

# Letter to Shareholders

Paddy Power plc  
Annual Report 2006

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## To all shareholders

I am writing to you to outline the background to the resolutions to be proposed at the forthcoming annual general meeting 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 Annual General Meeting ('AGM') of the Company, to be held at the Conrad Hotel, Earlsfort Terrace, Dublin 2 at 11.00 am on Tuesday 22 May 2007. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the re-appointment of directors, and the Auditors' remuneration, there are various items of special business which are described further below.

Resolutions 3 (a), (b), (c) and (d) of the ordinary business propose the re-appointment of four directors. Messrs Stewart Kenny, Nigel Northridge, David Power and Patrick Kennedy, having served on the Board for three years, retire in accordance with Regulation 87 of the Articles of Association and being eligible, offer themselves for re-appointment. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the re-appointment of each of these directors. Biographical information on these directors is given on page 19 in the Annual Report.

Shareholders are being asked in resolution 5 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 2.56m shares). If renewed, this authority will expire at the next AGM in 2008 or 21 November 2008, whichever is earlier.

Shareholders are being asked in resolution 6 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 the higher of (1) 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company or (2) the price of the last independent trade and the highest current bid on the trading venues where the purchase is carried out. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or reissue.

The total number of options to subscribe for shares in the Company on 30 March 2007 is 914,684, and represents 1.8% of the issued share capital of the Company on that date. This percentage would increase to 2.1% if the full authority to buy shares is used. The authority sought will expire on the date of the next Annual General Meeting of the Company or 21 November 2008, 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. It is the Board's current intention to exercise this power to purchase shares in 2007.

Shareholders are also being asked in resolution 7 to pass a resolution authorising the Company to reissue 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 21 November 2008, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990.

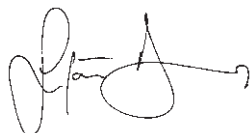
## Action to be taken

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 20 May 2007. 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



**Fintan Drury**  
Chairman

30 March 2007