

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 Basis of Preparation and Provisional Accounting Policies

The financial statements are prepared under the historical cost convention and are presented in euro, rounded to the nearest thousand.

Further to IAS Regulation (EC1606/2002), European Union ('EU') law requires that the next annual consolidated financial statements of the Group for the year ended 31 December 2005 be prepared in accordance with accounting standards adopted for use in the EU ('Accounting standards adopted for use in the EU').

This interim financial information has been prepared on the basis of the recognition and measurement requirements of International Financial Reporting Standards and International Accounting Standards (collective 'IFRS') in issue that either are adopted for use in the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be adopted and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use accounting standards adopted for use by the EU. Based on these recognition and measurement requirements management has made assumptions about the accounting policies expected to be applied when the first annual financial statements are prepared in accordance with accounting standards adopted by the EU for the year ending 31 December 2005.

The accounting standards adopted for use in the EU that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 December 2005.

The interim consolidated financial information was authorised for issue by the Directors on 30 August 2005.

An explanation of how the transition to IFRS has affected the financial information is outlined below:

First time adoption of International Financial Reporting Standards ('IFRS').

Up to and including the year ended 31 December 2004, the Group's financial statements were prepared in accordance with generally accepted accounting principles as promulgated by the Institute of Chartered Accountants in Ireland (Irish GAAP).

IFRS 1 'First-time adoption of International Financial Reporting Standards' (IFRS1), is the accounting standard governing the implementation of IFRS for the first time. This standard allows or requires a number of exceptions to its general principles that the standards in force at the reporting date should be applied retrospectively. At the transition date 1 January 2004, the exemptions to retrospective implementation availed of are that the Group has implemented the requirements of IFRS 2 'Share-based Payments' to all equity settled share based payments granted after 7 November 2002 that had not vested by 1 January 2005 and has not restated business combinations prior to the transition date in accordance with IFRS3 'Business Combinations'.

The principal changes to the Group's financial statements resulting from the implementation of IFRS are set out in the table and related notes below:

Restatement of Consolidated Income Statement under Irish GAAP to IFRS

	Six months ended 30 June 2004 €'000	Year ended 31 December 2004 €'000
Operating Profit – Irish GAAP	18,203	31,134
IFRS 2 – Share-based payments	(74)	(152)
IFRS 3 – Business Combinations	60	121
Operating Profit – IFRS	18,189	31,103

Restatement of Consolidated Balance Sheet under Irish GAAP to IFRS

	Six months ended 30 June 2004 €'000	Year ended 31 December 2004 €'000
Total Assets – Irish GAAP	104,469	111,906
IFRS 3 – Business Combinations	60	121
Total Assets – IFRS	104,529	112,027
Total Liabilities – Irish GAAP	40,551	40,117
IAS 10 – Events after the Balance Sheet date	(2,983)	(6,234)
Total Liabilities – IFRS	37,568	33,883
Total Equity – Irish GAAP	63,918	71,789
IFRS 3 – Business Combinations	60	121
IFRS 2 – Share-based payments	–	–
IAS 10 – Events after the Balance Sheet date	2,983	6,234
Total Equity – IFRS	66,961	78,144

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Restatement of Consolidated Balance Sheet under Irish GAAP to IFRS (continued)

Total Equities and Liabilities – Irish GAAP	104,469	111,906
IFRS 3 – Business Combinations	60	121
IFRS 2 – Share-based payments	–	–
Total Equities and Liabilities – IFRS	104,529	112,027

IFRS 2 ‘Share-based payments’

The effect on the income statement of implementing IFRS2 to the various Group share-based payment schemes is an increase in employee expenses of €74,000 and €152,000 for the six months ended 30 June 2004 and the year ended 31 December 2004 respectively. This cost gives rise to a corresponding increase in a newly created reserve for employee share-based payments. In addition to the income statement effect, IFRS2 resulted in a reclassification of reserves from retained earnings to the reserve for employee share-based payments. This resulted in transfers of €25,000, €377,000 and €754,000 from retained earnings to the reserve for employee share-based payments as at 1 January 2004, 30 June 2004 and 31 December 2004 respectively.

IFRS 3 ‘Business Combinations’

The effect on the income statement of implementing IFRS3 is a decrease in the goodwill expense of €60,000 and €121,000 for the six months ended 30 June 2004 and the year ended 31 December 2004 respectively, due to the cessation of goodwill amortisation in respect of acquisitions.

IAS 38 ‘Intangible Assets’

The Group has reviewed the requirements of IAS 38 ‘Intangible Assets’ and has reclassified assets, principally licence acquisition costs and computer software, from property, plant and equipment to intangibles based on the definition of an intangible outlined in the standard.

The effect on the income statement of implementing IAS38 is a reclassification of depreciation expense to amortisation expense of €21,000 and €48,000 for the six months ended 30 June 2004 and the year ended 31 December 2004 respectively. The net overall effect on the income statement of the reclassification is nil. The effect on the balance sheet is a reduction in the cost of property, plant and equipment and an increase in the cost of intangible assets of €876,000, €978,000 and €1,228,000 as at 1 January 2004, 30 June 2004 and 31 December 2004 respectively. Similarly accumulated depreciation is reduced by €28,000, €49,000 and €76,000 as at 1 January 2004, 30 June 2004 and 31 December 2004 respectively, with corresponding increases in the accumulated amortisation of intangibles. This gives an overall effect of a reduction in the net book value of property plant and equipment and an increase in intangible assets of €848,000, €929,000 and €1,152,000 as at 1 January 2004, 30 June 2004 and 31 December 2004 respectively.

IAS 10 'Events after the Balance Sheet Date'

Under IAS 10 'Events after the Balance Sheet Date', dividends are provided for in the period when they are approved by the directors (interim dividend) or shareholders (final dividend). The effect on the balance sheet is a reduction in trade and other payables and increase in retained earnings of €4,106,000, €2,983,000 and €6,234,000 as at 1 January 2004, 30 June 2004 and 31 December 2004 respectively.

Provisional Accounting Policies

The accounting policies adopted by the Group under IFRS, in the preparation of these interim statements and which are expected to apply for the year ended 31 December 2005, are set out below. Full details of the accounting policies applied in previous periods under Irish GAAP can be found on page 41 of the 2004 Annual Report.

Basis of Consolidation

The Group's financial statements consolidate the financial statements of Paddy Power plc and its subsidiary undertakings based on accounts made up to the end of the financial period. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation.

Revenue

Revenue represents proceeds from sports betting and gaming activities. Sports betting turnover represents amounts received in respect of bets placed on events that occurred during the period. Gaming revenue comprises Games turnover and Casino revenue. Games betting turnover, represents amounts received in respect of bets on games completed during the period and Casino revenue is 'customer drop' which is the amounts staked net of customer winnings. Revenue is exclusive of betting taxes and levies.

Segment Reporting

Business segments are distinguishable components of the Group that provide products and services that are subject to risks and returns that are different from other business segments. Geographical segments provide services within a particular economic environment that are subject to risks and rewards that are different from those components operating in alternative economic environments. The Group has determined that business segments are the primary reporting segments.

Foreign Currency

The consolidated financial statements are presented in euro. Transactions denominated in foreign currencies are translated at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into euro at the rates of exchange ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non monetary assets and liabilities measured on a historical cost basis in a foreign currency are translated using the exchange rate at the date of the original transaction. The asset and liabilities of foreign operations, including goodwill arising on consolidation, are translated to euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to euro at rates approximating to the foreign exchange rates ruling

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at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight line basis over their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	50 years
Leasehold improvements	unexpired term of the lease (including renewal period where initial lease term is less than ten years)
Fixtures and fittings	5-7 years
Computer equipment	3 years
Motor vehicles	3 years

The residual value, if not insignificant, is reassessed annually.

Intangible Assets including Goodwill

Goodwill recognised under Irish GAAP prior to the date of transition to IFRS is stated at net book value as at the transition date. Goodwill recognised subsequent to 1 January 2004, representing the excess of purchase consideration over fair value of net assets acquired defined in accordance with IFRS3 'Business Combinations', is capitalised. Goodwill is not amortised but is reviewed for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period it which it arises.

Other acquired intangible assets, including licences and computer software are capitalised at cost and amortised on a straight line basis over their estimated useful economic lives. The estimated useful lives of intangible assets range from 5 to 20 years.

Impairment

The carrying amounts of property, plant and equipment, and intangible assets are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists the recoverable amount of the asset or its cash generating units is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Goodwill was tested for impairment at 1 January 2004, the date of transition to IFRS, even though no indication of impairment existed.

The recoverable amount of other assets is the greater of their sales price or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the business segment to which the asset belongs.

Leases and Leased Assets

Leases, under the terms of which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. The assets acquired by way of finance lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment loss. Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability and the charge is allocated to the income statement during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

Interest

Interest income is recognised in the income statement as it accrues, using the effective interest rate method.

Income tax

Income tax in the income statement comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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Pensions

The Group operates a number of defined contribution schemes. Obligations for contributions are recognised as an expense in the income statement as incurred.

Employee Benefits

The Group operates equity-settled share option schemes for employees under which employees acquire options over company shares. The fair value of share options granted is recognised as employee benefit cost with a corresponding increase in the employee share-based reserve. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Group operates an equity-settled share save scheme ('SAYE') for employees under which employees acquire options over company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as employee benefit cost with a corresponding increase in the employee share-based reserve. The fair value is measured at grant date and spread over the period of the savings contract. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Group operates an equity-settled long-term incentive scheme for selected senior executives under which the executives are conditionally awarded shares which vest upon the achievement of predetermined earnings targets. The fair value is measured at the award date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the employee share-based reserve. The fair value of the shares conditionally awarded is measured using the market price of the shares at the time of award.

Payments to the long term incentive plan's trustees to acquire company shares which have been conditionally awarded to executives under the terms of the long-term incentive plan are shown separately in equity in the consolidated balance sheet.

Share Capital

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or in the case of the interim dividend, when it has been approved by the Board of Directors. Dividends declared after the balance sheet date are disclosed in the subsequent events note.

Cash and Cash Equivalents

Cash and cash equivalents for the purpose of the statement of cash flows comprises cash balances, and call deposits.

2 Segmental Information - restated

(a) By business segment

	Retail	Retail	Retail	Non	Non	Non	Total	Total	Total
	30/6/05	30/6/04	31/12/04	Retail	Retail	Retail	30/6/05	30/6/04	31/12/04
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	401,342	340,438	688,651	302,800	213,660	476,514	704,142	554,098	1,165,165
Segment result	7,188	12,822	18,716	12,137	7,150	15,369	19,325	19,972	34,085
Unallocated group expenses							(1,571)	(1,783)	(2,982)
Operating profit							17,754	18,189	31,103
Financial income/expense							613	476	1,006
Taxation							(2,571)	(2,708)	(4,662)
Profit after tax							15,796	15,957	27,447
Segment assets	65,878	47,238	59,313	8,124	7,371	7,381	74,002	54,609	66,694
Unallocated group assets							47,602	49,920	45,333
Total assets							121,604	104,529	112,027
Segment liabilities	7,240	9,484	9,675	11,044	11,002	10,218	18,284	20,486	19,893
Unallocated group liabilities							17,346	17,082	13,990
Total liabilities							35,630	37,568	33,883
Capital expenditure	9,694	10,445	24,645	1,529	1,726	3,097	11,223	12,171	27,742
Depreciation	4,018	2,638	6,585	1,300	946	2,039	5,318	3,584	8,624
Non cash expenses other than depreciation	401	235	440	454	225	435	855	460	875

(b) By geographical segment

	Ireland	Ireland	Ireland	UK	UK	UK	Total	Total	Total
	& Other	& Other	& Other	UK	UK	UK	30/6/05	30/6/04	31/12/04
	30/6/05	30/6/04	31/12/04	30/6/05	30/6/04	31/12/04	€'000	€'000	€'000
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	486,176	408,023	829,541	217,966	146,075	335,624	704,142	554,098	1,165,165
Segment assets	95,013	88,666	96,549	26,591	15,863	15,478	121,604	104,529	112,027
Capital expenditure	7,478	6,883	17,084	3,745	5,288	10,658	11,223	12,171	27,742

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Further analysis of the business segments by channel shows:

	Six months ended 30 June 2005	Six months ended 30 June 2004 (Restated)	Year ended 31 December 2004 (Restated)
	€'000	€'000	€'000
Turnover			
Retail	401,342	340,438	688,651
Telephone	127,588	105,828	236,546
Online	175,212	107,832	239,968
	704,142	554,098	1,165,165
Gross Win			
Retail	49,628	48,284	88,701
Telephone	10,985	10,962	19,664
Online	20,319	12,945	25,745
	80,932	72,191	134,110
Gross Profit			
Retail	43,684	42,940	78,296
Telephone	9,448	9,258	17,151
Online	15,519	9,429	20,186
	68,651	61,627	115,633
Operating Profit			
Retail	6,653	12,238	17,727
Telephone	2,960	2,305	4,549
Online	8,141	3,646	8,827
	17,754	18,189	31,103

3 Earnings per Share

	Six months ended 30 June 2005	Six months ended 30 June 2004 (Restated)	Year ended 31 December 2004 (Restated)
	€'000	€'000	€'000
Profit attributable to ordinary shareholders	15,796	15,957	27,447
Weighted average number of shares in issue during the period	49,792	47,919	48,536
Dilutive effect of options outstanding	1,135	2,631	2,054
Adjusted weighted average number of shares in issue during the period	50,927	50,550	50,590
Basic earnings per share	31.7c	33.3c	56.6c
Diluted earnings per share	31.0c	31.6c	54.2c

4 Post Balance Sheet Event

Interim Dividend

On 30 August 2005, the Directors declared an interim dividend of 7.75c per share. This will be paid on 23 September 2005 to Shareholders on the Company's register of members at the close of business on the record date of 9 September 2005.