

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 Tuesday, 18 May 2010. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the appointment and reappointment of directors and the Auditors' remuneration, there are various items of special business which are described further below.

Resolutions 3, 4(a), (b), (c) and (d) of the ordinary business propose the appointment of Jane Lighting and the reappointment of four directors. Jane Lighting was appointed by the directors since the last Annual General Meeting and, in accordance with the Articles of Association of the Company, retires at the AGM and puts herself forward for election by the shareholders. Messrs Nigel Northridge, Patrick Kennedy, Stewart Kenny and David Power, having served on the Board for three years, retire in accordance with Regulation 86 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 appointment/ reappointment of each of these directors. Biographical information on these directors is given on pages 30 and 31 of the Annual Report.

Shareholders are being asked in resolution 6 to renew for a further period of five years the Directors' authority to allot relevant securities, within the meaning of Section 20 of the Companies (Amendment) Act 1983, up to the unissued authorised share capital of the Company (excluding treasury shares).

Shareholders are being asked in resolution 7 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 2.49m shares). If renewed, this authority will expire on the date of the next AGM of the Company or 17 November 2011, whichever is earlier.

Shareholders are being asked in resolution 8 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 re-issue.

The total number of options to subscribe for shares in the Company on 1 April 2010 is 830,278, and represents 1.7% of the total voting rights of the Company (excluding treasury shares) on that date. This percentage would increase to 1.9% if the full authority to buy shares is used. The authority sought will expire on the date of the next AGM of the Company or 17 November 2011, 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 9 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 17 November 2011, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990.

Your Board is proposing two special resolutions (i.e. Resolutions 10 and 11) to reflect the implementation of the Shareholders' Rights (Directive 2007/36/EC) Regulations 2009 (the 'Regulations').

If adopted, Resolution 10 will maintain the existing authority in the Articles of Association which permits the Company to convene an Extraordinary General Meeting on 14 days notice in writing where the purpose of the meeting is to consider an ordinary resolution. As a matter of policy, the 14 day notice will only be utilised where the Directors believe that it is merited by the business of the meeting and the circumstances surrounding the business.

If adopted, Resolution 11 will update the Company's Articles of Association in order to make them consistent with the Regulations by incorporating the following changes:

- (a) allow for the convening of shareholder meetings to consider an ordinary resolution with 14 days notice provided that the Company offers its members the facility to vote electronically and provided that the members agree to this in a general meeting. Members' consent must be sought by way of a special resolution and this may be done as part of the ordinary business of the AGM. Any consent given is valid only up to the next AGM, and must therefore be renewed every year;
- (b) remove the casting vote of the Chairman at general meetings of the Company;
- (c) allow for the fixing of the record date and time which shall determine the eligibility of shareholders to participate and vote at the shareholders' meeting;
- (d) require any request by a member to table a draft resolution under Section 133B(1)(b) of the Companies Act 1963 (regarding shareholders' rights to table draft resolutions at an extraordinary general meeting) to be received by the Company in hardcopy form or in electronic form at least 30 days before the meeting to which it relates; and
- (e) allow the directors to implement procedures for voting electronically or by correspondence and for the real time transmission of shareholder meetings via the internet.

In addition, a change is also proposed to Article 54 of the Articles of Association to reduce the quorum for general meetings from 20 persons to ten persons to align the quorum requirements more closely with the quorum requirements of other Irish listed companies.

A copy of the Articles of Association of the Company showing the amendments that would be made if Resolution 11 is adopted is available at www.paddypowerplc.com and may also be inspected at the registered office of the Company. A copy showing these amendments will be available for inspection at the AGM for a period of at least 15 minutes before and during the AGM.

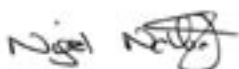
Action to be taken

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 16 May 2010. 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

1 April 2010