

Getting the Basics Right

Chief Executive's Review

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Substantial progress was made in the successful implementation of our strategy in 2010. In recent years, this strategy has been built upon investment in value, product and brand to enable us to:

- grow share in all our existing markets;
- pursue multi-channel growth in the UK;
- enter other attractive regulated markets.

This strategy has resulted in strong growth in scale and profitability, whilst avoiding the legal risk, curtailment of other opportunities and lack of sustainability which may come from large investments in unregulated markets.

Grow Share in All Our Existing Markets

Paddy Power's approach to driving growth has been consistent since its inception – differentiation based on more product, more value and more entertainment than any competitor. The mix and detail of this approach constantly evolves.

Since the onset of more difficult economic conditions, we have significantly stepped up the value of our offer to win market share from competitors less prepared to invest for the long term. There was no easing up last year with our biggest ever Money-Back Special payout. In addition, our Australian punters were introduced to early pay-outs and we had some high profile justice payouts on unlucky golfers. Genuine Paddy Power value means much more than competitive pricing – it's a unique approach to being generous in entertaining ways that resonate with customers and differentiate us from the rest of the pack.

Technology development has facilitated opportunities for product innovation and enhanced marketing. In 2010, smart phone technology has changed how the internet is consumed, while social media has opened up new ways to reach and interact with customers. Paddy Power has taken full advantage of these opportunities. For example, a mobile phone sports bet is struck on average every three seconds on paddypower.com, while our expertise in app development has enabled the rapid creation of an Election Betting app, supported by a dedicated @pppolitics Twitter feed. We also continue to invest significantly in technology to ensure that we retain the capability to exploit the opportunities afforded by new media and technologies.

Setting Up PPad

Before you can use PPad, you must hook it up to your nearest Paddy Power supply to fully charge it.





IMPORTANT:

Our UK online growth actually accelerated last year – having increased active customers by an average of 28% over the previous three years, we grew by a further 56% in 2010, from a substantially higher base.

Whilst expanding internationally, we continue to strengthen our business in Ireland. We are already the largest online operator in Ireland, and our position improves as we gain scale internationally and develop further capabilities which can further enhance our domestic position. In Irish Retail, we have grown our market share from some 25% to 26% prior to the downturn to over 30% now, as more price and brand conscious consumers respond to our offer, coupled with the closure of shops by our competitors. Our Irish shops are well positioned for the current challenging market conditions with turnover per shop more than twice the average of our competitors and direct costs per shop 14% lower than two years ago. We estimate that our competitors have closed 200 shops since August 2008, while we have closed none and opened 20 over the same period. We expect this trend to continue.

Pursue Multi-channel Growth in the UK

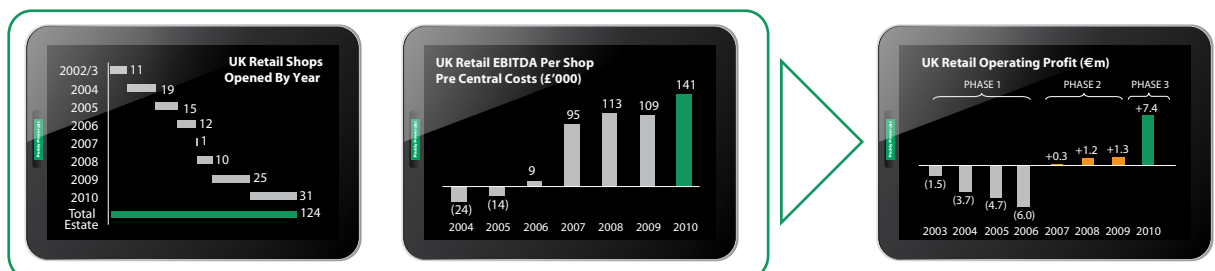
Notwithstanding the expansion of our international activities, the UK remains very attractive to Paddy Power as a substantial regulated market, with an established betting culture that is highly receptive to our products and brand.

The online market has obvious attractions given its strong structural growth drivers (mobile internet usage, live online streaming of sports and casino, new online advertising opportunities) and our track record of both growing with the market and taking market share. Our growth actually accelerated last year – having increased active customers by an average of 28% over the previous three years, we grew by a further 56% in 2010, from a substantially higher base.

In the retail market, we are also generating strong returns with the strength of our offer enabling us to win market share from the best performing shops of our competitors. Last year, our EBITDA per shop was £141,000 as compared to a capital cost of £235,000 for new openings, excluding acquired units. The expected benefits from new and maturing shops, lower per shop depreciation and increased scale to cover central overheads and facilitate further cost reductions, are all feeding strongly into operating profit – the €7.4m achieved in 2010 representing a €13.4m turnaround versus 2006.

Despite the challenges of migration online, our telephone business has also grown its UK operations substantially, with UK customers increasing by 20% and UK gross win by 32% last year.

This multi-channel approach gives us greater scale for investment in brand, product and other spending that benefits all channels. Activities in each channel also directly compliment each other: for example, a retail presence increases trust online, cash deposit/withdrawals at shops enhance online payment options and online technical capabilities add to the retail product offering.



Getting the Basics Right

Chief Executive's Review *(continued)*

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Giant Erection



Paddy Power plc

"It was a truly spectacular sight. I've never seen anything so big"



PADDY POWER





Giant Erection

Cheltenham is widely considered the Oscars of the jump racing world and, to celebrate the 2010 Festival, we installed our very own Hollywood-esque sign on Cleeve Hill overlooking the iconic race course.

In what was the longest free-standing billboard in the world, the monster Paddy Power sign spanned a massive 270ft in length dwarfing the iconic Hollywood landmark which measures a puny 200ft. As well as being the world's longest sign, the giant Paddy Power stands at a mighty 50ft in height - making it taller than three double-decker London buses stacked on top of each other.

The reaction by race goers was overwhelmingly positive and our YouTube video chronicling the gigantic erection achieved an equally impressive 107,000 views.

Getting the Basics Right

Chief Executive's Review *(continued)*

There is still significant potential for Paddy Power in the UK. Despite our progress online, we still only have a low double-digit percentage share of the online sports betting market and we will continue to make significant inroads into the gaming market. In retail, we are on track to reach our target of at least 150 shops by 2011 but that is still less than 2% of the market. Momentum is good with the 31 shops opened last year representing our largest ever number in a single year. These openings also included seven shops acquired over three transactions, with the strong uplift in performance of these units since our acquisition demonstrating a further option we have to grow our estate selectively.

Enter Other Attractive Regulated Markets

Strong growth opportunities in our existing markets allow Paddy Power to be selective about expansion further afield. Nonetheless we are committed to entering new markets where attractive opportunities exist, as we have done in Australia and France.

Our Australia expansion has been very successful to date and, notwithstanding the market, as expected, becoming more competitive, we remain excited by its prospects. The division generated EBITDA (pre Group central cost allocations) of AUD40m in 2010, up 72% versus the twelve months prior to our initial acquisition. The Sportsbet brand holds a clear leadership position versus other online corporate bookmakers; however when the online share of the TABs (the licensed retail monopolies) are added, our share is lowered, leaving substantial scope for growth.

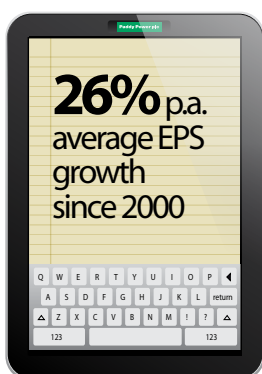
In addition, we expect the Australian online market to continue to grow strongly, driven by the same macro drivers we have seen elsewhere, plus the attraction of the better value and choice available online compared to the offerings of the retail monopolies. We are looking forward to the completion this year of the migration of Sportsbet and IAS to the same technology operating platform as Paddy Power. This will substantially enhance the product offering of both our Australian brands, as well as leaving them ideally prepared should online betting-in-running or gaming be allowed at some point by the Australian government. Against this backdrop, we were pleased to increase our ownership of Sportsbet to 100% last week giving us the benefits of full control, combined with our Australian partners' continued involvement.

While our preference is to enter new markets on a B2C basis, sometimes the risk-reward profile of a B2B approach may be more attractive. That was our conclusion in relation to the French online market and we were delighted to begin supplying sports book risk management and pricing expertise to PMU on schedule in June. Successful live operation enhances our credentials established by winning such a prestigious first client and we continue to seek further B2B relationships.

Australia and France represent two excellent proven examples of how Paddy Power can leverage and migrate its core competencies to work effectively elsewhere as other international markets regulate.

Conclusion

Paddy Power has a track record of delivering growth. In the ten years since flotation in 2000, we have increased turnover from €363m to over €3.8 billion, an average annual growth rate of 27%, and earnings per share at an average annual growth rate of 26%. We continue to invest, particularly in our online and technology capabilities, to maintain that virtuous circle of revenue growth, generating more cash for investment, to drive further revenue growth. As a result of the substantial opportunities in our markets, and our positioning to avail of them, we look forward to 2011 and beyond with confidence.



Patrick Kennedy

Patrick Kennedy
Chief Executive

4 March 2011