

Notes to the Consolidated Interim Financial Statements

1 Basis of Preparation and Accounting Policies

The interim financial statements are prepared on the historical cost basis except for betting transactions, which are recorded as financial instruments, and share based payments both of which are stated at fair value. The financial statements are presented in euro, rounded to the nearest thousand. The statements have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU at 30 June 2006. The accounting policies applied in the preparation of these interim financial statements are consistent with those set out in the Annual Report for the year ended 31 December 2005 except for a change in the Group's revenue recognition policy which is outlined below.

In 2006, as a result of a change in industry practice, the Group has concluded that a sportsbook bet is a financial instrument. As a result the Group now accounts for betting transactions as trading financial instruments in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. The implications of classifying betting transactions as trading financial instruments are twofold:

1. Firstly, in relation to sports betting activities, revenue now represents the net gain/ (loss) on betting transactions (stake less payout) from customers whereas previously revenue represented amounts staked by customers and the payout was shown separately in cost of winning bets. In previous financial statements this gain/ (loss) on betting transactions was reported by the Group as "Gross Win".
2. Secondly, under IAS 39 amounts received from customers on events that have not occurred by period end are measured at fair value. Thus at period end open positions in respect of sports betting activities are carried at fair market

value and gains and losses arising on this valuation are recognised in revenue, as well as gains and losses realised on positions that have closed. In previous financial statements, amounts received from customers on events that had not occurred by period end were treated as deferred income.

The income statements for the six months ended 30 June 2005 and the year ended 31 December 2005 have been restated to reflect the change in reported revenue. The changes had no impact on reported profits, cashflows and total equity for periods ending 30 June 2005 and 31 December 2005.

The consolidated income statement of the Group will continue to show amounts staked by customers but this is for information purposes only. Amounts staked represent amounts received in respect of bets placed on sporting events in the period and net winnings from gaming. The presentation of Group turnover for the six months ended 30 June 2005 has been revised to include all gaming at net winnings rather than amounts staked. This is consistent with the presentation of turnover in the periods ended 31 December 2005 and 30 June 2006.

Revenue Recognition Policy

The services provided by the Group comprise sports betting, fixed odds games betting, online casino and games and peer to peer games, including online poker. Revenue is stated exclusive of value-added taxes and certain promotional bonuses.

Retail, telephone and online sportsbook betting activities are classified as financial instruments. Revenue from these activities represents the net gain or loss from betting activities in the period plus the gain or loss on the revaluation of open positions at period end.

Notes to the Consolidated Interim Financial Statements (continued)

Revenue from fixed odds games and online casino represents net winnings ('customer drop') being amounts staked net of customer winnings. Revenue from peer to peer games (including online poker) represents commission income ('rake') and tournament fees earned

from games completed by the period end.

Interest income is recognised on an accruals basis by reference to the principal outstanding and the effective rate of interest.

2 Segmental Information

(a) By business segment

Business segment information for the six months ended 30 June 2006

	Retail	Non Retail	Other Unallocated	Total
	€'000	€'000	€'000	€'000
Revenue	61,841	43,126	-	104,967
Gross profits tax, duty, royalties, profit shares and other cost of sales	(10,856)	(8,889)	-	(19,745)
Gross profit	50,985	34,237	-	85,222
Depreciation and amortisation	(4,834)	(1,625)	(17)	(6,476)
Other operating costs	(38,452)	(17,745)	(2,929)	(59,126)
Operating profit	7,699	14,867	(2,946)	19,620
Financial income	-	-	867	867
Profit before tax	7,699	14,867	(2,079)	20,487
Total assets	82,672	9,329	64,650	156,651
Segment liabilities	12,240	21,077	16,719	50,036
Capital expenditure	10,616	2,115	2	12,733

Business segment information for the six months ended 30 June 2005

	Retail	Non Retail	Other Unallocated	Total
	€'000	€'000	€'000	€'000
Revenue	49,628	31,304	-	80,932
Gross profits tax, duty, royalties, profit shares and other cost of sales	(5,944)	(6,337)	-	(12,281)
Gross profit	43,684	24,967	-	68,651
Depreciation and amortisation	(4,018)	(1,300)	-	(5,318)
Other operating costs	(32,478)	(11,530)	(1,571)	(45,579)
Operating profit	7,188	12,137	(1,571)	17,754
Financial income	-	-	613	613
Profit before tax	7,188	12,137	(958)	18,367
Total assets	65,878	8,124	47,602	121,604
Segment liabilities	7,240	11,044	17,346	35,630
Capital expenditure	9,694	1,529	-	11,223

Notes to the Consolidated Interim Financial Statements (continued)

2 Segmental Information (continued)

Business segment information for the year ended 31 December 2005

	Retail	Non Retail	Other Unallocated	Total
	€'000	€'000	€'000	€'000
Revenue	98,460	62,388	-	160,848
Gross profits tax, duty, royalties, profit shares and other cost of sales	(13,484)	(11,794)	-	(25,278)
Gross profit	84,976	50,594	-	135,570
Depreciation and amortisation	(8,481)	(2,814)	-	(11,295)
Other operating costs	(64,348)	(23,737)	(6,072)	(94,157)
Operating profit	12,147	24,043	(6,072)	30,118
Financial income	-	-	1,226	1,226
Profit before tax	12,147	24,043	(4,846)	31,344
Total assets	67,346	9,141	56,027	132,514
Segment liabilities	10,432	12,165	13,866	36,463
Capital expenditure	24,302	3,166	-	27,468

(b) By geographical segment

	Ireland & Other 30/6/06 €'000	Ireland & Other 30/6/05 €'000	Ireland & Other 31/12/05 €'000	UK 30/6/06 €'000	UK 30/6/05 €'000	UK 31/12/05 €'000	Total 30/6/06 €'000	Total 30/6/05 €'000	Total 31/12/05 €'000
Revenue	72,840	56,960	112,338	32,127	23,972	48,510	104,967	80,932	160,848
Segment assets	110,608	95,013	106,623	46,043	26,591	25,891	156,651	121,604	132,514
Capital expenditure	8,994	7,478	18,598	3,739	3,745	8,870	12,733	11,223	27,468

Notes to the Consolidated Interim Financial Statements (continued)

2 Segmental Information (continued)

Further analysis of the business segments by channel shows:

	Six months ended 30 June 2006 €'000	Six months ended 30 June 2005 €'000	Year ended 31 December 2005 €'000
Amounts Staked			
Retail	474,699	401,342	794,321
Telephone	155,033	127,588	249,871
Online	247,893	161,214	327,518
	877,625	690,144	1,371,710
Revenue			
Retail	61,841	49,628	98,460
Telephone	12,369	10,985	19,454
Online	30,757	20,319	42,934
	104,967	80,932	160,848
Gross Profit			
Retail	50,985	43,684	84,976
Telephone	11,192	9,448	17,151
Online	23,045	15,519	33,443
	85,222	68,651	135,570
Operating Profit			
Retail	6,721	6,653	9,480
Telephone	3,203	2,960	3,649
Online	9,696	8,141	16,989
	19,620	17,754	30,118

Notes to the Consolidated Interim Financial Statements (continued)

3 Earnings per Share

	Six months ended 30 June 2006 €'000	Six months ended 30 June 2005 €'000	Year ended 31 December 2005 €'000
Profit attributable to equity shareholders	17,496	15,796	26,954
Weighted average number of shares in issue during the period	50,235	49,792	49,840
Dilutive effect of options outstanding	543	1,135	1,127
Adjusted weighted average number of shares in issue during the period	50,778	50,927	50,967
Basic earnings per share	34.8c	31.7c	54.1c
Diluted earnings per share	34.5c	31.0c	52.9c

The basic weighted average number of shares excludes shares held by the Paddy Power Employee Benefit Trust. The effect of this is to reduce the average number of shares in the 26 weeks to 30 June 2006 by 439,543 shares.

4 Dividends paid and proposed

	Six months ended 30 June 2006 €'000	Six months ended 30 June 2005 €'000	Year ended 31 December 2005 €'000
Final Dividend of 12.52c per share for year ended 31 December 2004		6,265	6,265
Interim dividend of 7.75c per share for period ended 30 June 2005			3,903
Final Dividend of 12.84c per share for year ended 31 December 2005	6,476		
	6,476	6,265	10,168

The Directors propose an interim dividend of 9.43c per share which will be paid on 29 September 2006 to shareholders on the Company's register of members at the close of business on the record date of 15 September 2006. This dividend has not been included as a liability at 30 June 2006.

Notes to the Consolidated Interim Financial Statements (continued)

5 Movement in equity

	Share Capital	Share Premium	Other Reserves	Shares held by long term incentive plan trust	Share based payment reserve	Retained Earnings	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance at 1 January 2005	5,005	6,680	923	(2,306)	931	67,464	78,697
Recognised income and expense			(1)			26,954	26,953
Dividends to shareholders						(10,168)	(10,168)
Share issues, net of costs	35	868					903
Shares purchased by employee trust				(2,623)			(2,623)
Increase in share based reserve					2,289		2,289
Balance at 31 December 2005	5,040	7,548	922	(4,929)	3,220	84,250	96,051
Recognised income and expense						17,496	17,496
Dividends to shareholders						(6,476)	(6,476)
Share issues, net of costs	66	1,573					1,639
Shares purchased by employee trust				(3,741)			(3,741)
Increase in share based payment reserve					1,646		1,646
Transfers on vesting of employee shares and options				533	(539)	6	-
Balance at 30 June 2006	5,106	9,121	922	(8,137)	4,327	95,276	106,615

6 Statutory financial statements

This interim report does not comprise full statutory financial statements. Full statutory financial statements for the year ended 31 December 2005, prepared in accordance with International Financial Reporting Standards as adopted by the EU together with an unqualified audit report thereon are available from the Company, from the website www.paddypowerplc.com and from the Registrar of Companies.

7 Board approval

This interim report was approved by the Board of Directors of Paddy Power plc on 5 September 2006.