

CHAIRMAN'S STATEMENT

A year is a long time in bookmaking! In early 2003 punters had an unprecedented run at the expense of the bookies and Paddy Power's results for this period last year were 'hit' as a result. In the 2003 Annual Report, I suggested that the tide would turn in our favour and, over the corresponding period this year, it did. An excellent all round performance across our business combined with exceptional sporting results (from the bookies' perspective) means we are reporting record financial results for the first half of 2004.

	H1 2004 euro	H1 2003 euro	Change %
Turnover	554.1m	453.4m	+22%
Operating Profit	18.2m	6.8m	+168%
Profit Before Tax	18.7m	7.2m	+158%
Profit After Tax	16.0m	6.2m	+158%
EPS	33.3c	13.1c	+154%
Cash Balance	51.6m	35.1m	+47%
Interim Dividend	6.2c	4.3c	+44%

There is a very serious underlying point to be made about the fluctuating fortunes associated with bookmaking in that short term patterns in sporting results can heavily influence operating profits. So, while our financial performance for the first six months of 2003 suffered due to an unprecedented set of pro punter results, the corresponding period this year has benefited from good results in our favour. Given these short-term swings, it remains essential to look at the underlying performance in order to truly assess the health of the business.

Paddy Power is in good shape. The first half of 2004 has seen continued development across all areas of the business. Turnover growth continues in double digits across all channels. The Irish retail estate continues to expand in line with expectations and now operates from 141 outlets. In the United Kingdom we have 20 outlets trading and a further eight licences have been secured. The non-retail business continues to grow and penetrate the mass market whilst continuing to expand its product range. While gross win percentages were strong during the period, we see no underlying change in their expected annual ranges. Operating costs, while expanding, are in line with plans.

Customer service has always been our priority. Allied to our distinctive brand qualities, it is this that distinguishes Paddy Power from the pack. The six months under review once again demonstrated our commitment to customer service and the continued investment in the brand. Be it the payment of a €427,220 record payout to Catherine Egan, on going through the card in Fairyhouse on 18 January 2004 (where in addition to paying out in excess of the amount required under our rules we also extracted significant public relations value), sponsoring horse racing coverage on Irish television for three years or the myriad of money back specials, humorous promotions and "edgy" novelty bets, Paddy Power continues to set the standard that others attempt to follow.

At the heart of this work is our staff. At 30 June 2004 the Group employed 1,100 staff representing an increase of 14% in the past year and over 40% in the past three years. We have continued to invest in new people throughout the organisation as well as continuing to develop the internal reporting lines and management processes to handle the growth in scale and complexity of the business. On 17 May 2004, Claire Bolger joined the senior management team as Head of Human Resources from Dell. One of her key responsibilities is staff development to ensure that the best talent within the organisation is recognised and actively developed.

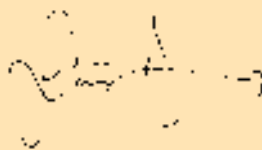
Any sensible assessment of our performance must consider the external environment. The Irish economy has returned to more robust growth rates while the move towards deregulation of the United Kingdom betting market is also beneficial. This benign environment together with the new products under development and the pipeline of properties in both Ireland and the United Kingdom, positions the Group well for continued expansion.

I have spoken before about the importance of the Board. Ian Armitage and Edward McDaid retired at the Annual General Meeting in June 2004. As required by our Articles of Association, John Corcoran will be stepping down in December 2004 on reaching his 75th birthday. The Nominations Committee is considering the appointment of new non-executive directors who can add value to the Group. I am pleased to welcome Breon Corcoran (no relation to John Corcoran) to the Board

as an executive director. Breon, who was appointed to the Board on 31 August 2004, has been responsible for the development of our non-retail business over the past three years having joined Paddy Power from a career in J.P. Morgan and Bankers Trust. A graduate of Trinity College with an MBA from INSEAD, Breon will bring an additional perspective of these fast-developing markets to the Board. I wish him every success.

The Board has decided to pay an interim dividend of 6.2c per share, an increase of 44% on the 2003 interim dividend. This will be paid on 24 September 2004 to shareholders on the register at the close of business on 10 September 2004. It remains the Board's policy to have a progressive dividend policy with average dividend cover of approximately three times.

I remain upbeat about the prospects for your company and look forward to reporting to you again in February 2005 on the full year results.



Fintan Drury
Chairman
31 August 2004