

CHAIRMAN'S STATEMENT

"It's a game of two halves"

Dear Shareholder,

The old football cliché '*it's a game of two halves*' could certainly be applied to the past year in Paddy Power.

The year had its ups and downs (in that order), but was consistently exciting and interesting. Through it all, the team at Paddy Power produced yet another record year. This is the 16th consecutive year of turnover growth and, with the exception of one year when we had significant start-up costs associated with the introduction of the online service, the 16th consecutive year of earnings growth. All in all an outstanding achievement.

Turnover	€1,165.2m (+27.5%)
Pre-tax profit	€32.1m (+57.5%)
EPS	56.61cent (+53.1%)
Dividend	18.72 cent (+45.2%)
Cash balances	€47.2m (+20.5%)

We frequently comment on the impact of short-term sporting results on earnings. Favourable results (if you are a bookie) generated a bumper first half for Paddy Power, well ahead of everybody's expectations. Then, with the pendulum swinging back to punters, second half earnings were flat on 2003. Proof again that, while results often happen in 'runs', they average out over time. Unfortunately, favourites win or lose to their own schedule, not necessarily to that of any public company's six month reporting timetable.

Earnings for the year are well ahead of both our 2004 budget and the highest analyst forecast at the start of the year. However, poor sporting results in the fourth quarter, particularly December, meant we came in at the lower end of analysts' revised year end

forecasts. This highlights once again that re-forecasting based on interim "sporting results" is a hazardous occupation.

Your Company enters 2005 in excellent health. Turnover growth, a key measure, continued strongly in the second half of 2004 as organic expansion continued across all divisions supplemented by the acquisition of two retail outlets in the United Kingdom (UK). The pipeline of properties and licences, in both Ireland and the UK, should deliver sustained outlet growth in 2005. Our online division goes from strength to strength adding new products and diversifying into non-bookmaking products such as casino, poker and peer-to-peer games.

The superior quality of paddypower.com was acknowledged in January when it was voted the Best Online Bookmaker in the Racing Post/Netprophet survey of bookmakers. Our telephone business also saw significant development, particularly in the UK, and continued to make a significant contribution to the Group.

STRATEGY

2005 will see a continuation of our existing strategy across all three divisions. Underlying this is a fixation with the customer; delivering a superior product range and customer service while increasing our distribution capacity. We continue to obsess about the Paddy Power brand, which remains one of our key assets. However, given our relative size and differing objectives in each market we must carefully select our marketing opportunities ensuring that they are cost effective and appropriate for those markets.

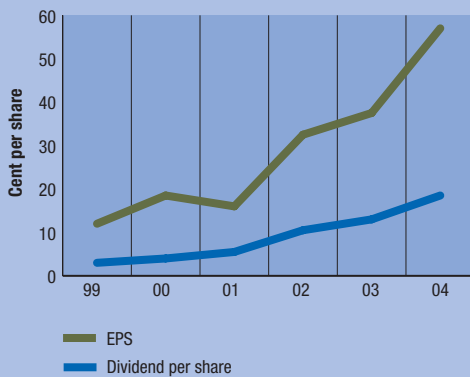
The past year has seen a further evolution of the business as Paddy Power generated new non-bookmaking income. The success of

Paddy Power Casino, virtual games and peer-to-peer games in 2004 has had a significant positive impact on the income volatility that is a feature of the traditional business. The revenues from these activities are closely tied to turnover performance, and are not subject to the vagaries of sporting results which impact betting revenues. We will see further growth in these revenues in 2005, together with new revenues from both online poker and fixed odds betting terminals (FOBTs) in our expanding UK retail estate. This overall change in revenue mix will increase absolute earnings while reducing volatility due to "sporting results".

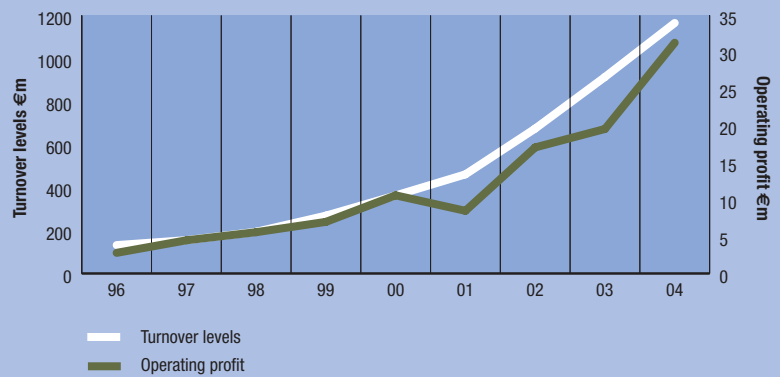
While Ireland clearly remains the heart of our business, our success in the UK will see it become an increasingly significant part of the Group. We enter 2005 with 31 UK retail outlets as well as significant telephone and online businesses. The coming year will be an important year for the UK retail business. Given the growth to date in the retail estate, and our expected future growth through the opening of new outlets, increasing focus will be placed on the operational aspects associated with managing the enlarged estate. Our approach continues to be one of sensible organic growth in new outlets coupled with opportunistic acquisition, such as the two outlets acquired this year.

2005 should see continued progress in gambling deregulation in the UK. After much high profile progress in 2004, casino deregulation came to a surprise halt late in the year. Bookmaking deregulation, however, has continued. Pending the passing of the Gambling Bill, the formation of the Gambling Commission and the issuance of their policies and guidelines, it is too early to predict the exact impact on Paddy Power. We remain optimistic that deregulation in this area will be delivered and that it will benefit Paddy Power. Until the Gambling Commission is established

EPS AND DIVIDENDS PER SHARE



OP AND TURNOVER TREND LINE



and relevant policies and guidelines are issued I do not envisage any change in strategy.

Data rights charges have been a strategic issue facing the industry for some time as sporting organisations sought to charge bookmakers for taking bets on their sport, based on their alleged database rights over the underlying data. However, the outcome of the European Court of Justice ruling in the British Horse Racing Board (BHB) V William Hill case has cast significant doubt on the existence of these rights and the BHB's ability to charge for them. This is a matter which is being actively reviewed by Paddy Power both in the context of the BHB and others.

PEOPLE

People are our greatest asset, and 2004 has seen significant progress in strengthening the organisation as the size and complexity of the business has continued to grow. With almost 1,200 staff at year end, and further increases planned for 2005, continued investment in people and management structures is essential.

The new appointments made throughout 2004, and referred to in my previous reports, are having a positive impact on the organisation. There is also a wealth of knowledge and experience within the

existing organisation that has developed over the past 16 years. Increasing focus on performance management and training and development throughout the organisation will help nurture the best talent. The increasing size of the Group will provide many opportunities for talented staff to progress their careers while providing succession throughout the organisation.

BOARD

2004 was a year of significant change for the Board as it develops to meet the new commercial challenges facing the Group, as well as meeting corporate governance standards. As mentioned in last year's Annual Report and announced during the year, Messrs Ian Armitage, Edward McDaid and John Corcoran have retired from the Board. Each has made a magnificent contribution to the Group. On your behalf, I want to acknowledge their contribution once again and thank them for their commitment.

The process of redeveloping the Board is in progress. During the year Patrick Kennedy joined as a non-executive director and Breon Corcoran as an executive director. Both have already made a significant contribution to the Board. As announced on 16 February 2005, Brody Sweeney has joined the Board and I look forward to his contribution in the years ahead.

The development of the Board is ongoing and further appointments are anticipated. Our belief is that finding the best people is paramount and one for which we are happy to suffer some time delays.

DIVIDENDS

The Board is recommending a final dividend of 12.52 cent per share payable to shareholders on the register at 4 March 2005, bringing the total dividend for the year to 18.72 cent per share, an increase of 45.2% on 2003 (12.89 cent). The Board's intention is to pay approximately one third of after tax earnings by way of annual dividend.

I look forward to the coming year with confidence as we continue to deliver on our promises. Together with the Board and the Paddy Power team I anticipate that 2005 will be another successful year for your Company.

Fintan Drury
Chairman

22 February 2005