

DIRECTORS' REPORT

The directors submit their report together with the financial statements for the year ended 31 December 2004.

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 through 'paddypower.com' and 'paddypowercasino.com'. It provides its services in Ireland and the United Kingdom.

RESULTS

The Group's profit after taxation of €27.5 million reflects an increase of 56.6% on the 2003 profit figure. Basic earnings per share amounted to €0.5661 compared with €0.3697 in the previous year, an increase of 53.1%. The financial results for the year are set out in the Profit and Loss Account on page 42. The retained profit for the year amounted to €18.1 million (2003: €11.4 million). Shareholders' funds at 31 December 2004 amounted to €71.8 million (2003: €52.3 million).

DIVIDENDS

An interim dividend amounting to 6.2 cent per share was paid during 2004. The directors recommend that a final dividend of 12.52 cent per share, amounting to €6.2 million, be paid on 20 May 2005 to shareholders registered at close of business on 4 March 2005. This would make a total distribution of profit to shareholders of €9.3 million in respect of the year ended 31 December 2004 (2003: €6.2 million). No further dividends or transfers to reserves are recommended by the directors.

BUSINESS REVIEW AND OUTLOOK

A detailed commentary is contained in the Operations and Financial Reviews on pages 10 to 19.

MARKET RESEARCH

The Group continues using standard research techniques to track key performance measures. As part of our ongoing market research, in 2004 the Group commissioned research to validate consumer appreciation of Paddy Power's core brand values, with reassuring results.

EVENTS SINCE THE YEAR END AND FUTURE DEVELOPMENTS

There have been no significant events affecting the Group since the year end and the directors do not anticipate any substantial changes to the nature of the business.

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 15 February 2005		%
Fidelity Investments Ltd	6,731,173		13.45
John Corcoran	2,590,176		5.18
Merrill Lynch	2,584,915		5.17

BOARD OF DIRECTORS

Messrs Edward McDaid, Ian Armitage and John Corcoran retired from the Board on 22 June 2004, 22 June 2004 and 1 December 2004 respectively. Mr Patrick Kennedy was appointed to the Board on 23 March 2004, and re-appointed by the shareholders at the AGM in June 2004. Mr Breon Corcoran and

Mr Brody Sweeney were appointed to the Board on 31 August 2004 and 16 February 2005 respectively, and are proposed for re-appointment by the shareholders at the AGM in May 2005. Mr Ross Ivers retires by rotation in 2005 and being eligible offers himself for re-appointment. Further information on the dates of appointment and re-election of the directors is given in the Remuneration Committee's Report on page 36.

DIRECTORS' REMUNERATION

Details of directors' remuneration are given in the Remuneration Committee's Report on page 36 and in Note 5 to the financial statements on page 49.

DIRECTORS' AND SECRETARY'S INTERESTS

The interests of the directors and secretary who held office at 31 December 2004 in the share capital of Paddy Power plc, all of which were beneficial, were as follows:

Number of ordinary shares of €0.10 each

	31 Dec 2004	31 Dec 2003 (or date of appointment if later)
Fintan Drury	19,400	19,400
John O'Reilly	613,889	613,889
Ross Ivers ¹	3,007	3,007
Breon Corcoran	20,000	20,000
David Power	4,898,788	4,898,788
Nigel Northridge	1,000	—
Patrick Kennedy	3,000	—
Stewart Kenny	419,832	259,832
Stephen Thomas	5,000	5,000
Brody Sweeney	—	—
Nuala Hunt (<i>Secretary</i>)	3,500	—

¹ Shares are held via the Noosa Pension Fund in which Ross Ivers has a beneficial interest.

DIRECTORS' REPORT (CONTINUED)

There have been no changes in the above shareholdings between 31 December 2004 and the date the directors approved these financial statements.

On 22 June 2004 the directors were conditionally awarded the following shares, granted under the long-term incentive plan scheme:

John O'Reilly	60,000
Ross Ivers	40,000
Breon Corcoran	30,000

The share price at the date of the grant was €9.43. The awards are subject to the rules of the scheme and will vest to the directors if the growth performance targets are met over the minimum vesting period. Further details of the scheme are outlined in the directors remuneration report and in detail in Note 15 (e) to these financial statements.

The directors and the Company Secretary have the following options at 31 December 2004:

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 recognise 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 of 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, 1989

Paddy Power plc pursues an active policy of providing safe systems and places of work for its employees and visitors to its premises. The above Act imposes certain obligations on employers. Appropriate measures have been taken to ensure that health and safety standards are complied with at all relevant locations and that all relevant Group companies meet the requirements of the Act. These measures

	Number of Options at start of year (or date of appointment if later)	Exercised during the year	Number of Options at end of year	Exercise Price	Exercise period
Stewart Kenny	720,000	720,000 (a)	–	1.16	1 May 2003-1May 2006
John O'Reilly	900,000	600,000(a)	300,000	1.16	1 May 2003-1 May 2006
Ross Ivers	332,466	30,000(a)	302,466	3.59	1 August 2004 -1 August 2007
Breon Corcoran	50,000	–	50,000	3.59	1 August 2004-1 August 2007
	20,000	–	20,000	8.15	24 February 2007-24 February 2010
	448	–	448	4.95	1 July 2005 - 31 December 2005
Nuala Hunt (Secretary)	25,000	–	25,000	5.25	24 July 2005-24 July 2008
	8,000	–	8,000	8.15	24 February 2007-24 February 2010

(a) These options were exercised on 1 September 2004 when the market price of the shares was €9.80.

The share price during the year ended 31 December 2004 ranged from €7.15 to €11.00 and was €10.85 at year end.

Transactions with directors and parties related to them have been disclosed in Note 21 to the financial statements on page 59.

The directors and secretary have no interests in shares in any other Group companies.

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.

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 €90,730 on charitable donations (2003: €81,508).

POLITICAL DONATIONS

No political donations greater than €5,080 were made during the year.

CORPORATE AND SOCIAL RESPONSIBILITY

Social responsibility is an important issue for 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 engaged the expertise of the UK's pre-eminent gambling researchers to develop policies for the Group. In 2004 we also commenced work with Gamcare, a registered charity and leading authority on the provision of information, advice and practical help promoting responsible gambling. Gamcare have provided training to shop staff in responding to individuals who might be suffering from problem gambling. Currently in test phase, this initiative will ultimately be rolled out across the estate.

ENVIRONMENT

The Group has a proactive approach to assisting all personnel to conduct our business in a manner that protects the environment. The Group encourages efficient use of resources and encourages recycling where possible and is compliant with relevant environmental legislation. Examples of some initiatives adopted in 2004 include: 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 use of a mobile phone and used inkjet recycling plan in head office, administered by a charity.

We also want to keep the environmental impact of our annual report package to a minimum. Thus, the paper used was manufactured in a mill with ISO1 4001 accreditation and the report contains 80% minimum de-inked post consumer waste content.

BOOKS OF ACCOUNT

The measures which the directors have taken to ensure that proper books of account are kept are; 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, Tallaght, Dublin 24.

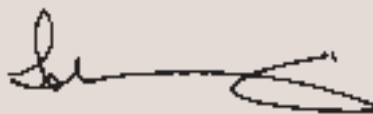
AUDITORS

In accordance with Section 160 (2) of the Companies Act 1963, the auditors, 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



John O'Reilly



Ross Ivers

22 February 2005