

FINANCIAL REVIEW

Turnover

Turnover for the six months ended 30 June 2004 increased by 22.2% to €554.1m (2003: €453.4m) with strong growth recorded by all divisions. The growth rates achieved must also be viewed in light of several factors:

- the high turnover levels in 2003 due to recycling of winnings in the first half,
- changes in customer acquisition practices of the telephone division,
- the loss of daily televised horse racing for several months which impacted the non-retail channels.

Turnover in the betting outlets was €340.4m (2003: €272.1m) an increase of 25.1%. Like for like turnover growth was 12.8% with turnover increasing from €272.1m in 2003 to €306.9m in 2004. Average slip size increased from €16.55 in 2003 to €17.85 in 2004 an increase of 7.9%. Slips volume growth was 16% increasing to 19.1m from 16.4m in 2003.

Telephone betting turnover grew by 20.4% to €105.8m (2003: €87.9m). Average bet size was €77.02 (2003: €65.92) an increase of 16.8%. Active customers (those who have bet in the last three months) were 12,539 (2003: 11,503) and 9,068 (2003: 10,534) in Ireland and the United Kingdom respectively at 30 June 2004. The average number of bets per customer grew from 49 to 57.

The movement in active customers in the telephone business belies an underlying improvement in the customer mix. A significant reduction in the number of "one off" (small stake) promotion driven customers and their replacement with a more loyal customer base due to a change in promotions strategy has improved the customer mix. This suits the economics of the telephone business. This can be seen through the increase in average bet size as outlined above and an improvement in the number of average bets per customer.

Online turnover has continued to grow with total turnover increasing by 15.4% to €107.8m (2003: €93.4m). Average bet size was €25.77 (2003: €27.16), a decrease of 5.1%. Customer numbers continue to grow with active customers (those who have bet in the last three months) increasing to 54,349 from 42,730 at 30 June 2003. Active Euro customers are 21,913 (2003: 16,497) and active Sterling customers are 32,436 (2003: 26,233).

Other than the European Championships in June 2004 which accounted for approximately €12m of turnover there were no material events in the first six months of the year that impacted year-on-year turnover comparisons.

Gross Win and Gross Profit

Gross win, measured as amounts staked (excluding betting taxes and levies) less the amount returned to customers as winnings, rose by 69.4% to €72.2m (2003: €42.6m). For casino bets taken through Paddypowercasino.com the customer drop is recorded in both turnover and gross win at 100% win.

The following gross win percentages were achieved:

Gross Win	H1 2004	H2 2003	H1 2003
Retail	14.18%	13.04%	11.58%
Telephone	10.36%	8.58%	6.26%
Online	12.00%	8.64%	6.00%

Gross profit, measured as gross win less the cost of discounting bets and gross win taxes, rose by 64.6%.

The following gross profits were achieved:

Gross Profit	H1 2004	H2 2003	H1 2003
Retail	13.10%	12.51%	11.31%
Telephone	9.47%	7.25%	5.24%
Online	10.60%	7.27%	5.09%

Gross win and gross profit percentages were strong throughout the first six months of 2004 reflecting the exceptional sporting results together with the impact of the casino. We continue to see no change in the underlying annual expected gross win ranges.

Operating Profit

Operating profit rose by €11.4m to €18.2m from €6.8m for the same period in 2003.

An analysis of operating profit is given below:

Operating Profit/(loss)	H1 2004 €'000	H1 2003 €'000	Increase/ (Decrease) €'000
Retail	12,247	7,772	4,475
Telephone	2,308	(597)	2,905
Online	3,648	(373)	4,021
Total	18,203	6,802	11,401

The growth in operating profits has been contributed to by all divisions. This was due to both improved turnover levels but in particular to the improved gross win percentages. Given the revenue and cost relationships of the business model, particularly in the Retail and Online divisions, excellent operating profit leverage is generated from an improved gross win percentage. Operating costs have continued to grow, primarily driven by the growth in the retail estate, by British Horse Racing data rights charges which are a paid as percentage of gross win, and by general cost inflation.

The casino contributed approximately €1m of operating profit during the period as it has benefited from the existing Paddy Power customer base without incremental marketing costs. A United Kingdom launch for the casino is planned in the second half of 2004. This may limit operating profit growth in the second half of 2004 in this channel.

Investment in the United Kingdom retail estate will increase in the second half of 2004 as the number of outlets grows and the operational and management infrastructure is put in place ahead of the revenue generation.

Taxes

The corporation tax charge for the six months to 30 June 2004 was €2.7m (2003: €1.1m) an effective rate of 14.5% (2003: 14.5%). Paddy Power's effective rate is 2% above the Irish statutory rate due to a number of non-deductible expenses and its high passive income which is taxed above the statutory rate.

Cash Flow

Net cash flow from operating activities for the six months ended 30 June 2004 increased by 133% to €31.6m from €13.5m in 2003. The increase was primarily as a consequence of higher operating profit together with an increase in trade creditors. The cash was applied acquiring fixed assets of €12.4m comprising the fit-out of new and relocated outlets as well as computer equipment. In addition, dividends of €3.6m, the funding of share purchases by the trustees of the long-term incentive plan of €2.3m, and corporation taxes of €1.8m were paid during the period. Cash received from the exercise of share options amounted to €0.6m. Cash balances at 30 June 2004 were €51.6m compared to €39.2m at 31 December 2003. This includes cash balances held on behalf of customers of €5.3m (December 2003: €4.8m).

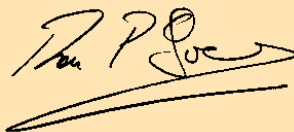
Dividends

The Board has decided to pay an interim dividend of 6.2c (2003: 4.3c) per share on 24 September 2004 to shareholders on the register at the close of business on 10 September 2004.

Outlook

The business has benefited from an unusually strong gross win percentage in the first half of 2004 which, given normal fluctuations, is unlikely to continue through the second half of the year. We would expect gross win to move towards the midpoint of its historical range within each channel for the year as a whole.

Trading for the second half to date has been satisfactory. As ever, the outturn for the year will depend on the sporting results over the coming months. The Group remains confident of meeting its growth plans for the year.



Ross Ivers

Finance Director

31 August 2004