Paddy Power plc Interim Report '06

Paddy Power plc

2006 Interim Financial Highlights

For the six months ended 30 June 2006 – *unaudited*

	Six Months ended 30 June 2006 €m	Six Months ended 30 June 2005 €m	% Change
Amounts staked by customers			
Retail	**474.7**	401.3	+18%
Telephone	**155.0**	127.6	+22%
Online	**247.9**	161.2	+54%
Total staked *	**877.6**	690.1	+27%
	€'000	€'000	
Revenue			
Retail	**61,841**	49,628	+25%
Telephone	**12,369**	10,985	+13%
Online	**30,757**	20,319	+51%
Total revenue*	**104,967**	80,932	+30%
Operating profit			
Retail	**6,721**	6,653	+1%
Telephone	**3,203**	2,960	+8%
Online	**9,696**	8,141	+19%
Total operating profit	**19,620**	17,754	+11%
Profit for the period	**17,496**	15,796	+11%
Basic earnings per share	**34.8c**	31.7c	+10%
Interim dividend per share	**9.43c**	7.75c	+22%

* Amounts staked by customers (or "turnover") represent amounts received in respect of bets placed on sporting events that occurred during the period and net winnings on gaming activities. Revenue (or "gross win") represents the net gain on sports betting transactions (stake less payout) and net winnings on gaming activities.

Interim Statement

I am pleased to report on a successful six months for Paddy Power. The Group has continued to grow strongly, with the launch of three new businesses and good growth across all of our existing businesses. During the period to 30 June 2006, the amounts staked with the Group across our three channels increased by 27% to €878m. Gross win increased by 30% to €105m. Operating costs grew 29% in line with our expectations, as a result of both turnover growth and continued upfront investment for future turnover growth. Operating profits increased 11% to €19.6m and basic earnings per share increased by 10% to 34.8c.

This profit growth is particularly strong in the context of a bonanza for Irish punters in the six months. They benefited from our decision to introduce 'tax-free' betting into the Irish shops early, with a once-off cost to us in the period of €4m. Patriotic punters were also rubbing their hands, with a record haul of ten Irish winners at Cheltenham, an Irish winner at the Grand National, Ireland winning the Triple Crown, and last, but certainly not least, Munster finally fulfilling their destiny to win the Heineken Cup! The summer's World Cup finals helped dull the pain for us, with total bets of €48m, €37m of which related to matches played by 30 June.

The following review not only highlights our financial results but also our commitment to what makes us different: our people, our brand and our innovative product range.

THE RETAIL DIVISION

The amounts staked grew by 18.0% to €475m. The average stake per slip increased 9.6% to €20.22, while the number of slips grew 7.6% to 23.3m. Gross win, including income from fixed odds betting terminals ('FOBTs') in our UK estate, increased by 24.6% to €61.8m. The gross win percentage in the retail sportsbook was 12.5% compared to 12.0% in 2005. The guided range remains 11% to 13%.

The gross win percentage in the period benefited from several favourable factors specific to the retail division. These included the anticipated positive impact of our Electronic Point of Sale ('EPOS') system, an increase in multiples within the mix and slightly higher than average horse racing and greyhound margins.

Operating costs increased by 19.5% reflecting the growth in the number of retail outlets and continued upgrading of the retail estate, including EPOS. Operating profit increased €0.1m to €6.7m, impacted by the €4m one off cost relating to the early introduction of 'tax-free' betting.

EPOS has been rolled out to 185 of the 205 shops we had across Ireland and the UK as at 30 June 2006. Total capital expenditure on this project remains in line with our estimate of approximately €10.6m with €5.1m spent during the period taking the cumulative spend to €9.3m. The gradual deployment across the estate, supported by extensive training and feedback, successfully met our priorities for an optimised product and seamless customer service. We expect to have the remainder of the estate installed with EPOS by the end of 2006. EPOS has already improved the quality of our customer service, by enhancing the speed and accuracy of payout, and enabling us to expand our product range. Value is also being derived in risk, security and marketing. We look forward to realising the system's full benefits in 2007.

Our trademark product and service innovation continues to improve the Paddy Power customer experience. In horse racing, we now provide early prices for every UK and Irish horse race. In addition, we launched several new products including race insurance, with the punter being refunded if his horse is placed; we are the only bookmaker offering place-only betting on all UK races daily (and most of the Irish races); and we now lead the market in betting-without-the-favourite, match betting and distance betting in horse racing. We also expanded our betting-in-running product, with more markets added in football and rugby.

(i) Irish Retail

The amounts staked within Irish retail grew by 16.2% to €414m. Like-for-like growth in amounts staked

Interim Statement (continued)

was 11.9%. Gross win grew by 20.8% to €51.6m. Operating profit of €9.7m was €1.1m or 13.2% up on the comparable period in 2005.

Our brand, the quality of our people, and our innovative product range drive this growth, as they do in all our channels. In addition, the growth in our Irish retail estate is driven by:

- The very significant investment we have made in the estate in the last four years
- The continuing positive economic and demographic backdrop in Ireland
- The move to 'tax-free' betting in December 2005

When the Irish Government announced in the budget last December that it was eliminating the 2% customer based betting tax and replacing it with a 1% tax levied on the bookmaker from 1 July 2006, we decided not to wait; instead we offered our customers a discount equal to the tax from the morning after the budget. The cost of absorbing the 2% charge resulted in discounts of €8.3m, an increase of €4.4m and €3.9m compared to the first and second half of 2005 respectively, when such discounts were offered within parts, rather than all, of the estate. In the second half of 2006, the reduction in the tax rate from 2% to 1% will halve this cost, returning it to levels comparable with 2005, and save the Group approximately €4m.

Paddy Power has continued to expand in the Irish retail market opening four new outlets in the six months under review, taking our total number of outlets in Ireland to 154. We expect to open at least another six outlets by year end. We have also continued to enhance our existing estate, with two outlets extended and five refitted.

We noted with interest the decision of the Minister for Justice, Equality and Law Reform this summer to introduce regulated casinos into Ireland and will consider opportunities that this might provide to Paddy Power.

(ii) UK Retail

We have continued to make substantial progress in our UK retail estate:

- We operated 51 outlets as at the end of June, an increase of six since December 2005 and 18 since June 2005
- Our FOBT gross income grew by 112% to €3.6m, and by 50.8% on a like-for-like basis
- The combined group of 30 shops we opened in 2003 and 2004 moved into the generation of positive EBITDA in the period
- Our brand continues to grow strongly, with recognition of 21% amongst all adults in London, up from 16% in 2005
- Market research indicates that our customers rate us much more highly, on all key attributes, than those of our key competitors, and are more loyal and less likely to switch. It also indicates that customers of local competitors who would consider switching are, by a distance, most likely to switch to Paddy Power

We look forward to deregulation next year in the UK, which will feature extended shop opening hours, the installation of higher payout gaming machines and improved shop opening opportunities. Our priority is to optimise our proposition in anticipation of this deregulated market and, in this regard, our overriding focus is to continue to improve the performance of our existing estate. While we intend to grow the estate organically to a total of up to 60 shops by the end of the year, performance will take priority over further shop openings.

In the 6 months ended 30 June 2006, amounts staked over-the-counter ('OTC') grew by 33.2% or €14m, to €57m. Gross win, including FOBTs, increased by 56.2% to €10.7m. Like-for-like gross win grew by 13.2%, with OTC growth of 1.0% and FOBT growth of 50.8%. The OTC growth was adversely affected by the very strong FOBT growth with some punters switching their stakes between these products. The average gross drop per FOBT

Interim Statement (continued)

machine per month increased 29.6% to €3,500 and there were 186 machines installed as at 30 June 2006. Whilst like-for-like shop financial performance improved, operating losses increased to €3.0m as compared to €2.0m during the comparative period last year, reflecting the 18 new shops opened and necessary increased investment in the central operational infrastructure for the enlarged estate.

We brought our creative strengths to the fore during the World Cup attracting UK retail and online customers. Specific initiatives such as offering the best price amongst all bookmakers on England in the quarter-finals and the Money-Back Special refunding punters whose teams were knocked out in penalty shootouts, served to emphasise the Paddy Power brand and difference. Unfortunately, if somewhat predictably, England exited on penalties!

In fact, our penalty refund specials have bailed Paddy Power punters out continuously in the last year. Last year's FA Cup final and Champions League final and this year's FA Cup final were all decided by penalties, as well as the exit of Argentina, France and Switzerland, in addition to England, from the World Cup. You'd think we'd have learnt our lesson!

Looking forward, we expect improving financial results from continuing momentum in the existing UK retail estate although there will be some offset from additional shop openings and the imposition of Amusement Machine Licence Duty from August 2006, which will cost the Group approximately €0.6m annually based on current FOBT numbers.

THE NON RETAIL DIVISION

The non retail division comprises telephone betting, online betting and games. Operating profit from the division increased by 16.2% to €12.9m, comprising €3.2m from the telephone channel, an increase of 8.2%, and €9.7m from the online channel, an increase of 19.1%. Both channels successfully utilised the World Cup to achieve particularly significant growth in active customers during the period.

The gross win percentage in both channels was below expectations, at the bottom of the guided range in the telephone channel and outside the range in the online sports book. Nonetheless, the overall sportsbook gross win within non retail grew 26.1% compared to the six months ended 30 June 2005, driven by exceptional sportsbook turnover growth of 38.6% in the same period. This compares with growth in sportsbook gross win of 14.5% and turnover of 20.6% for the year ended 31 December 2005.

There were several reasons for this margin performance. We experienced strong growth but lower margins in the period in betting-in-running; we will continue to evaluate the interplay between turnover growth opportunities and margin. In addition, football margins were lower than expected, based on results in the six months. Strong performance by the fancied teams in the Premiership was followed by what at that stage was the highest football turnover match in our history – unfortunately a late Barcelona goal had not just Arsenal supporters crying into their beer. In the World Cup, we achieved our absolute profit target, but on higher than expected turnover, as the punters won a fortune early on with 18 of the first 22 matches being won by the favourite.

(i) The Telephone Channel

The amounts staked within the telephone channel grew by 21.5% to €155m. We continue to seek a greater average bet size in the telephone channel where the cost of delivery is higher, while encouraging lower staking customers to switch to the online channel. Good progress has been made in the period in this regard with the average stake per bet increasing 11.6% to €99.06, while bets grew 8.8% to 1.57m. The average gross win percentage during the six months was 8.0% compared to 8.6% in 2005 and a guided range of 8.0% to 9.0%. Gross win grew from €11.0m to €12.4m reflecting the strong turnover growth.

Interim Statement (continued)

Telephone Channel Active Customers	**2006**	**2005**	**% Change**
Ireland and Rest Of World	13,709	12,474	9.9%
UK	11,709	8,959	30.7%
Total	**25,418**	**21,433**	**18.6%**

(Active customers are defined as those who have bet in the last three months)

Our call centre was successfully relocated to a new building beside our existing headquarters in Dublin in May 2006. The move was handled seamlessly and operational efficiencies continue to be achieved following the move. The new building increased the call centre capacity by an initial 25% and also offers additional capacity as needed over the next few years.

Operating costs within the telephone channel increased by 23.2% to €8.0m reflecting volume growth and the investment in the new call centre location, partially offset by savings from operational efficiencies and reductions negotiated on third party charges.

(ii) The Online Channel

There has been strong growth in active customers of the Paddy Power online channel during the six months under review. The growing customer base has also demonstrated a developing propensity towards multi-product usage.

Online Channel Active Customers	**2006**	**2005**	**% Change**
Ireland and Rest Of World	46,564	26,818	73.6%
UK	86,810	47,181	84.0%
Total	**133,374**	**73,999**	**80.2%**

Online Customers Product Usage	**2006**	**2005**	**% Change**
Sportsbook only	95,950	59,132	62.3%
Gaming only	15,411	3,983	286.9%
Multi product customers	22,013	10,884	102.3%
Total	**133,374**	**73,999**	**80.2%**

(Active customers are defined as those who have bet in the last three months)

Our investment in the targeted recruitment of dedicated management teams for our online business has been an important factor in the development of the business. We have attracted and retained high quality, dedicated individuals from a range of e-commerce backgrounds which bodes well for future performance.

Operating costs within the online channel increased by €6.0m to €13.4m. The major drivers of this increase were:

- The launch of new businesses and expansion of businesses recently launched
- Volume driven promotional spend and marketing spend on initiatives such as the Irish Open poker tournament
- Growth in customer and transaction volumes

(a) Sportsbook

The amounts staked online on the sportsbook increased by 52.7% to €235.0m. Within this, bet volumes grew 56.6% to 8.5m while the average bet value decreased 2.5% to €27.60, consistent with our objective of encouraging lower staking telephone customers to switch to the online channel.

The average gross win percentage during the six months fell to 7.6% compared to 8.4% in the comparable period in 2005 and a guided range of 8.0% to 9.0%. Nonetheless as a consequence of the very high turnover growth the overall gross win was up 37.5% to €17.8m.

The German language online sportsbook launched in April has been progressing in line with plan and the expectation for a small loss in 2006. Our product range has been expanded to meet continental European preferences with the inclusion of ice-hockey, basketball and additional soccer coverage. We have also introduced the German speaking punter to our fun approach to betting with topical novelty bets such as the number of streakers during the World Cup, the majority of punters correctly predicting none at odds of 4/6!

Interim Statement (continued)

We have made several improvements to our online sportsbook product including a revamp to the look and feel of the web site, the addition of 'select-your-own' handicaps for Gaelic games and, of course, more fun bets including which team the Pope would support in the World Cup and which commentary clichés would be trotted out first!

(b) Gaming

The online channel also generates gaming revenues from casino products, gaming products and poker. Revenue from these sources, representing the operator's net 'hold' or commission income ('rake'), increased by 75.8% to €12.9m. Growth was achieved across all three product categories, with the growth particularly marked in poker, given it was only launched during the comparative period. Against the more recent trading period of the six months ended 31 December 2005, gaming revenues rose 31.6%.

Our commitment to poker and the ongoing promotion of our brand led to our sponsorship of the 2006 Irish Open poker tournament. The Irish Open is the longest running poker tournament in Europe, but its 25th anniversary set new landmarks for the tournament as Ireland's first ever guaranteed €1m event and Ireland's largest ever poker event. The final was broadcast live across Europe on Sky Sports and was hailed as a tremendous success by commentators, the poker media and players alike. Plans are already being hatched for next year when Paddy Power will guarantee a €2m event, reflecting both the growth of our own poker business and the poker market overall.

Product expansion in the gaming area also continued with the launch of 'reverse auctions' in January and online bingo in July. Both these products encapsulate the Paddy Power brand values of fun, fair and friendly and give us particular potential to attract new types of customers to Paddy Power.

The occasionally 'cheeky' face of our brand was exemplified this summer when we ran the first World Strip Poker Championship with 195 participants in London. On 1 April Paddy Power issued a press release stating we were going to try and break the world record for the largest strip poker tournament. It was an April Fool's joke but within minutes we were receiving phone calls and emails from individuals and organisations from all over the world wanting to know more details about this notional event. That got us thinking……the rest is history!

TAXES

The corporation tax charge for the six months to 30 June 2006 was €3.0m, an effective tax rate of 14.6%. This compares with an effective tax rate of 14.0% in the prior year, comprised of a 14.7% charge for 2005 and a 0.7% credit due to an over provision in relation to 2004. No corporation tax is payable in the UK due to tax losses. The Group's effective tax rate is 2.1% above the Irish statutory rate due to the impact of a number of non-deductible expenses. All other things being equal, the Group expects an increase in its effective tax rate from July 2006 as a result of the non-deductibility of the revised 1% revenue based tax on amounts staked within Irish retail. Based on the amounts staked within Irish retail in the period under review, this change would have added €0.5m to the tax charge for the half year. While the Group welcomes the 1% reduction in the rate of this tax, it will continue, along with other industry participants, to seek to have this genuine business expense made allowable as a corporation tax deduction.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

As noted in our 31 December 2005 financial statements, the accounting treatment of sportsbook bets has been under discussion within the betting industry given that they have many of the characteristics of a derivative transaction as defined by IAS 39 'Financial Instruments: Recognition and Measurement'. In line with the emerging industry practice, the Group has concluded that a sportsbook bet is a financial

Interim Statement (continued)

instrument and is now therefore accounting for sportsbook bets in accordance with that accounting standard. The main effect of this is that the revenue from betting is reported as gross win rather than the gross amount staked, and bets received at period end in relation to events that have not occurred, are included within gross win at their fair value rather than treated as deferred revenue. This change has had no impact on reported profits and we have continued to disclose the amounts staked on the sportsbook and the net revenue from gaming.

One other accounting presentation change arises due to a change in the tax regime for FOBTs, whereby UK gross profits tax has been replaced by 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. To prevent distortions in the comparisons of FOBT income between periods, we have continued to disclose FOBT income for the six months ended 30 June 2006 gross of VAT of €0.5m in the above UK Retail commentary.

CASH FLOW

Cash balances at 30 June 2006 were €68.3m compared to €52.3m at 31 December 2005, an increase of €16.0m. This includes cash balances held on behalf of customers of €12.9m compared to €10.0m at 31 December 2005. Net cashflow from operating activities for the six months ended 30 June 2006 increased by 46.3% or €11.6m to €36.5m from €25.0m in 2005. While profit before tax growth of €2.1m or 11.5% was a significant driver, the main factor was the positive working capital contribution of €8.8m compared to €1.1m in the first six months of 2005. This was largely due to high World Cup antepost betting at 30 June 2006, growth in non retail customer balances and growth in business volumes. Cash was applied acquiring tangible and intangible assets of €12.6m comprising the fit out of new and upgraded retail outlets and the roll out of EPOS. In addition, dividends of €6.5m, the funding of share purchases by the trustees of the long-term incentive plan of €3.7m and corporation taxes of €1.0m were paid during the period. Cash received from the exercise of share options amounted to €1.6m.

DIVIDEND

Our industry is very fast moving with new opportunities continuously emerging. We will continue to expand aggressively, and whilst historically our growth has been self financing, it is possible that this may not always be the case. Nonetheless, the Board is committed to a progressive dividend policy, and intends to increase the dividend payout ratio to 40% in the current year. It has decided to pay an interim dividend of 9.43c per share, an increase of 21.7% on the 2005 interim dividend, resulting in a total expected payment of €4.8m. This dividend is payable on 29 September 2006 to shareholders on the register at the close of business on 15 September 2006.

OUTLOOK

The business continues to grow strongly in the second half of the year, although as is often the case in the months of July and August gross win percentages have been somewhat weaker than in the first half. Subject to the volatility that could arise from sporting results, the Group remains on track to deliver its targeted operating profit for the year, in line with consensus markets forecasts, which would represent around 40% growth on last year.

Fintan Drury
Chairman

5 September 2006

Consolidated Interim Income Statement

For the six months ended 30 June 2006 – *unaudited*

	Note	**Six months ended 30 June 2006 €'000**	Six months ended 30 June 2005 €'000	Year ended 31 December 2005 €'000
Amounts staked by customers		**877,625**	690,144	1,371,710
Revenue	2	**104,967**	80,932	160,848
Cost of Sales		**(19,745)**	(12,281)	(25,278)
Gross profit		**85,222**	68,651	135,570
Employee costs		**(30,395)**	(24,243)	(51,076)
Property expenses		**(10,048)**	(8,489)	(17,398)
Marketing expenses		**(9,277)**	(5,975)	(11,346)
Technology & communications		**(5,366)**	(3,995)	(8,171)
Depreciation & amortisation		**(6,476)**	(5,318)	(11,295)
Other expenses		**(4,040)**	(2,877)	(6,166)
Total operating expenses		**(65,602)**	(50,897)	(105,452)
Operating profit before financing income		**19,620**	17,754	30,118
Financial income		**867**	613	1,226
Profit before tax		**20,487**	18,367	31,344
Income tax expense		**(2,991)**	(2,571)	(4,390)
Profit for the period - attributable to equity shareholders		**17,496**	15,796	26,954
Basic earnings per share	*3*	**34.8c**	31.7c	54.1c
Diluted earnings per share	*3*	**34.5c**	31.0c	52.9c
Proposed dividend per share for period	*4*	**9.43c**	7.75c	20.59c

Consolidated Interim Statement of Recognised Income and Expense

For the six months ended 30 June 2006 – *unaudited*

	Six months ended 30 June 2006 €'000	Six months ended 30 June 2005 €'000	Year ended 31 December 2005 €'000
Group profit for the period	**17,496**	15,796	26,954
Currency translation effects	-	-	(1)
Total recognised income and expense	**17,496**	15,796	26,953

Recognised income and expense is entirely attributable to the equity holders of the Company.

Consolidated Interim Balance Sheet

As at 30 June 2006 – *unaudited*

	30 June 2006 €'000	30 June 2005 €'000	31 December 2005 €'000
Assets			
Property, plant and equipment	**72,739**	65,397	72,400
Intangible assets	**10,669**	3,175	5,495
Deferred tax asset	**370**	-	167
Total non current assets	**83,778**	68,572	78,062
Trade and other receivables	**4,592**	2,925	2,134
Cash and cash equivalents	**68,281**	50,107	52,318
Total current assets	**72,873**	53,032	54,452
Total assets	**156,651**	121,604	132,514
Equity			
Issued capital	**5,106**	5,018	5,040
Share premium	**9,121**	6,824	7,548
Shares held by employee trust	**(8,137)**	(4,929)	(4,929)
Reserves	**5,249**	2,618	4,142
Retained earnings	**95,276**	76,443	84,250
Total equity	**106,615**	85,974	96,051
Liabilities			
Deferred tax liabilities	**752**	802	843
Total non current liabilities	**752**	802	843
Trade and other payables	**40,842**	30,154	32,796
Trading financial liabilities	**5,369**	1,669	2,077
Current tax payable	**3,073**	3,005	747
Total current liabilities	**49,284**	34,828	35,620
Total equity and liabilities	**156,651**	121,604	132,514

Consolidated Interim Cash Flow Statement

For the six months ended 30 June 2006 – *unaudited*

	Six months ended 30 June 2006 €'000	Six months ended 30 June 2005 €'000	Year ended 31 December 2005 €'000
Cash flows from operating activities			
Profit before tax	**20,487**	18,367	31,344
Financial income	**(867)**	(613)	(1,226)
Depreciation and amortisation	**6,476**	5,318	11,295
Cost of employee share based payments	**1,646**	765	2,289
Loss on disposal of property, plant and equipment	**45**	90	267
Cash from operations before changes in working capital	**27,787**	23,927	43,969
(Increase)/ decrease in trade and other receivables	**(2,422)**	(578)	222
Increase in trade and other payables	**11,180**	1,629	3,320
Cash generated from operations	**36,545**	24,978	47,511
Income taxes paid	**(959)**	(2,450)	(6,101)
Net cash from operating activities	**35,586**	22,528	41,410
Cash flows from investing activities			
Purchase of property, plant and equipment	**(6,471)**	(11,364)	(23,925)
Acquisition of intangible assets	**(6,105)**	(176)	(2,068)
Proceeds from disposal of property, plant and equipment	**700**	88	329
Interest received	**831**	556	1,254
Net cash used in investing activities	**(11,045)**	(10,896)	(24,410)
Cash flows from financing activities			
Proceeds from the issue of new shares	**1,639**	157	903
Purchase of shares by employee trust	**(3,741)**	(2,623)	(2,623)
Dividends paid	**(6,476)**	(6,265)	(10,168)
Net cash used in financing activities	**(8,578)**	(8,731)	(11,888)
Net increase in cash and cash equivalents	**15,963**	2,901	5,112
Cash and cash equivalents at start of period	**52,318**	47,206	47,206
Cash and cash equivalents at end of period	**68,281**	50,107	52,318

Notes to the Consolidated Interim Financial Statements

1 Basis of Preparation and Accounting Policies

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

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

1. Firstly, in relation to sports betting activities, revenue now represents the net gain/ (loss) on betting transactions (stake less payout) from customers whereas previously revenue represented amounts staked by customers and the payout was shown separately in cost of winning bets. In previous financial statements this gain/ (loss) on betting transactions was reported by the Group as "Gross Win".

2. Secondly, under IAS 39 amounts received from customers on events that have not occurred by period end are measured at fair value. Thus at period end open positions in respect of sports betting activities are carried at fair market value and gains and losses arising on this valuation are recognised in revenue, as well as gains and losses realised on positions that have closed. In previous financial statements, amounts received from customers on events that had not occurred by period end were treated as deferred income.

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

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

Revenue Recognition Policy

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

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

Notes to the Consolidated Interim Financial Statements (continued)

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

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

2 Segmental Information

(a) By business segment

Business segment information for the six months ended 30 June 2006

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

Business segment information for the six months ended 30 June 2005

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

Notes to the Consolidated Interim Financial Statements (continued)

2 Segmental Information (continued)

Business segment information for the year ended 31 December 2005

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

(b) By geographical segment

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

Notes to the Consolidated Interim Financial Statements (continued)

2 Segmental Information (continued)

Further analysis of the business segments by channel shows:

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

Notes to the Consolidated Interim Financial Statements (continued)

3 Earnings per Share

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

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

4 Dividends paid and proposed

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

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

Notes to the Consolidated Interim Financial Statements (continued)

5 Movement in equity

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

6 Statutory financial statements

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

7 Board approval

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

Independent Review Report to Paddy Power plc

INTRODUCTION

We have been engaged by the Company to review the financial information for the six months ended 30 June 2006 which comprises the consolidated interim income statement, consolidated interim balance sheet, consolidated interim statement of recognised income and expense, consolidated interim cash flow statement and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Irish Stock Exchange and the UK Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

DIRECTORS' RESPONSIBILITIES

This interim report, including the financial information contained therein, is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual financial statements except where any changes, and the reasons for them, are disclosed.

REVIEW WORK PERFORMED

We conducted our review in accordance with guidance contained in Bulletin 1999/4 *Review of interim financial information* issued by the Auditing Practices Board for use in Ireland and the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

REVIEW CONCLUSION

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

KPMG

KPMG
Chartered Accountants
Dublin
5 September 2006

Additional Information for Shareholders

1. Listings

Paddy Power plc is an Irish registered company. Its ordinary shares are quoted on the Irish Stock Exchange and the London Stock Exchange.

2. Company Registrar

Enquiries concerning shareholdings should be addressed to the Company's Registrar, Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.

Telephone: +353-1-216 3100.
Facsimile: +353-1-216 3151.
Website: www.computershare.com

3. Payment of Dividends Direct to a Bank Account

Shareholders resident in Ireland or the UK may have their dividends paid by electronic transfer direct to a designated bank account, under advice from the Company, showing full details of the amounts so credited. Shareholders who wish to avail of this facility should contact the Company's Registrar.

4. Payment of Dividends in euro

Dividends are paid in euro unless the shareholder opts for a sterling dividend payment. Shareholders requiring sterling dividend payment should contact the Company's Registrar.

5. Crest

Transfer of the Company's shares takes place through the CREST settlement system. Shareholders have the choice of holding their shares in electronic form or in the form of share certificates.

6. Dividend Withholding Tax ('DWT')

With certain exceptions, dividends paid by Irish resident companies are subject to DWT at the standard rate of income tax, applied at the rate of 20% from 6 April 2001. DWT where applicable, is deducted by the Company from all dividends. Each shareholder receives a statement showing the shareholder's name & address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted therefrom. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from the DWT Section of the Office of the Revenue Commissioners, based at Conlon's Road, Nenagh, Co. Tipperary. The telephone number for the Revenue Commissioners is 353-67-33533 or they can be contacted on email to info@dwt.revenue.ie.

7. Electronic Communications

Paddy Power offers shareholders the ability to receive their communications from the Company electronically. This is obviously an efficient means of communication that is more environmentally friendly and gives costs and time savings for the Company which in turn benefits the shareholders.

To register for Electronic Shareholder Communications go to www.computershare.com/register/ie. Scroll down on 'Company Selection' and select 'Paddy Power plc' from the drop down menu. Click on 'Submit'. Complete the shareholder details including the SRN number which is on the share certificate or dividend counterfoil.

Once the request is processed a confirmation e-mail will be returned.

8. Financial Calendar

Announcement of interim results for 2006:
6 September 2006

Ex-dividend date for interim dividend:
13 September 2006

Record date for interim dividend:
15 September 2006

Interim dividend payment date:
29 September 2006

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