

# Chairman's Statement

Dear Shareholder,

I am pleased to report on an exceptional year of growth and profitability for Paddy Power.

	2006	% Change
Turnover	€1,795m	+31%
Pre tax profit	€47.6m	+52%
Adjusted basic EPS	78.6 cent	+45%
Dividend	32.2 cent	+56%
Cash balances	€87.1m	+66%

*(Results above and throughout this statement exclude the exceptional property gain of €2.1m pre-tax in 2006)*

These record profits were driven by strong turnover growth across the Group. The ongoing investment in business development that I reported on last year has come through strongly in the 2006 results. In addition, Irish retail turnover received a boost from the introduction of tax-free betting, while all channels benefited from the World Cup. Our online business continues to grow strongly in both sportsbook and gaming and I am pleased to confirm that the results also reflect a significant level of investment for future growth.

We also benefited from an improved run of sporting results compared to 2005, but the overall run of results, while good, was not exceptionally favourable to bookmakers. As always there were plenty of fraught moments with patriotic punters rubbing their hands following a record haul of ten Irish winners at Cheltenham, an Irish winner at the Grand National, Ireland winning the Triple Crown and last but certainly not least, Munster finally fulfilling their destiny to win the Heineken Cup! However a fine showing by a range of outsiders in late December raised the Group's overall sportsbook gross win percentage margin broadly in line with expected levels.

2006 also marked the 18th anniversary of Paddy Power's formation through the merger of three Irish retail bookmakers. The evolution of the business since is evidenced by the fact that, while the Irish retail business has gone from strength to strength, it now accounts for just under half of our operating profit. Since its inception our non retail business has similarly evolved with over 50% of its turnover in 2006 coming from the UK and over 30% of its gross win generated from online gaming rather than sports betting. Many other things have changed during that period but the core ethos of Paddy Power to remain the most punter-friendly, innovative and entertainment based bookmaker lives on throughout our entire business.

## Regulation

2006 saw some significant regulatory developments. The passing of the Unlawful Internet Gambling Enforcement Bill in the US in September effectively outlawed online gambling by US residents and the facilitation of related money transfers by banks. Overnight this resulted in billions of euro being wiped off the stock market valuation of companies which had targeted US gamblers and the creation of legal uncertainty for their executives. Paddy Power has never targeted the US market so our market value was not impacted in any material way. The Group has never sought players from the US and has for years had measures in place to proactively prevent any play from the US including:

- Prominent graphics, statements and terms and conditions at customer registration stating that we do not accept US customers;
- Payment controls to block deposits from bank cards issued in the US, transfers from US bank accounts or payments from US residents via e-wallet payment methods;
- Never targeting any advertising or promotional activity at US residents.

Closer to home, there was media coverage during the year in relation to the possibility of certain bookmakers, not including Paddy Power, introducing Fixed Odds Betting Terminals ('FOBTs') into Irish betting shops. While such machines are an established part of the UK betting environment and culture, our view was that neither the Government nor the punter in Ireland were likely to be in favour of their introduction. This view of the Government's position appears confirmed by the Government statement in December 2006 that they 'wished to warn those in the industry, in the strongest possible terms, that the Government was opposed to the introduction of such machines'. The Minister for Justice, Equality and Law Reform also announced, in August 2006, the possible regulation of land based casinos in Ireland. Given our knowledge and experience of the Irish market place and the strength of our brand, we would consider participation in land based casino developments in Ireland. We would hope to see clarification and implementation of the Government's position in the next number of months.

In continental Europe, the regulatory landscape continues to be far from uniform, with periodic swings towards increased liberalisation and restriction within individual member states. Overall however we are encouraged by our prospects in the medium term for online expansion, both as a result of countries that have already moved towards liberalisation and by ongoing action by the European Commission to ensure that any restrictions on the provision of services within the European Union are necessary, proportionate and non-discriminatory and therefore consistent with EU Law.

## Chairman's Statement (continued)

### The Board

As noted in the 2005 Annual Report, Tom Grace and Jack Massey were appointed to the Board in January 2006 and April 2006 respectively. Both appointments have brought valuable experience and new perspectives to the Group. More recently, we have announced the appointment of David Johnston as Company Secretary. We welcome David from O2 Ireland where he had been Chief Legal Counsel and Company Secretary. We also express our sincere gratitude and best wishes to the former Company Secretary, Nuala Hunt, who is leaving the Group.

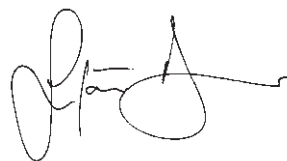
### Dividends and Capital Structure

As announced in our Interim Report for 2006, the Board is committed to a progressive dividend policy and is recommending an increase in the dividend payout ratio to 40% in the current year. A final dividend of 22.77 cent per share is therefore proposed, payable to shareholders on the register at 16 March 2007. This brings the total dividend for the year to €16.5m or 32.2 cent per share, an increase of 56% on the 20.59 cent paid in 2005. In the six years since flotation in 2000, Paddy Power will have therefore grown dividends per share at an average annual rate of 42%, a growth rate ahead of the already significant increase in average earnings per share growth of 29%.

The Group has historically retained a positive cash balance in order to be in a strong position to exploit the many development opportunities available to it. Given the very strong growth in the business in the last number of years, its very strong cash generative abilities and the significant growth in the Group's cash balances, maintaining flexibility for future growth and returning additional cash to shareholders are no longer mutually exclusive objectives. The Board obtains shareholder approval annually to buy back up to 10% of the company's issued share capital, and we will seek that approval again at this year's AGM. It is the Board's current intention to conduct share buybacks this year. The timing and amount of shares bought back will depend on the Group's pipeline of development opportunities as well as equity market conditions.

### Outlook

2007 promises to be another exciting year for Paddy Power as we continue to expand across the Group. Trading for the year to date has been satisfactory and I look forward to updating you on progress at our AGM in May.



**Fintan Drury**  
Chairman

2 March 2007