

## Letter to Shareholders

***This document is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser being, in the case of shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the European Communities (Markets in Financial Instruments) Regulations (Nos 1 to 3) 2007 or the Investment Intermediaries Act 1995 (as amended), or, in the case of shareholders in the United Kingdom, a firm authorised under the Financial Services and Markets Act 2000.***

***If you have sold or transferred all of your registered holding of Ordinary Shares in the Company, please forward this document and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through or by whom the sale or transfer was effected, for delivery to the purchaser or transferee.***

### 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 Burlington Hotel, Upper Leeson Street, Dublin 4 at 11.00 am on Thursday, 14 May 2009. 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, 4(a), (b) and (c) of the ordinary business propose the appointment of Pádraig Ó Ríordáin and the reappointment of three directors. Pádraig Ó Ríordáin was appointed by the directors since the last Annual General Meeting and, in accordance with the Articles of Association of the Company, puts himself forward for election by the shareholders. Messrs Fintan Drury, Tom Grace and Jack Massey, having served on the Board for three years, retire in accordance with Regulation 87 of the current 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 appointment/ reappointment of each of these directors. Biographical information on these directors is given on page 23 of the Annual Report.

Shareholders are being asked in resolution 6 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 2010 or 13 November 2010, whichever is earlier.

Shareholders are being asked in resolution 7 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 6 April 2009 is 1,278,008, and represents 2.7% of the total voting rights of the Company on that date. This percentage would increase to 3.0% 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 13 November 2010, 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. Given the potential opportunities created for the Company from having cash in the current environment, while not ruling out future share purchases, the Board has no immediate intention to exercise this power.

Shareholders are also being asked in resolution 8 to pass a resolution authorising the Company to re-issue 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 13 November 2010, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990.

Important changes will soon be made in regard to the conduct of shareholder meetings in public companies as a result of the implementation of the Shareholder Rights Directive (Directive 2007/36/EC), which Member States must implement by 3 August 2009. These changes will include new requirements for electronic communications with shareholders, notices of meetings, the right to participate and vote electronically at meetings and provisions relating to multiple proxies. As the Shareholder Rights Directive is required to be implemented into Irish law some time before the 2010 AGM, resolution 9 is being proposed so that the Company can comply with these changes.

In resolution 9, the Board is proposing that the Articles of Association of the Company be amended so as to facilitate electronic shareholder communication as well as allowing for the appointment of multiple proxies or corporate representatives by shareholders. As part of the Company's commitment to reduce waste and overall environmental impact, the Board wish to make increased use of electronic communications with shareholders, and to reduce by as much as possible the very significant quantities of paper

traditionally used. The Electronic Commerce Act 2000 allows companies to communicate with their shareholders using electronic means where specifically requested by individual shareholders. This regime has recently been enhanced and revised through regulations (the 'Transparency Regulations') that have been made to give effect to the European Union Transparency Directive. Furthermore, these changes will become essential once the Shareholder Rights Directive is implemented into Irish law.

The new regime has the aim of moving from a 'paper first' to a 'web first' system, so that electronic communications will become the default method of communication, unless shareholders specify that they wish to receive communications in paper form (hard copy) instead. The Company is proposing in resolution 9 to amend its Articles of Association so as to authorise the use of its website as a means of communicating with shareholders who have not requested documentation in paper form (hard copy).

If the resolution is passed the Company will write to its shareholders individually asking whether they wish to receive information through the Company's website. This communication will take place during the coming year. If a shareholder agrees, then future communications with that shareholder will be by electronic means. Alternatively, if a shareholder informs the Company that he or she wishes to receive all or specific information in paper form (hard copy), the Company will continue to send the information to him or her in this form. A shareholder who fails to respond to the notification from the Company within 28 days will be deemed by the Transparency Regulations to have agreed to receive communications by electronic means.

Notwithstanding any prior request or deemed consent to receive communications electronically, a shareholder may at any time tell the Company that he or she wishes to receive all or specific information in paper form (hard copy). In addition, the Company will notify each shareholder by post (if an email address has not been notified) when certain key information has been made available on the Company's website.

In anticipation of another change that will be made to Irish law when the Shareholder Rights Directive is implemented in Ireland, resolution 9 will also amend the Company's Articles of Association so as to delete Article 37 which currently allows the Directors to suspend the registration of share transfers.

The full terms of the proposed amendments to the Articles of Association will be available for inspection from the date of publication of this document until close of the Annual General Meeting at the registered office of the Company and at the place where the Annual General Meeting will be held for at least 15 minutes before and during the Annual General Meeting.

In resolution 10, shareholders are being asked to approve an amendment to the Company's Long Term Incentive Plan (the 'LTIP') in relation to Awards granted under the LTIP in 2009 only.

Since listing on the Irish and London Stock Exchanges the Company has delivered a five fold increase in its share price and profit growth of circa 37% per annum in the 2001 to 2008 period. Awards granted under the LTIP have played a key role in motivating and incentivising our talented management team. For an Award to vest the Company must grow its Basic Earnings Per Share ('EPS') by no less than the growth in the Consumer Price Index plus 12% per annum over the vesting period of the Award, which is normally three years.

In the current fundamentally changed market conditions, the Remuneration Committee believes that to grant Awards in 2009 with vesting targets based off historic performance levels will render the Awards ineffective in achieving their objectives.

Consequently, the Board proposes that, for Awards granted in 2009 only, the Remuneration Committee will adjust the growth target for the first year to the estimated current consensus EPS for 2009 ('Consensus EPS'), of 106 cent, rather than an EPS determined off 2008 performance. For the full Awards to vest, Consensus EPS must then be grown in the period to 31 December 2011 by not less than the compound growth in CPI plus 15% per annum in 2010 and 2011. For awards to vest in full, this would mean EPS required in 2011 of around 145 cent or higher, i.e. 12% above the current consensus EPS for 2011 of approximately 130 cent. This assumes Irish and UK CPI of 2% in 2010 and 2011. The proposed target is felt to be very stretching in the current environment and has the full support of the Remuneration Committee.

Copies of the Rules of the LTIP will be available for inspection from the date of publication of this document until close of the Annual General Meeting at the registered office of the Company and at the place where the Annual General Meeting will be held for at least 15 minutes before and during the Annual General 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 12 May 2009. 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.

Yours sincerely



**Nigel Northridge**

*Chairman*

6 April 2009