

## Interim Statement

I am delighted to report on an outstanding first half of 2007 for Paddy Power with the following highlights:

- Operating profit growth of 108% to €40.8m;
- A marked improvement in the performance of our UK Retail business which traded profitably compared to a full year loss of €6.0m in 2006;
- Operating profit growth of 131% in our Irish Retail business;
- Operating profit growth of 53% and 27% in our online and telephone businesses respectively;
- Continued investment to drive future growth, including the introduction of online financial spread betting and online Spanish language betting businesses in the summer;
- The acquisition of four shops in Ireland and an additional four since the period end;
- Cash returns to shareholders of €59.3m through a combination of dividends and share buybacks;
- Last, but not least, an exceptionally favourable run of sporting results...

While the summer weather was poor it was nothing compared to the 'perfect storm' experienced by many punters during the first half of 2007! Whether it was in horse racing, soccer, rugby or golf, a stream of apparently unlikely and, certainly lightly backed, results came to pass. The 'luck of the Irish' was little in evidence with a succession of fancied Irish horses beaten at Cheltenham, Ascot and in the Classics. This resulted in gross win percentages above the expected ranges in all our sportsbook channels, with the largest positive variances in those channels with the highest exposure to Irish punters. When the going gets tough some people grow a beard and hide in a bunker but we went for the get going approach. We ran some of our most generous 'specials' during the period, building our brand and customer loyalty for the future. Despite the run of bookmaker-friendly results inevitably impacting turnover growth (so called 'negative recycling'), and the absence of the World Cup, we also achieved double digit turnover growth in both our Retail and Non Retail divisions.

Historically the second half of the year tends to produce a lower gross win percentage for Paddy Power than the first half, as more predictable ground conditions deliver fewer upsets in racing. However in July and August this year the variable weather conditions have resulted in gross win percentages close to the mid-point of the guided ranges which serves to remind us of the potential for our short-term financial performance to be influenced by sporting results and other factors, all outside our control. We know from long experience the old adage of 'what goes around comes around' applies to sporting results.

## Interim Statement (continued)

### The Retail Division

The gross win percentages in the first half of the year within Irish and UK Retail were 14.7% and 12.6% respectively, compared to 12.4% and 12.5% in the comparable period. This performance was driven by a set of results that even our most wised and experienced colleagues regarded as unprecedented. In the last five reporting periods prior to this, our Retail division's gross win percentage has averaged 12.0%, in line with the mid-point of our ongoing guided range of 11.0% to 13.0%. Equally, UK Retail (and business from UK customers within Non Retail) had gross win percentages in the current period near the mid-point of their guided ranges. The divergence in the Irish and UK Retail percentages highlights the impact of the different performance of the favoured selections amongst Irish and UK punters. Picking a winner was difficult; picking an Irish winner seemed nigh impossible. We tried to cushion the blow for our punters with our trademark Money-Back Specials including the Cheltenham special refunding all losing bets on any horse that finished second to a favourite; this was offered on one race on each of the first three days and expanded to every race by the Friday. We continue to monitor closely current gross win percentages and expectations for the future; however recycling, negative and positive, does counterbalance some of the impact of gross win percentage movements.

The launch of Turf TV was a significant development in the supply of pictures from racecourses to shops, as well as a graphic illustration of our commitment to giving customers what they want. Since April, Turf TV has had the picture rights from six UK racecourses, with a further 25 of the UK's 59 racecourses committed to join the service in January 2008. Paddy Power was the first major chain of bookmakers to sign up for Turf TV, ensuring our customers could continue to watch live racing from every racecourse in the UK and Ireland without interruption. Our infrared shop television control technology and central production studio also ensures that the SIS and Turf TV pictures are seamlessly integrated. Despite the incremental cost, we are confident this approach will be rewarded, particularly by focussing on the opportunity it gives us to win customers from competitors without this service. Significantly, 80% of betting shops in the UK do not currently have Turf TV. In recent months, we have therefore complemented this differentiation with a traditional Paddy Power Money-Back Special, but taken to a whole new level – money back on all losers - for three selected races over the day, announced immediately after the off. We can't think of a better way to showcase to a new customer the Paddy Power commitment to customer service, product quality and our brand values of fun, fair and friendly.

The benefits of the Electronic Point of Sale ('EPOS') system rolled out last year continue to accrue in a range of areas. This year's Cheltenham Festival and Grand National were the first for many shops with EPOS and we were pleased with the improvement in customer service from speedier bet placement and collection, including the benefit of EPOS readable 'mark sense' dockets for shop coupons and press promotions. We are also extracting more benefits by continuously refining and acting upon information from the system for operational management, marketing, risk and security.

## Interim Statement (continued)

### (i) Irish Retail

€m	H1 2007	H1 2006	% Change
Amounts staked	460.9	414.4	+11%
<b>Gross win</b>	<b>67.7</b>	<b>51.6</b>	<b>+31%</b>
Gross profit	62.9	43.0	+46%
Operating costs	(40.4)	(33.3)	+22%
<b>Operating profit</b>	<b>22.5</b>	<b>9.7</b>	<b>+131%</b>

The amounts staked within Irish Retail grew by 11% to €461m with a 31% increase in gross win to €68m, as compared to increases of 16% and 21% respectively in the first half of 2006. Excluding the impact of new shops, like-for-like amounts staked and gross win increased by 5% and 25% respectively, as compared to 12% and 16% during the first half of 2006. Operating costs increased by 22% driven by a 9% increase in average shop numbers, increased depreciation (primarily related to EPOS) and growth in divisional and central variable costs due to increased levels of activity.

Gross profit in the first half of 2007 versus 2006 benefited from the change in Irish retail betting tax. From July 2006, the Irish government introduced a 1% turnover tax levied on the bookmaker in place of the previous 2% tax paid by the customer. Of course Paddy Power had given its customers the benefits of tax free betting the morning after the change was announced in December 2005. This meant incurring an additional cost of 1% of turnover or €4m in the first half of 2006 which did not arise in the first half of 2007.

During the first half of the year, we opened four new shops and expect to continue to open in line with our medium term guidance of six to 10 shops per annum. In addition, we acquired four shops from other operators: a small chain of three shops within Dublin and one shop in Mullingar. Since 30 June, we have also acquired a chain of four shops in North Dublin. 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 but where suitable retail units have not become available; 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. The eight additional shops trading during the first half took our total Irish estate to 168 as at 30 June 2007.

## Interim Statement (continued)

### (ii) UK Retail

€m	H1 2007	H1 2006	% Change
Amounts staked	83.0	60.3	+38%
<b>Gross win*</b>	<b>15.1</b>	<b>10.3</b>	<b>+47%</b>
Gross profit	12.7	8.0	+58%
Operating costs	(13.2)	(11.0)	+20%
<b>Operating loss**</b>	<b>(0.5)</b>	<b>(3.0)</b>	<b>n/a</b>

(\*FOBT gross win above excludes VAT; \*\* The operating loss in 2007 is shown after a €0.6m provision for shop closure costs)

UK Retail achieved its first trading profit in the first half of 2007, generating €0.1m prior to a provision for shop closure costs of €0.6m. This compares to ongoing losses since the initial openings in 2002 and a loss of €3.0m in the comparable period last year. We announced last year 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 this month. As a result, we implemented a range of initiatives to increase revenues and reduce costs which came to fruition in the current period resulting in a once off step change increase in profitability.

From a revenue perspective, turnover grew by 38% to €83m. Gross win growth of 47% to €15.1m was comprised of 72% growth in Fixed Odds Betting Terminal ('FOBT') gross win to €5.3m, and 37% growth in over-the-counter ('OTC') gross win to €9.8m. Like-for-like gross win grew by 24%, with OTC growth of 19% and FOBT growth of 37%. There were 231 FOBT machines installed as at 30 June, an increase of 24% compared to 30 June last year. The average gross win per machine per week including VAT was £716, an increase of 28% compared to £558 in the first six months of 2006.

An aggressive review of the cost base of our UK Retail estate delivered substantial savings in the first half of 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 €0.6m, operating cost growth was restricted to 14%, despite a 23% increase in the average number of shops and a 3% increase from the imposition of Amusement Machine Licence Duty. The adequacy of the shop closure provision will be reviewed at the end of the year.

This progress on costs and revenues has resulted in each of the group of shops we opened in each of the last four years achieving an EBIT positive result in the first half of 2007. This compares with only the combined group of shops opened in 2003 and 2004 achieving an EBITDA positive result in the first six months of last year.

Looking forward, we welcome the implementation of the Gambling Act this month which provides improved shop opening prospects, enhanced gaming machines and longer shop opening hours. The removal of the 'demand test' for openings also gives us important additional flexibility in the format and size of new shops. The gaming machine changes allow for the introduction of higher payout and more varied content on machines. There will however be an offset from the impact of the smoking ban implemented in England in July, and machine regulatory changes being

## Interim Statement (continued)

made as part of the implementation of the Act. In April we completed our pre-deregulation opening programme, with one additional shop, taking our estate to 59. We will open a small number of additional shops in London this year but are also currently undertaking a detailed review of the potential for expansion elsewhere in the UK.

### The Non Retail Division

The Non Retail division comprises online betting and gaming and telephone betting. Operating profit from the division increased by 46% to €18.9m, comprising €4.1m from the telephone channel, an increase of 27%, and €14.8m from the online channel, an increase of 53%. Betting on football represents a greater proportion of turnover in the Non Retail division than the Retail division; hence this was a satisfying performance as last year's comparatives included the World Cup.

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 achieved in the first half of 2007 of 9.9%, compared to 7.7% in the comparable period and our mid-point expectation of 8.0%, with an exceptionally high percentage achieved from Irish customers being partially diluted by a percentage modestly above the mid-point of the range from UK customers.

As a result of recent tax developments which come into effect from September 2007, we now expect to incur less betting tax within the Non Retail division going forward, as long as the new tax situation continues to exist. While tax legislation may change in the future, the impact of these changes based on current levels of activity is to increase Non Retail gross profit by approximately €5m in a full year.

#### (i) The Online Channel

€m	H1 2007	H1 2006	% Change
Amounts staked	297.3	247.9	+20%
<b>Gross win</b>	<b>45.6</b>	<b>30.7</b>	<b>+48%</b>
Gross profit	35.4	23.1	+53%
Operating costs	(20.6)	(13.4)	+54%
<b>Operating profit</b>	<b>14.8</b>	<b>9.7</b>	<b>+53%</b>

The online channel continues to be characterised by strong growth, combined with a significant level of investment to drive future growth. Operating profits increased by 53% or €5.1m in the first half of 2007, notwithstanding the ongoing investment being 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 increase in operating costs from €13.4m to €20.6m 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.

## Interim Statement (continued)

Customer numbers in the online channel continued to grow strongly with an 18% increase at the end of the half year relative to June 2006, despite slower growth in sportsbook customers without the World Cup. Online competition remains intense but we are confident that our brand, product range and top class customer service, as well as our continuous drive to increase our marketing efficiency, means we are well positioned for growth. From a marketing perspective, we continue to invest in people and technology to optimise our 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 period, automating the process for other web site operators to promote our products on their websites. An Irish general election microsite 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 Active Customers	30 June 2007	30 June 2006	% Change
Ireland and Rest Of World	58,619	46,564	+26%
UK	98,791	86,810	+14%
<b>Total</b>	<b>157,410</b>	<b>133,374</b>	<b>+18%</b>

Online Customers Product Usage	30 June 2007	30 June 2006	% Change
Sportsbook only	96,632	95,950	+1%
Gaming only	26,375	15,411	+71%
Multi product customers	34,403	22,013	+56%
<b>Total</b>	<b>157,410</b>	<b>133,374</b>	<b>+18%</b>

*(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 19% to €279m. Within this, bet volumes grew 16% to 9.8m while the average bet value increased by 3% to €28.36. Gross win in the sportsbook increased by 53% to €27.2m, helped by a 9.8% gross win percentage as compared to 7.6% 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, as well as making an early payout on him to be the 2007 BBC Sports Personality of the Year. We also took the unprecedented decision in a Classic to return losing bets on heavy favourite Teofilo when he was withdrawn from the 2,000 Guineas. We believe consistent fair action, complemented by media interest, creates differentiation, loyalty and ultimately turnover.

## Interim Statement (continued)

Our trademark product innovation continues to give more choice to the customer. In horse racing, we introduced betting-in-running for all races on terrestrial TV and expanded 'bet-and-watch' to all races in the UK and Ireland. We also expanded football betting-in-running with new markets on whether there will be a goal and who will win in the next 10 minute period.

We remain encouraged by our prospects in the medium term for expansion in continental Europe, both as a result of countries that have already moved towards liberalisation and by enforcement action of EU Law by the European Commission. We have continued to develop our German language online sportsbook and were pleased to be already rated third out of over 30 bookmakers for both Homepage and Customer Service quality in a survey by a large German betting forum. We also launched our Spanish language online betting site in August. Both 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

The online channel generates gaming revenues from casino, games, poker and bingo. Revenue from these sources, representing the operator's 'hold' or commission income, increased by 42% to €18.4m, aided to some extent by the absence of the distractions for players in June of the World Cup and sunshine!

During March, we migrated our poker customers from the software of our network supplier to that of another network, Playtech, which had acquired our supplier. Since then we have implemented a range of initiatives to counter the negative impact of the change in software, as well as the loss of liquidity from customers of other members of the previous network. These initiatives included leveraging relative strengths of the new software such as the availability of side card games and a smoother download process for customers; working with the supplier to implement changes to improve the customer experience; and focussing hard on our normal growth drivers to offset the impact of the peak in customer churn at the time of the migration. This work is continuing.

While the poker business has therefore faced new challenges in the last six months, 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. Given the growth of our poker business, and the market overall, Paddy Power is guaranteeing the 2008 event with a €3 million prize fund, an additional €1 million over 2007.

Gaming gross win was also driven by a strong performance from our games channel, where an online version of the popular TV game show 'Deal Or No Deal' proved all the rage with both existing and new customers. Bingo also contributed to gross win growth with more expected in the future. Its potential is clear with good punter interest aroused by our guaranteed jackpot of €75,000 over the weekend of the UK Grand National, as well as by more subtle promotional techniques such as Paddy's Passion Wagon bingo on Friday nights!

We also launched paddypowertrader.com, an online financial spread betting business, in July. Paddy Power Trader markets spread betting opportunities on equities, commodities and indices with a differentiating emphasis on education, value and, of course, entertainment. We are satisfied with the initial performance and plan to increase our level of investment over time in this attractive market.

## Interim Statement (continued)

### (ii) The Telephone Channel

€m	H1 2007	H1 2006	% Change
Amounts staked	152.5	155.0	-2%
<b>Gross win</b>	<b>15.3</b>	<b>12.4</b>	<b>+24%</b>
Gross profit	13.9	11.2	+24%
Operating costs	(9.8)	(8.0)	+23%
<b>Operating profit</b>	<b>4.1</b>	<b>3.2</b>	<b>+27%</b>

The amounts staked within the telephone channel fell by 2% to €152m influenced by negative recycling as a result of the high gross win percentage of 10.1% (compared to 8.0% in the comparable period), the absence of the World Cup and continued competition in the market. Within the 2% turnover fall, bet volumes fell 2% to 1.5m while the average stake per bet increased slightly to €99.25. We continue to prioritise profitability ahead of growth in customer numbers or market share in the telephone channel, and were pleased to achieve growth in operating profit of 27% in the first half of 2007.

Telephone Channel Active Customers	30 June 2007	30 June 2006	% Change
Ireland and Rest Of World	13,651	13,709	-0%
UK	11,545	11,709	-1%
<b>Total</b>	<b>25,196</b>	<b>25,418</b>	<b>-1%</b>

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

We took advantage of the additional capacity of our new call centre during March and April by arranging extra temporary staff for the peak periods of activity around Cheltenham and the Irish and English Grand Nationals. This reduced call waiting times and enabled new account openings to be dealt with even during these peak demand periods.

### Taxation

The corporation tax charge for the period was €7.3m, an effective tax rate of 17.0%. As anticipated, this represents an increase on the 14.6% effective rate in the first half of 2006 as a result of the non-deductibility of the 1% of turnover betting tax in Irish Retail. No corporation tax is currently payable in the UK due to tax losses. 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.

### Profit After Tax and Earnings Per Share

Profit after tax for the period was €35.5m, an increase of 103%. Diluted earnings per share grew 101% to 69.5 cent.

## Interim Statement (continued)

### Share Buyback Programme and Cash Flow

During the six month period, we returned a total of €59.3m of cash to shareholders through a combination of dividends and share buybacks. The final dividend paid to shareholders in respect of 2006 was €11.7m, an increase of 80% over the final 2005 dividend payment. In addition, further to the programme announced on 3 March 2007, €48.2m was spent on returning cash to shareholders via a share buyback programme. This reflected purchases of 2.14m shares or 4.2% of the company's share capital at an average price of €22.25. It is the Board's current intention to consider further share buybacks in the period to the next AGM in line with the approval granted by shareholders. The timing and amount of shares bought back will depend on the Group's pipeline of development opportunities as well as equity market conditions.

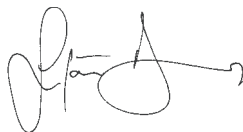
Cash balances at 30 June were €72.6m compared to €87.1m at 31 December 2006, a decrease of €14.5m. This included cash balances held on behalf of customers of €14.5m compared to €13.4m at 31 December 2006. Net cash generated from operating activities in the first half of 2007 was €58.3m compared to €35.6m in the comparable period in 2006, an increase of 64% or €22.7m. This was driven by operating profit growth of 108% or €21.2m. Capital expenditure on tangible and intangible assets, comprising primarily the fit out and upgrading of retail outlets, together with the acquisition of four retail units, was €10.2m.

### Dividend

The Board has decided to pay an interim dividend of 16.00 cent per share, an increase of 70% on the 2006 interim dividend, resulting in a total expected payment of €7.9m. This dividend is payable on 5 October 2007 to shareholders on the register at the close of business on 14 September.

### Outlook

During July and August, gross win percentages have reverted to close to the mid-point of the guided ranges in each channel; nonetheless these levels are above our expectations for this time of year. In addition, we continue to experience good momentum in overall gaming gross win and also expect to benefit from a reduction in direct betting taxes in our Non Retail division. We expect operating profit for the full year of approximately €68m, versus our previous guidance of approximately €62m, clearly subject to the volatility that could arise from sporting results. Compared to 2006 operating profit pre exceptional items, this result would represent growth of approximately 50%.



**Fintan Drury**

Chairman

3 September 2007