

Notes to the Company Financial Statements

Year ended 31 December 2005

1. Basis of preparation and summary of significant accounting policies

The financial statements have been prepared in euro in accordance with generally accepted accountancy principles under the historical cost convention and comply with financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland. The accounting policies have been applied consistently throughout the year and the preceding year with the exception of the accounting policies on dividends and share based payments which have changed during the year.

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 of €19.2 million (2004: €20.0 million).

Financial instruments

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

Other financial instruments include amounts owing to/from Group companies, all of which are current.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated so as to write off the cost less estimated residual value of tangible fixed assets on a straight line basis over their estimated useful lives, as follows:

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	5-7 years
Computer equipment	3 years
Motor vehicles	3 years

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

Goodwill

Goodwill arising on the acquisition of a subsidiary or business, representing the excess of cost over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised by equal annual installments against profit over its expected useful life, currently 20 years. Provision is made for any impairment.

Leases

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

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

Pensions

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

Foreign currency

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

Taxation

Current tax, including Irish corporation tax and foreign tax, is provided on the Group's taxable profits, at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Provision is made at the rates expected to apply when the timing differences reverse. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in taxable profits in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Cash flow statement

Under the provisions of Financial Reporting Standard No. 1, Cash Flow Statements, a cash flow statement has not been prepared as the Company is a wholly owned subsidiary of a Company which publishes consolidated financial statements.

Related party transactions

Under the exemption granted by Financial Reporting Standard No. 8, Related Party Disclosures, the Company as a wholly owned subsidiary of a group which publishes consolidated financial statements in which the Company is included, is not required to, and does not, disclose transactions with fellow members, associated undertakings and joint ventures of that group.

Share based payment

The Company 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. 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.

Notes to the Company

Financial Statements (continued)

Year ended 31 December 2005

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

Share based payment (continued)

The Company 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 Company operates an equity-settled long-term incentive scheme 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 in 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 24 to the Group financial statements.

2. Employee numbers and expenses

	31 December 2005	31 December 2004
	€'000	€'000
Wages and salaries	24,004	26,610
Social security costs	1,485	2,038
Defined contribution pension and life assurance costs	794	722
Share based payments	881	587
Other staff costs	1,366	1,550
	28,530	31,507

	31 December 2005	31 December 2004
The average number of persons employed by the Company (including executive directors), all of whom were involved in the provision of betting services, during the year was:	595	534

Details of transactions with directors are set out in Notes 6 and 22 to the Group financial statements.

2. Employee numbers and expenses (continued)

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 2,592,000 shares were 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 FRS20 ‘Share Based Payment’.

Since May 2000 options over 2,265,000 shares have been exercised and options over 327,000 shares were outstanding at 31 December 2005 (2004: 345,000). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2004	Options exercised during year	Options outstanding at 31 December 2005	Earliest exercise date*	Exercise price	Market price at date of exercise
300,000	-	300,000	1 May 2003	€1.16	
12,000	6,000	6,000	1 May 2004	€1.16	€13.58
33,000	12,000	21,000	1 May 2005	€1.16	€13.44-€14.18

* Share options lapse 10 years after date of grant.

During the year ended 31 December 2004, 1,881,000 options were exercised at an exercise price of €1.16 when the market price ranged from €9.30 to €10.10.

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

The Paddy Power plc 2000 Restricted Share Scheme (the “Restricted Scheme”)

These options were granted prior to 7 November 2002 and accordingly do not fall within the scope of FRS 20 ‘Share Based Payment’.

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 10 years from 7 December 2000 at the higher of nominal and current market value. Options may not be exercised earlier than three years from the date of grant and may only be exercised if the Group meets certain targets and any further condition on exercise which the Board determines to be appropriate. These targets require real growth (Consumer Price Index plus 5 percent compounded annually) in earnings per share of the Group over a period of not less than three years following the grant of an option. Since November 2000, 357,466 options have been granted under the scheme. Options granted before 7 November 2002 do not fall within the scope of FRS 20 ‘Share Based Payment’. Options granted after 7 November 2002 have been included in the calculation of the Company’s share based payment reserve.

Notes to the Company

Financial Statements (continued)

Year ended 31 December 2005

2. Employee numbers and expenses (continued)

Since November 2000, options over 30,000 shares have been exercised. Options over 327,466 shares were outstanding at 31 December 2005 (2004: 312,466), of which 302,466 were exercisable at 31 December 2005 (2004: 302,466). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2004	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2005	Earliest exercise date*	Exercise price
<i>Granted before 7 November 2002</i>						
302,466	-	-	-	302,466	August 2004	€3.59
<i>Granted after 7 November 2002</i>						
10,000	-	-	-	10,000	February 2007	€8.15
-	15,000	-	-	15,000	September 2008	€14.80

* Share options lapse 10 years after date of grant.

During the year ended 31 December 2004, options over 30,000 shares were exercised at an exercise price of €3.59 when the market price was €8.45 and options in respect of 10,000 shares were granted at an exercise price of €8.15 per share.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €56,781 (2004: €21,764). The significant inputs into the model was a share price for the grant date of €14.80 (2004: €8.15), exercise prices shown above, standard deviation of expected share price returns of 25.00% (2004: 25.00%), expected term as disclosed above, and an annual risk free rate of 3.14% (2004: 4.00%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of share prices over the last 3 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 Group or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. Options will normally be granted to all eligible employees in the 42 day period after the announcement of the interim or final results of the Company. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 80 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 FRS 20 'Share Based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Company's share based payment reserve.

2. Employee numbers and expenses (continued)

Options outstanding at 31 December 2004	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2005	Earliest exercise date*	Exercise price
<i>Granted before 7 November 2002</i>						
47,430	-	1,783	44,587	1,060	July 2005	€4.95
<i>Granted after 7 November 2002</i>						
-	264,271	-	-	264,271	October 2008	€11.60

* Share options lapse 3.5 years after date of grant.

During the year ended 31 December 2004, options over 194,171 shares were exercised at an exercise price of €2.16 when the market price ranged from €9.15 - €9.90. During the year ended 31 December 2004, options in respect of 5,331 shares at an exercise price of €2.16 per share and options in respect of 8,045 shares at an exercise price of €4.95 per share lapsed.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €909,000. The significant inputs into the model were share price of €14.50 (2004: n/a) at the grant date, exercise price of €11.60, standard deviation of expected share price returns of 25% (2004: n/a), option life disclosed above, and an annual risk free rate of 3% (2004: n/a). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last 3 years.

General

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

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) 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 and 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.

Notes to the Company

Financial Statements (continued)

Year ended 31 December 2005

2. Employee numbers and expenses (continued)

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.

During the year, awards of 45,000 shares and 70,000 shares (2004: 130,000 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €13.80 and €14.40 respectively (2004: €9.43). The total cost of this grant is estimated at €1,215,000 (2004: €1,224,957) and is expensed in the Company profit and loss account over the minimum vesting period of the grant (being the expected term of the grant) i.e. 3 years. Thus the operating profit for the year ended 31 December 2005 is stated after an LTIP charge for the year ended 31 December 2005 of €828,407 (2004: €581,517).

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 €2.3 million and 190,000 Paddy Power plc shares between 18 May 2005 and 23 May 2005 at a cost of €2.6 million. The results of the Trust are included in 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 Company balance sheet in accordance with the Company's accounting policy.

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, which will become 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 10% 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 Company employees.

3. Intangible assets

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

	Computer software €'000	Licences €'000s	Total €'000
Cost			
Balance at 1 January 2005	333	274	607
Additions	194	5	199
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Balance at 31 December 2005	527	279	806
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Amortisation			
Balance at 1 January 2005	110	27	137
Amortisation for year	219	15	234
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Balance at 31 December 2005	329	42	371
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Net book value			
At 31 December 2004	223	247	470
At 31 December 2005	198	237	435
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4. Goodwill

	€'000
Cost	
Balance at 1 January 2005 and 31 December 2005	2,421
<hr/>	
Amortisation	
Balance at 1 January 2005	1,325
Amortisation for year	121
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Balance at 31 December 2005	1,446
<hr/>	
Net book value	
At 31 December 2004	1,096
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At 31 December 2005	975
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Goodwill arose from the amalgamation of three bookmaking businesses to form Paddy Power plc.

Notes to the Company

Financial Statements (continued)

Year ended 31 December 2005

5. Tangible assets

	Land buildings & leasehold improvements €'000	Fixtures & fittings €'000	Computer equipment €'000	Motor vehicles €'000	Total €'000
Cost					
At 1 January 2005	27,408	32,830	5,092	678	66,008
Additions	3,988	8,579	3,042	426	16,035
Disposals	(947)	(3,467)	(158)	(176)	(4,748)
At 31 December 2005	30,449	37,942	7,976	928	77,295
Accumulated depreciation					
At 1 January 2005	6,673	15,560	1,922	255	24,410
Charge for year	1,514	4,616	570	193	6,893
Disposals	(528)	(3,331)	(144)	(101)	(4104)
At 31 December 2005	7,659	16,845	2,348	347	27,199
Net book value					
At 31 December 2004	20,735	17,270	3,170	423	41,598
At 31 December 2005	22,790	21,097	5,628	581	50,096

6. Financial fixed assets

	Unlisted investments in subsidiary companies €'000	Capital contributions €'000	Total €'000
Balance at 1 January 2005	103	344	447
Movement during year	-	1,408	1,408
Balance at 31 December 2005	103	1,752	1,855

In the opinion of the directors, the value to the Company of the unlisted investments in subsidiary companies is not less than the carrying amount of €103,000 (2004: €103,000). The Company's subsidiaries are listed in Note 23 to the Group financial statements.

Capital contributions represent amounts included in the Company's share based payment reserve, which relate to share-based payment awards made to employees of certain of the Company's subsidiary undertakings.

7. Debtors

	31 December 2005 €'000	31 December 2004 €'000
Sundry debtors and prepayments	1,060	1,491
Amounts owed by Group companies	25,770	26,199
	26,830	27,690

All of the above debtors fall due within one year.

8. Creditors (Amounts falling due within one year)

	31 December 2005	31 December 2004
	€'000	€'000
Trade creditors	5,517	4,570
Accruals	4,600	9,610
Corporation tax	516	451
PAYE and social welfare	978	992
Betting duty	3,193	1,069
Value added tax	393	365
Amounts owed to Group companies	19,607	19,576
	34,804	36,633

Amounts owed to Group companies are unsecured, interest free and repayable on demand.

9. Provisions for liabilities and charges – Deferred tax

	31 December 2005	31 December 2004
	€'000	€'000
Cost		
At beginning of year	997	1,032
Credit for year	250	(35)
At end of year	1,247	997

Deferred tax at 31 December 2005 relates to accelerated capital allowances.

10. Share capital

See Note 16 to the Group financial statements.

11. Share premium

See Note 16 to the Group financial statements.

12. Capital redemption reserve fund and Capital conversion reserve fund

See Note 16 to the Group financial statements.

Notes to the Company

Financial Statements (continued)

Year ended 31 December 2005

13. Dividends paid on equity shares

	31 December 2005 €'000	31 December 2004 €'000
Ordinary shares:		
– final paid of €0.1252 per share (2003: €0.0859)	6,265	4,107
– interim paid of €0.0775 per share (2004: €0.0620)	3,903	3,105
	10,168	7,212
Proposed final dividend of €0.1284 (2004: €0.1252) per share (see Note 24 to the Group financial statements)	6,416	6,234

14. Pension arrangements

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

Pension costs for the year were €774,000 (2004: €663,000) and the amount due to the schemes at 31 December 2005 amounted to €75,000 (2004: 23,000).

15. Commitments and contingencies

(a) Guarantees

The Company has guarantee facilities of €3.8 million with AIB plc. These facilities are unsecured.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other parties including companies within its Group or joint ventures, 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

The Company has entered into commitments for capital expenditure not provided for in the financial statements amounting to €0.9 million.

(c) Operating Lease Commitments

The Company has annual commitments of €6.178 million (2004: €5.929 million) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2005 €'000	31 December 2004 €'000
Within 1 year	768	501
Between 2 and 5 years	790	1,024
After 5 years	4,620	3,871
	6,178	5,396

16. Prior year adjustments

An explanation of the prior period adjustments arising from the adoption of certain new Financial Reporting Standards during the year, together with their impact on the comparative financial statements are set out below:

Restatement of Company Balance Sheet	31 December 2004 €'000
Total Liabilities as previously stated	43,864
FRS 21 – Events after the balance sheet date	(6,234)
<hr/> Total Liabilities as restated	<hr/> 37,630
Profit and Loss Account as previously stated	63,694
FRS 20 – Share-based payment	(931)
FRS 21 – Events after the balance sheet date	6,234
<hr/> Profit and Loss Account as restated	<hr/> 68,997
Share-based Payment Reserve as previously stated	-
FRS 20 – Share-based payment	931
<hr/> Share-based Payment Reserve as restated	<hr/> 931
Financial fixed assets as previously stated	103
FRS 20 – Share based payment	344
<hr/> Financial fixed assets as restated	<hr/> 447

FRS 21 'Share-based Payment'

In accordance with the new accounting policy in respect of share based payments, as set out in Note 1 to the Company financial statements on page 67, there was no effect on the Company profit and loss account on implementing FRS 20.

In addition, the adoption of FRS 20 resulted in a reclassification from retained earnings to the share-based payment reserve of €25,000 and €754,000 as at 1 January 2004 and 31 December 2004 respectively with a further increase in the share-based payment reserve of €152,000 during the year ended 31 December 2004. This reserve comprises the cost of share based payments made both to employees of the Company and also to employees of certain of the Company's subsidiary undertakings. Share based payments in respect of employees of subsidiary undertakings are included as part of the share based payment reserve with a corresponding increase in financial fixed assets.

FRS 21 'Events after the Balance Sheet Date'

In accordance with the new accounting policy in respect of dividends, as set out in Note 1 to the Company financial statements on page 67, interim dividends are provided for in the period when they are approved by the directors and paid, with final dividends being provided for in the period in which they are approved by shareholders. The effect on the balance sheet is a reduction of €6,234,000 in trade and other payables and a corresponding increase in retained earnings as at 31 December 2004.

17. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2005 were approved for issue by the Board of Directors on 28 February 2006.