

Directors' Report

The directors submit their report together with the financial statements for the year ended 31 December 2005.

Principal Activities

The Group provides sports betting services through a chain of licensed betting offices ('Paddy Power Bookmaker') together with telephone betting ('Dial-a-Bet') and online interactive betting services ('paddypower.com'). It provides online gaming services principally through 'paddypower.com', 'paddypowercasino.com' and 'paddypowerpoker.com'. It provides its services principally in Ireland and the United Kingdom.

Results

The Group's profit after taxation of €27.0 million reflects a decrease of 1.8% on the 2004 profit figure. Basic earnings per share amounted to €0.5408 compared with €0.5655 in the previous year, a decrease of 4.4%. The financial results for the year are set out in the Consolidated income statement on page 34. Profit for the year amounted to €27.0 million (2004: €27.4 million). Shareholders' funds at 31 December 2005 amounted to €96.1million (2004: €78.7 million).

Dividends

An interim dividend amounting to 7.75 cent per share was paid during 2005. The directors recommend that a final dividend of 12.84 cent per share, amounting to €6.4 million, be paid on 19 May 2006 to shareholders registered at close of business on 10 March 2006. This would make a total distribution of profit to shareholders of €10.3 million in respect of the year ended 31 December 2005 (2004: €9.3 million).

Business Review and Key Performance Indicators

A detailed commentary incorporating key performance indicators by channel including; active customers, average slip/bet values, bet volumes, gross win and gross profit is contained in the Operations and Financial Reviews on pages 10 to 17.

Principal Risks and Uncertainties

Information in respect of the principal risks and uncertainties facing the Company and the Group, as required in accordance with the terms of European Accounts Modernisation Directive (2003/51/EEC), are provided in the "Trading and Risk Management" section of the Operations Review on page 12. The composition and responsibilities of the Risk Committee are set out on pages 26 and 27. The Board has established financial risk management objectives and policies which have been implemented by executive management, details of which are given in Note 25 on page 62.

Market Research

The Group undertakes continuing market research across all business divisions in both Ireland and the UK. In 2005 research undertaken included brand research and customer satisfaction surveys in addition to focus groups previewing advertising campaigns.

Events Since the Year End and Future Developments

There have been no significant events affecting the Group since the year end other than the recommendation to pay dividends to shareholders as noted above. The directors do not anticipate any substantial changes to the nature of the business.

Own Shares Held

The Paddy Power plc Employee Benefit Trust ("the Trust") was established to manage the long-term incentive plan. During the year ended 31 December 2005, the Trust purchased 190,000 (2004: 240,000) Paddy Power plc shares at a cost of €2.6 million (2004: €2.3 million). At 31 December 2005 the Trust held 430,000 (2004: 240,000) ordinary shares in Paddy Power plc representing 0.85% (2004: 0.48%) of the issued share capital.

Substantial Holdings

Details of interests of over 3% in the ordinary share capital which have been notified to the Company are set out below:

	Holding at 28 February 2006	%
Fidelity Investments Ltd	4,529,298	8.99%
Nordea Investment Funds SA	3,934,900	7.81%

Board of Directors

John O'Reilly retired from the Board on 31 December 2005 and Ross Ivers stepped down from the Board on 6 December 2005. Tom Grace was appointed to the Board on 3 January 2006 and is proposed for election by the shareholders at the AGM in May 2006. Fintan Drury retires from the Board by rotation in 2006 and being eligible offers himself for re-election. Stephen Thomas will step down from the Board at the AGM in 2006, having completed a full three-year term. Further information on the dates of appointment of the directors is given in the Remuneration Committee's Report on pages 30 and 31.

Directors' Report (continued)

Directors' Remuneration

Details of directors' remuneration are given in the Remuneration Committee's Report on pages 30 and 31 and in Note 6 to the financial statements on pages 46 and 47.

Directors' and Secretary's Interests

The interests of the directors and secretary who held office at 31 December 2005 in the share capital of Paddy Power plc, all of which were beneficially owned, were as follows:

	Number of ordinary shares of €0.10 each	
	31 Dec 2005	31 Dec 2004 (or date of appointment if later)
Fintan Drury	19,400	19,400
Patrick Kennedy	3,000	3,000
John O'Reilly	613,889	613,889
Breon Corcoran	70,448	20,000
David Power	4,398,788	4,898,788
Nigel Northridge	1,000	1,000
Stewart Kenny	419,832	419,832
Stephen Thomas	5,000	5,000
Brody Sweeney	-	-
Nuala Hunt (Secretary)	3,500	3,500

There have been no changes in the above shareholdings between 31 December 2005 and the date the directors authorised these financial statements.

The directors and the company secretary had the following share options at 31 December 2005:

	Number of options at start of year	Exercised during the year	Options granted during the year	Number of options at end of year	Exercise price (a)	Exercise period
John O'Reilly	300,000	-	-	300,000	1.16	1 May 2003 - 1 May 2006
Breon Corcoran	50,000	50,000 (b)	-	-	3.59	1 August 2004 - 1 August 2007
Breon Corcoran	448	448 (c)	-	-	4.95	1 July 2005 - 31 December 2005
Breon Corcoran	20,000	-	-	20,000	8.15	24 February 2007 - 24 February 2010
Breon Corcoran	-	-	1,020	1,020	11.60	6 October 2008 - 6 April 2009
Nuala Hunt (Secretary)	25,000	-	-	25,000	5.25	24 July 2005 - 24 July 2008
Nuala Hunt (Secretary)	8,000	-	-	8,000	8.15	24 February 2007 - 24 February 2010
Nuala Hunt (Secretary)	-	-	1,020	1,020	11.60	6 October 2008 - 6 April 2009

(a) The closing share price during the year ended 31 December 2005 ranged from €10.37 to €15.95 and was €12.10 at year end (2004: ranged from €7.15 to €11.00 and was €10.85 at year end).

(b) These options were exercised on 8 September 2005 when the market price of the shares was €14.41.

(c) These options were exercised on 5 September 2005 when the market price of the shares was €14.34.

Transactions with directors and parties related to them have been disclosed in Note 22 to the financial statements on page 60. The directors and secretary have no interests in shares in any other Group companies.

During the financial year ended 31 December 2005 directors who held office at 31 December 2005 were conditionally awarded the following share grants under the long-term incentive plan scheme:

	Grants outstanding at start of year	Granted during year	Grants outstanding at end of year	Date shares granted	Share price at date of grant
John O'Reilly	60,000	-	60,000	22 June 2004	€9.43
Breon Corcoran	30,000	65,000	95,000	22 Jun 2004 – 23 December 2005	€9.43 – €13.80
Patrick Kennedy	-	70,000	70,000	19 September 2005	€14.40

The awards are subject to the rules of the scheme and will vest if the growth performance targets are met over the minimum vesting period. Further details of the scheme are outlined in the Remuneration Committee Report and in detail in Note 18 to these financial statements.

Employees

An enthusiastic and energised team of employees is essential to Paddy Power's success. Paddy Power aims to deliver the best customer experience and recognises that people make the difference. The continued success of Paddy Power is due to its ability to respond quickly to the ever changing and expanding environment in which it operates. The Group continues to attract new talent, as well as focusing on the development and retention of employees. All vacancies are advertised internally. Paddy Power is committed to constantly reviewing work practices and procedures to ensure that the Group provides a rewarding career and a friendly favourable working environment, whilst meeting the demands and customer requirements of the business.

The Group has an established employee communications group comprising representatives from staff and management who meet regularly. This discussion group is encouraged to offer suggestions for change and ideas that are promptly considered and responded to. This forum also gives the Group an opportunity to provide information about the Group's plans, activities and results, and ensures that new developments are communicated and agreed with staff.

Paddy Power is an equal opportunities employer and strongly promotes a work environment free from discrimination.

Safety, Health and Welfare at Work Act, 2005

The Safety, Health and Welfare at Work Act 2005 came into effect during the year. Paddy Power has taken all the necessary steps to ensure compliance with the changes made in the new Act. The Group pursues an active policy of providing a safe place of work for its employees and visitors to its premises. The new Act imposes certain obligations on employers in respect of health and safety in the workplace. Appropriate measures have been taken to ensure that health and safety standards are complied with at all relevant locations and that all applicable Group companies meet the requirements of the Act. These measures include safety statements at all locations, induction training in health, safety and fire safety for all new employees, receipt of method safety statements from contractors and proactive updating and actioning of shop risk assessments. We are currently planning a geographical health and safety audit in all of our retail shops and re-evaluating our risk assessments on a yearly basis.

Charities

Paddy Power maintains relationships with a large number of charitable organisations, ranging from those supporting the local communities in which our shops play a key role, through to national charities focusing on the welfare of specific groups. During the year the Group spent €81,505 on charitable donations (2004: €90,730).

Directors' Report (continued)

Political Donations

No political donations greater than €1,800 were made during the year.

Corporate and Social Responsibility

Social responsibility is an important issue to Paddy Power. The Group's strategy is predicated on looking after customers over the longer-term. Paddy Power acknowledges that there are significant behavioural differences between traditional fixed-odds betting and new gaming products. In recognition of these differences the Group works closely with Gamcare, a registered charity and leading authority on the provision of information, advice and practical help promoting responsible gambling. During 2005 all non retail customer service staff received training in responding to individuals who might be suffering from problem gambling. Work with Gamcare is ongoing and all new customer service recruits now receive Gamcare training. All Irish retail staff adhere to the policies and procedures of Gamcare. In 2005 all UK retail staff completed training on the Group's approach to responsible gambling and on the administration of the customer self exclusion process as part of the induction programme. Plans are underway to have the Group's practice and procedure audited by Gamcare. This is in line with industry practice in the UK.

Environment

Paddy Power plc has a proactive approach to assisting all personnel to conduct business in a manner that protects the environment. The Group encourages efficient use of resources, encourages recycling where possible and is compliant with all relevant environmental legislation. Examples of initiatives adopted in 2005 included: improvements in energy efficiency with the installation of long life light bulbs in all of the refitted shops; reduction in packaging waste on all case goods and furniture; installation of a water efficient flushing system in the refitted shops which reduces water wastage by one third; and the use of a mobile phone and used inkjet re-cycling plan in head office which is administered by a charity. The Group, in association with Onyx Ireland, has introduced a complete waste management policy in head office and everything from glass to general office paper is recycled. We have also introduced a cardboard baler in our warehouse for all of the Group. This has proven to be of great benefit to the recycling plan and reduces the charge to remove waste

by 60%. All of our cleaners, both internal and external, have now adopted the policy to use environmental friendly chemicals in both head office and in the retail shops. Each of our appointed contractors is aware of the importance of the environment and are all tasked to keep us informed of all new energy saving products on the current market.

We also want to keep the environmental impact of our annual report package to a minimum. Thus, the paper used in this report was manufactured in a mill with ISO 9002 and ISO1 4001 accreditation. The Report is woodfree, ECF, acid-free, recyclable and biodegradable.

Books of Account

The measures which the directors have taken to ensure that proper books of account are kept are: the appointment of suitably qualified personnel; the adoption of suitable policies for recording transactions, assets, and liabilities; and the appropriate use of computers and documentary systems. The Group and Company books of accounts are kept at Airton House, Airton Road, Dublin 24.

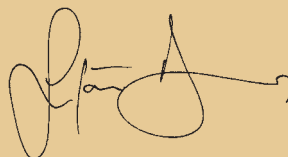
Auditor

In accordance with Section 160 (2) of the Companies Act 1963, the auditor, KPMG, will continue in office.

Going Concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board



Fintan Drury



Patrick Kennedy
28 February 2006