

CHIEF EXECUTIVE'S REVIEW

acquisitions of Sportsbet and IAS in Australia

2009 has been a year of significant development for Paddy Power. Our continued investment in product, value and our unique brand saw us grow our turnover and market share across all of our channels. At the same time, we expanded the Group substantially on several fronts: the acquisitions of Sportsbet and IAS in Australia, the opening of 25 new shops in the UK and seven in Ireland, and the establishment of a new business-to-business revenue stream with PMU, the world's second largest betting organisation secured as the first client.

Non-Irish customer EBIT as a % of Group EBIT*



Online EBIT as a % of Group EBIT



* Online and telephone operating profit by geography based on average divisional profit margins

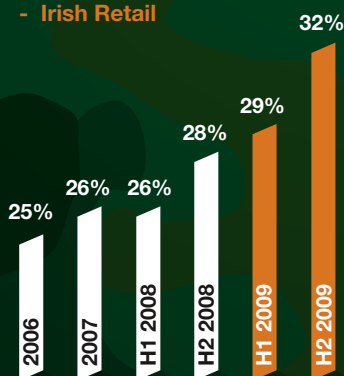
** Pre once-off costs in Australia

The shape and profile of the Group continues to change as a consequence, and over the last five years has moved dramatically. In the second half of 2004, 19% of Group operating profit was earned from customers outside Ireland, whilst 40% of Group profit came from the internet channel. These figures had jumped to 61% and 85% respectively by the second half of 2009.

Notwithstanding that success, however, the strategic focus and growth prospects of the Group are not confined to our international and internet activities: Paddy Power is today well positioned to grow its market share and ultimately its profitability across all of its business activities.

Our Irish and UK Retail businesses have met the challenges of the difficult economic conditions head-on over the last eighteen months with a clear strategy of compelling value for consumers, combined with tight cost management. Results in that period give us confidence that both businesses will emerge from the downturn stronger and with an increased market share. We have grown our share substantially in Ireland, to 32% in the second half of 2009 as compared to a steady 25%-26% in the years prior to the downturn. This has been driven by a more price conscious consumer responding to the value and quality of our offer, coupled with the closure of shops by our competitors.

Paddy Power Market Share - Irish Retail



Source: Irish Revenue Betting Duty Tax Return Data plus estimate for final Q4 2009 update

The Irish Government's postponement of its planned doubling of the betting tax to 2% of turnover from May 2009 has helped some shops in the industry avoid closure and saved jobs. Nonetheless we expect the number of shops in the industry to reduce further as profits contract due to a tighter economy and the more competitive trading terms introduced in 2008 across the sector. We estimate that 120 shops have closed over the last 18 months leaving approximately 1,230 shops currently in Ireland. As a result of the standout value that we offer, along with great product and customer service, our turnover per shop is more than twice the average of our competitors, and we expect our share of the market to increase further.

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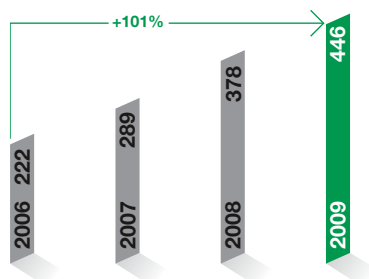
In the UK, we are taking advantage of the positive environment for investing on the High Street, in terms of both the choice and cost of locations, to develop a top quality chain for the long term. In addition to our development resources in London, which we further expanded during the year, we now also have development teams in both Glasgow and Manchester, enabling us to search out the best locations, not just in those cities but also across Scotland and the North West and Midlands of England. We opened 25 units in 2009, including units outside London for the first time, adding further to our knowledge for future opening and operating decisions, and taking our UK estate to 93 shops. However, we still only have 1% of the UK Retail market (by shop numbers), which indicates the extent of the opportunity for us. We remain on track to achieve our target of at least 150 shops in the UK by 2011, and don't intend to stop there!

We expect operating profit from UK Retail to increase significantly as we benefit from increased estate profitability from new and maturing shops, lower per shop depreciation and increased scale to cover central overheads and facilitate further cost reductions. The financial potential of this business is clear from last year's results: the 25 units we opened in 2009 were EBITDA positive, and the previously opened units generated an EBITDA per shop of £120,000, highlighting the very attractive and relatively fast returns on capital available, given an expected average capital cost per new unit of £250,000.

Our telephone business does face cannibalisation from the internet and pressure on the average stake per bet as a consequence of the economic slowdown. However, as in all of our businesses, we have further improved our value offering for our customers, as well as our product range and our cost efficiencies. As a result, although our Irish telephone business remains challenged, we are substantially increasing our share of the large UK market: very few telephone operators experienced any growth last year, let alone bet volume growth of 37%.

Strong structural fundamentals are driving and will continue to drive growth in the online market. Broadband penetration continues to grow, but has some way to go, and the roll out of super fast broadband in the UK and elsewhere over the next number of years – fast enough to watch live high definition TV – will drive further online participation. Meanwhile, despite the economic slowdown, recent research has shown that broadband is one of the very last items consumers are prepared to do without if they have to cut back. The overall market growth, coupled with increased market share for Paddy Power, is driving and will continue to drive strong growth in the size of our online business: our active customer base has more than doubled in the last three years.

Online Active Customers ('000)



We are also very excited by the potential for our new Australian operations. The acquisition of Sportsbet, coupled with the subsequent buyout of IAS, is a very attractive entry point for Paddy Power into the fast growing Australian online market.



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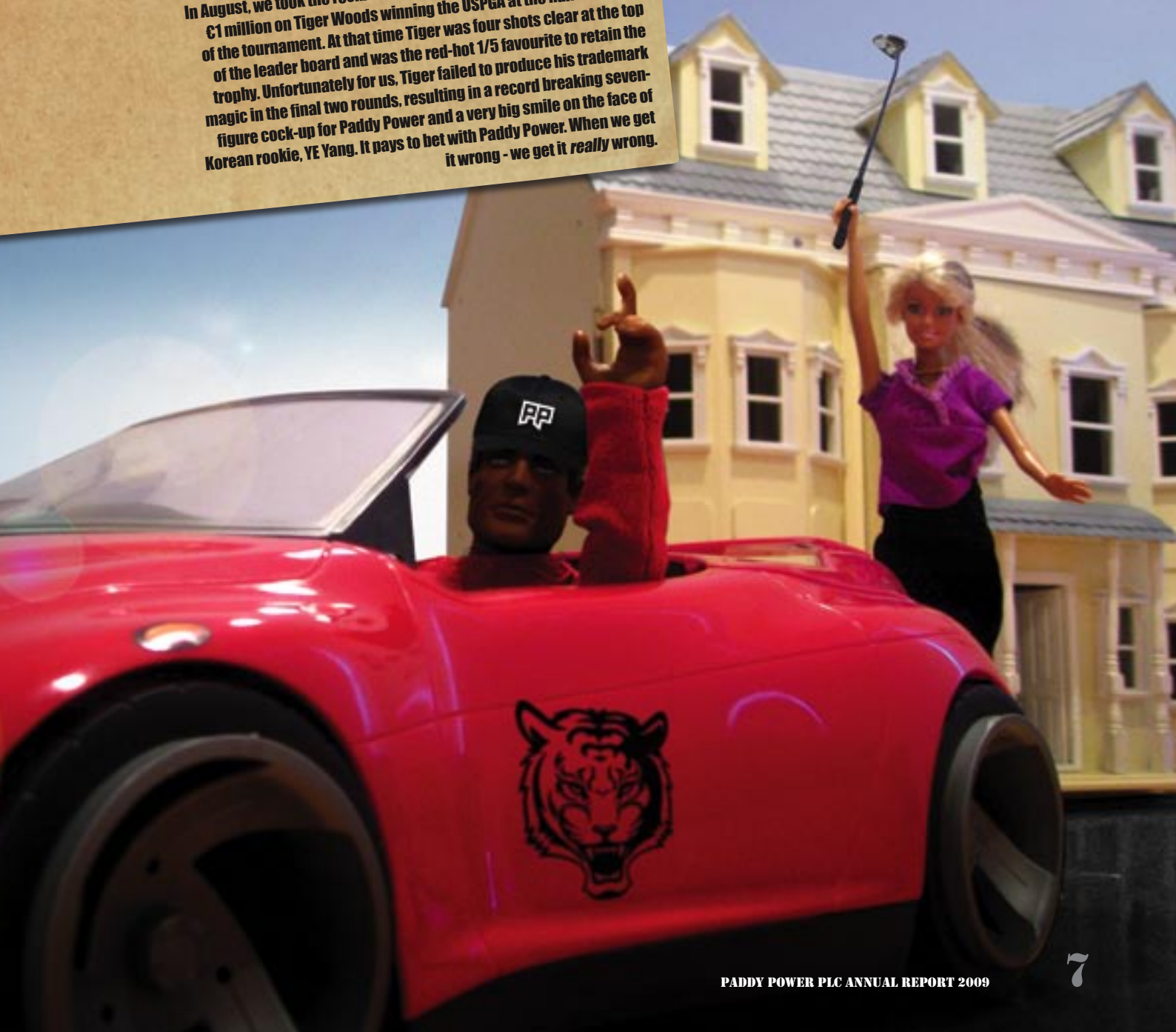
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MISSION 02

BE FEARLESS (LIKE A TIGER)

Tiger Woods' luck ran out in November with the curious incident involving a 4x4 and a fire hydrant. For us it started a few months earlier.

In August, we took the recklessly courageous step of paying out over €1 million on Tiger Woods winning the USPGA at the half way point of the tournament. At that time Tiger was four shots clear at the top of the leader board and was the red-hot 1/5 favourite to retain the trophy. Unfortunately for us, Tiger failed to produce his trademark magic in the final two rounds, resulting in a record breaking seven-figure cock-up for Paddy Power and a very big smile on the face of Korean rookie, YE Yang. It pays to bet with Paddy Power. When we get it wrong - we get it *really* wrong.



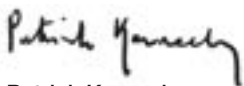
CHIEF EXECUTIVE'S REVIEW CONTINUED

Australia is a substantial regulated betting market, with a high gambling spend per capita amongst its population of 21 million. Online is growing fast, as it benefits from the same macro trends which we have witnessed in Ireland and the UK in recent years as well as positive regulatory changes. The recent interim report of the Productivity Commission recommended the repeal of the Interactive Gambling Act, and the managed liberalisation of online gaming. Whilst the final report has not yet been issued, similar recommendations would be likely to lead to the introduction of both online gaming and betting-in-running in the coming years.

In the existing marketplace, the corporate (i.e. non pari-mutuel) operators, of which Sportsbet has the best known brand and the largest market share, are more price aggressive, and are increasing their share of this growing market. The business has continued to experience very strong growth since we acquired it, and should continue to benefit from the combination of its strong brand, excellent management team, the expertise and experience provided by Paddy Power and a positive external backdrop.

Our new business-to-business division, which we launched late last year with PMU as its first client, also has strong prospects. This provides us with an alternative route to enter a new market, in particular where our brand might be less well known, in a manner that puts less capital investment at risk. Online betting is likely to be licensed in additional international markets in the coming years, and we will seek to take advantage of such liberalisation, capitalising on our investment in people, expertise and particularly in our proprietary pricing and risk management technology.

Looking to 2010 and beyond, we will continue to invest in our brand, our product and in enhanced value for our customers, which in turn will lead to continued growth in the market share of our businesses. The businesses will also benefit from their particular market circumstances, as outlined above. Last, but definitely not least, the team at Paddy Power is rightly recognised as the best in the sector and the achievements in the last 12 months are further evidence of that. The calibre of our people, our ongoing investments and our strong market positions enable us to look forward to 2010 and beyond with confidence.



Patrick Kennedy
Chief Executive

1 March 2010



NAME

No.

MISSION 03

GET IN SHAPE

In July, we sponsored the 2009 Irish Wife Carrying Championship in the picturesque village of Sneem, Co. Kerry.

The fun race attracted a record number of entrants and was eventually won by the defending champions, John O'Shea and Aoife Desmond. We also found time during the summer to team up with the organizers of the 'Dip in the Nip', Ireland's first ever mass skinny dip. The location was kept a closely guarded secret, which prompted us to offer odds on which beach would host the charity swim in aid of Action Breast Cancer. In the end, 100 fearless women took part in the naked swim at Lissadell Strand, Co. Sligo helping to raise much needed funds and awareness for the deserving charity.

