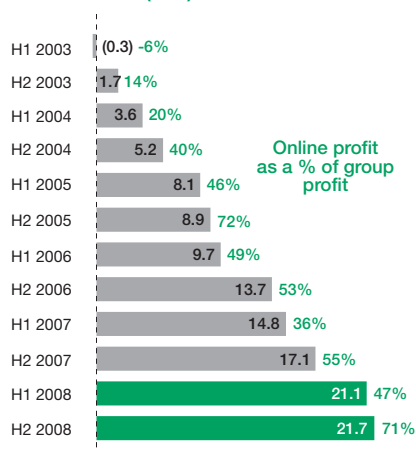


# Chairman's Statement



## Online Profit (€m)



Dear Shareholder,  
I was honoured to take up the role of Chairman on January 1st last. My five years on the Board of Paddy Power convince me that the Group is well prepared for the demands of the current environment given the strength of its brand, management, market positions and balance sheet.

Despite challenging economic conditions and the adverse impact on profit from less favourable sporting results of €9m and from weaker sterling of €5m, 2008 was another year of growth for Paddy Power. Pre-tax profit increased by €3m to €79m and earnings per share was up by 10%. This growth was driven by an €11m or 34% increase in online operating profit to €43m. This online performance was by no means surprising in that it reflects the continued development of a proven online business model centred on Paddy Power's unique brand, 'best of breed' products and great value and service for customers. Our online profits have increased every reporting period since they moved into profit over five years ago and accounted for over 70% of Group operating profit in the second half of 2008.

Our retail business complements strongly this online success. The same relentless emphasis on brand, product and customer service, plus over twenty years retailing experience, underpin what Paddy Power represents in its different manifestations. In 2008, Irish Retail profits fell by €6m as a result of less favorable sporting results and lower average turnover per shop due to the growth in

industry shop numbers over recent years and the weaker economic conditions. Nonetheless, our average turnover per shop in 2008 was still twice that of our competitors and we increased our market share. With our leading brand and market position, we are well placed to continue increasing market share on foot of any reduction in industry shop numbers. In Great Britain, EBITDA per shop of €140,000 in 2008 highlights the attractive investment opportunity we have in that market given a capital cost per new unit last year of less than €300,000.

Notwithstanding the strength of these online and retail market positions, the deteriorating economic conditions and intense competition in our markets required resolute and swift action throughout last year. While Paddy Power has always focused on providing the best value in the market, we took this to a new level as our customers faced tighter times over the course of 2008. We also further squeezed our cost base but without compromising the customer proposition. This limited cost growth in the second half of 2008 to just 6% in constant currency despite an 11% increase in average shop numbers. This focus on costs together with previously announced non retail tax developments also significantly reduced the cost of the deductions between gross win and gross profit.

Attention to this balance between remaining the customer's bookmaker of choice with a focus on efficiency of delivery in such difficult times will remain a constant for management and for your Board.

## 2008 Results (€m)

	2008	2007	% Change	% Change in Constant Currency ('CC')*
Amounts staked	2,101	2,028	+4%	+9%
Sportsbook gross win %	11.0%	11.5%		
Gross win	283.7	279.0	+2%	+7%
Gross profit**	253.7	242.4	+5%	+9%
Operating costs	(178.0)	(170.3)	+5%	+9%
Operating profit**	75.7	72.1	+5%	+11%
Profit before tax**	79.0	75.8	+4%	+14%
EPS, adjusted basic**	140.5 cent	127.4 cent	+10%	
Dividends	54 cent	51 cent	+6%	
Cash balances	77	88		

\* Percentage changes in constant currency reflect the foreign currency content in 2007 translated at 2008 exchange rates

\*\* Results above and throughout this statement and the Operating & Financial Review exclude an exceptional gain of €2.7m pre-tax



# PREDICT ELECTION RESULTS? YES WE CAN!



Domestic and international politics took centre stage in 2008, so much so that we developed a bespoke political betting website, electionbetting.com. We kicked off the year by paying out on Barack Obama as the Democratic nominee in early January, a full eight months ahead of time. We also paid out on Boris Johnson as the new London Mayor on polling day and again on Obama three weeks before the American Presidential election. Mind you we didn't always get it right, our decision to pay out early on a 'YES' vote in the Lisbon Treaty left us with eighty thousand euro worth of egg on our face and our early payout on Obama didn't go down well with everyone (see actual e-mail from Todd above!).



# Chairman's Statement

## (continued)

### Taxation

Economic conditions have also weakened considerably the fiscal positions of relevant governments increasing the potential for higher taxation of our industry. Legislation has already been passed in Ireland to double the rate of betting tax payable on amounts staked in Irish Retail from 1% to 2% effective from May 2009. This will reduce our operating profit by €6-7m in 2009 and €9-10m in a full year. This increase will cause particular difficulties because of relatively low profit margins and recent declines in turnover. It is expected to lead to some shop closures amongst competitors with a resultant net adverse impact on government finances.

The Irish government has stated it will consider broadening the tax net to include non retail betting. However seven of both the top ten telephone betting providers and online betting providers into Ireland have no physical presence here. As a result, a 2% tax on the Irish business of the Irish located telephone businesses would yield only €5m of tax annually – and only if those companies opted to stay in Ireland. Therefore an attempt to tax non retail betting would result in a worse outcome for Irish employment and tax revenues because of the fundamental difficulties with the enforcement and collection of such a tax from operators with no activities in Ireland who would thereby be given a huge competitive advantage.

It is important to emphasise that Irish betting tax, which funds the horse and greyhound racing industry in Ireland, is completely out of line with the income that Irish betting shops derive from Irish racing. The fact is that Irish racing accounts for only some 15% of retail stakes yet the 2% tax is applied to all retail stakes and as a result our Irish shops will pay more than their entire revenue from Irish racing over to the Irish racing industry. We regard this as inequitable on a number of fronts.

At the same time we are cognisant of the immense challenges facing government and we are proposing a number of other solutions such as reviewing the resources allocated to the Irish racing industry and boosting tax levels by extending retail opening hours, taxing existing land based casinos and developing that sector through regulation.

### The Board

We were very pleased to announce in July 2008 the appointment of Pádraig Ó Riordáin as a non-executive director. Pádraig is Managing Partner of Arthur Cox, a leading Irish law firm and provides a wealth of legal and commercial experience to the Board. The Board has appointed Tom Grace as Senior Independent Director to fill the vacancy arising with the change in Chairman. Tom, a former partner with PricewaterhouseCoopers and a non-executive director of Paddy Power since 2006, brings great professionalism to this important position. I would also like to acknowledge the enormous contribution of our former Chairman, Fintan Drury. Fintan was the first non-founder to chair the Group, yet he always displayed an innate appreciation of the brand, culture and ethos of Paddy Power. I am delighted that Fintan has agreed to remain on the Board. We continue to search for quality non-executive directors who would further augment the Board.

The management team continued to develop under Patrick Kennedy's excellent leadership during 2008 and, in my view, we now have an exceptional team that consistently demonstrates the right balance between diligence, experience and entrepreneurial flair.

### Dividends, Share Buyback Programme and Cash Balance

During 2008, we returned a total of €54.1m of cash to shareholders. This comprised total cash dividends of €25.9m, an increase of 33% over 2007, and €28.2m via a share buyback programme (being purchases of 1.48m shares or 3.0% of the Company's share capital at an average price of €19.00 in line with market prices at the time). The Board is proposing a final dividend of 35.4 cent per share, payable to shareholders on the register at 13 March 2009. This brings the total dividend in respect of 2008 to €25.7m or 54 cent per share, an increase of 6% on the 51 cent paid in respect of 2007.



Despite these significant cash returns to shareholders and an acquisition spend of €24m, the cash generative nature of the business meant that cash balances at the end of 2008 remained strong at €77m, as compared to €88m at the end of 2007. This cash balance gives Paddy Power financial strength and flexibility for expansion organically or via acquisition thereby creating more opportunity for the Group in the current environment. While the Board does not rule out further share buybacks, retention of cash has therefore become more attractive.

### Outlook

The Group faces a number of headwinds in 2009 which are projected to reduce profits as has already been reflected in consensus market expectations.

In this more challenging environment, the Board is satisfied with the overall progress in the first two months of the year. In constant currency, non retail and retail sportsbook amounts staked have grown by 15% and declined by 5% respectively, influenced in part by increased racing cancellations. Non sportsbook gross win has increased by 9% in constant currency. The Board remains confident of the Group's prospects.

**Nigel Northridge**  
Chairman

27 February 2009