

OPERATIONS REVIEW

RETAIL

Expansion of the retail operations has continued in 2005 with new outlets being opened in both Ireland and the UK. As of 30 June 2005 the Group operated 178 outlets (2004: 161).

In Ireland, Paddy Power operated 145 outlets (2004: 141) as of 30 June 2005, an increase of two since 31 December 2004. In addition, a further three (2004: one) outlets have been relocated, three (2004: three) have been extended and ten (2004: 11) refurbished in the six months to 30 June 2005, bringing the total number of premises developed to 18 (2004: 19). The development pipeline remains strong and we expect to see a greater level of outlet growth in the second half of 2005.

Expansion of the UK estate remains in line with plans with a bias to openings in the second half of 2005. As of 30 June 2005, Paddy Power operated 33 outlets, an increase of two since 31 December 2004 and 13 since 30 June 2004. Unopened licences at 30 June 2005 totalled 11. Since 30 June a further two outlets have been opened bringing the total operating outlets to 35 and we are "on site" in six others. Continued success in winning new licences means that, as of 29 August 2005, the Group now holds 14 unopened licences giving a potential estate size of 49 outlets.

Fixed odds betting terminals (FOBTs) and amusement with prizes machines (AWPs) are a feature throughout the UK estate, with a total of 107 machines installed at 30 June 2005 (105 FOBTs and two AWPs). A reduction in the number of suppliers together with improved operating performance of the FOBT machines, has driven average drop per machine per month over the period to €2,695 (2004: €1,477).

The EPOS system development has continued with the system installed in nine test outlets throughout Ireland and the UK. An expansion of the system to approximately 30 test outlets is in progress, following

which a final decision is expected by year end on a full estate roll out.

NON RETAIL

The non retail division has experienced continued strong growth across all channels and product lines in 2005, with gaming income becoming increasingly significant to the Group.

The biggest new product launch in the period was poker which, unlike the majority of our other products, does not require Paddy Power to take a risk position in the transaction. We are very pleased with its development to date and have seen strong growth through the summer months, a traditionally quiet period for poker. We will continue to invest in people and marketing through 2006 as we build market share.

The other online businesses continue to grow strongly in both Ireland and the UK. This is being driven by continued investment in the product range, site functionality and brand.

The telephone business has continued to grow and the benefits of the repositioning of this business, which commenced in 2004, are now very evident. Higher average stake per call, higher average bets per customer and improved staff efficiencies have continued into 2005 as we continue to refine the customer base. Given the higher costs of this business, it remains essential to focus on the higher staking customers within the mass market even if it has a short term impact on customer numbers.



John O'Reilly
Chief Executive Officer

30 August 2005