

Chief Executive's Statement

I am delighted as Paddy Power's new Chief Executive to outline my views on the Company.

The growth of Paddy Power in its five years as a public Company, and indeed in the 18 years since its inception, has been tremendous. Equally impressive has been the fact that our culture today remains exactly as it has been throughout that period, characterised by a total focus on our customers and staff alike, on innovation and on our brand.

Our Business

The business today is very well positioned across each of its principal channels:

(i) Irish Retail

The Irish retail market has very strong growth prospects underpinned by continued population and economic growth. These prospects have been reinforced by the industry's move to tax-free betting which was led by Paddy Power in December.

Strong growth encourages new entrants and competitive trading. Nonetheless, as the market leader with a 27 % share and with consistent brand recognition of close to 90%, Paddy Power will continue to drive this market. Our brand, our people and our investment in innovative new products will support this.

In addition, growth in the Irish retail market will be supported by the very significant investment we have made in our estate in the last number of years: 80% of our estate has been opened, extended, relocated or refurbished in the last four years. Our organic rollout plan of six to ten new outlets per annum will continue and the enlarged estate should be fully supported by an Electronic Point of Sale (EPOS) system by the end of the year.

(ii) UK Retail

The attractions of the UK market to Paddy Power that we identified when we originally targeted it remain in place. It is a very substantial market with in excess of 9,000 outlets. It is close to our home market and is about to deregulate. It has a similar product and customer profile, which allows us to take advantage of our existing capabilities. Importantly, it

is open to the brand-led, customer-led Paddy Power proposition.

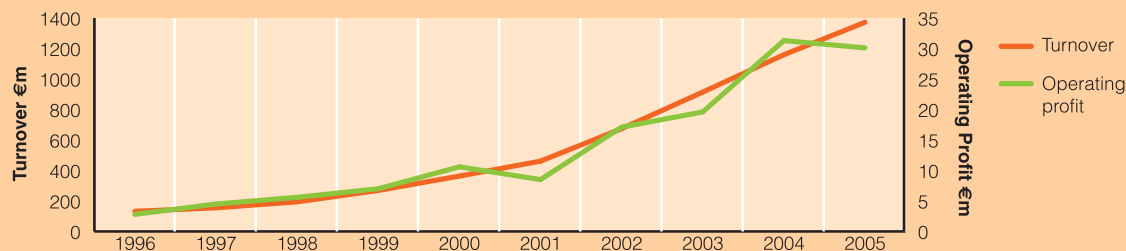
We have made substantial progress in this market:

- At the end of last year, we had 45 shops open, compared with 12 at the end of 2003
- Our market share in the areas where we have shops continues to grow
- Our brand awareness, in London and in the UK, continues to increase, with research showing Paddy Power to be the fourth most recognised bookmaking brand in London
- Our product mix is improving, with the proportion of non-racing revenue continuing to increase

The UK retail expansion continues to be "work-in-progress" for Paddy Power, with a material contribution to Group earnings some way off yet. We are still moving towards critical mass: 30 shops have now been open for at least 12 months, and we recognise that it takes longer for a new entrant to develop a shop to "steady state" than it does for a market leader. It is our intention to continue our organic rollout in the UK at its current rate of up to 15 outlets per annum, although we will review this rate in light of market developments, including the new legislative environment.

(iii) Non Retail

The growth in the last few years in our non retail channel has been truly impressive. The business has moved from losses in excess of €8 million in 2001 on revenue of €90 million to operating profit of €21 million in 2005 on revenue of €577 million. In addition to our sportsbook offering through both telephone and internet channels, we have successfully introduced casino products, gaming products and poker. Well-resourced and ambitious competitors continue to enter these markets, attracted by the growth prospects. However, prospects for all of our businesses remain very strong. In addition, they are likely to be complemented by both additional product and additional language websites in the short term. We will continue to use organic growth to expand online, although strategic acquisitions at the right price that bring new product, technology or geographic expansion are possible.

OP AND TURNOVER TREND LINE

The same three factors will support the strong growth prospects of each of these sectors: our people, our brand and our innovative product range.

Our Resources**(i) Our People**

Today we employ more than 1,400 people in Ireland and the UK, and this team is the single greatest reason for my confidence in the future of Paddy Power. As I spend time with people throughout the organisation, I am constantly impressed by the same qualities: energy, pride in our Company and in our brand, coupled with an absolute focus on our customers.

In the last year, we have grown by close to 200 people. More than half of this growth has come directly from our new shop openings in Ireland and the UK, plus our team to support the EPOS rollout. In addition, we have increased our telephone operators, our customer service team and our IT team to support the very strong growth in non retail. We have also recruited dedicated management teams for poker, casino and our European sportsbook rollout. Furthermore, as the organisation overall has continued to grow apace, we have strengthened key central functions, including marketing, human resources, risk management and finance. As has historically been the case, we will continue to hire in anticipation of growth.

(ii) Our Brand

Our brand embodies our approach to our customers and is a key point of differentiation versus our competitors across all our channels. We will continue to position the brand as fun, friendly - and occasionally cheeky and irreverent - but also, critically, fair. Whether through our broader range of products or our early payouts, innovative specials, double result payouts or the many other imaginative refunds that we regularly offer to our customers, we will continue to focus on being different from the competition.

Paddy Power's brand recognition consistently runs at almost 90% in Ireland. In the UK, where we have

been operating for only four years, nationwide brand recognition among adults is 12%, 16% in London and over 60% amongst regular punters across the UK. This is a testament to the energy and imagination we invest in continually reinforcing our points of difference.

(iii) Our Products

The breadth of our product range is also a key source of differentiation from both other bookmakers and betting exchanges. It reinforces the brand quality of fairness to the customer, while also helping to drive revenue. For example, in leading live football matches, we will typically offer up to 55 markets, between pre-match and in-running, versus 25 on average from our largest competitors.

"Betting in Running" has been expanded significantly in the last 12 months with more comprehensive product offerings particularly in football, golf, Formula 1, snooker, tennis and baseball. It now accounts for over a quarter of all non retail sports bets. Other recent products that have been launched include hourly financial markets, "select-your-own" handicaps in rugby, golf handicap betting, betting without the favourite and place-only-betting in racing and mythical matches in football.

Conclusion

Overall, whilst there are challenges facing all of our businesses, they are far outweighed by the opportunities that our market positions and our own capabilities present. The strategy that has led to the successful development of Paddy Power to date is set to continue and I look forward to the future with confidence.

Patrick Kennedy
Chief Executive

28 February 2006