

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 derivative 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 2007. 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 2006.

2. Segmental information

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 United Kingdom.

(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 six months ended 30 June 2007:

	Retail 30/06/2007 €'000	Non Retail 30/06/2007 €'000	Other unallocated 30/06/2007 €'000	Total 30/06/2007 €'000
Revenue	82,822	60,940	-	143,762
Direct betting costs	(7,228)	(11,664)	-	(18,892)
Gross profit	75,594	49,276	-	124,870
Depreciation and amortisation	(8,534)	(2,337)	(11)	(10,882)
Other operating costs	(43,346)	(24,691)	(5,113)	(73,150)
Operating profit	23,714	22,248	(5,124)	40,838
Financial income	-	-	1,908	1,908
Profit before tax	23,714	22,248	(3,216)	42,746
Total assets	86,862	10,883	64,094	161,839
Segment liabilities	12,212	27,627	20,546	60,385
Capital expenditure	4,219	1,814	-	6,033

Notes to the Consolidated Interim Financial Statements (continued)

2. Segmental information (continued)

Business segment information for the six months ended 30 June 2006:

	Retail 30/06/2006 €'000	Non Retail 30/06/2006 €'000	Other unallocated 30/06/2006 €'000	Total 30/06/2006 €'000
Revenue	61,841	43,126	-	104,967
Direct betting costs	(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 year ended 31 December 2006:

	Retail 31/12/2006 €'000	Non Retail 31/12/2006 €'000	Other unallocated 31/12/2006 €'000	Total 31/12/2006 €'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	-	-	2,139	2,139
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

Notes to the Consolidated Interim Financial Statements (continued)

2. Segmental information (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 geographical 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	Ireland & Other	Ireland & Other	UK	UK	UK	Total	Total	Total
	30/06/07	30/06/06	31/12/06	30/06/07	30/06/06	31/12/06	30/06/07	30/06/06	31/12/06
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Revenue	97,055	72,840	148,462	46,707	32,127	70,244	143,762	104,967	218,706
Segment assets	115,236	110,608	131,269	46,603	46,043	47,570	161,839	156,651	178,839
Capital expenditure	5,771	8,994	14,369	262	3,739	12,476	6,033	12,733	26,845

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 2007 €'000	Six months ended 30 June 2006 €'000	Year ended 31 December 2006 €'000
Amounts staked by customers			
Irish Retail	460,871	414,410	833,125
UK Retail	83,008	60,289	129,936
Retail Division	543,879	474,699	963,061
Online	297,332	247,893	525,425
Telephone	152,452	155,033	306,604
	993,663	877,625	1,795,090
Revenue			
Irish Retail	67,716	51,584	104,385
UK Retail	15,106	10,257	22,398
Retail Division	82,822	61,841	126,783
Online	45,600	30,757	67,404
Telephone	15,340	12,369	24,519
	143,762	104,967	218,706
Gross profit			
Irish Retail	62,920	42,975	91,510
UK Retail	12,674	8,010	18,023
Retail Division	75,594	50,985	109,533
Online	35,384	23,045	51,731
Telephone	13,892	11,192	22,352
	124,870	85,222	183,616
Operating profit / (loss) before exceptional item			
Irish Retail	22,497	9,751	22,025
UK Retail	(526)	(3,030)	(5,995)
Retail Division	21,971	6,721	16,030
Online	14,811	9,696	23,428
Telephone	4,056	3,203	6,004
	40,838	19,620	45,462

Notes to the Consolidated Interim Financial Statements (continued)

3. Exceptional item

	Six months ended 30 June 2007 €'000	Six months ended 30 June 2006 €'000	Year ended 31 December 2006 €'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 formed 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.

4. Earnings per share

	Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Numerator in respect of basic and diluted earnings per share (€'000):			
Profit attributable to equity holders of the Company	35,458	17,496	41,245
Numerator in respect of adjusted basic and diluted earnings per share (€'000):			
Profit attributable to equity holders of the Company	35,458	17,496	41,245
Less: Property gain after tax	-	-	(1,677)
Profit for adjusted earnings per share calculation	35,458	17,496	39,568
Denominator in respect of basic earnings per share (in '000s):			
Weighted average number of shares in issue during the period	50,245	50,235	50,344
Adjustments to derive denominator in respect of diluted earnings per share:			
Dilutive effect of share option schemes, sharesave scheme, shares held by long term incentive plan trust and long term incentive plan	764	543	501
Adjusted weighted average number of shares in issue during the period	51,009	50,778	50,845
Basic earnings per share	70.6c	34.8c	81.9c
Adjusted earnings per share	70.6c	34.8c	78.6c
Diluted earnings per share	69.5c	34.5c	81.1c
Adjusted diluted earnings per share	69.5c	34.5c	77.8c

Notes to the Consolidated Interim Financial Statements (continued)

4. Earnings per share (continued)

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 six months to 30 June 2007 by 717,817 (2006: 439,543) shares.

5. Dividends paid and proposed

	Six months ended 30 June 2007 €'000	Six months ended 30 June 2006 €'000	Year ended 31 December 2006 €'000
Final dividend of 12.84c per share for year ended 31 December 2005	-	6,476	6,476
Interim dividend of 9.43c per share for period ended 30 June 2006	-	-	4,817
Final dividend of 22.77c per share for year ended 31 December 2006	11,674	-	-
	11,674	6,476	11,293

The Directors propose an interim dividend of 16.00c per share which will be paid on 5 October 2007 to shareholders on the Company's register of members at the close of business on the record date of 14 September 2007. This dividend has not been included as a liability at 30 June 2007.

Notes to the Consolidated Interim Financial Statements (continued)

6. Movement in equity

	Number of ordinary shares in issue	Share capital €'000	Share premium €'000	Other reserves €'000	Own shares held €'000	Shares held by long term incentive plan trust €'000	Share- based payment reserve €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2006	50,397,168	5,040	7,548	922	-	(4,929)	3,220	84,250	96,051
Shares issued	841,269	84	2,663	-	-	-	-	-	2,747
Share issue costs	-	-	(48)	-	-	-	-	-	(48)
<i>Own shares acquired:</i>									
280,000 ordinary shares	-	-	-	-	-	(3,742)	-	-	(3,742)
Total recognised income and expense	-	-	-	1	-	-	-	41,245	41,246
Equity-settled transactions	-	-	-	-	-	534	2,636	-	3,170
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	(243)	243	-
Dividends to shareholders (Note 5)	-	-	-	-	-	-	-	(11,293)	(11,293)
Balance at 31 December 2006	51,238,437	5,124	10,163	923	-	(8,137)	5,613	114,445	128,131
Shares issued	84,000	8	451	-	-	-	-	-	459
<i>Own shares acquired:</i>									
By long term incentive plan trust – 260,000 ordinary shares	-	-	-	-	-	(5,138)	-	-	(5,138)
By the Company – 2,139,443 ordinary shares	-	-	-	-	(48,193)	-	-	-	(48,193)
Cancellation of own shares acquired	(2,139,443)	(214)	-	214	48,193	-	-	(48,193)	-
Total recognised income and expense	-	-	-	-	-	-	-	35,458	35,458
Equity-settled transactions	-	-	-	-	-	1,523	927	(39)	2,411
Transfer to retained earnings on exercise of share options	-	-	-	-	-	-	(84)	84	-
Dividends to shareholders (Note 5)	-	-	-	-	-	-	-	(11,674)	(11,674)
Balance at 30 June 2007	49,182,994	4,918	10,614	1,137	-	(11,752)	6,456	90,081	101,454

Notes to the Consolidated Interim Financial Statements (continued)

7. Derivative financial instruments

Derivative financial instruments represent the fair value of sports betting open positions at the period end.

8. Statutory financial statements

This interim report does not comprise full statutory financial statements. Full statutory financial statements for the year ended 31 December 2006, 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.

9. Board approval

This interim report was approved by the Board of Directors of Paddy Power plc on 3 September 2007.