8 Place - Your Next 2 Horses  
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