

OPERATIONS REVIEW

Retail

Expansion of the retail estate continued apace in the first half of 2004 in both Ireland and the United Kingdom. At 30 June 2004 the Group operated a total of 161 outlets (2003: 139).

In Ireland, Paddy Power operated 141 outlets as at 30 June 2004, an increase of four in comparison to 31 December 2003, and seven in comparison to 30 June 2003. In addition to the opening of these new premises a further one (2003: five) premises has been relocated, three (2003: nil) premises have been extended and 11 (2003: one) premises have been refurbished in the six months to 30 June 2004. This brings the total number of premises developed during the period to 19 and, in the 18 months to 30 June 2004, to 50. The development pipeline remains in line with expectations.

Expansion of the United Kingdom retail estate is in line with expectations. As at 30 June 2004 Paddy Power operated 20 outlets (December 2003: 12) in the United Kingdom from a total of 25 (December 2003: 21) licences held. A total of 28 licences are held at the date of this report of which 20 are open. A further six outlets are scheduled to open before the end of October 2004. The pipeline of properties and licence hearings remains in line with expectations for the second half of the year and into 2005.

We are pleased with progress to date in our United Kingdom retail estate. Slip volumes and margins continue to improve as the estate grows and matures. The increased number of outlets will reduce overall margin volatility as the impact of any unusual performance from any one shop has less impact. The operational infrastructure is developing and three district manager positions have now been created and filled to manage the expanding estate. In addition, the fit-out of a United Kingdom operational headquarters is in progress. This will provide greater stability and improved facilities for the management team. We continue to see organic growth as the prime source of growth.

Fixed Odds Betting Terminals (FOBTs) have been installed throughout the United Kingdom estate in addition to Amusement With Prizes Machines (AWPs). A total of four suppliers are being currently used as the Group evaluates the increased number of options now available for FOBT supply. It is intended to reduce the number of suppliers as the evaluation process is completed. 45 FOBTs and 12 AWPs were installed at the date of this report.

The Group has continued its review, which started in 2003, of an Electronic Point of Sale (EPOS) system for the retail estate in Ireland and the United Kingdom. A pilot project, with Finsoft Limited, will commence in the fourth quarter of 2004 to undertake detailed evaluation of the system. No decision will be made on further testing or a full estate roll out until completion of this pilot.

Non-retail

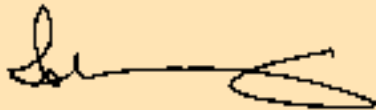
The six months to 30 June 2004 have seen further significant growth of the non-retail activities through expansion of existing products and markets as well as the introduction of new products and services.

The Online division achieved profitability in 2003 through the development of traditional betting products. Having proved the business model the division will further develop its Online offering driving incremental revenues streams through its infrastructure. This process started with our Online casino which commenced operation in early 2004.

Significant enhancements have also been made to the Paddypower.com site over the past six months. Paddy Power was the first bookmaker to offer Java based mobile betting, through our new service Paddy Power Mobile. Expansion of the product range, through the addition of virtual sports betting as well as "peer to peer" games, will continue over 2004 and beyond. These improvements increase both customer retention and generate new revenue streams.

Single account functionality has been enabled and launched. The use of common technology, processes and a single customer base has led to the integration of a number of the operating departments that support the non-retail activities. These include customer service, event management and product development.

The telephone business continued to develop on the back of the strong existing Paddy Power brand in Ireland and the growth of the brand in the United Kingdom. We outlined earlier in the year that as the brand developed in the United Kingdom our customer acquisition practices would evolve. Given the cost dynamics of a phone betting business the emphasis is on higher bet frequency customers rather than the occasional punter. This results in improved back office efficiency, higher levels of productive calls, improved asset utilisation, improved gross win per customer and greater customer loyalty.



John O'Reilly
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31 August 2004