

# Chairman's Statement

Dear Shareholder

I am pleased to report on another year of progress in Paddy Power.

<b>Revenue</b>	€1,371.7m 18.3%
<b>Pre tax profit</b>	€31.3m (2.4%)
<b>EPS</b>	54.08 cent (4.4%)
<b>Dividend</b>	20.59 cent 10.0%
<b>Cash balances</b>	€52.3m 10.8%

2005 was a challenging year. I have talked before about how a run of sporting results can favour one side or the other of the betting equation; last year certainly did not advantage bookmakers. That is not a moan. It's just a fact of life in this business. 2005 also witnessed structural change in the Irish retail betting market. These two factors meant that, despite record revenue, the results were off where we would have hoped such a strong performance would have placed us.

The structural shift in the Irish retail market place gave rise to a revision of the expected gross win percentages in our domestic retail business. While this is undoubtedly a disappointment, we remain very confident that Paddy Power is best placed to take advantage of the opportunities associated with this structural shift. Our position as market leader, together with the introduction of tax-free betting in the Irish retail market, offers the opportunity for profitable growth in 2006 and beyond.

We have made considerable progress on business development since my Statement in last year's Annual Report. Much of the benefits of these advances will start to come through over the coming year and into 2007. The business is innovating constantly and I am confident that this will enhance shareholder value in the medium term.

## Strategy

On this, our fifth anniversary as a public company, I believe it is worth taking the time to reflect on the strength of the company and the significant growth opportunities available.

The past five years has seen revenue grow from €362m to €1,372m, an average annual growth

rate of approximately 31%, while operating profit has grown by an average annual growth rate of approximately 30% to €30m. In that time, the business has been transformed from an Irish betting shop operator to a multi-channel, multi-national betting and gaming company with over two thirds of its operating profits coming from non retail activities and 29% of revenue coming from outside the Irish market. Paddy Power, through its continued customer focus, has remained the number one betting and gaming company in Ireland and has now established itself as a significant player in the considerably larger United Kingdom market.

Our expansion has diversified our income sources, with non bookmaking income becoming an increasingly significant revenue stream. This in turn has allowed us to broaden our customer base, both by customer type and geographic market, and provides various cross selling opportunities that will fuel further growth.

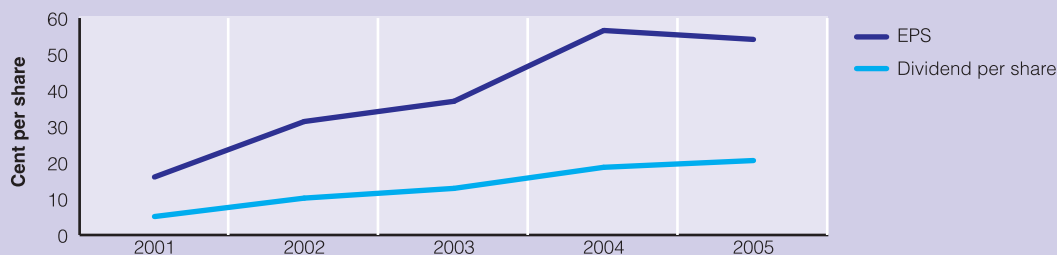
Paddy Power is a growth company. We have a track record of growing start up businesses organically while at the same time growing overall earnings and this is set to continue. The online channel has strong short and long term earnings growth potential in Ireland and the UK as the online betting market grows and we capture more market share. 2006 should also see us commence online operations targeting continental Europe where there are significant opportunities. We will also continue to invest in the roll out of our UK estate where significant long term potential remains.

## Regulation

2005 saw some significant regulatory changes. In the UK, the Gambling Act was passed which, amongst many other provisions, will finally eliminate the demand test for betting shop licenses. It remains unclear as to when the relevant provisions will be enacted, but the formal consultative period has commenced and we remain hopeful for significant progress this year.

In Ireland, the 2005 Budget eliminated customer based betting taxes from July 2006, replacing them with a 1% revenue based tax levied on the bookmaker. In true Paddy Power fashion, we decided

## EPS AND DIVIDEND PER SHARE



not to wait; instead we offered our customers tax-free betting from the morning after the Budget, with Paddy Power absorbing the full 2% charge until July 2006. Both we and our customers welcome the Budget change which now gives retail customers the same tax-free betting that Irish-based telephone and internet customers have enjoyed for some time.

## People

This year marked the end of John O'Reilly's tenure as Chief Executive. It is accepted that John, together with his predecessor Stewart Kenny, forged an extraordinary position within the betting industry for Paddy Power. Finding a new CEO is a big challenge for any Board. Finding someone to follow Stewart and John was acutely so. I believe that during my time as Chairman it is unlikely that I will oversee a process as important for the shareholders than the selection of the right CEO to follow John.

The Board believes that in Patrick Kennedy we have got the right man to take this business forward and deliver shareholder value. I want to wish Patrick well in that quest.

I have said it before and I continue to believe that one of Paddy Power's strengths is the quality of its people. Under John O'Reilly's leadership, the strength in depth of the team has been substantially enhanced. Maintaining the commitment to recruiting the very best talent available will remain a priority under Patrick Kennedy's stewardship.

## The Board

As the business has evolved so too has the Board. In 2005, two executive directors retired from the Board. John O'Reilly retired on 31 December having been with the Company from its inception. John served the Company in a variety of roles and was Chief Executive for the past three and a half years. His contribution was immense and on your behalf I thank him once again for his extraordinary commitment to Paddy Power. In early 2006, Ross Ivers is leaving the Company having been Finance Director since 2001. We greatly appreciate his significant contribution to Paddy Power and wish him well in his future career.

We have also announced the appointment of Jack Massey as Finance Director. Jack joins us from ITG Europe, the European division of the NYSE quoted Investment Technology Group, where he has been Chief Operating Officer since 2002 and previously Finance Director. I know that Jack will make a very substantial contribution to the Company and look forward to working with him.

We were very pleased to announce, in January 2006, the appointment of Tom Grace as a non-executive director. Tom retired as a Partner in PricewaterhouseCoopers in December of last year and I have no doubt that he will make a significant contribution to Paddy Power over the coming years. As noted in the 2004 Annual Report, Brody Sweeney joined the Board in February 2005 and we have already benefited from his contribution. Stephen Thomas will be retiring from the Board at this year's AGM, having served a three-year term. I would like to thank Stephen for the quality of his contribution and his commitment to the Company over the past three years.

## Dividends

The Board is recommending a final dividend of 12.84 cent per share payable to shareholders on the register at 10 March 2006, bringing the total dividend for the year to 20.59 cent per share, an increase of 10% on 2004 (18.72 cent).

## Outlook

2006 promises to be another exciting year for Paddy Power as we expand in both new and existing markets. 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

28 February 2006