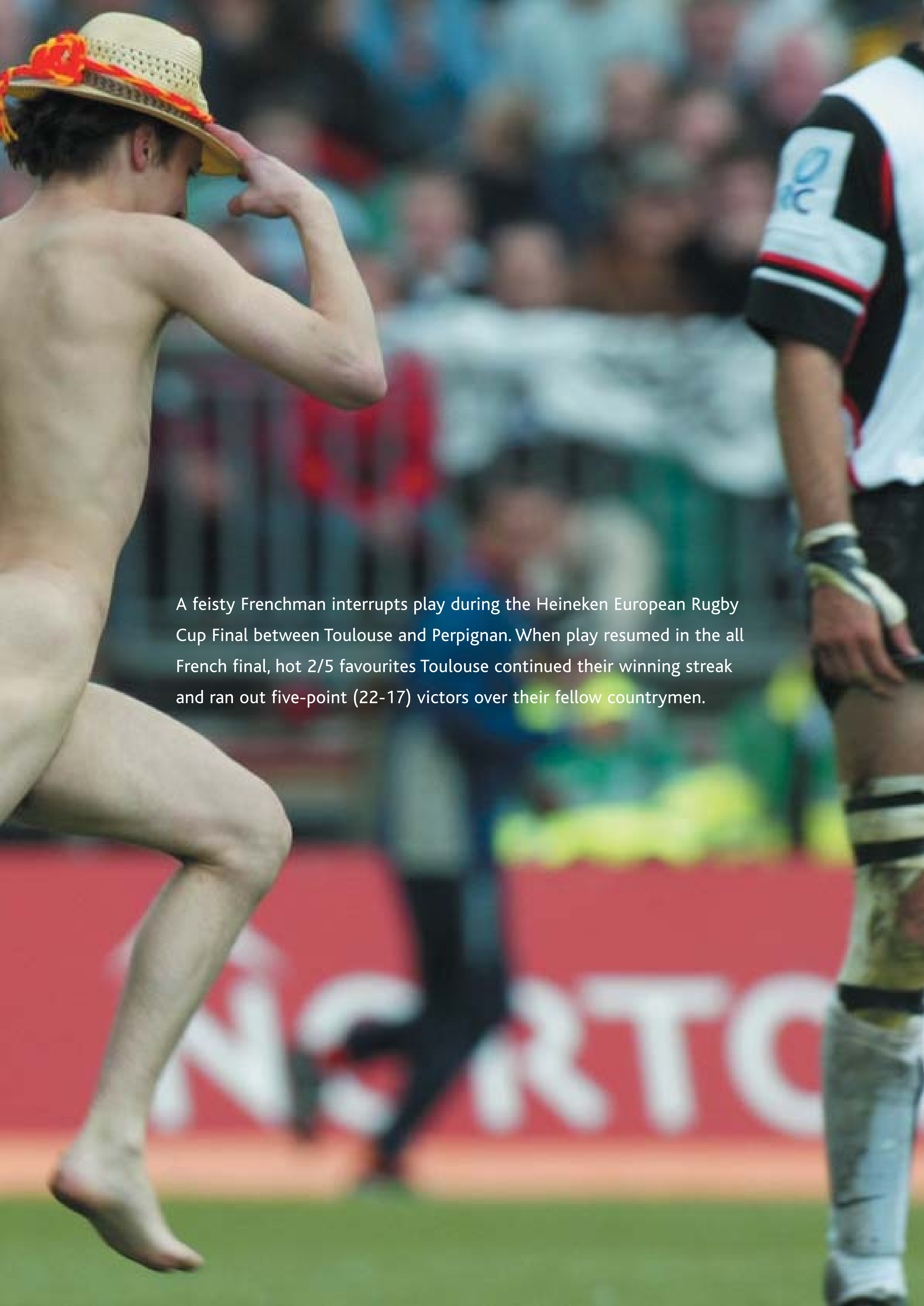
Paddy Power plc

Annual Report 2003

up for it!



A feisty Frenchman interrupts play during the Heineken European Rugby Cup Final between Toulouse and Perpignan. When play resumed in the all French final, hot 2/5 favourites Toulouse continued their winning streak and ran out five-point (22-17) victors over their fellow countrymen.

up for it!

Paying out on both Arsenal and Manchester United as Premiership winners, sponsoring the hurleys of some of the country's finest players, refunding all losing bets on the Champions League final – up for it?

Some regard it as complete madness but being different is what we're all about! In 2003 we continued to lead the pack through innovation and originality, we weren't afraid to take risks and sometimes even look silly, a bit like our cheeky friend here.

Through this we delivered unbeatable value to our customers while at the same time brightening up the betting industry in Ireland and abroad.

We were 'up for it' in 2003 and we'll be back for more in 2004!

Leinster Society of Chartered Accountants
2004 Published Accounts Awards
Winner Large Quoted Irish Companies

4/6	Paddy Power
6/4	C.R.H.
9/2	D.C.C.
10/1	Irish Continental
12/1	Viridian
12/1	Grafton Group
12/1	Irish Life & Permanent

Prices subject to fluctuation.

Contents

DIRECTORS AND OTHER INFORMATION

Directors

Fintan Drury *Chairman*

John O'Reilly *Chief Executive*

Ross Ivers *Deputy Chief Executive & Group Finance Director*

Ian Armitage *Non-Executive Director*

John Corcoran *Non-Executive Director*

Stewart Kenny *Non-Executive Director*

Edward McDaid *Non-Executive Director*

Nigel Northridge *Non-Executive Director*

David Power *Non-Executive Director*

Stephen Thomas *Non-Executive Director*

Company Secretary and Registered Office

Charles Kelly

Airton House

Airton Road

Tallaght

Dublin 24

Stockbrokers

Goodbody Stockbrokers

Ballsbridge Park

Ballsbridge

Dublin 4

Investec

2 Gresham Street

London

EC2V 7QP

Legal Advisers

Arthur Cox

Earlsfort Centre

Earlsfort Terrace

Dublin 2

Kennedy McGonagle Ballagh

20 Northumberland Road

Ballsbridge

Dublin 4

Auditors

KPMG

1 Stokes Place

St Stephen's Green

Dublin 2

Principal Bankers

AIB Bank plc

100-101 Grafton Street

Dublin 2

Registrars

Computershare Investor Services (Ireland) Limited

Heron House

Corrig Road

Sandyford Industrial Estate

Dublin 18

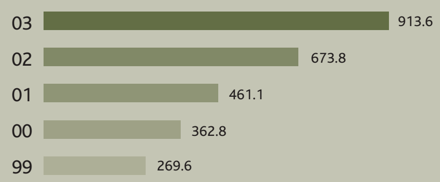
Registered Number

16956

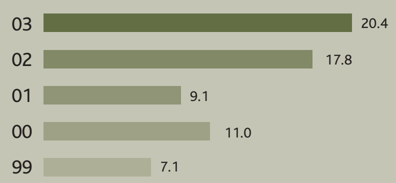
2003 KEY HIGHLIGHTS

	Year ended 31 December 2003 €'000	*Year ended 31 December 2002 €'000*
Turnover		
Licensed betting offices	551,136	448,096
Telephone betting	177,418	122,892
Online betting	185,070	102,800
Total Group turnover	913,624	673,788
Group profit before taxation	20,410	17,822
Profit after taxation	17,551	14,793
Profits retained for the year	11,391	9,984
Earnings per Share		
Basic earnings per share	€0.3697	€0.3138
Diluted earnings per share	€0.3502	€0.2900
Dividends per Share		
Interim paid	€0.0430	€0.0340
Final proposed	€0.0859	€0.0680
Total	€0.1289	€0.1020

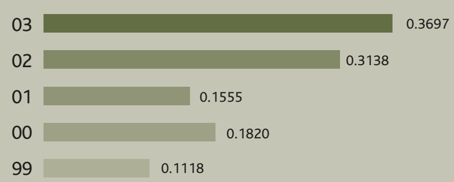
Group Turnover
(in €m)



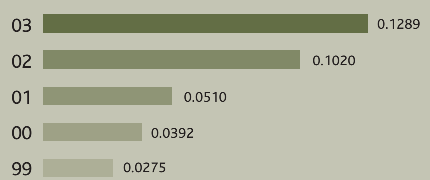
Group Profit
(in €m)



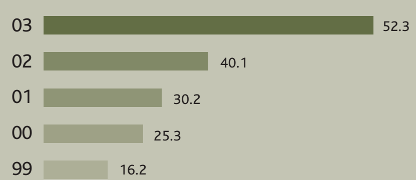
Earnings per Share
(in €)



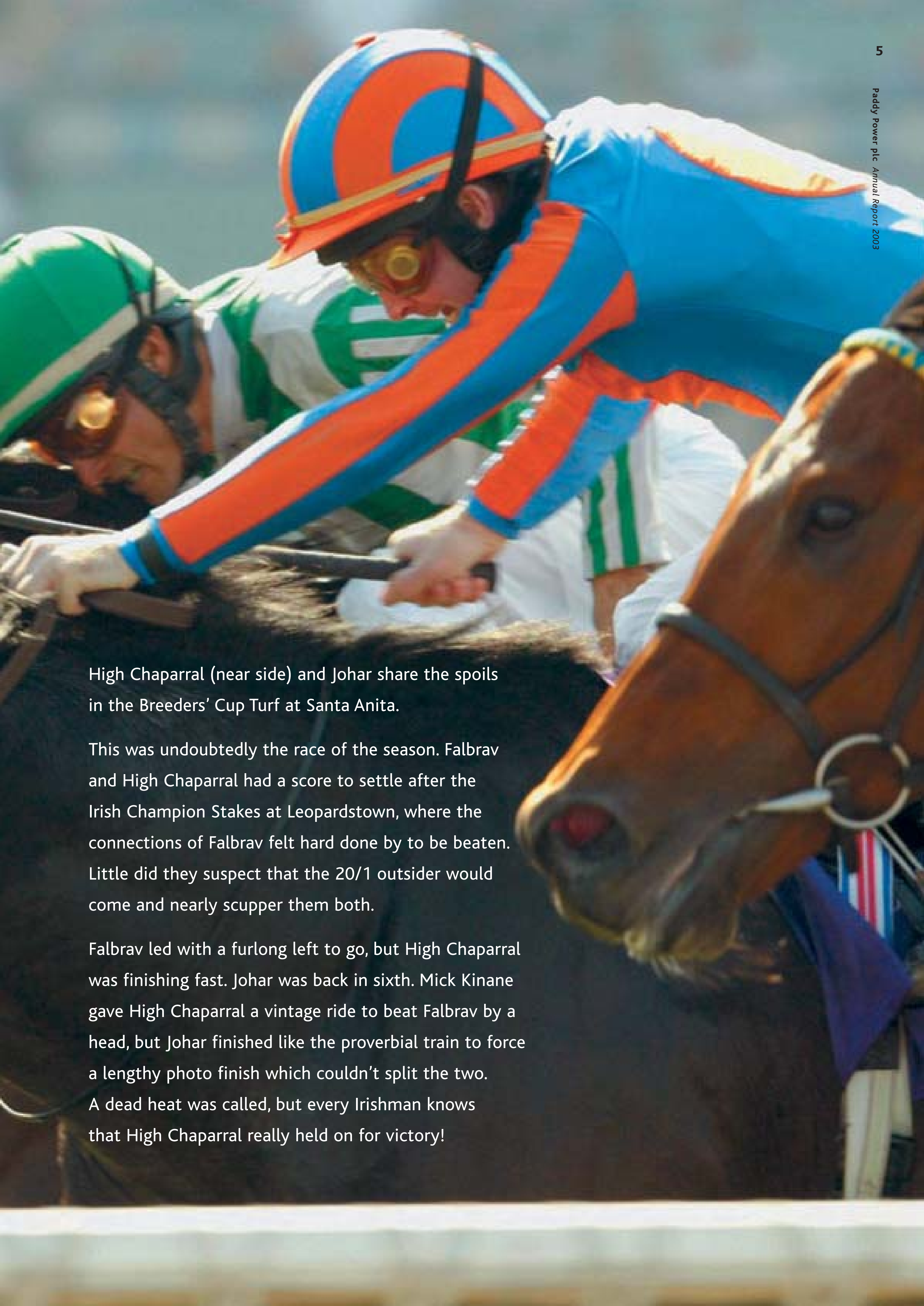
Dividends per Share
(in €)



Net Assets
(in €m)




call it!



High Chaparral (near side) and Johar share the spoils in the Breeders' Cup Turf at Santa Anita.

This was undoubtedly the race of the season. Falbrav and High Chaparral had a score to settle after the Irish Champion Stakes at Leopardstown, where the connections of Falbrav felt hard done by to be beaten. Little did they suspect that the 20/1 outsider would come and nearly scupper them both.

Falbrav led with a furlong left to go, but High Chaparral was finishing fast. Johar was back in sixth. Mick Kinane gave High Chaparral a vintage ride to beat Falbrav by a head, but Johar finished like the proverbial train to force a lengthy photo finish which couldn't split the two. A dead heat was called, but every Irishman knows that High Chaparral really held on for victory!

CHAIRMAN'S STATEMENT

To All Our Shareholders

Dear Shareholder,

I assumed the position of Chairman on May 26, 2003. It is the norm to say how honoured you are but in truth being so involved with a bookie had never been high on my list of life ambitions! Now, having been on the Board of Paddy Power for over a year and Chairman for nine months, I realise how wrong I was! It's a dynamic industry and Paddy Power, thanks to the efforts of its staff, management and Board over the past 16 years, is an amazing organisation with great potential.

What a year to become Chairman! Record results (as set out below) were achieved despite a series of horse racing results (at the Cheltenham Festival in March and to a lesser extent at the Aintree Grand National meeting in April) that were so pro-punter as to make you weep. Well, weep if you are already Ireland's largest and most fun loving pro-punter bookmaker that does so much for its customers without favourite after favourite romping home during the biggest Festival of the lot!

- Turnover €913.6m (+36%)
- Pre tax profits €20.4m (+14.5%)
- EPS 36.97c (+17.8%)
- Dividend 12.89c (+26.4%)
- Cash Balances 39.2m (+7.7%)

Operations

Even allowing for Cheltenham and the Grand National, 2003 was an excellent year for Paddy Power when results once again demonstrated that our customer-focused business model works. The ups and downs of results are an integral part of betting. While as bookmakers, we prefer more ups than downs, we live in the knowledge of what goes around comes around as we saw in the second half of 2003.

Customer focus continues to drive record turnover across all divisions with Retail, Telephone and Online divisions growing by 23%, 44%, and 80% respectively. Our commitment given in 2000, that the Online division would break even in 2003, has been exceeded with it generating €1.4m in operating profit whilst the expansion of the Irish and UK shop estate continued as promised. The Telephone (Dial-a-Bet) division also continues to play a key role in the Group and showed a marked improvement in performance in 2003 particularly in the second half as scale increased.

Strategy

This time last year we committed ourselves to the continued development of the Irish shop estate through new outlets, relocations and refurbishments. We also said we would have a 12 shop "test bed" in the UK and would have established a dedicated management team for the UK. Our objectives were to break even in our Online business and improve Dial-a-Bet as we developed critical mass in the UK. All of these commitments have been met or exceeded.

The future is of more interest to Paddy Power shareholders and it is full of promise. While we will continue to enhance the brand in Ireland, the UK market holds great opportunity for us. The brand continues to grow in the UK and a management team is now in place in London. Given the success of the initial 12 shops and the pipeline of properties in place, we remain confident of success. We support the inexorable move towards deregulation in the UK as demonstrated through the issue of the Draft Gambling Bill in November 2003 and, while its impact will not be immediate, we believe it will benefit Paddy Power in the medium term. Our focus on the UK was demonstrated in December 2003 when the Board met in London over 2 days. As well as reviewing the plans of our UK management team we visited a number of our shops and those of our competitors. Some of the Board even took advantage of the "facilities" in our competitors' shops to make the day a profitable one.

Ireland has been and, of course, will remain for some time the engine of Paddy Power. While we close 2003 with 137 outlets and over 23,000 active non-retail customers, there remain many opportunities for expansion. I have no doubts that 2004 and beyond will see further significant increases in business as we strengthen our leadership position with Irish customers. As has been proven time and again, Irish punters prefer to punt with Paddy Power. The growth in the industry is helped by the sensible attitude of the Government which has progressively brought in a low-tax betting regime and resisted the pressure to increase taxes in the recent budget. Given the availability of offshore betting, it rightly saw that any increase would drive higher staking punters offshore, thereby only hitting the lower spending shop customers, a patently inequitable solution.

The Board spent considerable time working with senior management reviewing their long-term strategic plans during the course of this year. This culminated in the presentation of a five-year business plan to the Board that is currently being refined and will be concluded by April 2004. This plan brings no significant changes to the overall strategy that has already been articulated to the markets. However, it has reinforced the need to strengthen the depth of the senior management team. This process has already commenced, as detailed in John O'Reilly's Operations Review.

We continue to see organic growth as the driver of expansion, although we will not rule out sensible acquisitions where opportunities arise. As the scale of operations and the management infrastructure grows, our ability to absorb any acquisition improves. It is a case of steady as she goes.

People

The business has become more complex and multi-faceted. The demands on the organisation have increased and with them the need to strengthen the management team.

One of our key assets has been people. We talk a lot about our brand qualities. The market loves them but their delivery is wholly dependent on the exceptional 1,032 staff who work in Paddy Power. Our success is wholly down to them. From Betty McGuinness, a shop manager who has been with us since 1978 (originally with Corcoran's which became part of Paddy Power), to Emma Clinton who joined us in 2002 as a cashier and has embraced the Paddy Power way, to Paul Ryan who has been with us since 1990 as the voice of Paddy Power in the shops, to Maria Dempsey who joined in 1988 at Head Office in the first days of Paddy Power and Aidan McCarthy who has been with us since 1992 and, as part of Dial-a-Bet, has seen us grow from 2 phone stations to well over one hundred.

These people - all 1,032 of them - are the single most important factor in our continuing success. They personify the Paddy Power difference and under John O'Reilly's leadership, they have built on the success of the past to make 2003 another excellent year for Paddy Power. They all deserve our thanks.

Board

The Board has also undergone significant change since the flotation in December 2000. As you will see below, more is to come.

We want to be able to attract the best. The appointment (announced on 22 July 2003) of Nigel Northridge, Chief Executive of Gallaher plc to our Board as a non-executive director was part of that process. His strategic capability, commercial acumen and knowledge of the development of brand-led organisations will provide us with an exceptional and influential resource.

It should be remembered that Paddy Power is a very young public company. In 2002 we saw the start of a reduction in the roles of the founder directors who had established the business and contributed greatly to its success. In Ireland, Stewart Kenny came to personify not just Paddy Power, but bookmaking. Last year's Annual Report acknowledged his decision to retire as CEO and during the year under review, while he remains a non-executive director, he stood down as Chairman. Stewart's contribution could not be properly acknowledged in a page, never mind in a paragraph, so I will resist the temptation to do so. Anyway, he is too easily embarrassed!

As part of the continuing evolution of the Board, I would like to take this opportunity to announce that Eddie McDaid and Ian Armitage will both be stepping down from the Board at the 2004 AGM on 22 June. Both have given great service to Paddy Power during their tenure. Eddie represented ICC Bank for many years and continued his involvement with Paddy Power after he left that organisation. Ian has brought wise counsel to the Board having joined it in 2000 on Hg Capital's investment. I thank them both on behalf of the Board and shareholders.

I also would like to take this opportunity to acknowledge in advance the contribution from John Corcoran, a founder, former Chairman and guiding influence. John will reach his 75th birthday during the coming year and, under our Articles of Association, will cease to be a director at that point. What more can I say about John other than that Paddy Power would not be where it is without him.

Dividend

The Board is recommending a final dividend of 8.59 cent per share payable to shareholders on the register at 5 March 2004, bringing the total for the year to 12.89 cent per share, an increase of 26.4% on 2002. This highlights the desire of the Board to increase its dividend payout over time, reflecting the cash generative nature of the business and existing cash resources.

I remain confident in the prospects for Paddy Power and look forward to updating you at the Annual General Meeting in June.

Fintan Drury
Chairman
24 February 2004

winning

it!

A happy punter cheers home a winning horse at The Galway Races… or maybe he's cheering for the bookies because a favourite was beaten!

What a familiar scene this was at major race meetings right across the UK and Ireland in 2003. Punters in general had a bonanza at both the Cheltenham Festival and at the Grand National. Paddy Power punters did even better, with our biggest ever selection of horse racing money back specials, not just across the big festival meetings, but every single racing day in 2003.

It's a fact of life, punters have three chances when they bet with Paddy Power; win, lose or money back.

OPERATIONS REVIEW

Paddy Power remains a small stake fixed-odds bookmaker. The Group operates a total of 149 shops, with 137 shops in Ireland and 12 in the UK, as at 31 December 2003. In addition, it offers betting via the internet, telephone and interactive television.

Overall it has been a very busy year across all divisions. Continued growth in the Irish and UK economies together with increased brand recognition, new products and distribution capacity has meant continued development across the business. As discussed in the Financial Review, this has led to record turnover, earnings, and cashflow across the business.

Customer service continues to be a key focus for each division, whether it is the average time taken to answer a call in the call centre, the time taken to respond to an e-mail query or making a price on an unusual market. We remain fanatical about customer service. The Group took over 41 million bets in the year and continues to seek to eliminate any errors or disputes providing a better service for our customers every time.

The Retail Division - Betting Offices

It has been an extremely busy year for retail operations with record levels of activity in both Ireland and the UK, as the Group continues to expand and refurbish its retail estate as well as introducing both new and enhanced technology into retail operations. As a result capital expenditure for the year was a record €18.2m (2002: €5.1m). At 31 December 2003, the Group had 137 outlets in Ireland (2002: 129). Eight (2002: five) new outlets were opened in Ireland during the year with ten (2002: two) relocations, three (2002: one) extensions and ten (2002: nil) refits representing a total of 31 outlets that were developed during the year in one way or another. This is by far the largest development programme of any bookmaker in Ireland. The Group also continues to operate four (2002: four) racecourse shops as well as the stadium shops at Landsdowne Road. There were five (2002: nil) surplus property leases at year end.

The roll-out of the test bed of shops in the UK has been very successful with 21 licences held at 31 December (2002: six). Of these 12 (2002: three) shops were open at year end. Trading in these shops has progressed well with Over the Counter (OTC) turnover, Fixed Odds Betting Terminal revenue (FOBT) and Amusements With Prizes (AWP) income all developing. FOBT income only commenced late in the year. The Paddy Power ethos of customer service is as popular with UK customers as with Irish ones. The appointment of a Head of Retail Operations in the UK, together with the localisation of other operational roles in 2004 previously undertaken from Dublin, will add to the quality of the UK operations. This includes areas such as site finding, shop fitting, security and training as well as point of sale marketing.

Since 31 December, one extension and four refits have been completed in Ireland and an additional two shops have opened in the UK. The pipeline of properties in both Ireland and the UK remains strong. We remain confident of rolling out between eight and ten new shops in Ireland and approximately 18 in the UK in 2004. The extensive programme of refits, relocations and extensions in Ireland will continue into 2004 and beyond.

A number of retail technology projects were commenced in 2003. These will continue well into 2004 and include the upgrading of the existing screens system and the installation of new control systems in Head Office that allows improved management of all data and TV pictures in the shops. A full-time team is now engaged on the evaluation of the latest generation EPOS (Electronic Point of Sale) systems with shop trials scheduled for mid 2004. A final decision on the installation of a full estate roll out will not be made until the second half of 2004.

Non-retail

Non-retail comprises the Online division (Internet betting, Interactive TV betting, Online Casino) and the Telephone division. These operations were combined under a single management group in 2003. A key part of this single management team is the dedicated customer service group which now services clients of all non-retail channels.

Active Customers*	Online		Telephone	
	2003	2002	**2003**	2002
Ireland and rest of world	**14,026**	10,501	**9,601**	8,600
UK	**22,174**	19,159	**8,361**	5,974

(Registered customers are no longer disclosed as this is not considered to be a relevant statistic.
** Active customers are those that have bet in the last three months.)*

The Online Division

The Online betting division has continued to see significant growth in 2003 with active customers increasing by 22% to 36,200. This has been driven from further expansion into the UK market as well as continued growth in the Irish market. Active customers now bet on average 21 times a month (2002: 13).

The product offering has continued to develop over 2003 with a wide number of enhancements being made to both site functionality and the range of betting opportunities. Given the nature of online customers and the easy access to multiple betting opportunities, constant development of the product offering is essential in this area. Enhancements, which include items such as increased betting-in-running, increased coverage of American racing and technical improvements to increase performance, generate both customer loyalty and increased revenue opportunities. In addition to these enhancements, the site was re-skinned in the second half of 2003 to improve its visual impact. We remain confident that the paddypower.com offering can compete at the highest level in the online space.

Interactive TV continues to be a part of the product offering of this division and Paddy Power continues to trade on NTL and Telewest. We consider the scope for material growth in this area to be limited in the short term.

In the early part of 2004 the division soft-launched its Online Casino on paddypowercasino.com. Performance to date has been good and we are confident that it will be a profit contributor in 2004.

The Telephone Division

The telephone betting operations have continued to see significant expansion in 2003 in both the Irish and UK markets. Ongoing investment in both tactical and brand spending in both markets continues to drive business growth. The total active customers for this are set out above. As noted, 2003 saw excellent growth in active customers.

We continue to develop the product offering within this channel and 2003 saw further expansion of opening hours until 1am for American racing and sport. During the Rugby World Cup, the call centre was open for every match, with 4.30am starts for early matches. As with the Online division, betting-in-running has expanded greatly in 2003 and we now take betting-in-running on all Premiership matches. Operationally, increased capacity has been put in place by using our back-up centre for handling the peaks on very busy days, thereby improving asset utilisation, whilst developments in both call volume forecasting and our phone system have improved service reliability. Segmentation of the customer base is ongoing and allows us to quickly identify and focus on our high value customers.

Marketing

As the fun, friendly and fair bookmaker, Paddy Power continues to invest in an extensive variety of marketing opportunities in both the Irish and UK markets. These comprise both brand-related activities designed to drive overall awareness of the Paddy Power brand and tactical activities designed to promote either individual betting opportunities and/or certain betting channels. As always, a strong element of our marketing activity will be opportunistic, innovative and fun. Brand awareness has continued to improve with almost 90% national brand recognition in Ireland and an excellent 10% in the UK, up from under 4% in 2002.

Our marketing activities cover a wide variety of events and use a combination of both in-house and external resources. This generally involves extensive use of public relations activities as part of any individual event.

In the early part of 2003, an outdoor brand campaign was undertaken in London. Significant brand building was also undertaken through our successful snooker, darts and greyhound sponsorships. In horse racing, sponsorship of the Paddy Power Chase continues to be our biggest Irish sponsorship event, while we commenced horse racing sponsorship in the UK in 2003 with a five year deal to sponsor the Paddy Power Gold Cup at the Open Festival in Cheltenham. Significant value was also extracted from our innovative sponsorship of hurleys during the All Ireland Hurling Championships. This multi-faceted approach will continue into 2004.

Management and Staff

Paddy Power cannot meet its growth potential without first rate people. 2003 has been a year of significant development in people as the organisation has expanded to keep pace with the growing complexity and scale of operations. Turnover for 2003 has risen almost threefold from 1999 and, with continued investment, is set to expand further. It is essential that the Group invest in new talent as well as developing the talent that already exists.

To this end, a number of senior appointments have been made in 2003. These include the appointment of Ian Price as a London-based Head of Retail Operations for the UK. Ian joins us from Victor Chandler International where he was Managing Director. Prior to this, he held several senior positions with William Hill. A new development team reporting to the Head of Retail Operations was also set up in London over 2003 under the leadership of Dave Hatt who joined us from Corals. The UK operations team will grow over 2004 as the scale of operations increases and certain responsibilities are transferred from Head Office in Dublin.

In Ireland, Dermot Golden was appointed as Head of Risk in late 2003 and has taken over full responsibility for all aspects of trading and risk. Dermot joins us from the investment industry where he has held a number of senior trading positions. There have also been a number of other appointments made within both operations and support services in 2003.

No less important than the investment in new staff is the ability to grow our existing pool of talent so that they can take advantage of the expanding Group. This is equally important whether it allows promotion opportunities for our shop staff due to the opening of new outlets, the creation of additional team leaders and supervisors in

OPERATIONS REVIEW (CONTINUED)

a call centre, or any one of the central service roles. To this end we continue to promote staff internally where possible. In order to further develop this talent we will be making additional investment in our human resources capabilities in 2004, with particular focus on training and development throughout the organisation.

In tandem with the appointment of new staff we have streamlined internal reporting structures to ensure that we have the correct balance of responsibilities and clear reporting lines.

Looking Forward

As the Group enters 2004, operating plans are clearly established across all divisions and will see a continuation of the successful strategies adopted in 2003. We will continue to focus on our customers, rolling out our Irish and UK retail estate, building volume through the non-retail infrastructure now in place, improving brand recognition and continuing to invest in people.

John O'Reilly
Chief Executive
24 February 2004

FINANCIAL REVIEW

The Group has no discontinued operations and all activities are considered core.

Turnover

Turnover for the year ended 31 December 2003 was €913.6m (2002: €673.8m) an increase of 35.6% and reflects excellent growth in all channels.

Growth rates in the shops remained very strong during 2003 with turnover increasing by 23% to €551.1m from €448.1m. Like-for-like growth was 16%. In Ireland, like-for-like growth was augmented by the turnover growth from the eight new outlets opened in 2003, the relocation and refit programme together with the carry-forward impact of the five new outlets opened in 2002. Although there were some differences in the sporting calendar over the two years, most noticeably the Football World Cup and the Ryder Cup, which took place in 2002 and the Rugby World Cup which took place in 2003, these do not have any significant impact on the overall trend in turnover levels.

Turnover levels in the UK shops have been developing very well as the estate grows and brand recognition improves. Given the small size of the estate and the installation dates for Fixed Odds Betting Terminals (FOBT), the income from FOBTs was immaterial to the retail estate in 2003. As the estate develops in 2004, it is expected that this revenue stream will grow significantly.

The Online division continued to see excellent growth in turnover as its expansion in both the Irish and the UK markets continued. This has been driven by both a significant increase in brand recognition, referred to in the Operations Review, together with continued developments in the product offering including the usability of the site, quality of customer service and the betting opportunities offered. Turnover grew by 80% to €185.1m from €102.8m. The UK now accounts for 61% of active customers.

The Telephone division grew 44% across both the Irish and UK markets as it reached €177.4m for the year (2002: €122.9m). We continue to see strong growth in both markets and the UK market now accounts for 37% of turnover (2002: 31%).

Average slip/bet values by Channel

	2003	2002	Change
	€	€	%
Retail	**16.98**	15.29	11.1%
Telephone	**67.64**	68.31	(1.0%)
Online	**27.18**	26.63	2.1%

(Note: Shop slips can contain more than one bet per slip, while other channels are a single bet per slip. Telephone bet statistics for 2002 have been recalculated on the same basis as Online to reflect the common system in operation in 2003.)

Average bet sizes continue to develop well with continued growth in the retail estate. The move into the mass market on the telephone and internet has lowered the average stake in these channels as planned. The overall pattern between the channels remains consistent with the prior year.

Bet volumes

	2003	2002	Change
	'000	'000	%
Retail	**32,464**	29,313	10.8%
Telephone	**2,623**	1,799	45.8%
Online	**6,808**	3,861	76.3%

(Note: Shop volumes refer to the number of slips processed while other channels refer to the number of bets processed. Telephone bet statistics for 2002 have been recalculated on the same basis as Online to reflect the common system in 2003.)

Gross Win and Gross Profit

Given the growth of the UK business and, in order to provide a consistent basis of accounting between different geographic markets and different products, the Group now separately identifies Gross Win and Gross Profit. Gross Win is measured as the amounts staked (excluding betting tax and levies) less the amount returned to customers as winnings. Customer drop from AWPs and FOBTs is included in Gross Win at 100% margin. The income from AWPs and FOBTs is immaterial in 2003 and 2002 but will grow as the retail estate in the UK grows.

Gross profit is measured as Gross Win less discount on bets and Gross Win taxes.

Gross Win percentages by channel are set out in the table below.

Gross Win %	**2003**	**2003**	**2003**	2002
	12 months to 31 Dec	**6 months to 31 Dec**	**6 months to 30 June**	12 months to 31 Dec
	%	**%**	**%**	%
Retail	**12.32**	**13.04**	**11.58**	13.54
Telephone	**7.43**	**8.58**	**6.26**	7.93
Online	**7.31**	**8.64**	**6.00**	8.18

The Gross Win percentages fluctuated over the course of the year driven by the pattern of results and business mix. For the year as a whole, Gross Win percentages were greatly influenced by the exceptionally poor results at the Cheltenham Festival and the Grand National in March and April of 2003, resulting in a profit warning as referred to

face

it!

Diarmuid O'Sullivan of Cork shows the ball to Kilkenny's Conor Phelan during the All Ireland Final.

Kilkenny were red hot favourites and flew from the traps to lead by six points at half time. The game looked all over until Cork had a good talking to during the break and came back in the second half to lead by a point at one stage. Kilkenny then took control of the game again and went on to deservedly win by 3 points in the end. A special day for Kilkenny winning back to back All Ireland titles, particularly for their captain and legend, DJ Carey, who captained his first All Ireland winning team to add to his list of achievements of just about anything that's possible in hurling.

FINANCIAL REVIEW (CONTINUED)

in the Chairman's Statement. Outside of these events, results fell within their normal ranges with a strong Gross Win percentage in the second half of 2003. Absolute Gross Win for the year increased by 20% to €94.6m reflecting the strong turnover growth offset by the lower Gross Win percentage.

Gross Win	**2003**	2002	Change
	€'000	€'000	%
Retail	**67,907**	60,698	11.9%
Telephone	**13,179**	9,743	35.3%
Online	**13,524**	8,407	60.9%
Total	**94,610**	78,848	20.0%

The Gross Win percentage in the UK shops is developing well as our customer base grows and has had only a slightly dilutive impact on overall shop Gross Win percentage. The Gross Win percentage in the UK, when combined with the turnover levels, will allow the profitable growth of the UK business and we remain confident that it will match the Irish shops over time.

Gross Profit reflects the application of UK betting taxes to the Gross Win and discounting of bets in Ireland. For business conducted under a UK betting licence, 15% of the bookmaker's Gross Win is paid in betting tax.

Gross Profit in the year grew by 19% to €88.2m. This reflects the increased turnover and change in turnover mix by channel. This was offset by a lower Gross Win percentage together with an increased level of discounted bets in Ireland. There was no change in the Gross Win tax rate in the UK.

Operating Profit

Operating Profit grew by 14.9% to a record €19.6m reflecting the strong Gross Profit increase by channel, offset by a 20.0% growth in operating costs.

Operating Profit by channel	**2003**	2002	Change
	€'000	€'000	€'000
Retail	**17,402**	19,167	(1,765)
Telephone	**861**	312	549
Online	**1,369**	(2,396)	3,765
Total	**19,632**	17,083	2,549

Operating profit movement by channel varied significantly reflecting the different stages of development of each channel, the impact of gross margin movements and the relationships between costs and revenue growth.

Operating profit in the shops decreased by €1.8m. While Gross Profit increased by €6.9m the Gross Profit percentage decreased to 11.92% from 13.12%. Due to the increase in the relatively fixed cost base of the division by €8.7m to €48.3m (resulting from the expansion of the Irish shop estate, start up costs for the UK business and inflation) this division saw a net decrease of €1.8m in operating profit.

The Telephone channel saw significant improvement in earnings to €0.9m, an increase of 176%, as growth in the Irish telephone business continued and the UK business started to develop critical mass in the second half of the year. The combined impact of this growth was to improve asset utilisation.

Gross Profit	**2003**			2002		
	Retail	**Telephone**	**Online**	Retail	Telephone	Online
	€'000	**€'000**	**€'000**	€'000	€'000	€'000
Gross Win	**67,907**	**13,179**	**13,524**	60,698	9,743	8,407
Disc./Betting Taxes	**2,231**	**2,083**	**2,101**	1,917	1,411	1,313
Gross Profit	**65,676**	**11,096**	**11,423**	58,781	8,332	7,094
Gross Profit %	**11.92%**	**6.25%**	**6.17%**	13.12%	6.78%	6.90%

The Online business saw a significant move into profitability in 2003 achieving €1.4m operating profit for 2003 as gross margin and turnover targets were achieved ahead of schedule. The relatively fixed nature of this cost base allows excellent leverage of operating profit with incremental volumes and improved gross margin.

Tax Rate

The corporation tax charge for the year was €2.9m (2002: €3.0m) representing an effective tax rate of 14% (2002: 17%). This compares with the statutory rate in Ireland of 12.5% and the UK statutory rate of 30%. No corporation tax is payable in the UK in 2004 due to tax losses.

The Group's effective tax rate remains above the statutory rate due to the disallowance of certain expenses and is likely to do so going forward.

Cash Flow, Cash Balances and Foreign Exchange Risk

Cash balances at 31 December 2003 were €39.2m (2002: €36.4m) an increase of €2.8m. This includes cash held in customer accounts of €4.8m (2002: €3.4m).

Cash from operating activities totalled €32.1m, an increase of €1.7m from 2002. Cash from operating activities included net cash inflow from customer accounts of €1.4m. Interest income was €0.9m, an increase of €0.2m, reflecting the higher average cash balances offset by lower average interest rates. Capital expenditure increased by 164% to €21.4m from €8.1m in 2002. This reflects the very significant increase in property activity in both Ireland and the UK together with the expansion of the Head Office and the Online and Call Centre facility in Dublin.

Cash balances are invested in accordance with defined treasury policies approved by the Board. These policies limit the risk rating of institutions that can be used, the concentration of risk with any one institution and within any category of institutions and the term of deposits. Cash balances are substantially invested in short-term bank deposits with maturities of 90 days or less.

The Group has no borrowings other than finance leases. Interest rate exposure is thereby limited to interest income on deposits and the impact of the economy in general.

The Group remains highly cash-generative and this, together with existing cash balances, will be used to fund expansion of the retail estate together with continued investment in the non-retail division. On determination of the scale of expansion in the UK, which is partly dependent on the timing of deregulation, a decision will be made on surplus cash. Should the Group not require its cash reserves, the Board will determine the best method of returning it to shareholders. In order to allow the Board the flexibility to choose the optimum process, a resolution is proposed for the Annual General Meeting to allow the Company to buy back its own shares.

Foreign exchange risk in the business is small. As the Group expands in the UK it will require sterling to fund its capital expenditure. Much of this can be naturally hedged from the gross margin generated in sterling from the Online and Telephone divisions that have primarily a euro cost base and so generate surplus sterling. Group policy allows the Group to hedge the foreign exchange exposure for up to six months. At the year end, no foreign exchange contracts were open.

The Group's functional currency is the euro and translation risk exists with its sterling subsidiaries.

Employees

The average number of employees of the Group during 2003 was 913 (2002: 856). At the year-end, the total number of employees was 1,032 (2002: 904).

Share Price

The Group's share price traded in the range of €4.87 to €7.26 (stg£3.31 to stg£5.085) in 2003 with a year high reached on 12 December 2003. The share price on 31 December 2003 was €7.15/stg£4.98 (2002: €5.08/stg£3.23) giving a market capitalisation of €342m/stg£238m (2002: €240m/stg£151m). The year end free float (shares not held by the Directors or related parties) was 78.74% (2002: 68%).

Risk Management

The Group manages its betting risk through a central risk management team whose role is to compile the initial odds, and subsequently, manage the odds and risk exposures through the life of the event. The Group does not offer credit betting.

A betting risk management sub-committee of the Board was established in 2003 under the chairmanship of David Power, a non-executive director, and sets overall policy for betting risk.

Dividend

The 2003 Interim and proposed Final Dividend total €6.2m (2002: €4.8m) an increase of 28% on 2002. This represents dividend cover of 2.85 times (2002: 3.07). This increase represents the Board's intention to have a progressive dividend policy and not to let short-term negative volatility impact the dividend rate.

FINANCIAL REVIEW (CONTINUED)

International Financial Reporting Standards (IFRS)

The Group is preparing for the implementation of IFRS in 2005. A review has been completed on the differences between current standards and the IFRS. To date, the outcome of this review is that the impact will be limited to a small number of areas. A final determination of the impact cannot be made until the International Accounting Standards Board issues the complete list of applicable standards. Of particular relevance will be the treatment of the Group's property leases.

It is intended that the Group will complete the review by mid-year and that quantification of the adjustments needed to the 31 December 2003 balance sheet will be made by the end of 2004.

Outlook

Trading for the year to date has been in line with expectations.

The Irish betting office market remains our core business and we are confident it will continue to grow through a programme of new shop openings, relocations and extensions together with underlying organic growth. The UK LBO estate will grow in 2004 and beyond to become a significant part of the Group.

Further growth in our Telephone business is expected in both Ireland and the UK. The Online business continues to develop its sports book offering and further expansion is expected in 2004. It also successfully soft launched its Online Casino in January 2004.

The outlook remains positive across the business.

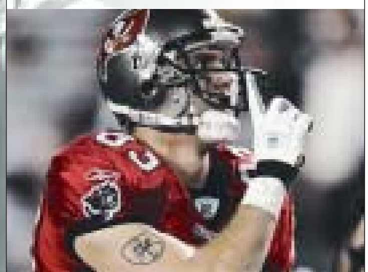
Ross Ivers
Finance Director
24 February 2004

Betting Review 2003

2003 was a bumper year for punters and sports fans everywhere. Every single week seemed to produce another build up to another event and fans were rarely disappointed. We had famous victories for the likes of Best Mate, Monty's Pass, England, Tyrone, Kilkenny, Mike Weir, Milan, the list just kept on going.

We've broken down 2003 into monthly highlights (and lowlights, it depends if you're a punter or a bookie!). This is our brief betting review of 2003, enjoy!

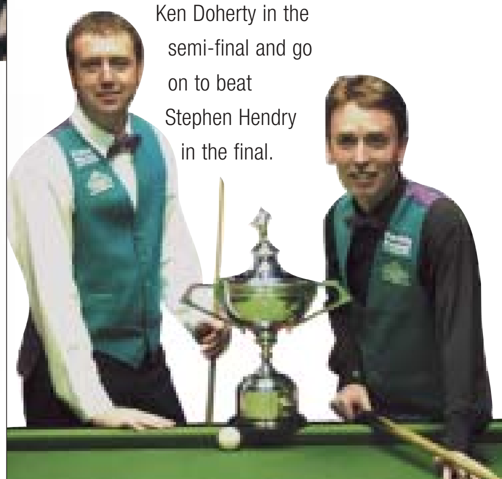
2003 started relatively quietly in **January**, with everyone attempting to stick to their resolutions of giving up smoking, drinking, backing losers etc. Andre Agassi won the Australian Open, the Tampa Bay Buccaneers were too strong for the Oakland Raiders in Superbowl XXXVII



(that's 37 for those who skipped Latin class!). On the horseracing front, the Tony Martin trained Xenophon landed a tidy gamble in the ultra competitive Pierse Hurdle at Leopardstown. The punters started the way they meant to continue….

February was where the year really kicked off from a sports point of view. The Hennessy Gold Cup at Leopardstown proved that Beef or Salmon's victory in the Ericsson Chase over Christmas was no flash in the pan. He easily beat his rivals in almost identical fashion to the Ericsson and put himself firmly in the picture for a tilt at the Cheltenham Gold Cup. The only difference between the two victories was his odds, he was 5/1 to win the Ericsson and hot even money favourite to win the Hennessy.

February was particularly memorable for Paddy Power with the middle leg of one of the greatest ever snooker sponsorship deals with the Benson & Hedges Masters. Out of our stable of players, using all the luck of the Irish we could get our hands on, we managed to have the winner of the UK Championships, the B&H Masters and the World Championships. The B&H saw Paddy Power branded Mark Williams beat Paddy Power branded Ken Doherty in the semi-final and go on to beat Stephen Hendry in the final.

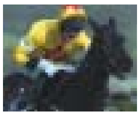


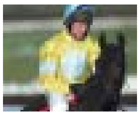
March was quiet enough, nothing really happened. Liverpool beat Man Utd in the Worthington Cup Final, Australia restamped their dominance on the world of cricket by winning the World Cup, England just about beat Ireland 42 points to 6 in the Six Nations/Grand Slam decider in Lansdowne Road. Oh, nearly forgot Cheltenham, if only we could!

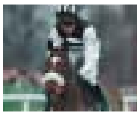
Put it like this, the first race of the festival was won by Irish trained favourite Back in Front, and three days later the last race was won by the well backed and Irish trained Spirit Leader. In the middle we had another nine victorious favourites, and another four Irish trained winners. So it was a bonanza for Paddy Power customers, not only were they cleaning up, but they were also getting money back on lots of their losers! It was one of those weeks that Paddy Power punters will tell their grandchildren about.

Cheltenham winning Favourites:

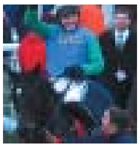
3/1 Back In Front 

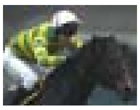
5/4 Azertyioup 

6/1 Inching Closer 

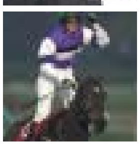
7/4 Moscow Flyer 

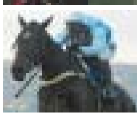
4/1 Xenophon 

2/1 Liberman 

9/4 Baracouda 

13/8 Best Mate 

11/4 Kingscliff 

5/4 La Landiere 

We were looking for respite in **April**, and it certainly didn't come in the shape of the Grand National. What a public gamble it was! Monty's Pass won the race carrying jockey Barry Geraghty, owner Mike Futter, trainer Jimmy Mangan and every man,

woman and child this side of the Irish sea. They must have used magnetic ink when printing his name in the papers that morning, because even every pin-picker managed to back Monty's. The only consolation for Paddy Power staff was that it didn't take long to count the money at the end of the day!

Enough of the good news! Normal service resumed soon enough, the very next week in fact, with the US Masters. Canadian and outsider Mike Weir won his first green jacket, helping to recoup some of the Monty's money. Man Utd lost out to Real Madrid over a two leg, 11 goal Champions League epic. Once again Paddy Power took pride of place at the Embassy World Snooker Championships with PP branded Mark Williams defeating PP branded Ken Doherty in what is branded one of the great finals, or should it be one of the great branded finals!

As if April wasn't good enough for Paddy Power punters, we also very wisely decided to pay out on Arsenal winning the premiership when they seemed well clear at the top of the

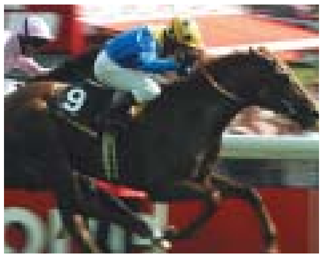
table. They were about as solid as a house of cards, and went on to bottle the league, leaving us with egg all over our face and a hefty double payout – was it worth the publicity? Definitely!

May will go down as the month of close calls and near misses. The FA cup final saw a closely fought 1-0 victory for Arsenal over Southampton. Celtic very nearly went all the way in Europe, losing out after extra time against Porto in the UEFA cup final. It wasn't all bad news for the masses

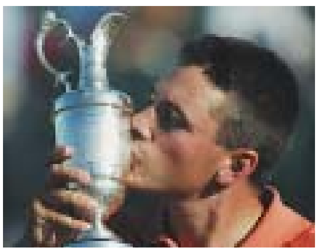
of Celtic fans though, Paddy Power refunded all losers on the final as there was a red card in the game. The Champions League final was even closer, with Milan beating Juventus on penalties. It was a 0-0 draw after 90 minutes which is not as dreary as it sounds as once again Paddy Power refunded all losers on the match.

On the racing front, May was memorable for Irish trainer Dermot Weld. His 9/2 shot, Refuse to Bend, just prevailed in a thrilling 2,000 Guineas at Newmarket, holding the late challenges of outsiders Zafeen and Norse Dancer.

The summer had well and truly begun when in **June** the very well backed Jim Furyk picked up his first major in the US Open on Fathers Day. In tennis, hot favourite Juan Carlos Ferrero won the men's French Open on clay, and the ladies was won by Justine Henin after a controversial semi final against Serena Williams. Kieren Fallon won the Derby on the heavily gambled Kris Kin, and the punters just beat the bookies in the battle of Royal Ascot. The very last day of June will long be remembered by The Aga Khan, his brilliant Dalakhani could only finish second to his even better Alamshar in the Irish Derby.



In **July** the heat was on and the hot favourites obliged at Wimbledon. Roger Federer won the men's and Serena Williams beat her sister in the women's final. The British Open was a different story altogether. Brave Ben Curtis, 750/1 before the tournament started, showed nerves of steel to hold off Thomas Bjorn's challenge to become the third maiden major winner of the year – a bad result for backers, but a great result for the poor old bookies!



Alamshar put up the best performance of his life to pulverise the King George field at Ascot. Galway and Goodwood went as planned, and as usual there was more Guinness spilled at Galway than was drank at Goodwood!

Soccer fans were delighted to see the start of a new premiership season in **August**, and everyone was kept amused by Chelski's spending spree, who says money can't buy success! The final major of the year, the USPGA, went to another first timer, Shaun Micheel. He was friendless in the pre-tournament betting and was available at 300/1 ante-post.


Sport Herald
'I'LL USE THIS HURLEY AGAIN ON SATURDAY'
Paddy Power
VERON HITS OUT AT TWO-FACED FERGIE ▶INSIDE

Possibly the highlight of the year for GAA fans was that epic duel of the Paddy Power sponsored hurleys in the All Ireland Hurling semi final between Cork and Wexford. The game will go down as one of the best ever with Wexford's Rory McCarthy scoring a match levelling goal in the dying seconds.

For Paddy Power the match will be remembered for the unveiling of the unique sponsorship of hurleys, which generated unprecedented publicity – even by Paddy Power standards!

On the high seas the "Dunmore Diva", Elaine Power, defied the odds to scoop top prize in RTÉ's reality show, Cabin Fever.


IRISH DAILY Mirror
The latest DIET secrets
€100k Fever Queen

In **September**, Monty's Pass went for seconds in Listowel, but came up short in the Kerry National. The GAA Championships climaxed with a hard fought victory for ante-post

favourites Kilkenny in the hurling final, and a football final victory for Tyrone in a match that many purists will try to forget. In tennis, the final Grand Slam event of the year, the US Open, went to the two favourites. Andy Roddick won the mens, and Justine Henin took advantage of the absence of the injured Williams sisters. The richest Greyhound Race in the world didn't disappoint either. The brilliant odds on favourite Climate Control led all the way to win the Paddy Power Greyhound Derby by 2 lengths from Mustang Mega, picking up a winners check for €150,000 in the process.

The memories of **October** hurt Irish soccer fans with Ireland's dismal performance in the must win 2-0 defeat to Switzerland, which destroyed any chance of Euro 2004 qualification. The Rugby World Cup began with New Zealand and England vying for favouritism. Phil "The Power" Taylor showed why he is the most dominant sportsman in the world when winning the Paddy Power Darts Grand Prix in Citywest for the second year on the trot.

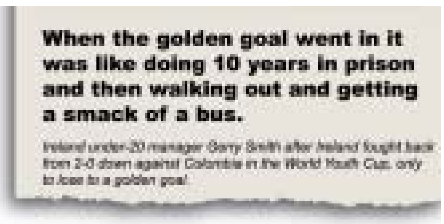
In racing the highlight of the month had to be the Aidan O'Brien trained High Chaparral's dead heat with Johar in the Breeders' Cup Turf in Santa Anita. Falbrav finished a close third in the race, which put to bed suggestions of a hometown stewards decision in The Irish Champion Stakes at Leopardstown when Falbrav looked unlucky to be beaten when crossed by High Chaparral on the run in. The Michael Stoute trained Islington also won a cracker of a race on the night holding on by a neck from Aidan O'Brien's L'Ancresse in the Fillies and Mares Turf.

November saw the end of what seemed like the longest tournament in the history of tournaments, the Rugby World Cup. Ireland were hammered by France after coming so close to beating hosts Australia. Overall England came out tops in an epic final against the Aussies. A great victory for the Northern Hemisphere!

The racing highlight of November was undoubtedly the Paddy Power Gold Cup at Cheltenham. Nicky Henderson's well backed Fondmort stormed up the hill to victory from the ill-fated Poliantas.

England may have won the World Cup, but Ireland won Miss World in **December**! Chris de Burgh's daughter, Rosanna Davison, picked up the most coveted beauty pageant of them all, and landed a monster touch in the process, from 9/1 into 7/4 favourite. Every dog on the street had a few quid on, it was a great result for the occasional punter.

It wasn't all good news for the Irish though, the under 20 soccer team fought back from a 2-0 deficit in the World Youth Cup only to lose out to a Columbian Golden Goal. Irish Manager Gerry Smith was a little bit disappointed with the result as can be seen from his quote:


When the golden goal went in it was like doing 10 years in prison and then walking out and getting a smack of a bus.

Ireland under-20 manager Gerry Smith after Ireland fought back from 2-0 down against Colombia in the World Youth Cup, only to lose to a golden goal.

The year ended very much on a high for fans of the sport of Kings. The untouchable Best Mate ran away with the Ericsson Chase at Leopardstown, making him one of the shortest priced favourites for the Cheltenham Gold Cup since Arkle. The other highlight of the meeting was the Jonjo O'Neill trained and JP McManus owned World Wide Web landing yet another gamble in the Paddy Power Chase.

Just another year? You must be joking!

believe it!

Andy Roddick tries to come to terms with becoming the youngest man ever to win the US Open.

Andy Roddick went into the US Open final playing against the world No. 1 Juan Carlos Ferrero. He served up 22 aces, and came out of the final only the second player, after Stefan Edberg, to win both the Junior and Senior titles at the US Open. Three of his match aces came in the final game, and Ferrero was well and truly sent packing in straight sets. He looks shocked to have won in the photo, but he was long odds on favourite for the match, so what's the surprise?


RBK

BOARD OF DIRECTORS

Executive Directors

John O'Reilly (aged 53) is the Chief Executive. He joined the Group in 1988 as Financial Controller and Company Secretary, positions he held until March 2000, when he was appointed a director. Over this period of time, he built up considerable industry and company-specific knowledge and was responsible for expanding the Group's Online business. He is a Fellow of the Institute of Chartered Accountants in Ireland.

Ross Ivers (aged 41) is the Deputy Chief Executive and Finance Director. He joined the Group in July 2001. He has considerable international business and listed company experience gained from his previous roles with PricewaterhouseCoopers, Jardine Matheson plc and Astec (BSR) plc in Dublin, Hong Kong and internationally. He is a Fellow of the Institute of Chartered Accountants in Ireland.

Non-Executive Directors

Fintan Drury (aged 45) is Chairman of Paddy Power plc, of sports management company DSMI, and is a director of a number of other private companies. He is also a non-executive director of Anglo Irish Bank plc. A former news journalist with RTÉ, Mr Drury founded Drury Communications, a leading corporate communications consultancy, in 1988. He retired from this business in 1999 when he sold his controlling interest in the company. He was appointed Chairman of Paddy Power plc in May 2003.

Ian Armitage (aged 48) was appointed non-executive director in June 2000. He is Managing Director of Hg Capital and oversaw its investment in Paddy Power in May 2000. He has extensive experience in venture capital and private equity in the UK and Ireland.

John Corcoran (aged 74) is a non-executive director. He was one of the co-founders of Paddy Power and previously controlled the P Corcoran Bookmaker chain, which merged to form Paddy Power in 1988. He is the founder and former Chief Executive of Green Property plc, a property investment Company whose shares were listed on the Irish and London Stock Exchanges.

Stewart Kenny (aged 52) was a co-founder of Paddy Power in 1988. He has considerable experience in the betting industry, training with Ladbrokes in London for two years before establishing a chain of betting shops, Kenny O'Reilly Bookmakers. He sold that business to Coral in 1986 and subsequently re-entered the business, opening ten betting shops between 1986 and 1988. Formerly he was Chief Executive and also Chairman until May 2003.

Edward McDaid (aged 54) was appointed non-executive director in 1993. He is a former executive director of ICC Venture Capital Limited where he managed the equity investment of ICC Venture Capital in Paddy Power. He is Managing Director of McDaid & Sons Limited (a soft drinks bottler).

Nigel Northridge (aged 48) was appointed non-executive director in July 2003. He is the Chief Executive of Gallaher Group Plc. He held various sales and marketing roles with Gallaher after joining the company in 1976, before assuming responsibility for continental Europe in 1988. In 1990, he was appointed Managing Director of Gallaher (Dublin) in his native Ireland and was subsequently appointed UK Sales and Marketing Director in 1994 and Group Sales and Marketing Director in 1996. He was appointed Chief Executive of Gallaher in January 2000 and is a non-executive director of Aggreko plc.

David Power (aged 58) co-founded Paddy Power in 1988 and has been a non-executive director since that date. He merged a significant proportion of the betting shops controlled by him and trading as Richard Power Bookmakers with Paddy Power in 1988. He is an on-course bookmaker.

Stephen Thomas (aged 51) was appointed non-executive director in August 2002. He has extensive experience of the UK leisure sector and is Chief Executive of Luminar plc. He co-founded Luminar in 1997, which today is the largest independent operator of late night entertainment venues in the UK comprising over 280 UK-based businesses including national brands such as; Chicago Rock Café, Jumpin Jaks, Liquid, The Orange House, and The Jam House. Prior to this he held senior positions with a number of UK-based leisure companies including Whitbread & Co plc, Grosvenor Leisure Limited and Rank Leisure Services.

DIRECTORS' REPORT

The Directors submit their report together with the financial statements for the year ended 31 December 2003.

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 its service in Ireland (c. 76.8% of turnover) and the United Kingdom.

Results

Group profit after taxation at €17.5 million for 2003 increased by 18.6% over 2002. Basic earnings per share amounted to €0.3697 compared with €0.3138 in the previous year, an increase of 18%. 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 €11.4 million (2002: €10.0 million). Shareholders' funds at 31 December 2003 amounted to €52.3 million (2002: €40.1 million)

Dividends

An interim dividend amounting to 4.3 cent per share was paid during 2003. The directors recommend that a final dividend of 8.59 cent per share, amounting to €4.1 million, be paid on 25 June 2004 to shareholders registered at close of business on 5 March 2004. This would make a total distribution of profit to shareholders of €6.2 million in respect of the year ended 31 December 2003 (2002: €4.8 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 18.

Market Research

The Group carries out ongoing market research into the betting market in Ireland and abroad.

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:

Name	Holding at 31 January 2004	%
Merrill Lynch	4,317,430	9.03%
Fidelity Investments Ltd	5,690,637	11.90%

Board of Directors

Messrs John Corcoran, David Power, Stewart Kenny and John O'Reilly retire by rotation and offer themselves for re-election. Messrs Ian Armitage and Edward McDaid retire by rotation and do not offer themselves for re-election. Mr Nigel Northridge was appointed to the Board on 22 July 2003 and is proposed for election at the Annual General Meeting to be held on 22 June 2004.

Directors' Remuneration

Details of directors' remuneration are given in Note 6 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 2003 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 December 2003	31 December 2002 *(or date of appointment if later)*
Ian Armitage[1]	38,189	32,502
John Corcoran	2,590,176	5,090,176
Fintan Drury	19,400	11,500
Ross Ivers[2]	3,007	1,007
Stewart Kenny	259,832	1,859,832
Edward McDaid	34,613	34,613
Nigel Northridge	-	-
John O'Reilly	613,889	613,889
David Power	4,898,788	4,898,788
Stephen Thomas	5,000	-
Charles Kelly (Secretary)	114,000	20,000

1 *In addition, Hg Capital manages investment funds which hold 1,534,353 shares in Paddy Power plc. Ian Armitage is Managing Director of Hg Capital.*

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

There have been no changes in the above shareholdings between 31 December 2003 and the date the directors approved these financial statements.

DIRECTORS' REPORT (CONTINUED)

The directors and the secretary have the following options at 31 December 2003:

	Number of Options at start of year	Exercised during the year	Number of Options at end of year	Exercise price	Exercise period
Stewart Kenny	720,000	-	720,000	1.16	1 May 2003-1 May 2006
Ross Ivers	322,466	-	322,466	3.59	1 Aug 2004 -1 Aug 2007
John O'Reilly	900,000	-	900,000	1.16	1 May 2003-1 May 2006
Charles Kelly (Secretary)	120,000	(120,000)	-	1.16	1 May 2003-1 May 2006

No directors were granted options during the year. The share price during the year ended 31 December 2003 ranged from €4.87 to €7.26 and was €7.15 at year end.

Transactions with directors and parties related to them have been disclosed in Note 24 to the financial statements. The directors and secretary have no interests in shares in any other Group companies.

Employees

Motivated employees are the key to Paddy Power's success. Paddy Power is an equal opportunities employer and strongly promotes a work environment free from discrimination. The success of Paddy Power is due to its ability to respond quickly to the ever changing and expanding environment in which it operates. All vacancies are advertised internally. Paddy Power is committed to maintaining the balance between external recruitment and development opportunities for staff. We have developed a flexible working arrangement that facilitates both full-time and part-time staffing in most of the organisation. The Group has an employee communications group comprising representatives from staff and management levels which meets bi-monthly. This discussion group addresses employee issues, fosters cooperation between staff and management, facilitates feedback on new developments, and ensures that new developments are communicated and agreed with staff. Regular newsletters are issued to staff.

Employment of disabled persons is fully considered, bearing in mind the abilities of the applicant for the role in question. Should an existing employee become disabled every effort is made to provide a suitable role for them.

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. Safety statements have been circulated to all of the Group's premises.

Charities

Paddy Power does not have an affiliation to individual charities but makes charitable donations principally to industry related charities and charities serving the communities. During the year the Group spent €81,508 on charitable donations (2002: €62,087) to charities dealing with care for the sick, aged and disabled, medical research, and poverty as well as supporting other industry related charities.

Political Donations

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

Environment

The Group has a proactive approach to assisting all personnel to conduct our business in a manner that protects the environment of our customers, employees and the community. The Group encourages efficient use of resources and encourages recycling where possible and is compliant with relevant environmental legislation.

Given the nature of our business, waste is primarily limited to paper waste from both the retail outlets and head office. Trials are underway to install an EPOS system which, among other benefits, will significantly reduce paper waste from betting dockets as well as allowing more environmentally friendly dockets due to the elimination of carbon copies. Lighting and computer waste is sent for recycling.

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 Company and Group books of accounts are kept at Airton House, Airton Road, 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**

24 February 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which, in accordance with applicable Irish Law and accounting standards, give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Group and the Company which enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 2001 and all Regulations to be construed as one with those Acts. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

On behalf of the Board

John O'Reilly

Ross Ivers
24 February 2004

bottle it!

A confused Thomas Bjorn looks on as his ball rolls back into the bunker for the second time, on the 16th hole of his final round in the British Open.

He was two shots clear standing on the par 3 16th tee, and must have felt his first major within his grasp. He hit the bunker, left it in the bunker, left it in the bunker again, and then got up and down for a double bogey. Meanwhile Ben Curtis was in the process, unbeknownst to himself, of holing a famous British Open winning putt on 18. He would have known nothing of Bjorn's plight two holes behind him.

Bjorn went on to finish bogey, par, gifting the title to 750/1 shot Ben Curtis. Many a backer had his fingers burnt, as Bjorn was as short as 1/10 favourite to win the tournament when standing on that fateful 16th.

CORPORATE GOVERNANCE

Over the last past year the Board has deliberated on its approach to corporate governance, not least because it is a matter that receives an extraordinary level of attention. We wanted to clarify and codify our own thinking to ensure that our owners - you the shareholder - were quite clear about what we think is important in continuing to make this business successful and creating shareholder value.

Companies are considering corporate governance in light of *The Principles of Good Governance and Code of Best Practice*, adopted by the Irish Stock Exchange and the UK Listing Authority and the Higgs Report, which has become the seminal document on corporate governance. Inevitably, many commentators focus on compliance, on the policing role of directors and on box ticking. Some observers and indeed investors take a more pragmatic view, relying on conscientious diligent homework to form their own opinion of the quality of management and the quality of governance likely to occur during the life of their investment.

We believe that good governance has two elements. The form, by which we mean compliance with codes and the substance, by which we mean the control and influence over the things that will determine business success. It is important that the correct balance is struck between the two. If we become preoccupied by narrow issues of compliance, directors would become so concerned about meeting their obligations and their legal exposure that insufficient time would be devoted to the development of the business. Growth would slow, the business would stagnate and the best people would leave the Company. Your Board will not allow that to happen to Paddy Power. Conversely, if the pursuit of commercial success is adopted at the expense of everything else then insufficient attention may be placed on managing and controlling risk and on ensuring that the business and its people have a good reputation. It might even lead to people behaving in an improper and unethical manner. Putting aside the fact that bad behaviour always destroys value in the long run, your Board will not permit sloppy thinking, neglect of the customer, indifference to our staff or the use of the expedient to take Paddy Power "into the ditch".

The policies, set out in this statement, were the subject of healthy debate as the Board sought balance between following the principles of good corporate governance, compliance with the various laws and codes and recognition of the size, nature and history of the Company. Paddy Power plc is a young public company and the composition of its Board still reflects its heritage.

Independence is seen as a key issue for any Board, and as at the date of this report only three Board members, Fintan Drury, Nigel Northridge and Stephen Thomas, can be considered to be independent non-executive directors. This simply reflects the still significant role of founders and venture capitalists in the Company. Consequently, Paddy Power does not comply with the Combined Code with regard to the numbers and roles of independent non-executive directors. As indicated in the Chairman's Statement, 2004 will see the appointment of a number of new independent non-executive directors as the composition of the Board evolves. It is expected that by the end of 2004, the Board will be in compliance. Until such time as there are sufficient numbers of independent non-executive directors in place, the Board will not appoint a senior independent director. This will be considered as and when the new Board is completed.

There is a market view that some companies allow their non-executives serve for too long. Each company is different and has particular needs. Your Board believes it would be in the interests of Paddy Power shareholders to establish a clearly defined period of tenure for non-executive directors. In doing so we were very conscious of the need to achieve the appropriate balance between regeneration and protecting the collective knowledge of the Board gained from years of service.

Shareholders are right to look closely at what their directors are paid. So too are the employees whose full-time commitment is to the business. Our Board discussion concentrated on establishing a level that reflected the seriousness of the role and the same commitment to hard work and excellence that we expect of our executive colleagues. Much of the wider debate on fees is ill-informed. The Paddy Power approach to the remuneration of its non-executive directors has lacked sufficient structure to date. The Board was not prepared to allow this continue. Nor was it satisfied that the fees being paid were sufficient to attract individuals with the necessary experience and ability to make the substantive contribution to the company that it needs and will need even more in the years ahead. The fees offered should reflect the time demands, the increased responsibilities introduced by the changed regulatory environment, and not least, the need to sustain the enthusiasm of quality people who have already committed themselves to serving your interests.

What follows represents our policy on corporate governance:

Board Composition

The number serving on your Board is unlikely to change in the medium term and it will be at the discretion of the Board itself to find the right number for the business at any point. It is accepted that the majority of the Board should be non-executive and that the majority of non-executives serving on the Board should be independent, but that is not something that your Board can achieve presently. The Board should comprise a mix of the necessary business skills required to provide the basic oversight of the management of the business and to contribute to the development and advancement of business strategy. Paddy Power is a specialist business and should always retain the betting industry nous that has been part of the fabric of its Board, both as a private and public company. The Board should also comprise high quality non-executives from the different geographic markets in which the Company operates.

What we want to ensure is that Board members have sufficient time to add real value to your Company. The regulatory obligations and the wider demands of this Board mean that it has been agreed that no non-executive director should hold more than three directorships of publicly quoted companies. The Chairman cannot be the chairman of any other publicly quoted company. It is also agreed that there should be no more than two Paddy Power directors on the Board of any one other listed company. Executive directors should hold no more than one non-executive director position.

Tenure

The current Board comprises a mix of founding directors and those who were recruited for the particular skills and experiences they would bring to Paddy Power. The Company is going through a period of change. Of the eight non-executive directors currently serving on the Board, five have been members since the Company was launched on the Stock Exchange in 2000.

The Board therefore decided that from the date of flotation all non-executive directors of Paddy Power would serve a maximum of two three-year terms. The Nominations Committee would retain the right, in special circumstances, to extend the tenure of any non-executive director for a further term, to an absolute maximum of nine years in total.

The Non-Executive Directors' Responsibilities

It has been agreed by your Board that all directors will have three specific responsibilities:

- Attendance at Board meetings
- Membership of at least one Board sub-committee
- Role as a 'mentor' to a particular area of the business

Regular contact with each other, and availability to the Chairman and to the CEO for advice and ideas remain critical. To be an effective Paddy Power Board member means being an enthusiast for the business. Attendance at meetings is not sufficient. Active participation during formal Board and committee meetings is what matters.

The non-executive directors will also meet once a year without their executive director colleagues or your Chairman.

In addition to the 'standard' roles, the Board felt it would be very beneficial if individual non-executive directors were in a position to act as an advisor to an individual or a team within the business on strategic issues they might face where the director involved would have relevant skills and experience. This is not about non-executives straying into operational affairs that are the business of management. It is about giving life to the Board's real desire to provide business counsel that can help grow the business and, with it, shareholder value. It is also a further check on the growing pressures on a Board to just supervise, dot i's and cross t's.

In that context, it is important too that non-executives do not feel either restricted by the corporate governance rules of engagement or feel that simple compliance with them will be sufficient to meet their obligations. That has never been the Paddy Power way and a commitment to corporate governance should not be interpreted as a change in our drive for innovation.

The Chairman's Role

The Chairman is a non-executive director and carries the same responsibilities as all his non-executive colleagues. His role is wider of course. As well as conducting Board meetings and being a member of sub-committees, your Chairman is the one constant in the management of Board affairs.

The Chairman is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that all directors receive accurate, timely and clear information. The Chairman will facilitate the effective contribution of his non-executive colleagues and ensure constructive relations between executive and non-executive directors. He is the guarantor of effective communications with shareholders.

Performance evaluation of the Board, its committees and its individual directors will be undertaken annually. Your Chairman will act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, appointing new members to the Board or seeking the resignation of directors.

While there may be a perception that Board business revolves exclusively around meetings, this is not the case. Board counsel must be available to senior management at all times. Your Chairman is the normal source of such advice and encouragement, but by no means the only one. The need to source the most relevant expertise at short notice means that the Chairman must have regular contact with individual Board members to ensure that there is a seamless interaction between the senior executive team and the non-executive directors.

As Chairman I also meet with the non-executive directors independently of the executive directors. I meet formally with the CEO and the Finance Director at least once a fortnight, to discuss all aspects of the business performance. I also have regular meetings with the CEO and on an occasional basis, with him, I meet with other senior members of the management team. I have taken

CORPORATE GOVERNANCE (CONTINUED)

personal responsibility for leading this review of corporate governance, which the Board has now adopted.

Directors' Fees

We have introduced the following new fee levels with effect from 1 July last. The standard non-executive fee will be €40,000. Chairs of committees will be paid an additional fee of €10,000 and, as Chairman, I will receive an annual fee of €110,000. These figures were set for an eighteen month period until 31 December 2004. They represent a quite significant increase on what your directors were paid previously which did not reflect the value being contributed by those involved.

In his report in 2003, Higgs referred to the average remuneration of FTSE 100 non-executive directors as £44,000 (€64,000) and of a company outside the FTSE 350 as £23,000 (€33,000). For Chairmen, it was £426,000 (€621,000) p.a. and £78,000 (€113,000) p.a. respectively. This was an important and relevant benchmark. It helped your Board determine the new fee levels, but it should also be noted that, as Higgs referred to in his report, "the risk/reward balance was becoming less favourable" so there would be a need to increase these fees further in the future.

In considering the figures I would ask shareholders to reflect on the increasingly onerous responsibility being placed on non-executive directors by the aggressively regulated external environment. More importantly, reflect too on the contribution each of these people is making to the growth in value of the business and the commitment your Board members are making to an annual assessment of their performance.

Board Effectiveness

Each director is expected to perform to the highest standards with regards to both their general contribution as well as their contribution through committees and mentoring. I will carry out a review of each Board member's performance annually. The CEO and two nominated non-executive directors will review my performance as Chairman each year. In future, the Annual Report will contain a report to all shareholders on Board effectiveness over the period under review.

Board Operations and Committees

The Board will hold at least nine full Board meetings each year. Each member sits on at least one committee and, as of 1 August 2003, each non-executive director is also being asked to 'mentor' one part of the business where it is felt they could provide additional specialist advice to senior management. I expect all Board members to be available to me between meetings. I have carried out a review of the Board committees and with the increasing scale of the business the Board has decided to establish a Risk Management Committee.

The composition of the Board committees as at 24 February 2004 is:

Remuneration

Stephen Thomas (Chair); David Power; Fintan Drury

Nominations

Fintan Drury (Chair); Nigel Northridge; John O'Reilly; Stewart Kenny

Audit

Edward McDaid (Chair); John Corcoran; Ian Armitage

Risk Management

David Power (Chair); Ross Ivers; John O'Reilly; Nigel Northridge

Audit Committee

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported on and monitored, and for overseeing the operation of internal financial controls appropriate to the size and operations of the Group. The Audit Committee reviews reports from management regarding the financial statements and internal control systems of the Group and considers draft interim and annual accounts. The Audit Committee has unrestricted access to the Group's external auditors.

Remuneration Committee

The Remuneration Committee is primarily responsible for making recommendations to the Board on remuneration policy for the Group's executive directors and selected senior management. The report of the Remuneration Committee is set out on pages 36 to 37.

Nominations Committee

The Nominations Committee is primarily responsible for making recommendations of candidates to the Board for appointment as directors and ensuring a formal and transparent procedure regarding any such appointments.

Risk Committee

The Risk Committee is responsible for ensuring that policies in respect of the betting risk are appropriate to a company of Paddy Power's size, for monitoring that policies are being correctly applied and that the expertise and systems within the organisation are consistent with the level of risk undertaken.

Internal Control

The Combined Code annexed to the listing rules of the Irish Stock Exchange and the UK Listing Authority states that:

1. The Board should maintain a sound system of internal control to safeguard shareholders' investment and Group assets.
2. The directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to shareholders that they have done so. The review should cover all controls, including financial, operational and compliance controls and risk management.

The directors have overall responsibility for the Group's system of internal control and have delegated responsibility for the implementation of this system to executive management. This system includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records.

The Board has also established a process of compliance which addresses the Board's wider responsibility to maintain, review and report on all internal controls, including financial, operational and compliance risk management.

Among the processes applied in reviewing the effectiveness of the system of internal controls are the following:

- Budgets are prepared for approval by executive management and inclusion in a Group budget approved by the Board.
- Expenditure and income are regularly compared to previously approved budgets.
- The Board establishes treasury risk policies as appropriate, for implementation by executive management.
- All material commitments for expenditure and payments are compared to previously approved budgets and are subject to prior approval by personnel designated by the Board of Directors.
- Regular financial results are submitted to and reviewed by the Board of Directors.
- The directors, through the Audit Committee, review the effectiveness of the Group's system of internal control.
- A security department, independent of operations, monitors the activities of the betting operations, including the verification of winning bets. An internal audit department was also established in 2003 to undertake internal control reviews throughout the organisation. This department meets regularly with the Audit Committee and also presents annually to the Board.

A review of the effectiveness of the system of internal control was carried out during the year to 31 December 2003. The directors considered that the procedure necessary to implement the Turnbull guidelines on control in the Combined Code have been properly established.

Relations with Shareholders

The Group is committed to ongoing communication with its shareholders. The Company operates an investor relations section on the corporate website. This contains copies of investor presentations and annual reports as well as providing access to RNS statements and corporate press releases.

There is regular discussion between the Company and analysts, brokers and institutional shareholders, ensuring that the market is collectively informed on business operations. Visits to the Group headquarters are encouraged and tours of our retail outlets are undertaken regularly. All shareholders are encouraged to attend the Annual General Meeting where they are afforded the opportunity to question the Board.

Compliance

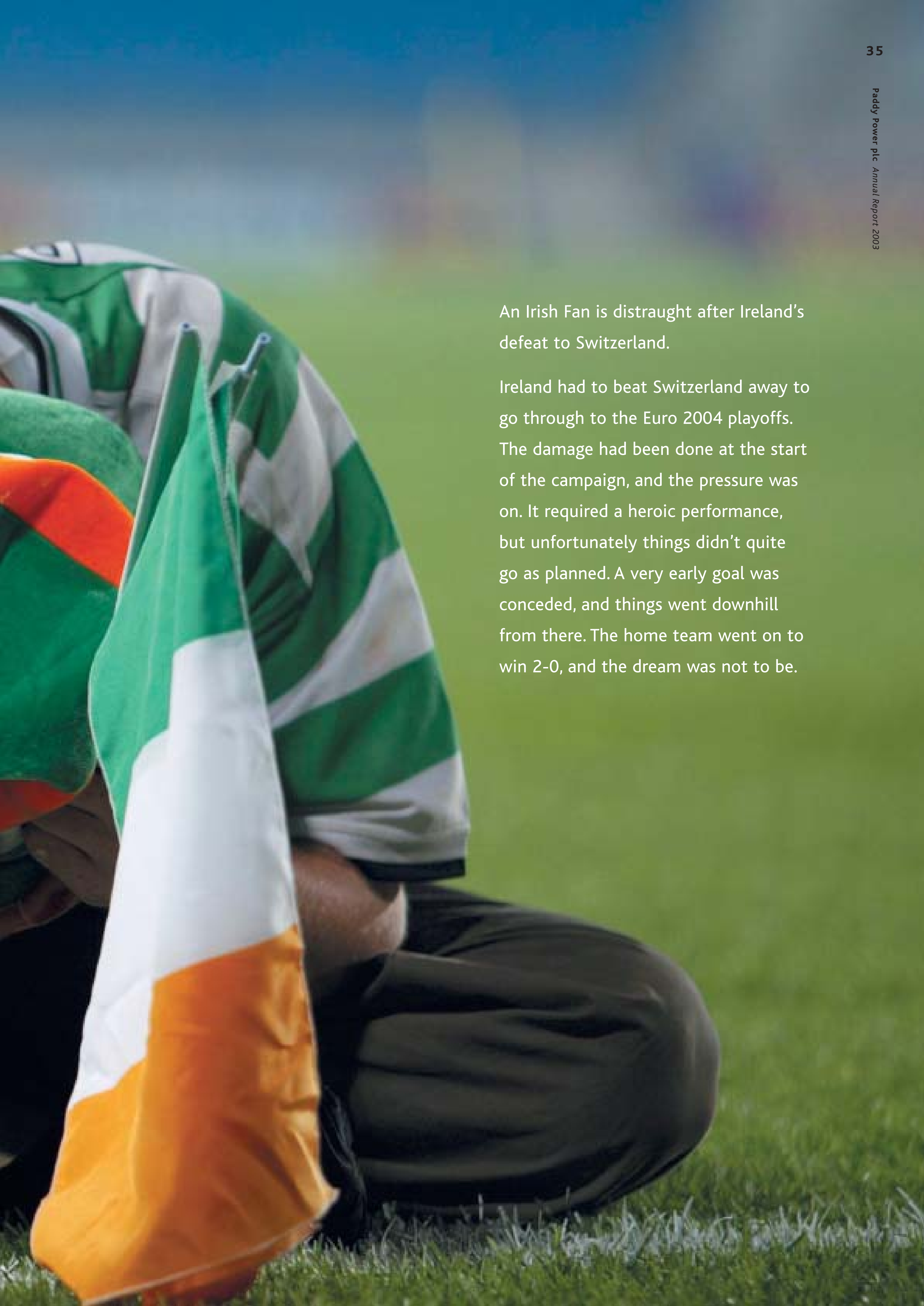
The directors confirm that the Company has complied throughout the accounting period with the provisions of the Combined Code, except that a senior non-executive director has not been appointed.

Conclusion

To conclude let me return to the main theme of this statement. Firstly, the Company has gone through very significant growth and more is eagerly anticipated. This brings added pressure on a Board. Secondly, the external environment is becoming increasingly demanding of non-executive directors. The mood of regulation has already been set and is unlikely to change. Your Board has been considering the implications of this for some time and what is presented here represents the position of your Board as approved at its meeting on 24 February 2004.

It is important to emphasise that this represents our considered view of how the Code on Corporate Governance applies to Paddy Power plc. It should not be seen as a template for any other business as each company must be free to define its own policy in this important area. I would like to invite you all to consider it carefully, and that any shareholders who have questions relating to this Corporate Governance Statement should contact me by email at fdrury@paddypower.com.


forget it!



An Irish Fan is distraught after Ireland’s defeat to Switzerland.

Ireland had to beat Switzerland away to go through to the Euro 2004 playoffs. The damage had been done at the start of the campaign, and the pressure was on. It required a heroic performance, but unfortunately things didn’t quite go as planned. A very early goal was conceded, and things went downhill from there. The home team went on to win 2-0, and the dream was not to be.

REMUNERATION COMMITTEE REPORT

The report on directors' remuneration and interests has been prepared by the Remuneration Committee on behalf of the Board of Directors in accordance with the requirements of the Irish Stock Exchange's Combined Code on Corporate Governance.

The Remuneration Committee

As at the date of this report, the Remuneration Committee consisted of the following non-executive directors;

Stephen Thomas *(Chairman)*
David Power
Fintan Drury

During the year the composition of the Committee changed as part of a reorganisation of the Board.

The members of the Committee are independent; they have no personal financial interest (other than as shareholders) in the matters addressed by the Committee, and have no conflicts of interest arising from cross-directorships. The Committee meets as required, but at least four times each year, and operates within agreed terms of reference. The Committee has responsibility for making recommendations to the Board on the Group's general policy relating to executive remuneration, and to determine, on behalf of the Board, specific remuneration packages for the executive directors. Outside independent professional advice is sought where necessary.

The Committee is also responsible for approving executive remuneration of a limited group of senior executives as well as the bonus schemes in operation within the Group.

The remuneration of the Chairman of the Board is determined by the Board excluding the Chairman. The remuneration of the non-executive directors is determined by the Board, including the non-executive directors.

Remuneration Policy

General

The Remuneration Committee determines the Group's policy on executive directors' remuneration. The objectives of the policy are:

- To reward executive directors in a manner that ensures that they are properly rewarded and motivated to perform in the best interests of shareholders.
- To provide the level of remuneration required to attract, retain and motivate executive directors of an appropriate calibre.

Salaries and other benefits are reviewed annually. The Remuneration Committee takes into account the performance of the individual, comparisons with peer group companies, institutional guidelines and reports from specialist consultants. The experience of the individual and his/her level of responsibility are also taken into account.

Consistent with the policy, the benefit packages awarded to executive directors are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration, designed to motivate them, but not to detract from the goals of corporate governance.

Basic salaries

Salaries of executive directors are set by reference to those prevailing in the market.

Performance Bonus

Under current arrangements, which are reviewed annually by the Remuneration Committee, executive directors have target bonuses of 40% of salary subject to the attainment of specific and stretching targets set for each individual. The level earned in any one year depends on the Committee's assessment of each individual's performance and the overall performance of the Group against predetermined targets for the year. The maximum payout under the bonus scheme can be twice the bonus target and this will only be achieved with substantial out-performance of strict financial targets that are set annually. The minimum payment is 30% of bonus target.

Long Term Incentive Plan

It is Group policy to motivate its senior management to deliver superior performance over the long term and at the Annual General Meeting, held on 3 June 2003, the shareholders approved the 2003 Long Term Incentive Plan. This plan is being withdrawn and a new 2004 Long term Incentive Plan is being proposed in its place. Details of this Plan, other amendments being made to the Company's existing share incentive plans and new plans are summarised in the Chairman's Letter which accompanies the Notice of AGM.

Share Options

The policy of the Remuneration Committee is to motivate its executive directors and other executives by granting them share options. Accordingly, options have been granted under the terms of employee share incentive plans approved by shareholders. Further details of these plans are given in Note 18 to the financial statements. Details of options granted to the executive directors are included with the directors' interests in the Report of the Directors on pages 25 to 26. Non-executive directors are not eligible to participate in the employee share incentive plans.

All options are granted at the market price on the date of grant. No options are granted at a discount.

The market price of the Company's shares at 31 December 2003 was €7.15, and for the year then ended the range was between €4.87 and €7.26.

Targeted remuneration

The targeted composition of each director's annual remuneration (excluding sundry benefits) is as follows:

	Performance -related	**Non-performance -related**
Executive		
John O'Reilly	40%	60%
Ross Ivers	40%	60%
Non-Executive		
Fintan Drury	0%	100%
Ian Armitage	0%	100%
Edward McDaid	0%	100%
David Power	0%	100%
John Corcoran	0%	100%
Stephen Thomas	0%	100%
Stewart Kenny	0%	100%
Nigel Northridge	0%	100%

Directors' Service Contracts

The notice period for John O'Reilly and Ross Ivers is one year. No executive director is entitled to any contractual termination payment other than for payment in lieu of notice.

Non-executive directors, in accordance with best practice, are not appointed on service contracts. They are appointed for a fixed initial period of three years, and may be re-appointed for further fixed periods, up to a total of six years unless there are exceptional circumstances. This is referred to in more detail in the Corporate Governance report. Non-executive directors are issued on appointment or re-appointment with a letter confirming the terms of their appointment. Non-executive directors are expected to give three months' notice of resignation, but this is without prejudice to their right to resign immediately if they feel it appropriate.

All directors must offer themselves for re-election by shareholders every three years.

Both executive directors are employed on rolling contracts with a retirement age of 65 and all directors cease holding office on reaching their seventy fifth birthday.

The details of the service agreements for the non-executive directors throughout the year were as follows:

	Appointed by Board	Re-appointed by Shareholders	Term expires	Contractual termination payment
Fintan Drury	29 Aug 2002	3 June 2003	AGM 2006	Nil
Ian Armitage	31 May 2000	27 March 2001	AGM 2004	Nil
John Corcoran	8 Apr 1958	27 March 2001	AGM 2004	Nil
Stewart Kenny	1 June 1988	27 March 2001	AGM 2004	Nil
Edward McDaid	3 Dec 1993	27 March 2001	AGM 2004	Nil
Nigel Northridge	22 July 2003	Proposed for AGM 2004	Proposed for AGM 2007	Nil
David Power	1 June 1988	27 March 2001	AGM 2004	Nil
Stephen Thomas	29 Aug 2002	3 June 2003	AGM 2006	Nil

Directors' Pension Entitlements

The Group does not operate any defined benefit pension plan or Group defined contribution scheme for directors. Each executive director has an independent pension trust into which the Group makes defined contributions.

The Group makes no pension provision in respect of the non-executive directors.

Directors' Detailed Emoluments

Full details of the emoluments of the directors are set out in note 6 to the financial statements on page 49.

Stephen Thomas
Chairman, Remuneration Committee
24 February 2004


savour it!

English World Cup winning centre, Will Greenwood, enjoys a moment of pure joy after the final whistle of the World Cup.

England started the tournament vying for favouritism with the All Blacks at 6/4, while Australia were relative outsiders at 9/2. They drifted slightly in price to 9/4 after being caught on the hop a bit by Wales, but went on to win an epic final against the hosts Australia. Fittingly, it was golden boy Jonny Wilkinson who scored the winning drop goal in the dying moments of extra time.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PADDY POWER PLC

We have audited the financial statements on pages 41 to 58.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act, 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 27, this includes responsibility for preparing the financial statements in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board, the Listing Rules of the Irish Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the Company's balance sheet is in agreement with the books of account and report to you our opinion as to whether

- the Company has kept proper books of account;
- the directors' report is consistent with the financial statements;
- at the balance sheet date, a financial situation existed that may require the Company to hold an extraordinary general meeting, on the grounds that the net assets of the Company, as shown in the financial statements, are less than half of its called up share capital.

We also report to you if, in our opinion, information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 30 to 33 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and the Company as at 31 December 2003, and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 2001 and all Regulations to be construed as one with those Acts.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The balance sheet of the Company is in agreement with the books of account.

In our opinion, the information given in the Directors' Report on pages 25 to 26 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 44, are more than half of the amount of its called up share capital and, in our opinion, on that basis there did not exist at 31 December 2003, a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

KPMG

Chartered Accountants
Registered Auditors

24 February 2004

ACCOUNTING POLICIES

Year ended 31 December 2003

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of Preparation

The financial statements have been prepared in accordance with generally accepted accountancy principles under the historical cost convention and comply with financial reporting standards of the Accountancy Standards Boards, as promulgated by the Institute of Chartered Accountants in Ireland. The financial statements are stated in euro.

Basis of Consolidation

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings based on financial statements at the year end date.

Turnover

Turnover, which is exclusive of betting tax and levies, represents amounts received in respect of bets placed on events which occurred during the year.

Pensions

The Group operates a number of defined contribution schemes for certain employees and executive directors. Contributions are charged to the profit and loss account as incurred.

Foreign Currency

Transactions denominated in foreign currencies are translated at the exchange rates ruling at each quarter end. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the rates of exchange ruling at the balance sheet date. The resulting profits and losses are dealt with in the profit and loss account.

For the purposes of consolidation of subsidiaries, the closing rate method is used, under which translation gains or loses are shown as movement on reserves. Profit and loss accounts of overseas subsidiaries are translated at average exchange rates.

Financial Fixed Assets

Interests in subsidiary undertakings are stated in the Company balance sheet at cost less, where necessary, provisions for impairment.

Intangible Assets - Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing the excess of cost over the fair value of the Group share of the identifiable assets and liabilities acquired, is capitalised and amortised by equal annual instalments against profit over its expected useful life. Goodwill is written off in equal instalments over a 20 year period. Provision is made for any impairment.

Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation.

Depreciation is calculated so as to write off the cost less estimated residual value of tangible fixed assets on a straight line basis over their estimated useful lives, as follows:

- Freehold property - 50 years
- Leasehold property and improvements - unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease, if there is a right of renewal.
- Fixtures, fittings and equipment - 5/7 years
- Computer equipment - 3 years
- Equipment screens - 5 years
- Leased equipment screens - 3 years
- Motor vehicles - 5 years

Leases

Assets held under finance leases are included in the balance sheet at their capital value and are depreciated over the term of the lease. The corresponding liabilities are recorded as a creditor and the interest element of the finance lease rentals is charged to the profit and loss account over the term of the lease to produce a constant rate of charge on the balance of capital repayment outstanding.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the lease term.

Taxation

Corporation tax is calculated based on the taxable profits for the year.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Share Options

In accordance with UITF Abstract 17 (revised) "Employee Share Schemes", the excess of the fair market value of the related shares over the exercise price of the share option on the option grant date is charged to the employees' remuneration over the period to which employee performance relates. A corresponding amount is transferred to the profit and loss account.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2003

	Notes	Year ended 31/12/2003 €'000	Year ended 31/12/2002 €'000
Turnover	1	**913,624**	673,788
Cost of sales	2	**(825,429)**	(599,581)
Gross profit	1	**88,195**	74,207
Operating expenses		**(68,563)**	(57,124)
Operating profit	1	**19,632**	17,083
Interest receivable and similar income	3	**883**	895
Interest payable and similar charges	4	**(105)**	(156)
Profit on ordinary activities before taxation	5	**20,410**	17,822
Tax on profit on ordinary activities	8	**(2,859)**	(3,029)
Profit on ordinary activities after taxation		**17,551**	14,793
Dividends on equity shares	10		
- paid		**(2,053)**	(1,603)
- proposed		**(4,107)**	(3,206)
		(6,160)	(4,809)
Retained profit for the year		**11,391**	9,984
Profit & Loss account, start of year			
- as originally stated		**31,205**	21,792
- prior year adjustment	9	**-**	(571)
- as restated		**31,205**	21,221
Profit & Loss account, end of year		**42,596**	31,205
Earnings per Share			
Basic	11	**€0.3697**	€0.3138
Diluted	11	**€0.3502**	€0.2900

All results arise from continuing operations.
A consolidated statement of total recognised gains and losses is shown on page 46.

Approved on behalf of the Board

John O'Reilly **Ross Ivers**

24 February 2004

CONSOLIDATED BALANCE SHEET

31 December 2003

	Notes	*31 December 2003 €'000*	*31 December 2002 €'000*
Fixed assets			
Intangible assets – goodwill	*12*	**904**	1,025
Tangible assets	*13*	**41,571**	24,994
		42,475	26,019
Current assets			
Debtors	*14*	**2,188**	1,570
Cash at bank and in hand		**39,173**	36,373
		41,361	37,943
Creditors (amounts falling due within one year)	*15*	**(30,585)**	(22,159)
Net current assets		**10,776**	15,784
Total assets less current liabilities		**53,251**	41,803
Creditors (amounts falling due after one year)	*16*	**-**	(480)
Provision for liabilities and charges	*17*	**(977)**	(1,177)
Net assets		**52,274**	40,146
Capital and reserves			
Called up share capital	*18*	**4,781**	4,714
Share premium	*19*	**3,975**	3,305
Capital redemption reserve fund		**662**	662
Capital conversion reserve fund		**260**	260
Profit and loss account		**42,596**	31,205
Shareholders' funds – all equity interests		**52,274**	40,146

Approved on behalf of the Board

John O'Reilly **Ross Ivers**

24 February 2004

COMPANY BALANCE SHEET

31 December 2003

	Notes	31 December 2003 €'000	31 December 2002 €'000
Fixed assets			
Intangible assets – goodwill	12	**1,217**	1,338
Tangible assets	13	**32,322**	21,880
Financial assets	21	**103**	103
		33,642	23,321
Current assets			
Debtors	14	**13,367**	9,463
Cash at bank and in hand		**38,086**	35,210
		51,453	44,673
Creditors (amounts falling due within one year)	15	**(22,154)**	(16,415)
Net current assets		**29,299**	28,258
Total assets less current liabilities		**62,941**	51,579
Creditors (amounts falling due after one year)	16	**-**	(313)
Provision for liabilities and charges	17	**(1,032)**	(1,177)
Net assets		**61,909**	50,089
Capital and reserves			
Called up share capital	18	**4,781**	4,714
Share premium	19	**3,975**	3,305
Capital redemption reserve		**662**	662
Capital conversion reserve fund		**260**	260
Profit and loss account		**52,231**	41,148
Shareholders' funds – all equity interests		**61,909**	50,089

Approved on behalf of the Board

John O'Reilly

24 February 2004

Ross Ivers

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2003

	Notes	*Year ended 31 December 2003 €'000*	*Year ended 31 December 2002 €'000*
Net cash inflow from operating activities	*20(a)*	**32,144**	30,435
Returns on investments and servicing of finance			
Interest received		**865**	717
Interest element of finance lease payments		**(106)**	(149)
		759	568
Taxation			
Corporation tax paid		**(3,923)**	(1,466)
Capital expenditure and financial investments			
Acquisition of tangible fixed assets		**(21,439)**	(8,083)
Sale proceeds on disposal of tangible fixed assets		**96**	31
		(21,343)	(8,052)
Equity dividends paid		**(5,262)**	(3,206)
Net cash inflow before financing		**2,375**	18,279
Financing			
Capital element of finance lease payments		**(312)**	(213)
Proceeds from the issue of new shares		**737**	-
		425	(213)
Net cash inflow	*20(b)*	**2,800**	18,066

Approved on behalf of the Board

John O'Reilly
24 February 2004

Ross Ivers

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 2003

	Year ended 31 December 2003 €'000	Year ended 31 December 2002 €'000
Profit for the financial year		
- being total gains and losses in the year	**17,551**	14,793
Prior year adjustment (Note 9)	-	(571)
Total gains recognised since last annual report and financial statements	**17,551**	14,222

RECONCILIATION OF MOVEMENTS IN CONSOLIDATED EQUITY SHAREHOLDERS' FUNDS

	Year ended 31 December 2003 €'000	Year ended 31 December 2002 €'000
Retained profit for the year	**11,391**	9,984
Share issues, net of costs	**737**	-
Opening shareholders' funds		
- as previously stated	**40,146**	30,733
- prior year adjustment	-	(571)
- as restated	**40,146**	30,162
Closing shareholders' funds	**52,274**	40,146

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

1. Turnover and Segmental Information

The turnover, operating profit and net assets of the Group relate to the provision of betting services, substantially all of which are conducted in the Republic of Ireland and the UK.

Turnover by Delivery Channel	*Year ended 31 December 2003 €'000*	*Year ended 31 December 2002 €'000*
Licensed betting offices	**551,136**	448,096
Telephone betting	**177,418**	122,892
Online betting	**185,070**	102,800
	913,624	673,788

Turnover by Region	*Year ended 31 December 2003 €'000*	*Year ended 31 December 2002 €'000*
Ireland & other	**702,240**	570,564
Great Britain	**211,384**	103,224
	913,624	673,788

Gross Win by Delivery Channel	*Year ended 31 December 2003 €'000*	*Year ended 31 December 2002 €'000*
Licensed betting offices	**67,907**	60,698
Telephone betting	**13,179**	9,743
Online betting	**13,524**	8,407
	94,610	78,848

Gross Win is defined in the Financial Review.

Gross Profit by Delivery Channel	*Year ended 31 December 2003 €'000*	*Year ended 31 December 2002 €'000*
Licensed betting offices	**65,676**	58,781
Telephone betting	**11,096**	8,332
Online betting	**11,423**	7,094
	88,195	74,207

Operating Profit/(Loss) by Delivery Channel	*Year ended 31 December 2003 €'000*	*Year ended 31 December 2002 €'000*
Licensed betting offices	**17,402**	19,167
Telephone betting	**861**	312
Online betting	**1,369**	(2,396)
	19,632	17,083

Profit before tax and net assets by delivery channel and geographic segment are not disclosed as, in the opinion of the directors, this disclosure would be seriously prejudicial to the interests of the Group.

NOTES TO THE FINANCIAL STATEMENTS

2. Cost of Sales

Cost of Sales comprises:	*Year ended 31 December 2003 €'000*	*Year ended 31 December 2002 €'000*
Cost of winning bets paid	**819,014**	594,940
Other cost of sales	**6,415**	4,641
	825,429	599,581

Other cost of sales comprises discounts on bets and taxes paid in relation to Gross Win.

3. Interest Receivable and Similar Income

	Year ended 31 December 2003 €'000	*Year ended 31 December 2002 €'000*
Deposit interest	**883**	895

4. Interest Payable and Similar Charges

	Year ended 31 December 2003 €'000	*Year ended 31 December 2002 €'000*
Finance lease interest	**105**	156

5. Statutory and Other Information

	Year ended 31 December 2003 €'000	*Year ended 31 December 2002 €'000*
The profit on ordinary activities before taxation is stated after charging:		
Directors' emoluments		
- fees	**326**	207
- other emoluments including pension costs	**855**	1,423
Depreciation	**6,405**	5,805
Auditors' remuneration for audit services	**46**	41
Loss on disposal of tangible fixed assets	**34**	2
Amortisation of goodwill	**121**	121
Operating lease rentals, principally premises	**5,460**	3,459

As permitted by section 3(2) of the Companies (Amendment) Act, 1986 no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year of €17.2 million (2002: €12.1 million).

Amounts paid to the auditors in respect of non audit services were €169,000 (2002: €80,000), comprising tax advisory fees.

6. Directors' Emoluments

Included in directors' emoluments are the following emoluments which have been paid in respect of directors who were in office at 31 December 2003:

	Fees €'000	Salary €'000	Pension costs €'000	Benefits €'000	Annual bonus €'000	Total emoluments 2003 €'000	Total emoluments 2002 €'000
Executive							
Ross Ivers	-	231	46	21	75	373	459
John O'Reilly	-	271	81	26	88	466	514
Non-Executive							
Fintan Drury*	70	-	-	-	-	70	8
Ian Armitage	28	-	-	-	-	28	16
John Corcoran	39	-	-	-	-	39	38
Stewart Kenny*	65	-	5	11	-	81	513
Edward McDaid	33	-	-	-	-	33	16
Nigel Northridge**	18	-	-	-	-	18	-
David Power	33	-	-	-	-	33	16
Stephen Thomas	40	-	-	-	-	40	12
Peter O'Grady-Walsh	-	-	-	-	-	-	19
Michael Quinn	-	-	-	-	-	-	19
	326	502	132	58	163	1,181	1,630

*Fintan Drury was appointed Chairman, succeeding Stewart Kenny on 26 May 2003
**Nigel Northridge was appointed to the Board on 22 July 2003

Benefits include provision of a company car, life and medical insurance.
There were no loans outstanding to any director at any time during the year.

Payments made to Fintan Drury and Stewart Kenny for consulting services are set out in Note 24 on page 58.

7. Staff Numbers and Costs

	Year ended 31 December 2003	Year ended 31 December 2002
The average number of persons employed by the Group (including executive directors) during the year was:	**913**	856

	Year ended 31 December 2003 €'000	Year ended 31 December 2002 €'000
Aggregate payroll costs were as follows:		
Wages and salaries	**26,806**	22,548
Social welfare costs	**2,743**	2,202
Other pension costs and life assurance	**687**	633
	30,236	25,383

NOTES TO THE FINANCIAL STATEMENTS

8. Tax on Profit on Ordinary Activities

	Year ended 31 December 2003 €'000	Year ended 31 December 2002 €'000
The charge based on profit on ordinary activities comprises:		
Corporation tax, principally at 12.5% (2002 - 16%)	**2,993**	3,488
Under/(over) provision in previous year	**66**	(34)
Total current tax charge	**3,059**	3,454
Deferred tax (note 17)	**(200)**	(425)
	2,859	3,029

The difference between the total current taxation charge shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax is as follows:

Profit on ordinary activities before tax	**20,410**	17,822
Tax on Group profit on ordinary activities at the standard Irish corporation tax rate of 12.5% (2002 - 16%)	**2,551**	2,852
Interest income taxable at higher rates	**111**	85
Expenses deductible for tax purposes	**(25)**	(56)
Depreciation in excess of capital allowances	**356**	607
Under/(over) provision in prior year	**66**	(34)
Total current tax charge	**3,059**	3,454

No corporation tax is payable in the UK due to the availability of tax losses. No significant changes are expected to tax rates in the future.

9. Prior year adjustment

During the prior year, the Group adopted FRS 19 - Deferred Tax, and thereby changed its accounting policy in relation to accounting for deferred taxation.

10. Dividends

	Year ended 31 December 2003 €'000	Year ended 31 December 2002 €'000
Ordinary shares:		
- interim paid of €0.043 per share (2002: €0.034)	**2,053**	1,603
- final proposed of €0.0859 per share (2002: €0.068)	**4,107**	3,206
	6,160	4,809

NOTES TO THE FINANCIAL STATEMENTS

11. Earnings per Share

	Year ended 31 December 2003 €'000	*Year ended 31 December 2002 €'000*
Profit for the financial year	**17,551**	14,793
	'000	*'000*
Weighted average number of shares in issue	**47,479**	47,144
Dilutive effect of options outstanding	**2,638**	3,856
Diluted weighted average number of shares	**50,117**	51,000
Basic earnings per share	**€0.3697**	€0.3138
Diluted earnings per share	**€0.3502**	€0.2900

12. Intangible Assets - Goodwill

	Group 31 December 2003 €'000	*Group 31 December 2002 €'000*	*Company 31 December 2003 €'000*	*Company 31 December 2002 €'000*
Cost				
Goodwill at cost	**2,108**	2,108	**2,421**	2,421
Amortisation				
Opening balance	**1,083**	962	**1,083**	962
Amortisation for year	**121**	121	**121**	121
Closing balance	**1,204**	1,083	**1,204**	1,083
Net book value				
At 31 December	**904**	1,025	**1,217**	1,338

Intangible assets in the Company arose from the amalgamation of three bookmaking businesses to form Paddy Power plc.

13. Tangible Assets

Group	*Freehold & Leasehold Property & Improvements €'000*	*Fixtures Fittings & Equipment €'000*	*Computer Equipment €'000*	*Equipment Screens €'000*	*Motor Vehicles €'000*	*Total €'000*
Cost						
At 1 January 2003	18,323	17,631	8,158	4,737	720	49,569
Additions	10,731	8,103	2,276	1,715	287	23,112
Disposals	-	-	-	(66)	(250)	(316)
At 31 December 2003	29,054	25,734	10,434	6,386	757	72,365
Accumulated Depreciation						
At 1 January 2003	4,939	10,276	5,553	3,577	230	24,575
Charge for year	1,114	2,169	2,425	541	156	6,405
Disposals	-	-	-	(59)	(127)	(186)
At 31 December 2003	6,053	12,445	7,978	4,059	259	30,794
Net Book Value						
At 31 December 2002	13,384	7,355	2,605	1,160	490	24,994
At 31 December 2003	23,001	13,289	2,456	2,327	498	41,571

Company	*Freehold & Leasehold Property & Improvements €'000*	*Fixtures Fittings & Equipment €'000*	*Computer Equipment €'000*	*Equipment Screens €'000*	*Motor Vehicles €'000*	*Total €'000*
Cost						
At 1 January 2003	17,389	16,651	2,094	4,685	628	41,447
Additions	6,593	5,805	518	1,369	228	14,513
Disposals	-	-	-	(66)	(250)	(316)
At 31 December 2003	23,982	22,456	2,612	5,988	606	55,644
Accumulated Depreciation						
At 1 January 2003	4,702	10,079	998	3,577	211	19,567
Charge for year	999	1,857	449	507	129	3,941
Disposals	-	-	-	(59)	(127)	(186)
At 31 December 2003	5,701	11,936	1,447	4,025	213	23,322
Net Book Value						
At 31 December 2002	12,687	6,572	1,096	1,108	417	21,880
At 31 December 2003	18,281	10,520	1,165	1,963	393	32,322

NOTES TO THE FINANCIAL STATEMENTS

14. Debtors

	Group 31 December 2003 €'000	Group 31 December 2002 €'000	Company 31 December 2003 €'000	Company 31 December 2002 €'000
Sundry debtors and prepayments	**2,188**	1,570	**1,634**	1,138
Amounts owed by Group companies	**-**	-	**11,733**	8,325
	2,188	1,570	**13,367**	9,463

All of the above debtors fall due within one year.

15. Creditors (Amounts Falling Due Within One Year)

	Group 31 December 2003 €'000	Group 31 December 2002 €'000	Company 31 December 2003 €'000	Company 31 December 2002 €'000
Trade creditors	**3,670**	2,190	**3,670**	2,190
Accruals	**12,895**	7,907	**10,052**	5,524
Customer balances	**4,866**	3,427	**-**	-
Corporation tax	**1,845**	2,709	**1,650**	2,709
PAYE and Social Welfare	**773**	623	**707**	623
Betting duty	**1,168**	861	**794**	651
Value added tax	**843**	982	**761**	1,147
Dividends payable	**4,104**	3,206	**4,104**	3,206
Finance leases	**421**	254	**350**	153
Amounts owed to Group companies	**-**	-	**66**	212
	30,585	22,159	**22,154**	16,415

16. Creditors (Amounts Falling Due After One Year)

	Group 31 December 2003 €'000	Group 31 December 2002 €'000	Company 31 December 2003 €'000	Company 31 December 2002 €'000
Finance lease obligations which fall due between one and two years	**-**	480	**-**	313

17. Provisions for Liabilities and Charges - Deferred Tax

	Group 31 December 2003 €'000	*Company 31 December 2003 €'000*
At 31 December 2002	**1,177**	1,177
Credit for the year (note 8)	**(200)**	(145)
At 31 December 2003	**977**	1,032

Deferred tax at 31 December 2003 relates to accelerated capital allowances.

18. Share Capital

	31 December 2003 €'000	*31 December 2002 €'000*
Authorised		
70,000,000 ordinary shares of €0.10 each	**7,000**	7,000
Allotted, called up and fully paid		
47,807,120 (2002: 47,144,120) ordinary shares of €0.10 each	**4,781**	4,714

During the year, 663,000 ordinary shares were issued as a result of the exercise of share options giving rise to total share premium, net of costs of €670,000.

The Company has the following employee share schemes:

(a) The Power Leisure plc May 2000 Executive Share Option Scheme (the "Executive Share Option Scheme")

Under the May 2000 Executive Share Option Scheme options over a total of 3,543,000 shares were granted at an exercise price of €1.16 per share. Since May 2000 options over 903,000 shares have been exercised and options over a further 90,000 shares have lapsed. Options over 2,550,000 shares are outstanding at 31 December 2003 and are exercisable as follows:

Earliest Exercise period	*Options at 31 December 2002*	*Lapsed 2003*	*Exercised 2003*	*Balance at 31 December 2003*
1 May 2003	2,835,000	12,000	663,000	2,160,000
1 May 2004	165,000	24,000	-	141,000
1 May 2005	255,000	6,000	-	249,000

On 21 November 2000 the shareholders approved the termination of this Scheme, and thus no further options may be granted pursuant to this scheme.

(b) The Power Leisure plc 2000 Restricted Share Scheme (the "Restricted Scheme")

The Restricted Scheme was adopted by shareholders on 21 November 2000. Employees eligible to participate in the Restricted Scheme may not be participants in any other Company share option scheme (save for the Sharesave Scheme described below). In addition, to be eligible, a participant must have been an employee at 7 December 2000, must have at least three years continuous service, and must have been listed in the allocation schedule attached to the Rules of the Restricted Scheme. The awards of shares granted under the Restricted Scheme are in the amounts of €3,175, €1,905 or €1,270 per eligible employee.

18. Share Capital *(continued)*

The shares cannot be sold within five years of the date of the award being granted. During this period of five years the shares are held by the Power Leisure Employee Benefit Trustee Limited for the benefit of the relevant employees.

At 31 December 2003, 262,045 shares (2002: 239,216) owned by employees, are held on their behalf by Power Leisure Employee Benefit Trustee Limited.

(c) The Power Leisure plc November 2000 Share Option (the "Share Option Scheme")

The Share Option Scheme was adopted by shareholders on 21 November 2000. The Share Option Scheme is open to directors, other than non-executive directors, and employees.

Options may be granted within a period of 10 years from 7 December 2000 at the higher of nominal and current market value. Options may not be exercised earlier than three years from the date of grant and may only be exercised if the Group meets certain targets and any further condition on exercise which the Board determines to be appropriate. These targets require real growth (Consumer Price Index plus 5 percent compounded annually) in earnings per share of the Group over a period of not less than three years following the grant of an option. Since November 2000, 721,256 options have been granted under the scheme, no options have been exercised and options over 42,500 shares have lapsed. Options over 678,756 shares are exercisable at 31 December 2003 and are exercisable as follows:

Earliest Exercise Date	*Options at 31 December 2002*	*Lapsed in 2003*	*Granted in 2003*	*Options at 31 December 2003*	*Exercise Price*
December 2003	50,000	-	-	50,000	€2.40
January 2004	5,290	-	-	5,290	€2.40
August 2004	382,466	-	-	382,466	€3.59
July 2005	193,500	37,500	-	156,000	€5.25
May 2006	-	-	85,000	85,000	€5.00

(d) The Power Leisure plc Sharesave Scheme (the "Sharesave Scheme")

The Sharesave Scheme was adopted by shareholders on 21 November 2000 and was subsequently approved by the Revenue Commissioners.

All employees (including executive directors) who have not less than 12 months continuous service with the Group or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. Options will normally be granted to all eligible employees in the 42 day period after the announcement of the interim or final results of the Company. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 90 percent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme may not exceed €64.

Earliest Exercise Date	*Options at 31 December 2002*	*Lapsed in 2003*	*Options at 31 December 2003*	*Exercise Price*
March 2004	220,109	20,607	199,502	€2.16
July 2005	63,192	7,717	55,475	€4.95

General

The maximum number of shares for which options may be granted shall not, when added to the number of shares which have been or remain to be issued pursuant to options granted under the Sharesave Scheme, exceed one percent of the issued ordinary share capital of the Company. In addition, the number of shares for which options may be granted under the Sharesave Scheme in any period of ten successive calendar years shall not, when added to the number of shares which have been or remain to be issued pursuant to options in the Sharesave Scheme or granted during the same period under any other employee share scheme of the Company, exceed ten percent of the issued share capital of the Company.

All exercise periods end after three years from the earliest exercise dates shown above.

NOTES TO THE FINANCIAL STATEMENTS

18. Share Capital *(continued)*

(e) Long Term Incentive Plan
On 2 June 2003 the 2003 Long Term Incentive Plan for senior executives was adopted by the Shareholders, under which the directors can make conditional awards of a number of Company shares to each eligible executive. No conditional awards had been made under the plan at 31 December 2003.

19. Share Premium

	31 December 2003 *€'000*	*31 December 2002* *€'000*
At 1 January 2003	**3,305**	3,305
Premium less costs of share issue (note 18)	**670**	-
At 31 December 2003	**3,975**	3,305

20. Cash Flows

(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	Year ended 31 December 2003 *€'000*	*Year ended 31 December 2002* *€'000*
Operating profit	**19,632**	17,083
Depreciation	**6,405**	5,805
Amortisation of goodwill	**121**	121
Increase in debtors and prepayments	**(597)**	(282)
Increase in creditors	**6,549**	7,706
Loss on disposal of tangible fixed assets	**34**	2
Net cash inflow from operating activities	**32,144**	30,435

(b) Analysis of Changes in Cash During the Year

	Year ended 31 December 2003 *€'000*	*Year ended 31 December 2002* *€'000*
Balance at 1 January 2003	**36,373**	18,307
Net cash inflow	**2,800**	18,066
Balance at 31 December 2003	**39,173**	36,373

(c) Analysis of Net Funds

	Year ended 31 December 2002 *€'000*	*Cash Flows* *€'000*	*Year ended 31 December 2003* *€'000*
Cash at bank and in hand	36,373	2,800	**39,173**
Finance leases	(734)	313	**(421)**
Total	35,639	3,113	**38,752**

NOTES TO THE FINANCIAL STATEMENTS

21. Financial Assets - Company

The Company had the following subsidiaries, all of which are wholly equity owned, at 31 December 2003:

Name	*Country of Incorporation*	*Activity*	*Registered office*
Leisurebet Limited	Ireland	Bookmaker	Airton House Airton Road Tallaght Dublin 24
Zephyr Limited	Ireland	Property holding	
KOR Enterprises Limited	Ireland	Property holding	
Rexbury Limited	Ireland	Property holding	
QC Holdings Limited	Ireland	Property holding	
Pridepark Developments Limited	Ireland	Property holding	
Power Leisure Employee Benefit Trustee Limited	Ireland	Trust Company	
Paddy Power Call Centre Services Limited [1]	Isle of Man	Call centre administration	64a Athol Street Douglas Isle of Man IMI 1JE
Paddy Power Entertainment Limited [2]	Isle of Man	Non-trading	
Paddy Power Isle of Man Limited [2]	Isle of Man	Bookmaker	First Floor 28 Victoria Street Douglas Isle of Man IMI 2LE
Power Leisure Bookmaker Limited	UK	Bookmaker	Suite 17 City Business Centre Lower Road London SE16 2XB
Paddy Power (Malta) Limited	Malta	Non-trading	Alpine House San Gwan Malta

[1] Formerly Power Leisure (IOM) Limited

[2] These companies were incorporated during the year.

NOTES TO THE FINANCIAL STATEMENTS

22. Pension Arrangements

The Group operates defined contribution schemes for certain employees and executive directors. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pension costs for the year were €609,000 (2002: €579,000) and the amount due to the schemes at 31 December 2003 amounted to €118,000 (2002: nil).

23. Commitments and Contingencies

(a) Guarantees

The Company has revolving credit and guarantee facilities of €6.98m and €0.8m respectively with AIB plc. These facilities are unsecured.

(b) Capital Commitments

The Group has entered into commitments for capital expenditure not provided for in the financial statements amounting to €4.1 million (2002: €2.4 million).

(c) Operating Lease Commitments

The Group has annual commitments of €5.7 million (2002: €4.2 million) in respect of operating leases on properties which expire:

	31 December 2003 *€'000*
Leases which expire:	
Within 1 year	**422**
Between 2 and 5 years	**1,302**
After 5 years	**4,040**
	5,764

(d) Derivatives

The Group has no derivative financial instruments at 31 December 2003. The Group's policy in respect of treasury and foreign exchange exposures is set out in the Financial Review.

24. Transactions with Directors

In addition to the directors' emoluments disclosed in Note 6, in the year ended 31 December 2003 the directors were paid the amounts set out below. Stewart Kenny received €35,000 (2002: nil) in respect of consulting fees. The Group paid Cappagrove Limited €40,000 (2002: Nil) in respect of consulting fees provided to the Group by Fintan Drury, who has a beneficial interest in Cappagrove Limited. David Power received nil (2002 - €8,000) in respect of consulting fees.

The Group engaged in hedging transactions with David Power in his capacity as an on-course bookmaker. In aggregate, bets totalling €18,841 (2002 - €4,080) were paid by the Group to Richard Power On-Course Bookmakers and that firm placed bets winning €36,808 (2002 - losing €23,662) with the Group.

The Group paid rent of €25,124 (2002 - €19,046) and €19,205 (2002 - €12,697) during the year for retail properties occupied by the Group under long term leases and owned by Stewart Kenny and David Power respectively.

The Company paid Hg Pooled Management professional fees of €nil (2002: €47,702) for recruitment services. Ian Armitage is Managing Director of Hg Pooled Management.

All of the above transactions were conducted on an arm's length basis at normal commercial terms. No amounts were outstanding at year end in relation to these transactions.

25. Comparative Financial Statements

Certain comparative amounts have been reclassified to reflect the current year presentation.

FIVE YEAR FINANCIAL SUMMARY

Financial information for the Group for the five years ended 31 December 2003 is set out below in euro and sterling.

	2003	*2002*	*2001*	*2000*	*1999*
	€'000	*€'000*	*€'000*	*€'000*	*€'000*
			(restated)	*(restated)*	*(restated)*
Turnover	**913,624**	673,788	461,075	362,825	269,640
Operating profit	**19,632**	17,083	8,507	10,629	7,037
Profit on ordinary activities before taxation	**20,410**	17,822	9,092	10,950	7,065
Profit on ordinary activities after taxation	**17,551**	14,793	7,555	7,216	4,958
Net cash inflow from operating activities	**32,144**	30,435	11,461	20,104	9,279
Net assets	**52,274**	40,146	30,162	25,291	16,207

Set out below is the above financial information translated into sterling at the rates shown below, for illustrative purposes only.

	2003	*2002*	*2001*	*2000*	*1999*
	Stg£'000	*Stg£'000*	*Stg£'000*	*Stg£'000*	*Stg£'000*
			(restated)	*(restated)*	*(restated)*
Turnover	**630,390**	437,951	286,168	226,440	168,283
Operating profit	**13,546**	11,104	5,280	6,634	4,392
Profit on ordinary activities before taxation	**14,083**	11,584	5,643	6,834	4,409
Profit on ordinary activities after taxation	**12,110**	9,615	4,689	4,503	3,094
Net cash inflow from operating activities	**22,179**	19,782	7,114	12,547	5,791
Net assets	**36,068**	26,094	18,722	15,784	10,115

(Exchange rates 2003: 1.4493; 2002: 1.5385; 2001: 1.611; 2000 and 1999: 1.6023)

The craziest man in Formula 1, Cornelius Horan from Co. Kerry, runs across the track at last year's British Grand Prix.

Nobody knew who it was at the time, but one look at his white legs confirmed one thing, he was definitely Irish! The Holy Man was apparently on a 9 year "sabbatical" from the Priesthood at the time.

He managed to pick the fastest part of the track, the Hangar Straight, where the cars had to swerve to miss him while travelling up to 200 mph.

It may have been his most dangerous attempt at a religious protest, but it wasn't his first. He had previously tried a protest on centre court at Wimbledon during a rain break – probably as entertaining as Cliff Richard!

11/4 second favourite, Rubens Barichello, went on to win the race from 9/1 shot Juan Pablo Montoya and 4/1 shot Kimi Raikonnen.

leg it!

ADDITIONAL INFORMATION FOR SHAREHOLDERS

1. Listings

Paddy Power plc is an Irish registered Company. Its ordinary shares are quoted on the Irish Stock Exchange and the London Stock Exchange.

2. Registrar

Enquiries concerning shareholdings should be addressed to the Company's Registrar:

Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

Telephone: +353-1-216 3100.
Facsimile: +353-1-216 3151.
Website: www.computershare.com.

3. Payment of Dividends Direct to a Bank Account

Shareholders resident in Ireland or in the UK may have their dividends paid by electronic transfer direct to a designated bank account, under advice from the Company showing full details of the amounts so credited. Shareholders who wish to avail of this facility should contact the Company's Registrar (see 2 above).

4. Payment of Dividends

Dividends are paid in euro. Shareholders requiring sterling dividend payment should contact the registrar (see 2 above).

5. Crest

Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

6. Dividend Withholding Tax ('DWT')

Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions.

Further information concerning DWT may be obtained from:
DWT Section, Office of the Revenue Commissioners, St. Conlon's Road, Nenagh, Co. Tipperary, Ireland.
Telephone: +353-67-33533.
Facsimile: +353-67-33822.
E-mail info@dwt.revenue.ie

General
With certain exceptions, dividends paid by Irish resident companies on or after 6 April 2000 are subject to DWT at the standard rate of income tax, to apply at the reduced rate of 20% from 6 April 2001. DWT, where applicable, is deducted by the Company from all dividends. The following summarises the position in respect of different categories of shareholder:

A. Irish Resident Shareholders

Individuals
Individuals resident in the Republic of Ireland for tax purposes are liable to DWT in respect of dividends received. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT is available for offset against their income tax liability; where the DWT exceeds such liability, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the excess.

Shareholders not liable for DWT
The following classes of shareholder who receive the dividend in a beneficial capacity are exempt from DWT, provided the shareholder furnishes a properly completed declaration on a standard form, to the Company's Registrar, not less than three working days prior to the relevant dividend payment record date:

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Collective Investment Undertakings;
- Charities exempt from income tax on their income;
- Athletic/amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ('SPIA');
- Qualifying fund manager of approved retirement fund or an approved Minimum Retirement Fund;
- Persons exempt from tax on income from personal injury claims.

Copies of the relevant declaration form may be obtained from the Company's Registrar or from the Revenue Commissioners at their addresses shown on page 62.

Once lodged with the Company's Registrar, the declaration form remains current from its date of issue until 31 December in the fifth year following the year of issue, or, within such period, until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to shareholders not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown on page 62, for a refund of the DWT so deducted.

Qualifying Intermediaries
Dividends received by a shareholder who is a qualifying intermediary on behalf of a shareholder not liable for DWT may be received without deduction of DWT.

A 'qualifying intermediary' is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory*, and:

- holds a licence under the Central Bank Act, 1971, or a similar authorisation under the law of a relevant territory, or is owned by a Company which holds such a licence;
- is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
- otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary; and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

* *A 'relevant territory' means a member state of the European Communities, other than the Republic of Ireland, or a country with which the Republic of Ireland has entered into a double taxation agreement.*

Information concerning conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown on page 62. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company's Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT.

A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown on page 62.

B. Non-Irish resident shareholders

The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:

(a) an individual who is neither resident nor ordinarily resident for the purpose of tax in the Republic of Ireland and who is resident for tax purposes in a relevant territory;

(b) an unincorporated entity resident for tax purposes in a relevant territory;

(c) a Company which is resident in a relevant territory and which is not under the control, whether directly or indirectly, of a person or persons who is/are residents for the purpose of tax in Ireland; or

(d) a Company which is ultimately controlled, whether directly or indirectly, by a person or persons who is/are resident for the purposes of tax in a 'relevant territory';

(e) a Company not resident in the Republic of Ireland, the principal class of whose shares are traded on a recognised stock exchange in a relevant territory or on such other stock exchange as may be approved by the Minister for Finance, including a Company which is a 75% subsidiary of such a Company; or a Company not resident in the Republic of Ireland that is wholly-owned by two or more companies, each of whose principal class of shares is so traded.

ADDITIONAL INFORMATION FOR SHAREHOLDERS

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form available from the Irish Revenue Commissioners and from the Company's Registrar, to the Company's Registrar not less than three working days in advance of the relevant dividend payment record date, accompanied by:

- Categories (a) and (b): The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary and a notice in writing from the Irish Revenue Commissioners stating that the Irish Revenue Commissioners have noted the contents of the certificate.
- Category (c): The declaration must be certified by the tax authority of the country in which the Company is resident for tax purposes. The Company's auditor must also certify the declaration.
- Categories (d) and (e): The declaration must be certified by the Company's auditor.
- Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without declaration of DWT - see 'Qualifying Intermediaries' under 'Irish Resident Shareholders' at A on page 63.

C. Dividend statements

Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted therefrom. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

Financial calendar

Announcement of final results for 2003	25 February 2004
Ex-dividend date	3 March 2004
Record date for dividend	5 March 2004
Annual General Meeting	22 June 2004
Dividend payment date	25 June 2004
Announcement of interim results for 2004	September 2004

Paddy Power plc Annual Report 2003

Paddy Power plc

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