Notes to the Consolidated Financial Statements

1. General information

Paddy Power plc (the 'Company') and its subsidiaries (together referred to as the 'Group') provide 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'). The Group also provides online gaming services through 'paddypower.com', 'paddypowerpoker.com', 'paddypowercasino.com' and 'paddypowerbingo.com'. It provides these services principally in Ireland and the United Kingdom.

The Company is a public limited company incorporated and domiciled in the Republic of Ireland and has its primary listing on the Irish Stock Exchange. The address of its registered office is set out on page 3.

The consolidated financial statements of the Group for the year ended 31 December 2006 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 2 March 2007.

2. Basis of preparation and summary of significant accounting policies

The consolidated 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 consolidated financial statements are presented in euro, rounded to the nearest thousand.

Further to IAS Regulation (EC1606/2002) ('Accounting standards adopted for use in the EU'), EU law requires that the annual consolidated financial statements of the Group be prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted by the European Union ('EU'). The consolidated financial statements have been prepared on the basis of IFRSs adopted by the EU and effective at 31 December 2006. The accounting policies set out below have been applied consistently by Group entities.

The accounting policies applied in the preparation of these consolidated 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.

Restatement of revenue presentation and recognition of ante post bets accrual at fair value

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. 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 the 2005 Annual Report this gain/(loss) on betting transactions was reported by the Group as 'Gross Win'.

2. Under IAS 39, amounts received from customers on sporting and other events that have not occurred by year end are measured at fair value. Thus at year end, sports betting open positions (included in trade and other payables - Note 21) are carried at fair market value and gains and losses arising on this valuation are recognised in revenue, together with the 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. There was no material adjustment from the revaluation of sports betting open positions at either 31 December 2006 or 2005.

2. Basis of preparation and summary of significant accounting policies (continued)

The consolidated income statement for the year ended 31 December 2005 has been restated to reflect the change in reported revenue and direct betting costs as follows:

	Gross revenue €'000	Cost of winning bets €'000	Revenue €'000	Direct betting costs €'000	Gross profit €'000
As previously reported	1,371,710	(1,236,140)	- **	- **	135,570
Adjustment	(1,371,710)	1,236,140	160,848	(25,278)	-
Restated	-*	-*	160,848	(25,278)	135,570

** Does not form part of the 2006 income statement presentation*
*** Did not form part of the 2005 income statement presentation*

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. This is consistent with the presentation of gross revenue in the year ended 31 December 2005.

Recent accounting pronouncements

The IFRSs adopted by the EU applied by the Company and Group in the preparation of these financial statements are those that were effective at 31 December 2006. The following provides a brief outline of the likely impact on future financial statements of relevant IFRSs adopted by the EU which are not yet effective and have not been adopted early in these financial statements:

- Amendment to IAS 1, 'Capital Disclosures': This amendment will require additional disclosures regarding the capital structure of the Group. The impact is not expected to be material in terms of Group reporting.
- IFRS 7, 'Financial Instruments: Disclosures': This standard updates and extends the existing disclosure requirements of IAS 32 and will require additional disclosures relating to risk management policies and processes. The impact of IFRS 7 is not expected to be material in terms of Group reporting.
- IFRIC 8, 'Scope of IFRS 2 Share-based Payment' addresses the accounting for share-based payment transactions in which some or all goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. This IFRIC is not expected to have a material impact on the Group.

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 year. A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation except to the extent that unrealised losses provide evidence of impairment.

Judgements and estimates

The preparation of financial statements in conformity with IFRS adopted by the EU requires certain critical accounting estimates. It also requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable and appropriate under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

2. Basis of preparation and summary of significant accounting policies (continued)

The estimates and underlying assumptions are continually reviewed and evaluated to reflect the Group's view of current conditions. New events or additional information may result in a revision of these estimates over time. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. It is possible that actual results may differ from these estimates.

Judgements made by management in the application of IFRSs that have a high degree of complexity or a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the forthcoming year are discussed in Note 27.

Revenue

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 and bingo. Revenue is stated exclusive of value-added taxes and certain free bets, promotions and 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.

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 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.

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 its business segments of retail and non retail are the primary reporting segments.

Foreign currency

The consolidated financial statements are presented in euro. Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates ruling at the dates of the transactions. Non-monetary assets are not subsequently translated as they are carried at historical cost. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into the functional currency at the rates of exchange ruling at that date. Foreign exchange differences arising on such translations are recognised in the income statement. The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated into euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into euro at rates approximating the foreign exchange rates ruling at the dates of the transactions.

2. Basis of preparation and summary of significant accounting policies (continued)

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:

Buildings: Freehold	50 years
Buildings: Leasehold 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 an unconditional right of renewal
Fixtures and fittings	3 - 7 years
Computer equipment	3 years
Motor vehicles	5 years

Assets in the process of construction are stated at cost less impairment losses. Depreciation of these assets begins when the assets are ready for their intended use.

The residual value of property, plant and equipment, if not insignificant, is reassessed annually.

Goodwill

Goodwill recognised under Irish Generally Accepted Accounting Practice ('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 identifiable assets acquired defined in accordance with IFRS 3 'Business Combinations', is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. 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 in which it arises.

Intangible assets

Intangible assets, comprising computer software and licences, are capitalised at cost and amortised on a straight line basis over their estimated useful economic lives.

Computer software includes the costs incurred in acquiring and bringing specific software programs into use. Maintenance costs relating to computer software programs are expensed to the income statement when incurred.

Licences comprise the costs of acquiring retail bookmaking licences, the rents incurred in respect of the period prior to each shop opening for business and licences for electronic point of sale ('EPOS') system software.

The estimated useful economic lives of intangible assets, according to which amortisation is calculated, are as follows:

Computer software	3 - 5 years
Licences	5 - 20 years

Impairment

The carrying amounts of property, plant and equipment, intangible assets and goodwill 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 the cash generating units to which it relates, is estimated. For intangible assets that are not yet available for use and goodwill, the recoverable amount is estimated at each annual balance sheet date, regardless of whether any indication of the impairment exists. 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.

The recoverable amount of such assets or cash generating units is the greater of their fair value less costs to sell 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.

2. Basis of preparation and summary of significant accounting policies (continued)

Trade and other receivables

Trade and other receivables are stated at their nominal value as reduced by appropriate allowances for estimated impaired amounts.

Non-derivative financial instruments

In addition to sports betting activities (see revenue accounting policy above), non-derivative financial instruments comprise cash and cash equivalents and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transactions costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual right to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents for the purpose of the statement of cash flows comprise cash at bank and on hand and call deposits with an original maturity of three months or less.

Leases

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.

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.

Pensions

The Group operates a number of defined contribution schemes. Obligations for contributions are recognised as an expense in the income statement as service is received from the respective employees.

2. Basis of preparation and summary of significant accounting policies (continued)

Long term incentive bonus plan

The Group accounts for obligations relating to long term incentive bonus plans for executive directors and other employees at the present value of the defined benefit obligation at the balance sheet date. The service cost relating to such plans is allocated to the financial years over which service under the plan is rendered by the employee. The income statement expense represents the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Share-based payments

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 share-based payment reserve in equity. 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 an employee benefit cost with a corresponding increase in the share-based payment 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 plan for selected senior executives under which the executives are conditionally granted shares which vest upon the achievement of predetermined earnings targets. The fair value is measured at the grant date and is spread over the period during which the employees become unconditionally entitled to the shares with a corresponding increase in the share-based payment reserve. The fair value of the shares conditionally granted is measured using the market price of the shares at the time of grant.

Own shares held

Purchases of the Company's shares by the long term incentive plan's trust, which have been conditionally awarded to executives under the terms of the long term incentive plan, are shown separately as a deduction from equity in the consolidated balance sheet.

Dividends

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 and paid. Dividends declared after the balance sheet date are disclosed in Note 25.

3. Segment reporting

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

(a) By business segment

The Group considers its primary business segments to be 'retail' and 'non retail'. The retail business segment comprises the Group's Irish and UK licensed bookmaking shop estates. The non retail business segment comprises the Group's online and telephone sports betting businesses and its online gaming businesses, primarily casino, games, poker and bingo.

Business segment information for the year ended 31 December 2006:

	Retail	**Non retail**	**Other unallocated**	**Total**
	31/12/06	**31/12/06**	**31/12/06**	**31/12/06**
	€'000	**€'000**	**€'000**	**€'000**
Revenue	126,783	91,923	-	218,706
Direct betting costs	(17,250)	(17,840)	-	(35,090)
Gross profit	109,533	74,083	-	183,616
Depreciation and amortisation	(12,035)	(3,449)	(28)	(15,512)
Other operating costs	(79,258)	(36,911)	(6,473)	(122,642)
Operating profit before property gain	18,240	33,723	(6,501)	45,462
Property gain	2,098	-	-	2,098
Operating profit	20,338	33,723	(6,501)	47,560
Financial income	-	-	2,149	2,149
Financial expense	-	-	(10)	(10)
Profit before tax	20,338	33,723	(4,362)	49,699
Total assets	87,970	12,350	78,519	178,839
Segment liabilities	14,559	22,466	13,683	50,708
Capital expenditure	22,422	4,421	2	26,845

Business segment information for the year ended 31 December 2005:

	Retail	Non retail	Other unallocated	Total
	31/12/05	31/12/05	31/12/05	31/12/05
	(restated)	(restated)	(restated)	(restated)
	€'000	€'000	€'000	€'000
Revenue	98,460	62,388	-	160,848
Direct betting costs	(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

3. Segment reporting (continued)

The amounts shown in the 'other unallocated' category above, representing items that cannot be allocated to either the retail or non retail segments, are primarily in respect of management costs relating to the Group as a whole, cash deposits held centrally and certain accounts payable, tax and accrual balances.

(b) By geographic segment

The Group considers that its primary geographic segments are 'Ireland & other' and 'UK'. The Ireland & other geographic segment is composed of the Irish retail bookmaking business, online and telephone sports betting from non-UK customers (principally in Ireland), and online gaming from non-UK customers. The UK geographic segment consists of the UK retail bookmaking business, online and telephone sports betting from UK customers, and online gaming from UK customers.

	Ireland & other 31/12/06	Ireland & other 31/12/05 (restated)	**UK 31/12/06**	UK 31/12/05 (restated)	**Total 31/12/06**	Total 31/12/05 (restated)
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Revenue	**148,462**	112,338	**70,244**	48,510	**218,706**	160,848
Segment assets	**131,269**	106,623	**47,570**	25,891	**178,839**	132,514
Capital expenditure	**14,369**	18,598	**12,476**	8,870	**26,845**	27,468

3. Segment reporting (continued)

Further analysis of the business segments by channel is as follows:

	2006	2005 (restated)
	€'000	€'000
Amounts staked by customers		
Retail – Ireland	**833,125**	703,780
Retail – UK	**129,936**	90,541
Retail	**963,061**	794,321
Telephone	**306,604**	249,871
Online	**525,425**	327,518
	1,795,090	1,371,710
Revenue		
Retail – Ireland	**104,385**	83,642
Retail – UK	**22,398**	14,818
Retail	**126,783**	98,460
Telephone	**24,519**	19,454
Online	**67,404**	42,934
	218,706	160,848
Gross profit		
Retail – Ireland	**91,510**	73,970
Retail – UK	**18,023**	11,006
Retail	**109,533**	84,976
Telephone	**22,352**	17,151
Online	**51,731**	33,443
	183,616	135,570
Operating profit before exceptional item		
Retail – Ireland	**22,025**	14,136
Retail – UK	**(5,995)**	(4,656)
Retail	**16,030**	9,480
Telephone	**6,004**	3,649
Online	**23,428**	16,989
	45,462	30,118

In December 2005, the tax regime for fixed odds betting terminals ('FOBTs') in the UK retail estate was changed and gross profits tax was replaced by value added tax ('VAT'). While the amount of tax levied is broadly unchanged, accounting practice requires that income is included within revenue net of VAT, whereas previously the income was included gross with the gross profits tax being deducted in arriving at gross profit. The VAT charged on FOBT income in 2006 was €1.2m. The equivalent gross profits tax in 2005 was €0.6m.

4. Direct betting costs

Direct betting costs comprise:

	2006 €'000	2005 (restated) €'000
Betting taxes	**12,895**	6,549
Software supplier costs	**7,487**	4,651
Data rights	**2,411**	3,603
Other direct betting costs	**12,297**	10,475
	35,090	25,278

Betting taxes comprise taxes levied on gross win and tax levied on Irish retail amounts staked generated in the period 1 July 2006 to 31 December 2006. On 1 July 2006, the Irish government replaced the previous 2% customer based betting tax with a 1% tax levied on the bookmaker.

Software supplier costs comprise direct costs incurred under supplier agreements for the provision of online casino, poker, fixed odds gaming services and FOBTs.

Data rights mainly comprise costs incurred in respect of British Horseracing Board and UK statutory levies.

Other direct betting costs comprise discounts on bets granted in the Irish retail estate prior to 1 July 2006, payments to third parties for new online customers acquired, prize and tournament costs and other miscellaneous direct betting costs.

5. Employee expenses and numbers

	2006 €'000	2005 €'000
Wages and salaries	**50,661**	41,586
Social security costs	**4,891**	3,157
Defined contribution pension and life assurance costs	**1,677**	1,211
Share-based payments (Note 19)	**3,184**	2,289
Other staff costs	**3,814**	2,833
	64,227	51,076

	2006	2005
The average number of persons employed by the Group (including executive directors), all of whom were involved in the provision of betting services, during the year was	**1,414**	1,255

6. Directors' emoluments and transactions with key management personnel

Included in directors' emoluments are the following emoluments in respect of directors who were in office during the year:

	Fees €'000	Salary €'000	Pension costs €'000	Benefits €'000	Annual bonus €'000	2006 €'000	2005 €'000
Executive							
Patrick Kennedy (1)	-	572	172	45	459	1,248	301
Breon Corcoran	-	317	47	18	197	579	389
Jack Massey (2)	-	172	34	16	112	334	-
John O'Reilly (3)	-	-	-	-	-	-	1,050
Ross Ivers (4)	-	-	-	-	-	-	968
Non-Executive							
Fintan Drury	160	-	-	-	-	160	110
Tom Grace (5)	65	-	-	-	-	65	-
Stewart Kenny	55	-	-	-	-	55	40
Nigel Northridge	55	-	-	-	-	55	40
David Power (6)	71	-	-	-	-	71	50
Brody Sweeney (7)	55	-	-	-	-	55	35
Stephen Thomas (8)	25	-	-	-	-	25	50
	486	1,061	253	79	768	2,647	3,033

1. During the year ended 31 December 2005, Patrick Kennedy was paid fees of €36,000 in respect of services as a non-executive director for the period up to 18 September 2005, after which he became a full time executive of the Company as Chief Executive Designate.
2. Jack Massey was appointed to the Board on 25 April 2006.
3. John O'Reilly retired from the Board on 31 December 2005.
4. Ross Ivers resigned from the Board on 6 December 2005.
5. Tom Grace was appointed to the Board on 3 January 2006. He is Chairman of the Audit Committee.
6. David Power is Chairman of the Remuneration Committee and the Risk Committee.
7. Brody Sweeney was appointed to the Board on 16 February 2005.
8. Stephen Thomas resigned from the Board on 16 May 2006.

Benefits include provision of a company car or car allowance, life and medical insurance. Share-based payment costs in respect of the Group's Long Term Incentive Plan (see Note 19) and the accrual made in respect of the long term incentive bonus plan are not included in the above table.

6. Directors' emoluments and transactions with key management personnel (continued)

Other transactions with directors

There were no loans outstanding to any director at any time during the year. Details of directors' interests in share awards and share options are set out on page 25. Other related party transactions between the Group and the directors, all of which were conducted on an arm's length basis at normal commercial terms, are set out below.

In addition to the directors' emoluments disclosed above, in the year ended 31 December 2006 directors were paid the amounts set out below:

Stewart Kenny received €60,000 (2005: €60,000) in respect of consulting fees.

The Group engages in transactions with David Power in his capacity as an on-course bookmaker. In aggregate, the Group placed bets losing €224,793 (2005: winning €78,772) with Richard Power On-Course Bookmakers and that firm placed bets with the Group losing €74,454 (2005: losing €32,314).

The Group paid rent of €38,727 (2005: €38,727) during the year for retail properties occupied by the Group under long term leases and owned by David Power.

Transactions with key management personnel comprising executive and other senior management

Key management personnel compensation is as follows:

	2006 €'000	2005 €'000
Wages and salaries	**3,883**	3,164
Social security costs	**477**	366
Defined contribution pension and life assurance costs	**490**	1,069
Provision for executive director long term incentive bonus plan (1)	**625**	-
Share-based payments	**2,546**	2,045
Other staff costs	**228**	199
	8,249	6,843

	2006 €'000	2005 €'000
Executive directors	**2,161**	2,672
Other key management personnel	**2,440**	1,760
Provision for executive director long term incentive bonus plan (1)	**625**	-
Social security costs	**477**	366
Share-based payments	**2,546**	2,045
	8,249	6,843

(1) An amount of €625,000, accrued by the Company in respect of Breon Corcoran's long term incentive bonus plan, has not been included in the table of directors' emoluments on page 57. As set out in the Remuneration Committee Report on pages 39 and 40, no payment obligation has crystallised under the plan at this point and payment is dependent on the non retail division achieving very challenging operating profit targets in the year ended 31 December 2009.

Notes to the Consolidated Financial Statements (continued)

7. Exceptional item

	2006 €'000	2005 €'000
Gain on disposal of Irish retail shop property	**2,098**	-

During the 2006 financial year, the Group disposed of a shop property. This property, which forms part of the Group's Irish retail licensed bookmaking operations, was originally held under an operating lease. The Group exercised a purchase option contained in the lease and subsequently sold the property at arm's length to a third party, simultaneously entering into a leaseback agreement at arm's length with that third party.

8. Net financing costs

	2006 €'000	2005 €'000
Financial income:		
- Deposit interest income	**2,149**	1,226
Financial expense:		
- Bank overdraft and other interest payable	**(10)**	-
	2,139	1,226

9. Statutory and other information

	2006 €'000	2005 €'000
Directors' emoluments	**2,647**	3,033
Auditor's remuneration for audit services	**140**	140
Depreciation	**13,190**	9,875
Amortisation of intangible assets	**2,322**	1,420
(Gain)/ loss on disposal of property, plant and equipment	**(1,183)**	267
Operating lease rentals, principally premises	**10,230**	8,828
Operating lease income	**(158)**	(148)

Amounts paid to the auditor in respect of non-audit services, comprising tax fees, were €152,000 (2005: €160,000).

10. Income tax expense

	2006 €'000	2005 €'000
Recognised in the income statement:		
Current tax charge	**8,536**	4,249
Prior year under/(over) provision	**789**	(211)
	9,325	4,038
Deferred tax (credit)/charge	**(403)**	352
Prior year over provision	**(468)**	-
(Decrease)/increase in deferred tax	**(871)**	352
Total income tax expense in income statement	**8,454**	4,390

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

		2006 €'000		2005 €'000
Profit before tax		**49,699**		31,344
Tax on Group profit before tax at the standard Irish corporation tax rate of 12.5% (2005: 12.5%)	12.5%	**6,212**	12.5%	3,918
Depreciation on non-qualifying property, plant and equipment	0.6%	**285**	2.7%	837
Betting duty	1.1%	**528**	-	-
Expenses deductible for tax purposes	0.0%	**(4)**	(1.4%)	(432)
Other differences	0.4%	**225**	(0.0%)	(2)
Chargeable gains	0.3%	**159**	-	-
Interest income taxable at the higher rates	0.5%	**260**	0.9%	280
Under/(over) provision in prior year	1.6%	**789**	(0.7%)	(211)
Total income tax charge	17.0%	**8,454**	14.0%	4,390

No corporation tax is payable in the UK due to the availability of tax losses. A deferred tax asset of €2,842,000 (2005: €2,760,000) relating to these losses forward has not been recognised in accordance with the Group's accounting policy for deferred tax. There is no expiry date in respect of these losses.

No significant changes are expected to statutory tax rates in the future.

11. Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year as follows:

	2006	2005
Numerator in respect of basic and diluted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**41,245**	26,954
Numerator in respect of adjusted earnings per share (€'000):		
Profit attributable to equity holders of the Company	**41,245**	26,954
Less: Property gain after tax	**(1,677)**	-
Profit for adjusted earnings per share calculation	**39,568**	26,954
Denominator in respect of basic earnings per share:		
Ordinary shares in issue at beginning of year	**50,397,168**	50,045,581
Adjustments for - ordinary shares issued during year	**494,991**	152,251
- ordinary shares held by long term incentive plan trust	**(547,905)**	(357,952)
Weighted average number of ordinary shares	**50,344,254**	49,839,880
Basic earnings per share	**€0.819**	€0.541
Adjusted earnings per share	**€0.786**	€0.541
Denominator in respect of diluted earnings per share:		
Basic weighted average number of ordinary shares in issue during year	**50,344,254**	49,839,880
Adjustments for dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and long term incentive plan	**501,021**	1,127,252
Weighted average number of ordinary shares	**50,845,275**	50,967,132
Diluted earnings per share	**€0.811**	€0.529
Adjusted diluted earnings per share	**€0.778**	€0.529

12. Property, plant and equipment

	Land, buildings & leasehold improvements €'000	Fixtures & fittings €'000	Computer equipment €'000	Motor vehicles €'000	Total €'000
Cost					
Balance at 1 January 2005	35,405	42,955	10,009	851	89,220
Additions	7,116	13,916	3,892	453	25,377
Disposals	(1,020)	(3,571)	(188)	(212)	(4,991)
Balance at 31 December 2005	41,501	53,300	13,713	1,092	109,606
Transfers (Note 13)	-	-	(1,294)	-	(1,294)
	41,501	53,300	12,419	1,092	108,312
Additions	5,875	10,929	2,890	229	19,923
Disposals	(1,619)	(989)	(151)	(215)	(2,974)
Balance at 31 December 2006	45,757	63,240	15,158	1,106	125,261
Accumulated depreciation					
Balance at 1 January 2005	7,392	17,162	6,596	363	31,513
Charge for year	1,944	6,416	1,280	235	9,875
Disposals	(530)	(3,355)	(160)	(137)	(4,182)
Balance at 31 December 2005	8,806	20,223	7,716	461	37,206
Charge for year	2,255	8,242	2,528	165	13,190
Disposals	(566)	(586)	(66)	(157)	(1,375)
Balance at 31 December 2006	10,495	27,879	10,178	469	49,021
Net book value					
At 31 December 2006	35,262	35,361	4,980	637	76,240
At 31 December 2005	32,695	33,077	5,997	631	72,400

The net book value of land, buildings and leasehold improvements at 31 December 2006 includes €30.4m (2005: €27.3m) in respect of leasehold improvements.

Computer equipment at 31 December 2005 includes an amount of €4.2m in respect of equipment which was either not available for use or in test. Accordingly these assets were not depreciated during 2005. The carrying cost of these assets included €0.5m in respect of internal labour costs. These assets were placed into service during 2006 and have been depreciated thereafter.

During 2006, an amount of €1,294,000, relating to computer equipment either not available for use or in test as of 31 December 2005 and included in property, plant and equipment additions in 2005, was reclassified as computer software and transferred to intangible assets (see Note 13).

The directors do not consider the remaining useful lives of property, plant and equipment to be materially different from the period over which the assets are being depreciated.

Directive 2002/96/EC of the European Parliament and of the Council of 27 January 2003 on Waste Electrical and Electronic Equipment was introduced on 13 August 2005. The Group has adopted a comprehensive policy on collection, treatment, recovery, reuse and recycling of waste and does not believe that the introduction of this directive will have a material effect on the carrying cost of property, plant and equipment purchased prior to 13 August 2005. The cost of collection, treatment, recovery and recycling of property, plant and equipment purchased subsequent to 13 August 2005 is financed through the payment of charges on acquisition. These charges, none of which are material, are capitalised as part of the cost of the related asset and depreciated over the assets' expected useful lives.

13. Intangible assets

The movements during the prior year and current year in respect of intangible assets, which comprise computer software and licences, were as follows:

	Computer software €'000	Licences €'000	Total €'000
Cost			
Balance at 1 January 2005	4,982	1,228	6,210
Additions	1,650	441	2,091
Balance at 31 December 2005	6,632	1,669	8,301
Transfers (Note 12)	1,294	-	1,294
	7,926	1,669	9,595
Additions	4,526	2,396	6,922
Disposals	-	(250)	(250)
Balance at 31 December 2006	12,452	3,815	16,267
Amortisation			
Balance at 1 January 2005	3,190	76	3,266
Amortisation for year	1,355	65	1,420
Balance at 31 December 2005	4,545	141	4,686
Amortisation for year	2,038	284	2,322
Disposals	-	(1)	(1)
Balance at 31 December 2006	6,583	424	7,007
Net book value			
At 31 December 2006	5,869	3,391	9,260
At 31 December 2005	2,087	1,528	3,615

14. Goodwill

The following cash generating units, being the lowest level of asset for which there are separately identifiable cash flows, have the following carrying amounts of goodwill:

	Irish retail €'000	UK retail €'000	Total €'000
Balance at 31 December 2006 and 31 December 2005	904	976	1,880

Goodwill on Irish retail properties arose from the amalgamation of three bookmaking businesses to form Paddy Power plc.

Goodwill on UK retail properties arose from the acquisition of two London bookmaking businesses in 2004.

Impairment tests for cash generating units containing goodwill

In accordance with accounting requirements, the Group performs an annual test for impairment of its cash generating units. The most recent test was performed at 31 December 2006.

The retail divisions in Ireland and the UK include the following amounts in respect of goodwill:

	31 December 2006 €'000	31 December 2005 €'000
Irish retail	**904**	904

The recoverable amount of the Irish retail underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets approved by management covering a five year period. Cash flows for thereafter have been extrapolated assuming a weighted average revenue growth rate of 5% (2005: 5%) and a gross win of 13% (2005: 12%) which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. Cash flow growth for the extrapolated period is projected to be approximately 3% per annum. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 9% (2005: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the Irish retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

	31 December 2006 €'000	31 December 2005 €'000
UK retail	**976**	976

The recoverable amount of the two London underlying cash generating units was estimated based on value in use calculations. These calculations use cash flow projections based on actual operating results and financial budgets approved by management covering a five year period. Cash flows for thereafter have been extrapolated assuming a weighted average revenue growth rate of 5% (2005: 5%) and a reduced gross win of 13% (2005: 13%) which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. The growth rate assumption is considered realistic by management in light of the recent performance of the Group and the Group's targeted performance over the next five years. Cash flow growth for the extrapolated period is projected to be approximately 3% per annum. It is assumed, and management have no reason to expect otherwise, that the Group will continue to trade in locations currently occupied by the underlying cash generating units for the foreseeable future. A pre-tax discount rate of 10% (2005: 10%), which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows. Management believes that any reasonably possible change in the key assumptions on which the UK retail goodwill recoverable amount is based would not cause its carrying amount to exceed its recoverable amount.

14. Goodwill (continued)

The primary assumptions used by management in assessing the recoverable amounts of the relevant cash generating units over the initial five year review period are as follows:

	Irish retail	**UK retail**
Growth in number of bets per annum	5%	5% reducing to 2%
Growth in average stake per bet per annum	2%	3%
Gross win % (of amounts staked)	14% reducing to 13%	14%
Cost of sales % (of amounts staked)	1%	4%

The assumptions above are based on past experience, management's expectations for market development, growth in market share, gross win percentage margins and cost inflation for the five year period.

The discount rate applied to the cash flows is based on the risk free rate for ten years plus government bonds, adjusted for a risk premium that reflects both the increased risk of investing in equities and the systemic risk of the cash generating units. The risk premium is calculated using the equity market risk premium (being the increased return required by investors in the equity market as a whole over and above the risk free rate available) and the risk adjustment applied to reflect the risk of the specific cash generating unit relative to the market as a whole.

Based on the reviews as described above, no impairment has arisen.

15. Trade and other receivables

	31 December 2006 €'000	31 December 2005 €'000
Sundry receivables and prepayments	**4,203**	2,134

The carrying amounts of trade and other receivables approximate their fair value. Trade and other receivables are non-interest bearing.

16. Cash and cash equivalents

	31 December 2006 €'000	31 December 2005 €'000
Cash at bank and on hand	**7,670**	3,538
Short-term bank deposits	**79,391**	48,780
Cash and cash equivalents in the statement of cash flows	**87,061**	52,318

The effective interest rate on short-term bank deposits was 3.95% (2005: 2.55%); these deposits have an average original maturity date of 30 days (2005: 53 days). The short-term bank deposits have an average maturity date of 10 days from 31 December 2006 (2005: 15 days).

Short-term bank deposits are analysed by currency as follows:

	31 December 2006 €'000	31 December 2005 €'000
Euro	**66,000**	44,490
Sterling	**13,391**	4,290
	79,391	48,780

The carrying amounts of these assets approximate their fair values.

17. Share capital and reserves

	Number of ordinary shares in issue	Share capital €'000	Share premium €'000	Other reserves €'000	Shares held by long term incentive plan trust €'000	Share -based payment reserve €'000	Retained earnings €'000
Balance at 1 January 2005	50,045,581	5,005	6,680	923	(2,306)	931	67,464
Shares issued	351,587	35	868	-	-	-	-
Own shares acquired:							
190,000 ordinary shares	-	-	-	-	(2,623)	-	-
Total recognised income and expense	-	-	-	(1)	-	-	26,954
Equity-settled transactions	-	-	-	-	-	2,289	-
Dividends to shareholders (Note 18)	-	-	-	-	-	-	(10,168)
Balance at 31 December 2005	50,397,168	5,040	7,548	922	(4,929)	3,220	84,250
Balance at 1 January 2006	50,397,168	5,040	7,548	922	(4,929)	3,220	84,250
Shares issued	841,269	84	2,663	-	-	-	-
Share issue costs	-	-	(48)	-	-	-	-
Own shares acquired:							
280,000 ordinary shares	-	-	-	-	(3,742)	-	-
Total recognised income and expense	-	-	-	1	-	-	41,245
Equity-settled transactions	-	-	-	-	534	2,636	-
Transfer to retained earnings on exercise of share options	-	-	-	-	-	(243)	243
Dividends to shareholders (Note 18)	-	-	-	-	-	-	(11,293)
Balance at 31 December 2006	51,238,437	5,124	10,163	923	(8,137)	5,613	114,445

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2005: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid.

During the year, 841,269 ordinary shares of €0.10 each (2005: 351,587 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for total consideration of €2,747,000 (2005: €903,000), giving rise to a share premium of €2,663,000 (2005: €868,000).

Other reserves comprise the net foreign exchange translation differences together with a capital redemption reserve fund and a capital conversion reserve fund. The capital redemption reserve fund of €662,000 (2005: €662,000) relates to the nominal value of shares in the Company acquired by the Company and subsequently cancelled. The capital conversion reserve fund of €260,000 (2005: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from Irish pounds to euro. The foreign exchange reserve at 31 December 2006 was €1,000 (2005: €nil).

In 2006, an amount of €243,000 (2005: €nil) in respect of options exercised during the year was transferred from the share-based payment reserve to retained earnings.

As permitted by section 148(8) of the Companies Act, 1963 no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year (measured in accordance with Irish GAAP) of €25.1m (2005: €19.2m).

17. Share capital and reserves (continued)

At 31 December 2006, the Company held 654,500 of its own shares (2005: 430,000), which were acquired at a total cost of €8,137,000 (2005: €4,929,000), in respect of potential future awards relating to the Group's Long Term Incentive Plan (see Note 19). The Company's distributable reserves at 31 December 2006 are restricted by this amount. During the year, 55,500 shares originally valued at €534,000 were transferred from the Long Term Incentive Plan trust to a former director of the Company.

18. Dividends paid on equity shares

	2006 €'000	2005 €'000
Ordinary shares:		
- final paid of €0.1284 per share (2005: €0.1252)	**6,476**	6,265
- interim paid of €0.0943 per share (2005: €0.0775)	**4,817**	3,903
	11,293	10,168
Proposed final dividend of €0.2277 (2005: €0.1284) per share (see Note 25)	**11,665**	6,416

19. Share schemes

The Company has the following employee share schemes:

The Paddy Power 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 have been granted at an exercise price of €1.16 per share. These options were granted prior to 7 November 2002 and accordingly, do not fall within the scope of IFRS 2 'Share-based Payment'.

Since May 2000, options over 3,396,000 shares have been exercised and options over a further 90,000 shares have lapsed. Options over 57,000 shares are outstanding at 31 December 2006 (2005: 384,000). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2005	**Options exercised during year**	**Options outstanding at 31 December 2006**	**Earliest exercise date***	**Exercise price**	**Market price at date of exercise**
300,000	300,000	-	1 May 2003	€1.16	€13.35
27,000	9,000	18,000	1 May 2004	€1.16	€15.07
57,000	18,000	39,000	1 May 2005	€1.16	€12.70 – €13.10
384,000	**327,000**	**57,000**			

** Share options lapse 10 years after date of grant.*

During 2005, 207,000 options were exercised at an exercise price of €1.16 when the market price ranged from €13.44 to €14.70.

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

19. Share schemes (continued)

The Paddy Power 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 (except for the Sharesave Scheme described below). In addition, to be eligible, a participant must have been an employee at 7 December 2000, must have had 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 were in the amounts of €3,175, €1,905 or €1,270 per eligible employee.

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 Trust for the benefit of the relevant employees.

At 31 December 2006, 49,588 ordinary shares (2005: 272,903) owned by employees are held on their behalf by Power Leisure Employee Benefit Trust.

The Paddy Power plc November 2000 Share Option Scheme (the 'Share Option Scheme')

The Share Option Scheme was adopted by shareholders on 21 November 2000 and modified by the shareholders on 22 June 2004. The Share Option Scheme is open to directors, other than non-executive directors, and employees. Options may be granted within a period of ten 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 ('CPI') plus five 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, 1,423,672 options have been granted under the scheme. Options granted before 7 November 2002 do not fall within the scope of IFRS 2 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

Since November 2000, options over 699,171 shares have been exercised and options over 152,866 shares have lapsed. Options over 571,635 shares were outstanding at 31 December 2006 (2005: 843,257), of which 10,000 were exercisable at 31 December 2006 (2005: 377,466). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2005	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2006	Earliest exercise date*	Exercise price	Market price at date of exercise
Granted before 7 November 2002							
302,466	-	-	302,466	-	August 2004	€3.59	€14.10 - €14.60
75,000	-	-	65,000	10,000	July 2005	€5.25	€12.80 - €14.15
Granted after 7 November 2002							
85,000	-	-	85,000	-	May 2006	€5.00	€14.15 - €16.29
105,366	-	-	51,415	53,951	February 2007	€8.15	€15.40 - €15.55
8,000	-	-	-	8,000	March 2007	€8.90	-
94,000	-	-	10,000	84,000	June 2007	€9.43	€15.95
13,684	-	-	-	13,684	September 2007	€9.80	-
15,741	-	15,741	-	-	February 2008	€12.89	-
144,000	-	6,000	-	138,000	September 2008	€14.80	-
-	56,300	35,300	-	21,000	March 2009	€12.55	-
-	243,000	-	-	243,000	September 2009	€14.40	-
843,257	**299,300**	**57,041**	**513,881**	**571,635**			

** Share options lapse 10 years after date of grant.*

19. Share schemes (continued)

During 2005, options over 50,000 shares were exercised at an exercise price of €3.59 when the market price was €14.41 and options over 50,000 shares were exercised at an exercise price of €5.25 when the market price per share was between €14.05 and €15.20. During 2005, options in respect of 13,000 shares at an exercise price of €5.25 per share and options in respect of 13,000 shares at an exercise price of €9.43 per share lapsed.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €786,000 (2005: €481,000). The significant inputs into the model were the share prices for the two grant dates of €12.55 and €14.40 (2005: share prices for two grant dates ranging from €12.89 to €14.80), the exercise prices shown above, the standard deviation of expected share price returns of 26% (2005: 25%), the expected term as disclosed above, and an annual risk free rate of 3.61% (2005: 3.14%). The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's share price over the last three years.

The Paddy Power 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 Company 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 75 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 €320.

Options granted before 7 November 2002 do not fall within the scope of IFRS 2 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

Options outstanding at 31 December 2005	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2006	Earliest exercise date*	Exercise price
Granted before 7 November 2002						
1,060	-	672	388	-	July 2005	€4.95
Granted after 7 November 2002						
264,271	-	48,987	-	215,284	October 2008	€11.60
-	98,457	2,260	-	96,197	December 2009 & December 2011	€11.29
-	6,568	-	-	6,568	December 2009 & December 2011	€12.04
265,331	**105,025**	**51,919**	**388**	**318,049**		

** Share options lapse 3.5 and 5.5 years after date of grant.*

Options over 388 shares were exercised during 2006 when the market price was €12.75.

During 2005, options over 44,587 shares were exercised at an exercise price of €4.95 when the market price ranged from €13.30 to €15.13. During 2005, options in respect of 1,783 shares at an exercise price of €4.95 per share lapsed.

19. Share schemes (continued)

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €374,000 (2005: €889,000). The significant inputs into the model were the share price of €15.05 (2005: €14.50) at the grant date, the exercise prices of €11.29 and €12.04 (2005: €11.60), the standard deviation of expected share price returns of 26% (2005: 25%), the option life disclosed above, and an annual risk free rate of 3.69% (2005: 3.00%). The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's daily share price over the last three years.

Long Term Incentive Plan

On 22 June 2004, the 2004 Long Term Incentive Plan ('LTIP') for senior executives was adopted by the Shareholders, under which the directors can make conditional grants of a number of Company shares to each eligible executive. The grants are subject to the rules of the scheme. In accordance with the rules, the grant will vest if the growth target (EPS growth at least equal to the compound growth in CPI plus 12% per annum) is achieved over the minimum vesting period of three years. To the extent the grant does not vest in full in respect of the minimum vesting period, the award will continue in effect in accordance with the rules and will vest if the growth target is met over the four year period measured from the commencement of the minimum vesting period. To the extent the award does not vest in full in respect of such four year period, the grant will continue in effect in accordance with the rules and will vest if the growth target is met over the five year period measured from the commencement of the minimum vesting period, provided, however, that to the extent the grant has not vested on or before the latest vest date specified above, the grant will automatically lapse in its entirety immediately following such date.

Until the vesting of the award in accordance with the rules of the scheme, the grantholder will have no rights over or in respect of the shares subject to the grant and on vesting, the grantholder's rights are limited to those shares in respect of which the growth target has been achieved in accordance with the rules of the scheme. The grants are not transferable. In relation to the awards of shares granted in 2004, the relevant growth target has been met and eligible awards are expected to vest. Upon the vesting of a share award, as part of the grantholders' rights they shall now receive a small number of additional shares purchased from the dividends received by the LTIP trustee in respect of those shares prior to the vesting date, regarded as a de facto part of the original share award.

During the year, awards of 165,000 and 85,000 shares (2005: 250,000 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €12.55 and €13.68, respectively (2005: €12.27 to €14.40). The total cost of this grant is estimated at €3,234,000 (2005: €2,986,000) and is expensed in the Group income statement over the minimum vesting period of the grant (being the expected term of the grant), i.e. three years. The operating profit for the year ended 31 December 2006 is stated after an LTIP charge of €2,598,000 (2005: €1,937,000). As a result of the resignation of a director of the Company in 2005, an award of 30,000 shares granted in 2005 lapsed during the year.

The Paddy Power plc Employee Benefit Trust ('the Trust') was established to manage the Long Term Incentive Plan. The Trust purchased 240,000 Paddy Power plc shares on 28 June 2004 at a cost of €2.3m, 190,000 Paddy Power plc shares between 18 May 2005 and 23 May 2005 at a cost of €2.6m and a further 280,000 Paddy Power plc shares between 21 June 2006 and 28 June 2006 at a cost of €3.7m. On 28 June 2006, 55,500 shares with an original value of €534,000 were vested from the Trust to a former director of the Company. The results of the Trust are included in the Paddy Power plc Company financial statements. The shares held by the Trust at the balance sheet date are shown as a deduction from equity in the consolidated balance sheet in accordance with the Group's accounting policy.

19. Share schemes (continued)

Paddy Power 2004 Second Tier Option Scheme

On 22 June 2004, the shareholders approved the establishment of the Paddy Power 2004 Second Tier Option Scheme, which allows the Company to grant options to employees, exercisable after a five year performance period, upon the achievement by the Company of exceptional performance levels. To be exercisable, the Company's earnings per share must grow during the five year performance period by at least the percentage increase in the Consumer Price Index plus ten percent per annum compounded and the Company's earnings per share growth must be in the top quarter in performance terms of a specified peer group.

No options have been granted to date under this scheme to any Group employees.

Summary of options outstanding

The total number of options outstanding at 31 December 2006 was 946,684 (2005: 1,492,588). These options had exercise prices ranging from €1.16 to €14.80 (2005: €1.16 to €14.80).

	Options outstanding at 31 December 2005	**Options granted during year**	**Options lapsed during year**	**Options exercised during year**	**Options outstanding at 31 December 2006**
Executive share option scheme	384,000	-	-	327,000	57,000
Share option scheme	843,257	299,300	57,041	513,881	571,635
Sharesave scheme	265,331	105,025	51,919	388	318,049
Total	**1,492,588**	**404,325**	**108,960**	**841,269**	**946,684**

Summary of share-based payments expense

The share-based payments expense in the income statement in respect of the Group's share schemes above is comprised as follows:

	2006 €'000	2005 €'000
Share option schemes	**312**	263
Sharesave scheme	**274**	89
Long term incentive plan	**2,598**	1,937
Total	**3,184**	2,289

General

The aggregate number of shares which may be utilised under the employee share option schemes and the LTIP in any ten year period may not exceed ten percent of the Company's issued ordinary share capital. The percentage of share capital which can be utilised under these schemes and the Sharesave Scheme comply with guidelines issued by the Irish Association of Investment Managers in relation to such schemes.

20. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2006			31 December 2005		
	Assets 2006 €'000	**Liabilities 2006 €'000**	**Total 2006 €'000**	Assets 2005 €'000	Liabilities 2005 €'000	Total 2005 €'000
Property plant and equipment	**99**	**-**	**99**	-	(783)	(783)
Lease premiums – income element	**-**	**(196)**	**(196)**	-	(60)	(60)
Freehold and leasehold interest	**-**	**-**	**-**	156	-	156
Employee benefits	**292**	**-**	**292**	11	-	11
Net assets/(liabilities)	**391**	**(196)**	**195**	167	(843)	(676)

All of the above deferred tax balances are in respect of Irish corporation tax. The deferred tax assets and liabilities have been offset at 31 December 2006 as there is a legally enforceable right to such set-off.

Unrecognised deferred tax assets:

Deferred tax assets have not been recognised in respect of the following items:

	31 December 2006 €'000	31 December 2005 €'000
UK tax losses	**2,842**	2,760

A deferred tax asset has not been recognised in respect of the UK tax losses as it is not certain when taxable profits will be generated against which to offset these losses.

Movement in temporary differences during the year:

	Balance at 1 January 2005 €'000	Recognised in income 2005 €'000	**Balance at 31 December 2005 €'000**	**Recognised in income 2006 €'000**	**Balance at 31 December 2006 €'000**
Property, plant and equipment	(363)	(420)	**(783)**	**882**	**99**
Lease premiums – income element	(34)	(26)	**(60)**	**(136)**	**(196)**
Freehold and leasehold interest	66	90	**156**	**(156)**	**-**
Employee benefits	7	4	**11**	**281**	**292**
	(324)	(352)	**(676)**	**871**	**195**

21. Trade and other payables

	31 December 2006 €'000	31 December 2005 €'000
Trade payables	**6,261**	5,594
Customer balances	**13,410**	10,034
Sports betting open positions	**2,877**	2,077
PAYE and social security	**1,659**	1,182
Value added tax	**582**	570
Betting duty	**3,647**	3,488
Accruals and other liabilities	**20,704**	11,928
	49,140	34,873

21. Trade and other payables (continued)

Sports betting open positions

Amounts received from customers on sportsbook events that have not occurred by the year end have been designated by the Group on initial recognition as financial liabilities at fair value through profit and loss. In previous financial statements, amounts received from customers on events that had not occurred by year end were treated as deferred income.

The fair value of open sports bets at the year end has been calculated using the latest available prices on relevant sporting events. The fair value calculation also includes the impact of any hedging activities in relation to these open positions.

The carrying amount of the liability is not significantly different from the amount that the Group is expected to pay out at maturity of the financial instruments. Movements in the fair value of the financial liability are not related to changes in benchmark interest rates.

Of the open sports bets amount at 31 December 2006, €2,848,000 is due to mature in the year ending 31 December 2007 and €29,000 is due to mature in the year ending 31 December 2008.

Sports bets are non-interest bearing. There is no interest rate or credit risk associated with open sports bets. A currency risk may arise where such bets are denominated in a currency other than the euro. This currency risk is not considered significant as any payout on such bets is made in the same currency as that in which the bet was originally staked.

22. Commitments and contingencies

(a) Guarantees

The Group has working capital overdraft facilities of €3.0m with Allied Irish Banks plc. The Group also has a €1.6m BACS guarantees and cash facility from Allied Irish Banks plc. These facilities are unsecured.

The Company enters into financial guarantee contracts to guarantee the indebtedness of other parties including companies within its Group. The Company considers these to be insurance arrangements and accounts for them as such. The Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(b) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	31 December 2006 €'000	31 December 2005 €'000
Property, plant and equipment	**115**	3,787
Intangible assets	**-**	143
	115	3,930

22. Commitments and contingencies (continued)

(c) Operating lease commitments

The Group leases various licensed betting and other offices under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The Group has the following commitments in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2006		31 December 2005	
	Annual commitment €'000	**Total commitment €'000**	Annual commitment €'000	Total commitment €'000
Within 1 year	**501**	**501**	848	848
Between 2 and 5 years	**1,209**	**4,102**	1,008	3,015
After 5 years	**8,583**	**147,433**	7,459	128,916
	10,293	**152,036**	9,315	132,779

23. Related parties

There were no related party transactions other than those disclosed in Note 6.

24. Group entities

The Company has the following subsidiaries, all of which are wholly equity owned, at 31 December 2006:

	Country of incorporation	**Activity**	**Registered office**
Power Leisure Bookmaker Limited	UK	Bookmaker	5th Floor, Crowne House, 56-58 Southwark St, London SE1 1UN
Leisurebet Limited	Ireland	Non-trading	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Zephyr Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
KOR Enterprises Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Rexbury Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
QC Holdings Limited	Ireland	Non-trading	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Pridepark Developments Limited	Ireland	Property holding	Airton House, Airton Road, Tallaght, Dublin 24, Ireland
Paddy Power Call Centre Services Limited	Isle of Man	Call centre administration	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power Entertainment Limited	Isle of Man	Poker and gaming	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power Isle of Man Limited	Isle of Man	Bookmaker	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power Games Limited	Isle of Man	Non-trading	14 Athol Street, Douglas, Isle of Man, IM1 1JE
Paddy Power BCI Limited	Alderney	Non-trading	York House, Victoria Street, Alderney, GY9 3TA
Paddy Power Alderney Limited	Alderney	Non-trading	York House, Victoria Street, Alderney, GY9 3TA
Paddy Power (Malta) Limited	Malta	Non-trading	'Abacus', Suite 2, Psaila Street, St Venera, Malta

24. Group entities (continued)

In addition to the above subsidiaries, the Group utilises two employee trusts. Power Leisure Employee Benefit Trust, with a registered address at Airton House, Airton Road, Tallaght, Dublin 24, holds the shares of the Restricted Share Scheme. Paddy Power plc Employee Benefit Trust, with a registered address at PO Box 76, Wests Centre, St Helier, Jersey, JE4 8PQ, holds the shares under the Long Term Incentive Plan.

25. Events after the balance sheet date

In respect of the current year, the directors propose that a final dividend of 22.77c per share (2005: 12.84c per share) will be paid to shareholders on 25 May 2007. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 16 March 2007. The total estimated dividend to be paid amounts to €11,665,000 (2005: €6,476,000).

26. Financial instruments

The Group does not offer credit to customers and does not make use of derivative financial instruments. The Group is exposed to interest rate and currency risks in the normal course of business.

Investments are only allowed in cash with a maturity date on deposits of 180 days or less. Investments in cash are restricted to financial institutions with a Moody's credit rating (or equivalent from another rating agency) of P2 or better. There are also limits on the proportion of cash funds that can be invested in P2 credit rated institutions. The Board oversees the framework for the operation of the Group's treasury management policy.

At 31 December 2006, it is estimated that a movement of one percentage point in interest rates or in the value of the euro against sterling would not have a material impact on the Group's profit before taxation.

The Group actively manages the risks associated with sportsbook bets. The Group has a separate Risk department whose responsibility is bookmaking odds compiling and risk management. This function reports directly to the Group Chief Executive and to the Risk Committee of the Board. The Risk department is responsible for the creation and pricing of all markets and the trading of those markets through their life. A mix of traditional bookmaking approaches married with risk management techniques from other industries is applied, and extensive use is made of mathematical models and information technology. The Group has set predefined limits for the acceptance of sports bet risks. Stake and loss limits are set by reference to individual sports, events, and bet types. The limits are subject to formal approval by the Risk Committee. Risk management policies also require sportsbook bets to be hedged in certain circumstances to minimise potential losses. There is a clearly defined approval procedure for the acceptance and pricing of sportsbook bets.

There has been no significant change during the financial year, or since the end of the year, to the types of financial risks faced by the Group or the Group's approach to managing such risks.

27. Accounting estimates and judgements

Key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies

Goodwill of €1.9m (2005: €1.9m) continues to be carried in the Group balance sheet as the directors believe that there has been no impairment in the fair value of the net identifiable assets of the acquired businesses.

The share-based payment reserve, which includes amounts in relation to the Long Term Incentive Plan and various share option schemes, amounted to €5,613,000 at 31 December 2006 (2005: €3,220,000). The fair value of share options granted after 7 November 2002 has been determined using a Black Scholes valuation model. The significant inputs into the model include certain management assumptions with regard to the standard deviation of expected share price returns, expected option life and annual risk free rates.

The fair value of the Group's sports betting open positions amounted to €2,877,000 at 31 December 2006 (2005: €2,077,000). The Group performs a revaluation of sports betting open positions at each balance sheet date. The revaluation takes into account the expected probability of such open positions resulting in a gain or loss to the Group in the future, and is dependent on factors that cannot always be reliably predicted.

The majority of the Group's retail premises are held under operating leases. Under accounting standards there is a requirement for management to examine the buildings element within such operating leases to determine if the lease meets the definition of a finance lease and, if so, it should be accounted for as such. This review involves determining the fair value of each property at the inception of the lease and analysing the minimum lease payments between their 'land' and 'buildings' elements. Based on management's review of operating leases for the years ended 31 December 2006 and 2005, all retail premises leases qualify as operating leases.