

Letter to Shareholders

To all shareholders

I am writing to you to outline the background to the resolutions to be proposed at the forthcoming Annual General Meeting ('AGM') of Paddy Power plc (the 'Company'), all of which are recommended by the Board for approval. Your attention is drawn to the notice of the AGM of the Company, to be held at The Shelbourne Hotel, St. Stephens Green, Dublin 2 at 11.00 am on Thursday, 15 May 2008. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the reappointment of directors, and the Auditors' remuneration, there are various items of special business which are described further below.

Resolutions 3 (a) and (b) of the ordinary business propose the reappointment of two directors. Messrs Brody Sweeney and Breon Corcoran, having served on the Board for three years, retire in accordance with Regulation 87 of the Articles of Association and being eligible, offer themselves for reappointment. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the reappointment of each of these directors. Biographical information on these directors is given on page 21 in the Annual Report.

Shareholders are being asked in resolution 5 to renew the directors' authority to allot shares for cash without being required to offer them first to shareholders. This authority is limited to an allotment of shares up to five percent of the issued ordinary share capital of the Company at the date of the resolution (currently equal to 2.46m shares). If renewed, this authority will expire at the next AGM in 2009 or 14 November 2009, whichever is earlier.

Shareholders are being asked in resolution 6 to renew the authority to empower the Company, or any subsidiary, to make market purchases of the Company's shares. No more than ten percent of the issued share capital of the Company may be acquired under this authority. The price range at which shares may be acquired cannot be less than the nominal value of the Company's shares and cannot be greater than 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or reissue.

The total number of options to subscribe for shares in the Company on 2 April 2008 is 1,025,043, and represents 2.1% of the total voting rights of the Company on that date. This percentage would increase to 2.3% if the full authority to buy shares is used. The authority sought will expire on the date of the next Annual General Meeting of the Company or 14 November 2009, whichever is earlier. The Board will only exercise the power to purchase shares in the future at price levels at which it considers purchases to be in the best interests of the shareholders generally after taking account of the Group's overall financial position. It is the Board's current intention to exercise this power to purchase shares in 2008.

Shareholders are also being asked in resolution 7 to pass a resolution authorising the Company to reissue shares purchased by it and not cancelled as treasury shares off market within a price range, which shall not be less than 95% nor more than 120% of the average price of the Company's shares over the ten dealing days prior to the date of re-issue by the Company. The authority sought will expire on the date of the next Annual General Meeting of the Company or 14 November 2009, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990.

Shareholders are being asked in resolutions 8, 9 and 10 to approve certain amendments to the Paddy Power plc November 2000 Share Option Scheme, the Paddy Power plc Second Tier Share Option Scheme and the Paddy Power plc 2004 Long Term Incentive Plan, respectively. The purpose of the proposed amendments is to allow the Company to use the reserve of shares previously authorised by the shareholders for issuance under these incentive plans in a more flexible manner.

The Remuneration Committee of the Board has determined that these amendments are necessary to ensure that the Company can operate its existing equity incentive programs for executives and key employees to the maximum benefit of the Company and its shareholders.

The Company has sought the views of the Irish Association of Investment Managers ('IAIM') in relation to the proposed amendments and it has confirmed that they are acceptable.

Details of the proposed amendments to the Paddy Power plc November 2000 Share Option Scheme, the Paddy Power plc Second Tier Share Option Scheme and the Paddy Power plc 2004 Long Term Incentive Plan are set out in the attached Appendix.

Copies of the Rules of the Paddy Power plc November 2000 Share Option Scheme, the Paddy Power plc Second Tier Share Option Scheme and the Paddy Power plc 2004 Long Term Incentive Plan will be available for inspection during normal business hours on any weekday (public holidays excepted) at the registered office of the Company at Airtown House, Airtown Road, Tallaght, Dublin 24 and at the offices of William Fry, Fitzwilton House, Wilton Place, Dublin 2 from the date of this letter until the close of the AGM and at the location of the AGM for at least 15 minutes before and during the meeting.

Letter to Shareholders (continued)

Action to be taken

A Form of Proxy for use at the Annual General Meeting is enclosed with this Annual Report. The Form of Proxy will be valid if lodged at the registered office of the Company or with the Company's Registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, by no later than 11am on 13 May 2008. Alternatively you may wish to submit your votes via the internet and instructions on how to do so are shown on the form. All proxy forms must be lodged no later than 48 hours before the time appointed for the meeting. The completion and lodging of the Form of Proxy will not prevent you from attending and voting in person at the meeting should you so wish.

Recommendation

The directors believe that the resolutions proposed are in the best interests of the Company and its shareholders, and so they recommend that you vote in favour of these resolutions at the AGM, as they intend to themselves in respect of their shares.

The recommendation to shareholders in respect of Resolutions 8, 9 and 10 are given by the non-executive directors only, who are not eligible to participate in the Paddy Power plc November 2000 Share Option Scheme, the Paddy Power plc Second Tier Share Option Scheme or the Paddy Power plc 2004 Long Term Incentive Plan.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Fintan Drury', written over a light grey circular stamp.

Fintan Drury
Chairman

2 April 2008

Appendix

Proposed amendments to the Paddy Power plc November 2000 Share Option Scheme (the 'Basic Tier Option Scheme'), the Paddy Power plc Second Tier Share Option Scheme (the 'Second Tier Option Scheme') and the Paddy Power plc 2004 Long Term Incentive Plan (the 'LTIP').

Summary

In brief summary, the following are the effects of the proposed amendments to the Basic Tier Option Scheme, the Second Tier Option Scheme and the LTIP (collectively the 'Schemes'):

- Currently, over any three year period the Company may grant options and awards under the Schemes over a maximum of three percent of the Company's total issued share capital. An amendment is proposed which will allow the Company to exceed this limit in exceptional circumstances.
- Up to ten percent of the Company's total issued share capital may be subject to options and awards granted under the Schemes over any ten year period. Within that ten percent limit, no more than five percent of the Company's total issued share capital may be subject to share options granted under the Second Tier Option Scheme and awards made under the LTIP. An amendment is proposed to each of the Second Tier Option Scheme and the LTIP which will remove this five percent limit. This will allow the Company flexibility to grant a greater proportion of the overall ten percent limit under share options and share awards with more challenging performance conditions.
- The Schemes impose maximum limits on the aggregate number of shares that may be subject to share options and awards granted to any individual over any ten year period. Currently, share options that have been exercised and awards under the LTIP that have vested continue to be included in the calculation of the individual's maximum allowed shares. An amendment is proposed to each of the Schemes to exclude share options that have been exercised and awards under the LTIP that have vested from this calculation.

The amendments proposed to each Scheme are described in more detail below. The amendments proposed to the Second Tier Option Scheme and the LTIP are interlinked and accordingly replicated in each scheme.

Amendments to the Basic Tier Option Scheme – Resolution 8

General

The Basic Tier Option Scheme provides for the grant of share options to executives and employees selected by the Remuneration Committee of the Board (the 'Remuneration Committee'). Options may be exercised after the third anniversary of the date of grant if the Company's earnings per share ('EPS') for the third financial year of the Company, beginning with the financial year in which the option was granted, or any subsequent year, is greater than the EPS for the financial year ended before the financial year in which the option was granted by a percentage which is not less than, on a year on year basis, the annual percentage increase in the Consumer Price Index ('CPI') plus five percent per annum, compounded, during the relevant period.

Options may be granted under the Basic Tier Option Scheme over up to five percent of the Company's total issued share capital over any ten year period. Shares subject to options which lapse or expire prior to exercise are excluded from the calculation of this limit.

The proposed amendments to the Basic Tier Option Scheme can be summarised as follows:

Overall three percent limit

Current provision: Options, whether granted under the Basic Tier Option Scheme, the Second Tier Option Scheme or any other share option scheme (but excluding options granted under any employee-wide share option scheme) and awards made under the LTIP, may not be granted over more than three percent of the Company's issued ordinary share capital over any three year period.

Amended provision: The limit described above may be exceeded in exceptional circumstances. Where such limit is exceeded, appropriate disclosure will be made to shareholders in the Annual Report for the year in which that occurs.

Individual limit

Current provision: The aggregate value (based on the exercise price) of all shares issued or remaining to be issued under Basic Tier Options granted over a ten year period to an individual may not exceed four times' his total annual remuneration. Shares subject to share options that have been exercised are included in the calculation of an individual's maximum allowance.

Amended provision: The same limit will apply. However, shares subject to options which have been exercised will be excluded from the calculation.

Appendix (continued)

Amendments to the Second Tier Option Scheme – Resolution 9

General

The Second Tier Option Scheme provides for the grant of share options to executives and employees selected by the Remuneration Committee. Options may be exercised after the fifth anniversary of the date of grant if (i) the Company's EPS for the fifth financial year of the Company, beginning with the financial year in which the option was granted, or any subsequent year, is greater than the EPS for the financial year ended before the financial year in which the option was granted by a percentage which is not less than, on a year on year basis, the annual percentage increase in the CPI plus ten percent per annum, compounded, during the relevant period and (ii) the growth in the Company's EPS over that period is in the upper quartile of the companies in the ISEQ Index.

The proposed amendments to the Second Tier Option Scheme can be summarised as follows:

Overall three percent limit

The same amendment as described above in relation to the Basic Tier Option Scheme will be made to the Second Tier Option Scheme.

Five percent combined limit for Second Tier Option Scheme and LTIP

Current provision: The aggregate number of shares subject to options granted under the Second Tier Option Scheme and awards made under the LTIP may not exceed five percent of the Company's issued ordinary share capital over any five year period.

Amended provision: This limit will be removed.

Individual limit

Current provision: The aggregate value (based on the exercise price) of all shares issued or remaining to be issued under options granted under the Basic Tier Option Scheme and the Second Tier Option Scheme and of shares subject to LTIP awards (based on the market value of the shares at the time the award is made) over a ten year period may not exceed eight times the employee's total annual remuneration. Shares subject to share options that have been exercised and awards under the LTIP that have vested are included in the calculation of an individual's maximum allowance.

Amended provision: The same limit will apply. However, share options which have been exercised and awards under the LTIP that have vested will be excluded from the calculation.

Amendments to the LTIP – Resolution 10

General

The LTIP provides for the grant of share awards to executives and employees selected by the Remuneration Committee. An award entitles the holder to receive the shares subject to the award, for no consideration, if the Company's EPS growth over a minimum period of three years is at least equal to the annual percentage increase in the Consumer Price Index ('CPI') plus 12% per annum, compounded, over that period.

The proposed amendments to the LTIP can be summarised as follows:

Overall three percent limit

The same amendment as described above in relation to the Basic Tier Option Scheme will be made to the LTIP.

Five percent combined limit for Second Tier Scheme and LTIP

The same amendment as described above in relation to the Second Tier Option Scheme will be made to the LTIP.

Individual limit

The same amendment as described above in relation to the Second Tier Option Scheme will be made to the LTIP.