

Chairman's Statement

I am pleased, in issuing my first report as Chairman of Paddy Power plc, to report on another period of excellent progress in the development of your Company. Turnover for the 6 months to 30 June 2003 grew by 42% to a record €453m (2002: €319m) through a combination of strong organic growth throughout the business and expansion of the retail estate in Ireland and the United Kingdom. As identified in our trading statement in April, operating profit at €6.8m was down by 25% on the same period last year due to a number of adverse horse racing results, primarily at Cheltenham and the Grand National. However, these were exceptional results and, while adversely impacting operating profit in the six months to 30 June, will not impact the future profitability of the Company.

The success of Paddy Power has been driven by our focus on our customers and by consistently delivering on our brand attributes of being Fair, Friendly and Fun. We remain as focused on these attributes as ever and are committed to expanding our operations via all channels in Ireland and the UK.

Expansion of the Group has continued unabated with continued growth in our Irish betting shop estate through new openings, relocations and refurbishments. The development of our UK estate is building

momentum with good progress in site finding, licence applications and openings. Our on-line business continues to grow customer numbers and we remain confident that it will become a strong profit contributor to the Group over time. Our telephone business has seen solid growth in Ireland. In the UK this division is still in the early stages of development but is showing good growth, while gross margins continue to improve as the division begins to develop critical mass. These points are addressed in more detail in the Operations and Financial reviews that follow.

During the period, the management team has put significant effort into the development of a 5-year strategic plan. This plan will enable the Board and management to clearly identify the strategies for growth over the next 5 years and to put in place the resources required to deliver that growth.

Paddy Power is progressing a number of initiatives to supplement its horse racing business with additional sports betting products, including the provision of separate sports betting areas in our larger retail stores. This is as a result of growing customer demand, the high cost of providing the horse racing product and the limited appeal of horse racing to new customers.

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In addition to generating absolute profit growth, expansion in the UK will help diversify betting risk due to the different product mix and betting patterns in the UK. It will also provide income from AWP (slot) machines and fixed odds betting terminals (FOBT's) which have a lower risk profile than traditional betting and which are not available in the Irish market.

The call by Horse Racing Ireland for a 50% increase in betting tax in order to fund extra prize money for wealthy owners is misguided. The only people who pay betting tax are shop customers. People with a credit card can bet tax free outside of Ireland via the internet or telephone. A tax increase will only further divert money outside of Ireland and reduce employment.

We believe that layers on betting exchanges in Ireland and the UK should be taxed on an equal basis as the bookmakers. We note that there is yet no tax on betting exchanges in Ireland.

Progress on deregulation in the betting and gaming industry has continued in 2003 and we welcome the potential abolition of the anti-competitive Demand Test. Notwithstanding the objections of the "Big Three" its removal is good for competition and therefore the customer. Paddy Power

does not believe deregulation will lead to a proliferation of betting shops but will in fact raise standards and lower the number of outlets, as the market will no longer support poor quality or inefficient outlets.

Investment in people throughout the entire organisation is key to the further expansion of Paddy Power. The recruitment, development and succession planning of both executive and non-executive personnel are increasing focal points for the Company. As part of this process we were delighted to welcome Mr Nigel Northridge to the Board in July as a non-executive Director. His experience will be a great asset to the business as well as bringing additional independence to the Board. The Company also continues to invest in executive management with a number of senior appointments being made in both Ireland and the UK to support expansion in both of these markets. In addition, the approval of the 2003 Long Term Incentive Plan by shareholders at the 2003 Annual General Meeting increases our ability to attract, motivate and retain key staff.

Corporate governance is a continuing priority for the Board and we are closely monitoring the development of guidelines and legislation in Ireland, the UK and Europe. The Board is committed to having appropriate corporate

governance processes in place. It is developing formal internal policies that address, amongst others, areas such as Board tenure, Directors' assessments and remuneration, committee responsibilities as well as the reporting mechanisms to shareholders to accompany these policies. The Board will make further announcements on this in due course.

The Board has decided to pay an interim dividend of 4.3c per share on 22 September 2003 to shareholders on the register at the close of business on 12 September 2003. This represents an increase of 26% and reflects the confidence the Board has in the Company, its cash position and its desire to have a progressive dividend policy.

I remain very confident of the prospects for Paddy Power and look forward to working with my Board colleagues and the executive management team at Paddy Power as we continue to develop your Company.

A handwritten signature in blue ink, appearing to read 'Fintan Drury', written over a light blue grid background.

Fintan Drury

Chairman

1 September 2003