

Chief Executive's Statement

Introduction

Paddy Power is a growth company. In the six years since flotation in 2000, we have increased turnover from €363m to almost €1.8 billion, an average annual growth rate of 31%, and earnings per share at an average annual growth rate of 29%. A particular feature of this very strong growth is that it has been achieved almost entirely organically, without recourse to acquisition. More importantly, looking forward, the Group today has a strong portfolio of businesses, each of which is well positioned to drive further turnover and profit growth.

Our Existing Businesses

These businesses are at varying stages of their life cycles; indeed, one of the particular attributes of Paddy Power is the excellent balance of activities that we have at different stages of development. Some are long established, substantial businesses; others are more recently launched, emerging businesses; whilst others are very recent investments which, although unlikely to contribute materially in the short-term, have excellent medium term prospects.

It is worthwhile considering our businesses in each of these three stages of development in greater detail:

- (i) Our longer established, substantial businesses include our Irish retail and our telephone businesses. Both benefit from positions of leadership in the Irish market, from our unique brand, from the Group's innovative product range, and from the fantastic customer service for which Paddy Power is renowned. Both are also benefiting from significant recent investment: in the last five years, we have newly opened, refitted, extended or relocated over 85% of the 160 shops in our Irish estate, whilst our telephone business moved to a new state-of-the-art call centre in May 2006. Finally, both benefit from a positive external backdrop: continued population and economic growth, particularly in Ireland, and the continuing growth in live televised sport. The move to tax-free betting for punters, which Paddy Power introduced in December 2005, is a further positive for our Irish retail business.

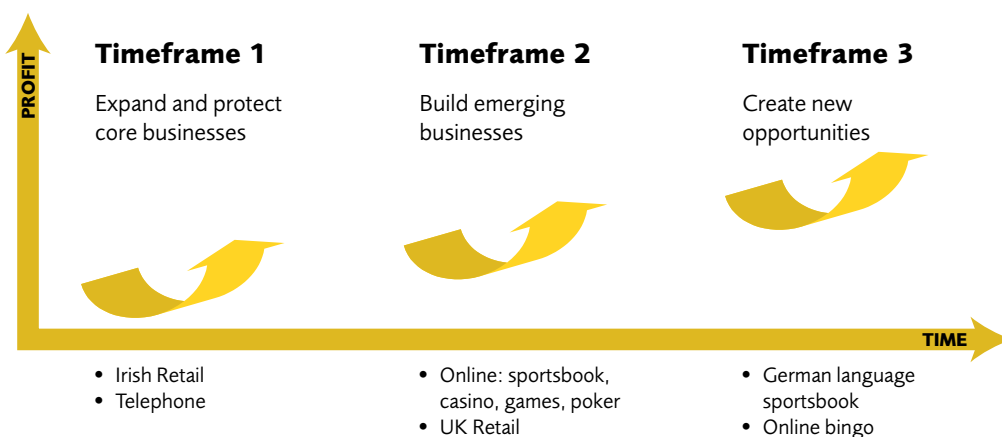
These positive market conditions attract increased competition every year, and the migration of customers from the telephone to the online channel is continuing. Nonetheless, our businesses have continued to grow strongly, with amounts staked increasing by 23% and 18% in the telephone and Irish retail businesses respectively last year.

- (ii) Our recently launched emerging businesses include our online sportsbook, online casino, online games and online poker, as well as our UK retail business.

The online businesses are expanding rapidly, with amounts staked and gross win increasing by 60% and 57% respectively last year. Some people hold the view that products and services sold online can only be differentiated on the basis of price. We disagree with this; we differentiate ourselves versus our competition just as strongly in the online world as in our retail markets. This takes a number of different forms:

- Trading Product and Specials: our broader range of product as well as our Money-Back Specials, early payouts, double result payouts and the many other imaginative refunds that we regularly offer are highly valued by our online customers, and the centre piece of the paddy.com home page is always dedicated to our latest such offering;
- Brand: the strength of our brand, as well as our retail presence in both the UK and Ireland, differentiates us against the myriad online-only players. We also employ a team of journalists to ensure that our websites and customer emails reflect the fun, and occasionally irreverent, side to our brand. For example, as a result of the polls introduced on our website last year, we now know "what's the most painful?" between "a fractured skull" (12% of votes), "a kick in the nuts" (43%), "childbirth" (11%) and "watching Bolton" (34%);

Strategy: Business Positioning



Chief Executive's Statement (continued)

- **Customer Service:** great customer service, an absolute throughout our businesses, is a particular feature of our online channel. Many of our online competitors outsource customer service; we on the other hand insist on it remaining in-house, and regard it as a recruitment ground for the rest of our businesses, with a substantial proportion of our customer service staff being third level students or graduates;
- **Technology:** our development team continues to use technology very effectively to tailor our websites to provide better and more accessible information, improve customer service and increase cross-selling opportunities.

As well as holding the leading market position in online betting and gaming in Ireland, this focus on differentiation has propelled paddy.com to be the third largest online sportsbook in the UK (measured by number of visitors in the second half of 2006), ahead of many more substantial rivals. This is an enormous achievement, from a standing start a number of years ago.

Many of our online competitors have big international brands with very substantial budgets and indeed competition has increased even further in the last five months since the US market was effectively closed down. Nonetheless, the prospects for all of our online businesses are strong, as betting and gaming continue to increase in popularity, as the economies and also broadband penetration in our key markets continue to grow, and as we focus relentlessly on differentiating our proposition against the competition.

Another emerging business is our UK retail business. A great job has been done since 2003 developing our UK retail estate, and at the end of 2006 we had a substantial footprint of 58 shops within the M25. The 2005 Gaming Act which takes effect later this year in the UK will allow for extended shop opening hours, the installation of higher payout gaming machines and improved shop opening opportunities. Our priority now is to optimise our proposition in anticipation of this deregulated market and, in this regard, our overriding focus for 2007 is to continue to improve the performance of the existing estate rather than open a substantial number of additional new shops.

We remain optimistic about the prospects of our UK retail estate for several reasons, referred to in greater detail in the Operating & Financial Review, including:

- Our gross win continues to grow strongly, on both a total and like-for-like basis;
- Our brand recognition continues to grow strongly;

- Our market research indicates that our customers rate us much more highly than those of our competitors, and are more loyal and less likely to switch, whilst competitor customers are most likely to switch to us.

- (iii) Our very recent investments include our online German language sportsbook and our online bingo business. These businesses rely less on cross selling to existing customers, but rather bring Paddy Power to entirely new customer groups. As such, they may take longer to have a material impact on the business than other online businesses launched in the last number of years, but we are confident about their medium-term prospects.

Business Development

In addition to the strong prospects of our existing businesses, we have increased the focus on new business development in 2006. Breon Corcoran's new role as managing director of non retail and development enables him to dedicate a substantial part of his time to seeking new opportunities for the Group, and through a number of senior hires he has built a top class development team to find the next set of new businesses for Paddy Power.

These opportunities fall into a number of categories:

- Accessing other segments of the betting market, as we did last year with our online bingo business;
- Expanding our presence in existing geographies, for example potentially opening Paddy Power casinos in Ireland;
- Deeper use of existing Group resources, such as our risk capabilities;
- Further geographic expansion, as we commenced in the last 12 months with our German language website;
- Stretching our brand into new areas, as we did last year with our online reverse auctions business.

Summary

As a result of these substantial opportunities, both in existing and potential new businesses, along with the quality of our people and our brand, we look forward to 2007 and beyond with confidence.



Patrick Kennedy
Chief Executive

2 March 2007