

# Letter to Shareholders

## 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 Westbury Hotel, Grafton Street, Dublin 2 at 11.00 am on 16 May 2006. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the election/re-election of directors, and the Auditor's remuneration, there are various items of special business which are described further below.

Resolutions 3(a), 3(b) and 4 of the ordinary business propose the election of Tom Grace and Jack Massey and the re-election of myself. Tom Grace and Jack Massey were appointed by the directors since the last Annual General Meeting and in accordance with the Articles of Association of the Company put themselves forward for election by the shareholders. I, having served on the Board for three years, retire in accordance with Regulation 87 of the Articles of Association and being eligible, offer myself for re-election. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the election/re-election of each of these directors.

Shareholders are being asked in resolution 6 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 up to an aggregate nominal value equal to 5% of the nominal value of the Company's issued ordinary share capital i.e. 2.5 million shares. If renewed, this authority will expire at the next AGM in 2007 or 15 November 2007, whichever is the earlier.

Shareholders are being asked in resolution 7 to renew the authority to empower the Company, or any Subsidiary, to make market purchases of the Company's shares and to determine the price at which treasury shares may be re-issued off market. No more than 10% of the issued share capital of the Company may be acquired under this authority at a price range which is no less than the nominal value of the Company's shares and no greater than 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or reissue. Any treasury shares which are re-issued off market must be re-issued within a price range determined by a special resolution of the Company 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 total number of options to subscribe for shares in the Company on 27 February 2006 is 1,492,588 which represents 3.0% of the issued share capital of the Company on that date. This percentage would increase to 3.3% 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 15 November 2007, 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. The Board has no immediate plans to make any such purchase.

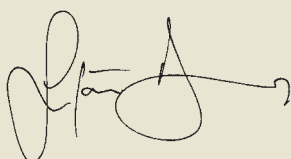
## Action to be taken

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, Dublin 18 by no later than 11.00am on 14th May 2006. 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

28 February 2006