

Directors' Report

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2008.

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 €68.8m reflects an increase of 10% on the 2007 profit figure of €62.8m. Basic earnings per share amounted to 145.7 cent compared with 127.4 cent in the previous year, an increase of 14%. The financial results for the year are set out in the consolidated income statement on page 38. Total equity at 31 December 2008 amounted to €127.2m (2007: €117.4m).

Dividends

An interim dividend amounting to 18.60 cent per share was paid during 2008. The directors recommend that a final dividend of 35.40 cent per share (2007: 35.00 cent per share), amounting to €16.8m (2007: €17.1m), be paid on 22 May 2009 to shareholders registered at close of business on 13 March 2009. This would make a total distribution of profit to shareholders of €25.7m in respect of the year ended 31 December 2008 (2007: €24.9m).

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 8 to 18.

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 economic, demographic, technological and other macro factors affecting demand for, and revenue from, the Group's products;
- changes in the exchange rates between the euro (the Group and Company's functional currency) and the foreign currencies in which the Group and Company transact business, primarily the pound sterling and the US dollar;
- the regulatory, taxation or legislative environment applicable to the Group's activities;
- the intensity of competition in the Group's markets;
- 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 16. The composition and responsibilities of the Risk Committee are set out on pages 29 and 30. 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 48 to 51.

Research and development

The Group performs research and development activities to ensure that it continues to be a recognised innovator in the betting and gaming industry. These activities support the introduction of new products, the creation of new betting markets, improved online customer experience and the development of better processes and systems. Continued research and development contributes to the Group's future growth and profitability.

Market research

The Group undertakes market research across all business divisions in both Ireland and the UK. In 2008, 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 27 February 2009, the Company had 49,279,727 shares in issue, all of which are of the same class and carry the same rights and obligations (apart from 1,734,000 shares held by the Group as treasury shares which have no voting rights and no entitlement 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 18 to the consolidated financial statements.



PIONEER NEW PRODUCT? YES WE CAN!

Our product development team hardly stopped to catch breath in 2008. Along with introducing betting markets on over 20 new football leagues and all 50 states in the US election, they also found time to revamp our betting-in-running site completely and redesign both our online bingo site and shop screens. Following the popularity of the Last Man Standing competition in our shops we introduced a web version, launched a new betslip and added new horse racing and soccer pages for our online customers. Finally we analysed and modelled thousands of historic matches to give football fans every betting option they wanted - 104 markets per match at the last count!



Directors' Report

(continued)

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 page 34. During the year ended 31 December 2008, the Trust purchased 599,000 (2007: 325,000) Paddy Power plc shares at a cost of €11.6m (2007: €6.7m). During 2008, the Trust transferred 228,173 (2007: 183,472) ordinary shares that had vested to beneficiaries of the Trust. At 31 December 2008, the Trust held 1,166,855 (2007: 796,028) ordinary shares in Paddy Power plc, representing 2.37% (2007: 1.62%) of the issued share capital. Further information is set out in Note 20 to the consolidated financial statements.

During 2008, the Group purchased 1,484,000 (2007: 2,389,443) of the Company's own shares, all of which were held as treasury shares at 31 December 2008. In 2007, of the 2,389,443 shares purchased, 2,139,443 shares were subsequently cancelled and the remaining 250,000 were held as treasury shares as of 31 December 2007. As of 31 December 2008, the shares held in treasury totalled 1,734,000 shares and represented 3.52% (2007: 0.51%) 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 18 to the consolidated financial statements.

Substantial holdings

As at 27 February 2009, 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	%
Fidelity Investments Limited	4,300,054	9.04%
Deutsche Bank AG	1,925,659	4.05%
John Corcoran	1,500,000	3.15%
Bank of America	1,427,511	3.00%

Directors' and Secretary's interests in the share capital of Paddy Power plc

	Number of ordinary shares of €0.10 each	
	31 December 2008	31 December 2007 (or date of appointment if later)
Fintan Drury	34,200	19,400
Patrick Kennedy	95,067	23,500
Breon Corcoran	100,174	108,620
Jack Massey	5,000	5,000
Tom Grace	10,000	5,000
Stewart Kenny	438,505	403,832
Nigel Northridge	3,000	3,000
Pádraig Ó Riordáin	-	-
David Power	4,398,788	4,398,788
Brody Sweeney	5,550	5,550
David Johnston (Secretary)	-	-

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

Pádraig Ó Riordáin was appointed to the Board on 8 July 2008 and is proposed for election by the shareholders at the AGM in May 2009. Nigel Northridge succeeded Fintan Drury as Chairman with effect from 1 January 2009. Brody Sweeney and Breon Corcoran were re-elected as directors by the shareholders at the AGM in May 2008 after retiring by rotation. Fintan Drury, Tom Grace and Jack Massey retire from the Board by rotation in 2009 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 34.

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 34.

Directors' remuneration

Details of directors' remuneration are given in the Remuneration Committee Report on page 33 and in Note 7 to the financial statements on page 54. 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 2008 in the share capital of Paddy Power plc, all of which were beneficially owned, were as per the table above.

There have been no changes in the above shareholdings between 31 December 2008 and the date the directors approved these financial statements.

The directors and the Company Secretary, who held office at 31 December 2008, had the following movements in share options during the year and held the following share options at 31 December 2008:

	Number of options at start of year	Options exercised during the year	Options granted during the year (a)	Options lapsed during the year	Number of options at end of year	Exercise price (b)	Exercise period
Patrick Kennedy	1,785	-	-	-	1,785	€11.29	4 December 2011 – 3 June 2012
	-	-	1,236	-	1,236	€9.45	4 December 2013 – 3 June 2014
Breon Corcoran	20,000	-	-	-	20,000	€8.15	24 February 2007 – 24 February 2011
	1,020	-	-	-	1,020	€11.60	9 November 2008 – 8 May 2009
	-	-	1,989	-	1,989	€9.45	4 December 2011 – 3 June 2012
Jack Massey	614	-	-	614	-	€19.26	-
	-	-	1,989	-	1,989	€9.45	4 December 2011 – 3 June 2012
David Johnston	4,000	-	-	-	4,000	€24.17	5 September 2010 – 5 September 2017
(Secretary)	-	-	1,989	-	1,989	€9.45	4 December 2011 – 3 June 2012

(a) The options granted during the year were under the terms of the Company's Sharesave Scheme (see Note 20).

(b) The market price of the Company's shares at 31 December 2008 was €13.11 and, for the year then ended, the Company's daily closing share price ranged between €9.60 and €24.25 (2007: ranged between €15.05 and €28.55 and was €22.51 at year end).

During the year ended 31 December 2008, the executive directors and the Company Secretary had the following interests and were conditionally granted the following shares under the Long Term Incentive Plan scheme:

	Grants outstanding at end of year	Granted during year	Vested during year	Grants outstanding at end of year	Date shares granted	Weighted average share price at date of grant	Cost of shares vested to directors during the year €'000
Patrick Kennedy	230,000	1,567	(71,567)	160,000	2006 and 2007	€14.85	1,042
	-	80,000	-	80,000	3 March 2008 & 15 May 2008	€22.21	-
Breon Corcoran	220,000	1,554	(66,554)	155,000	2006 and 2007	€14.99	876
	-	60,000	-	60,000	19 September 2008	€13.79	-
Jack Massey	65,000	-	-	65,000	2006 and 2007	€15.28	-
	-	25,000	-	25,000	3 March 2008 & 15 May 2008	€22.21	-
David Johnston (Secretary)	-	2,500	-	2,500	19 September 2008	€13.79	-

The awards are subject to the rules of the scheme and will vest if testing growth performance targets are met over the allowable vesting period. Further details of the scheme are outlined in the Remuneration Committee Report and in detail in Note 20 to the consolidated financial statements. Included in current year grants and vestings are a small number of vested shares which relate to dividends earned over the vesting period in respect of the shares vested during the year. 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 20) to directors during the year. During 2007, 30,672 shares were vested to Breon Corcoran at an original cost of €294,000.

The Company Secretary has also been conditionally granted 2,721 shares under the Managers' Deferred Share Award Scheme. Further details of the scheme are outlined in the Remuneration Committee Report and in Note 20 to the consolidated financial statements.

Transactions with directors and parties related to them have been disclosed in Note 7 to the financial statements on pages 54 and 55. The directors and secretary have no interests in shares in any other Group companies.

Political donations

No political donations were made by the Group during the year that require disclosure in accordance with the Electoral Acts 1997 to 2002.

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 account are kept at Airtown House, Airtown Road, Dublin 24.

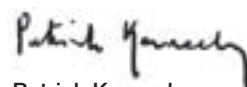
Auditor

In accordance with Section 160(2) of the Companies Act 1963, the auditor, KPMG, will continue in office.

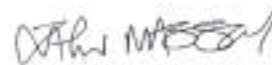
Going concern

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

27 February 2009