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Paddy Power plc Annual Report '05

Paddy Power plc

Paddy Power – master marketeers

David Jennings, *Davy European Transport & Leisure Monthly*

"Bookies pay out on Blues" – Sky News website, September 30th

If you ask Paddy Power management what they think separates the company from the competition, the first thing they are likely to mention is its brand. The Paddy Power brand distinguishes it from other retail bookmakers and, increasingly, from other online competitors as well. The brand encompasses a number of elements but is primarily built on the proposition that Paddy Power is the "punters' pal", the bookmaker that offers more money-back specials than anyone else while at the same time providing a level of service and trust that matches the best in the industry. The company's marketing generally emphasises this theme by highlighting its belief in "fairness", even if that comes at a cost.

Contents

Paddy Power – master marketeers (continued)

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In effect, a money-back special is an indirect way of competing on price; it simply reduces Paddy Power's overall gross win margin over time. An example is Paddy Power offering to return all losing bets on a game of football should a player be sent off during the match. The thinking behind the special is that any resulting reduction in margin is worth the cost as it helps to promote the brand and distinguish Paddy Power from the competition while encouraging customers to recycle (re-invest) their winnings. The more innovative the special, the greater its marketing power potential.

The ultimate example of this strategy came on September 29th when Paddy Power announced that it was paying out on all bets made on Chelsea to win the 2005/2006 Premiership title in England, despite the fact that the season is less than two months old. The basis for this decision is the fact that Chelsea are top of the league by a considerable margin. Furthermore, with the backing of Russian billionaire Roman Abramovich, the club has the deepest pockets of any club and can therefore continue to buy any players required to win the league.

While other bookmakers have paid out early on the league in previous years, most have done so around Easter-time. None have done so with just 18% of the fixtures played! On the face of it, the move appears reckless; as any football fan will tell you, a lot can happen between September and May. If Chelsea subsequently fail to win the league, Paddy Power would end up paying out on two teams. But it is precisely because the move appears premature that Paddy Power did it: the benefits to the brand are likely to dwarf the initial pay-out cost, a pay-out that was likely to be incurred regardless at the end of the season.

The benefits can be broken down into various different sub-sets. Firstly, there is the **"free" publicity** generated. A Google search of Paddy Power and Chelsea on September 30th yielded 22 results from that day alone! numerous interviews on television and radio followed with leading managers and players all being asked to comment on Paddy Power's move. Five-minute advertising slots on Sky news do not come cheap! Furthermore, the publicity is not likely to be limited to this week alone: should Chelsea blow it, you can be sure that there will be further media comment next May about red faces at Paddy Power!

The second benefit is the **"punters' pal" angle:** there is nothing customers like more than an early pay-out from a bookie, especially when there is still a chance the bet could go wrong. The move generates goodwill between the company and its customers, which encourages customer loyalty in what is a notoriously fickle industry.

The third benefit is the **recycling effect**; in all likelihood, punters will recycle their winnings into other bets eight months earlier than if they had been obliged to wait until the end of the season to receive their cash. The sooner they recycle, the sooner Paddy Power can start winning it back.

The fourth and final benefit is the **competition angle**. By announcing the pay-out, Paddy Power has undoubtedly upset every other bookmaker in the UK, but especially the big three – William Hill, Ladbrokes and Coral. The competition is now in a no-win situation. If they follow Paddy Power's lead, they are unlikely to reap the same benefits – the publicity impact is far less if you are second to pay out and those who follow suit get little credit from punters who recognise where the "generosity" originated. Furthermore, the big three are likely to have had a greater liability to Chelsea retaining their title than Paddy Power and will be less keen to risk increasing that potential liability further just to match Paddy Power's "gimmicky" generosity.

The company's marketing prowess is not limited to its special bet offerings – its marketing campaigns tend to punch above their weight too. Take the company's latest poster campaign to promote its online casino and poker offering. One poster depicts Jesus and the 12 apostles on the night of the last supper. They are shown playing cards and roulette. The campaign, undoubtedly designed to stir up attention, has already had the desired effect. **"It's holy war over Jesus the gambler poster"**, read the headline on September 28th on page three of the Irish Independent, Ireland's best-selling broad-sheet newspaper. The headline was accompanied by a half-page report. As demonstrated in the past, irreverent campaigns tend to be newsworthy campaigns and newsworthy campaigns offer the greatest "bang-for-your-buck" when it comes to marketing spend. Contrast this with PartyGaming's recent admission that it has wasted money on marketing in recent months and that it is re-examining its marketing campaigns as a result.

The conclusion? Learning to manage and market a brand takes years, not months.

Paddy Power consistently demonstrates that when it comes to marketing its brand the secret of success is as much about **how** it spends its cash as it is about the total amount it spends. This is a lesson many of Paddy Power's larger online peers would do well to learn, sooner rather than later. Having the deepest pockets does not necessarily ensure long-term success in the gaming sector – if only the same could be said for the Premiership.

Directors and Other Information

Directors
Fintan Drury *Chairman*
Patrick Kennedy *Chief Executive*
Breon Corcoran *Commercial Director*
Tom Grace *Non-Executive Director*
Stewart Kenny *Non-Executive Director*
Nigel Northridge *Non-Executive Director*
David Power *Non-Executive Director*
Brody Sweeney *Non-Executive Director*
Stephen Thomas *Non-Executive Director*

Company Secretary and Registered Office
Nuala Hunt
Airton House
Airton Road
Tallaght
Dublin 24

Stockbrokers
Goodbody Stockbrokers
Ballsbridge Park
Ballsbridge
Dublin 4

Investec
2 Gresham Street
London
EC2V 7QP

Legal Advisers
Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin 2

Kennedy McGonagle Ballagh
20 Northumberland Road
Ballsbridge
Dublin 4

Auditor
KPMG
1 Stokes Place
St Stephen's Green
Dublin 2

Principal Bankers
Allied Irish Banks plc
100 - 101 Grafton Street
Dublin 2

Lloyds TSB plc
Bailey Drive
Gillingham Business Park
Kent
ME8 OLS

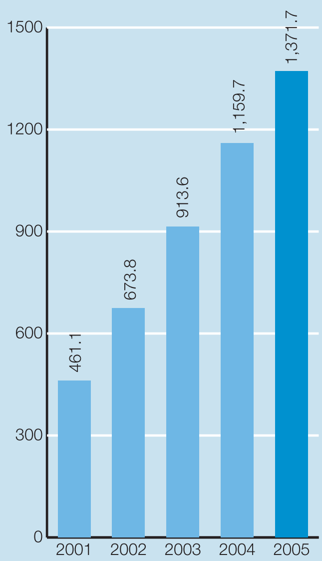
Registrars
Computershare Investor Services (Ireland) Limited
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18

Registered Number
16956

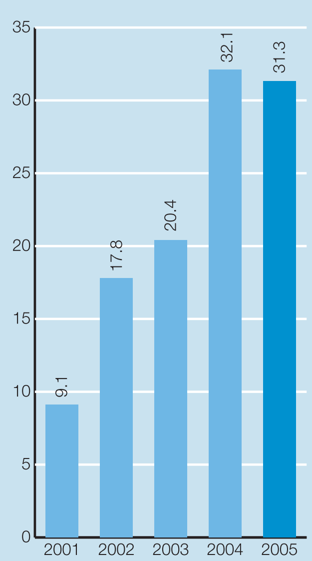
2005 Highlights

	Year ended 31 December 2005 €'000	Year ended 31 December 2004 €'000	Year on Year % Change
Revenue			
Retail	**794,321**	688,651	+15.3
Telephone	**249,871**	236,546	+5.6
Online	**327,518**	234,461	+39.7
Total Group revenue	**1,371,710**	1,159,658	+18.3
Group profit before taxation	**31,344**	32,109	-2.4
Profit after taxation	**26,954**	27,447	-1.8
Earnings per Share			
Basic earnings per share	**€0.5408**	€0.5655	-4.4
Diluted earnings per share	**€0.5289**	€0.5429	-2.6
Dividends per Share			
Interim paid	**€0.0775**	€0.0620	+25.0
Final proposed	**€0.1284**	€0.1252	+2.6
Total	**€0.2059**	€0.1872	+10.0

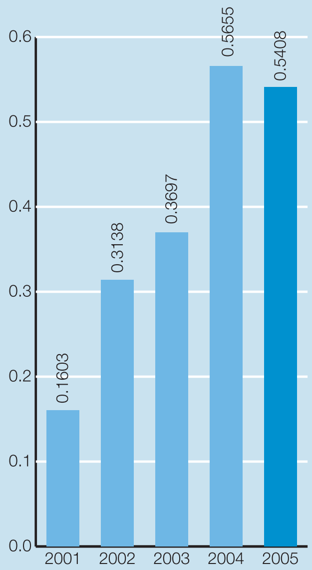
GROUP TURNOVER
(€m)



GROUP PROFIT
(€m)



EARNINGS PER SHARE
(€)



Chairman's Statement

Dear Shareholder

I am pleased to report on another year of progress in Paddy Power.

Revenue	€1,371.7m 18.3%
Pre tax profit	€31.3m (2.4%)
EPS	54.08 cent (4.4%)
Dividend	20.59 cent 10.0%
Cash balances	€52.3m 10.8%

2005 was a challenging year. I have talked before about how a run of sporting results can favour one side or the other of the betting equation; last year certainly did not advantage bookmakers. That is not a moan. It's just a fact of life in this business. 2005 also witnessed structural change in the Irish retail betting market. These two factors meant that, despite record revenue, the results were off where we would have hoped such a strong performance would have placed us.

The structural shift in the Irish retail market place gave rise to a revision of the expected gross win percentages in our domestic retail business. While this is undoubtedly a disappointment, we remain very confident that Paddy Power is best placed to take advantage of the opportunities associated with this structural shift. Our position as market leader, together with the introduction of tax-free betting in the Irish retail market, offers the opportunity for profitable growth in 2006 and beyond.

We have made considerable progress on business development since my Statement in last year's Annual Report. Much of the benefits of these advances will start to come through over the coming year and into 2007. The business is innovating constantly and I am confident that this will enhance shareholder value in the medium term.

Strategy

On this, our fifth anniversary as a public company, I believe it is worth taking the time to reflect on the strength of the company and the significant growth opportunities available.

The past five years has seen revenue grow from €362m to €1,372m, an average annual growth rate of approximately 31%, while operating profit has grown by an average annual growth rate of approximately 30% to €30m. In that time, the business has been transformed from an Irish betting shop operator to a multi-channel, multi-national betting and gaming company with over two thirds of its operating profits coming from non retail activities and 29% of revenue coming from outside the Irish market. Paddy Power, through its continued customer focus, has remained the number one betting and gaming company in Ireland and has now established itself as a significant player in the considerably larger United Kingdom market.

Our expansion has diversified our income sources, with non bookmaking income becoming an increasingly significant revenue stream. This in turn has allowed us to broaden our customer base, both by customer type and geographic market, and provides various cross selling opportunities that will fuel further growth.

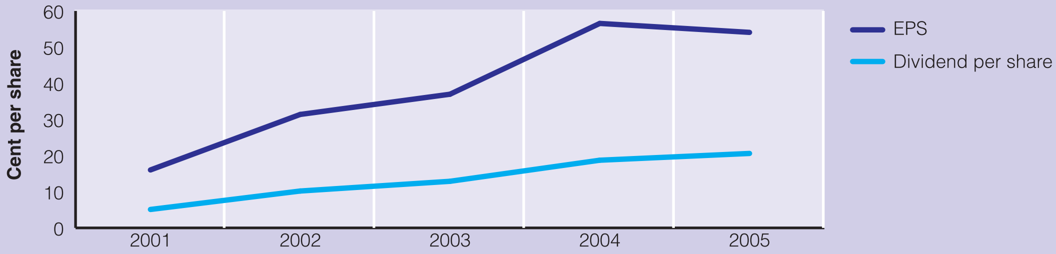
Paddy Power is a growth company. We have a track record of growing start up businesses organically while at the same time growing overall earnings and this is set to continue. The online channel has strong short and long term earnings growth potential in Ireland and the UK as the online betting market grows and we capture more market share. 2006 should also see us commence online operations targeting continental Europe where there are significant opportunities. We will also continue to invest in the roll out of our UK estate where significant long term potential remains.

Regulation

2005 saw some significant regulatory changes. In the UK, the Gambling Act was passed which, amongst many other provisions, will finally eliminate the demand test for betting shop licenses. It remains unclear as to when the relevant provisions will be enacted, but the formal consultative period has commenced and we remain hopeful for significant progress this year.

In Ireland, the 2005 Budget eliminated customer based betting taxes from July 2006, replacing them with a 1% revenue based tax levied on the bookmaker. In true Paddy Power fashion, we decided

EPS AND DIVIDEND PER SHARE



not to wait; instead we offered our customers tax-free betting from the morning after the Budget, with Paddy Power absorbing the full 2% charge until July 2006. Both we and our customers welcome the Budget change which now gives retail customers the same tax-free betting that Irish-based telephone and internet customers have enjoyed for some time.

People

This year marked the end of John O'Reilly's tenure as Chief Executive. It is accepted that John, together with his predecessor Stewart Kenny, forged an extraordinary position within the betting industry for Paddy Power. Finding a new CEO is a big challenge for any Board. Finding someone to follow Stewart and John was acutely so. I believe that during my time as Chairman it is unlikely that I will oversee a process as important for the shareholders than the selection of the right CEO to follow John.

The Board believes that in Patrick Kennedy we have got the right man to take this business forward and deliver shareholder value. I want to wish Patrick well in that quest.

I have said it before and I continue to believe that one of Paddy Power's strengths is the quality of its people. Under John O'Reilly's leadership, the strength in depth of the team has been substantially enhanced. Maintaining the commitment to recruiting the very best talent available will remain a priority under Patrick Kennedy's stewardship.

The Board

As the business has evolved so too has the Board. In 2005, two executive directors retired from the Board. John O'Reilly retired on 31 December having been with the Company from its inception. John served the Company in a variety of roles and was Chief Executive for the past three and a half years. His contribution was immense and on your behalf I thank him once again for his extraordinary commitment to Paddy Power. In early 2006, Ross Ivers is leaving the Company having been Finance Director since 2001. We greatly appreciate his significant contribution to Paddy Power and wish him well in his future career.

We have also announced the appointment of Jack Massey as Finance Director. Jack joins us from ITG Europe, the European division of the NYSE quoted Investment Technology Group, where he has been Chief Operating Officer since 2002 and previously Finance Director. I know that Jack will make a very substantial contribution to the Company and look forward to working with him.

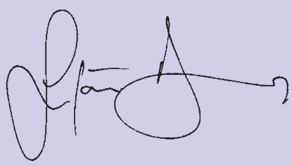
We were very pleased to announce, in January 2006, the appointment of Tom Grace as a non-executive director. Tom retired as a Partner in PricewaterhouseCoopers in December of last year and I have no doubt that he will make a significant contribution to Paddy Power over the coming years. As noted in the 2004 Annual Report, Brody Sweeney joined the Board in February 2005 and we have already benefited from his contribution. Stephen Thomas will be retiring from the Board at this year's AGM, having served a three-year term. I would like to thank Stephen for the quality of his contribution and his commitment to the Company over the past three years.

Dividends

The Board is recommending a final dividend of 12.84 cent per share payable to shareholders on the register at 10 March 2006, bringing the total dividend for the year to 20.59 cent per share, an increase of 10% on 2004 (18.72 cent).

Outlook

2006 promises to be another exciting year for Paddy Power as we expand in both new and existing markets. Trading for the year to date has been satisfactory and I look forward to updating you on progress at our AGM in May.



Fintan Drury
Chairman

28 February 2006

Chief Executive's Statement

I am delighted as Paddy Power's new Chief Executive to outline my views on the Company.

The growth of Paddy Power in its five years as a public Company, and indeed in the 18 years since its inception, has been tremendous. Equally impressive has been the fact that our culture today remains exactly as it has been throughout that period, characterised by a total focus on our customers and staff alike, on innovation and on our brand.

Our Business

The business today is very well positioned across each of its principal channels:

(i) Irish Retail

The Irish retail market has very strong growth prospects underpinned by continued population and economic growth. These prospects have been reinforced by the industry's move to tax-free betting which was led by Paddy Power in December.

Strong growth encourages new entrants and competitive trading. Nonetheless, as the market leader with a 27 % share and with consistent brand recognition of close to 90%, Paddy Power will continue to drive this market. Our brand, our people and our investment in innovative new products will support this.

In addition, growth in the Irish retail market will be supported by the very significant investment we have made in our estate in the last number of years: 80% of our estate has been opened, extended, relocated or refurbished in the last four years. Our organic rollout plan of six to ten new outlets per annum will continue and the enlarged estate should be fully supported by an Electronic Point of Sale (EPOS) system by the end of the year.

(ii) UK Retail

The attractions of the UK market to Paddy Power that we identified when we originally targeted it remain in place. It is a very substantial market with in excess of 9,000 outlets. It is close to our home market and is about to deregulate. It has a similar product and customer profile, which allows us to take advantage of our existing capabilities. Importantly, it is open to the brand-led, customer-led Paddy Power proposition.

We have made substantial progress in this market:

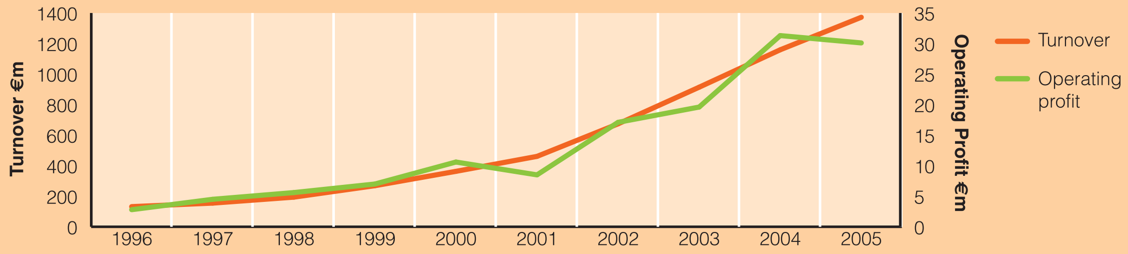
- At the end of last year, we had 45 shops open, compared with 12 at the end of 2003
- Our market share in the areas where we have shops continues to grow
- Our brand awareness, in London and in the UK, continues to increase, with research showing Paddy Power to be the fourth most recognised bookmaking brand in London
- Our product mix is improving, with the proportion of non-racing revenue continuing to increase

The UK retail expansion continues to be "work-in-progress" for Paddy Power, with a material contribution to Group earnings some way off yet. We are still moving towards critical mass: 30 shops have now been open for at least 12 months, and we recognise that it takes longer for a new entrant to develop a shop to "steady state" than it does for a market leader. It is our intention to continue our organic rollout in the UK at its current rate of up to 15 outlets per annum, although we will review this rate in light of market developments, including the new legislative environment.

(iii) Non Retail

The growth in the last few years in our non retail channel has been truly impressive. The business has moved from losses in excess of €8 million in 2001 on revenue of €90 million to operating profit of €21 million in 2005 on revenue of €577 million. In addition to our sportsbook offering through both telephone and internet channels, we have successfully introduced casino products, gaming products and poker. Well-resourced and ambitious competitors continue to enter these markets, attracted by the growth prospects. However, prospects for all of our businesses remain very strong. In addition, they are likely to be complemented by both additional product and additional language websites in the short term. We will continue to use organic growth to expand online, although strategic acquisitions at the right price that bring new product, technology or geographic expansion are possible.

OP AND TURNOVER TREND LINE



The same three factors will support the strong growth prospects of each of these sectors: our people, our brand and our innovative product range.

Our Resources

(i) Our People

Today we employ more than 1,400 people in Ireland and the UK, and this team is the single greatest reason for my confidence in the future of Paddy Power. As I spend time with people throughout the organisation, I am constantly impressed by the same qualities: energy, pride in our Company and in our brand, coupled with an absolute focus on our customers.

In the last year, we have grown by close to 200 people. More than half of this growth has come directly from our new shop openings in Ireland and the UK, plus our team to support the EPOS rollout. In addition, we have increased our telephone operators, our customer service team and our IT team to support the very strong growth in non retail. We have also recruited dedicated management teams for poker, casino and our European sportsbook rollout. Furthermore, as the organisation overall has continued to grow apace, we have strengthened key central functions, including marketing, human resources, risk management and finance. As has historically been the case, we will continue to hire in anticipation of growth.

(ii) Our Brand

Our brand embodies our approach to our customers and is a key point of differentiation versus our competitors across all our channels. We will continue to position the brand as fun, friendly - and occasionally cheeky and irreverent - but also, critically, fair. Whether through our broader range of products or our early payouts, innovative specials, double result payouts or the many other imaginative refunds that we regularly offer to our customers, we will continue to focus on being different from the competition.

Paddy Power's brand recognition consistently runs at almost 90% in Ireland. In the UK, where we have been operating for only four years, nationwide brand recognition among adults is 12%, 16% in London and over 60% amongst regular punters across the UK. This is a testament to the energy and imagination we invest in continually reinforcing our points of difference.

(iii) Our Products

The breadth of our product range is also a key source of differentiation from both other bookmakers and betting exchanges. It reinforces the brand quality of fairness to the customer, while also helping to drive revenue. For example, in leading live football matches, we will typically offer up to 55 markets, between pre-match and in-running, versus 25 on average from our largest competitors.

"Betting in Running" has been expanded significantly in the last 12 months with more comprehensive product offerings particularly in football, golf, Formula 1, snooker, tennis and baseball. It now accounts for over a quarter of all non retail sports bets. Other recent products that have been launched include hourly financial markets, "select-your-own" handicaps in rugby, golf handicap betting, betting without the favourite and place-only-betting in racing and mythical matches in football.

Conclusion

Overall, whilst there are challenges facing all of our businesses, they are far outweighed by the opportunities that our market positions and our own capabilities present. The strategy that has led to the successful development of Paddy Power to date is set to continue and I look forward to the future with confidence.

Patrick Kennedy

Patrick Kennedy
Chief Executive

28 February 2006

Operations Review

Paddy Power is Ireland's largest betting and gaming company and has a significant UK operation. It operates through two main divisions; the retail division, which operates bookmaking shops in both Ireland and the UK, and the non retail division, which provides telephone bookmaking services in Ireland and the UK together with an online service that provides both bookmaking and gaming services in both markets.

2005 has seen continued expansion of each of the divisions. The retail estate has expanded in both countries. Active customer growth has continued in the existing non retail division, fuelled in part by the addition of significant new products and services in the online channel.

The Retail Division

2005 saw the continued implementation of our retail organic growth strategy in both Ireland and the UK. At 31 December 2005, the estate comprised 195 shops (2004:174), with 150 (2004:143) in Ireland and 45 (2004:31) in the UK.

New openings in both countries were in line with plans, with a bias to the second half of the year in both locations. In addition to the new shop openings, our refurbishment plan has continued throughout the year in Ireland as we improve the physical quality of the estate, the average size and the audio/visual facilities. Total capital investment across the retail estate was €24.3m (2004: €24.6m).

In Ireland, 7 (2004: 6) new shops were opened. In addition we also relocated 6 (2004: 4) shops, extended 4 (2004: 4) and refurbished 16 (2004: 27). The total number of premises developed in Ireland in the year was 33 (2004: 41). As we move through 2006, the level of the redevelopment work on the existing estate will decrease as the major shop fit upgrade programme that we have undertaken over the past three years is completed. The level of expenditure on maintenance capital is expected to decrease for two to three years before the next estate upgrade. We continue to operate 4 racecourse shops as well as the stadium facilities at Lansdowne Road. There were 7 (2004: 5) surplus property leases at the year end.

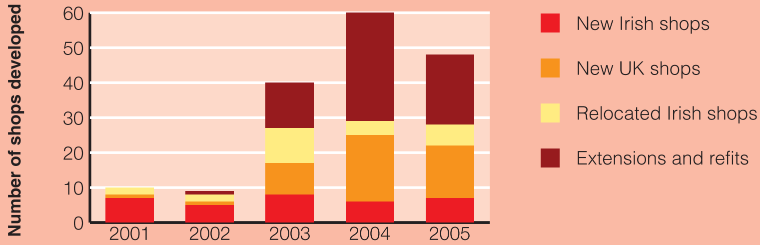
Expansion of the UK estate continued with 15 new shops being opened during the year. We also closed our oldest shop during the year. This had been acquired in 2000 in order for Paddy Power to undertake UK based advertising and did not form part of our UK roll out plan.

We enter 2006 with 45 shops open, 9 unopened licenses and a healthy pipeline of license applications across London. We plan to open up to 15 additional shops in London in 2006, assuming no changes to the existing legal process take effect in 2006. The management team is focused on achieving an improved financial performance in 2006 as the benefits of both scale and the maturity of the estate flow through.

The Group has been testing a new EPOS solution for some time. There are currently 72 test shops in operation in both Ireland and the UK and we are very pleased with the results of the testing. Subject to the satisfactory delivery of a small piece of remaining code in the next few weeks, it is intended to commence the full roll out soon thereafter. It is our intention to have the vast majority, if not the entire estate, installed by the end of 2006. Total capital expenditure on this project will be approximately €10.6m, €4m to cover the central system and €6.6m to cover the shops. €4.2m had been spent by 31 December 2005.

While there are many potential benefits of EPOS to both our customers and to Paddy Power, our intention is to use it to improve the quality of customer service by increasing the speed and accuracy of payout and expanding the product range. The improved availability of risk information from the retail estate should also help manage the gross win percentage over time. The technology infrastructure to support EPOS should also allow other benefits as it will provide an intranet communications infrastructure within the estate allowing e-mail communication and local printing of marketing material and coupons. It will also provide an infrastructure for customer facing information terminals or even internet access. While we expect to see some benefits immediately in risk, security and marketing, it will be 2007 before the full benefits are realised.

RETAIL ESTATE DEVELOPMENTS



2005 saw the completion of the roll out of a new screen system which provides a greatly improved experience for the customer. In addition to enhanced graphics it now supports 24 information screens, increased from 16, allowing us to add dedicated sports gantries across the majority of the estate. This in turn allows us to offer vastly improved betting options on sports particularly on "Betting in Running". The new system also supports customer information terminals giving the customer full access to all current prices and results. In addition, it allows grouping of shops which enables the tailoring of the screen content for local preferences.

New InfraRed technology has also been fully rolled out in 2005 and allows us to control all live television pictures from a central production studio. This enables us to coordinate the audio, information screens and the television screens in the shops, thus greatly improving the in-shop experience for customers.

Non Retail Division

The non retail division comprises telephone betting, online and interactive television operations.

Active Customers	Online		Telephone	
	2005	2004	2005	2004
Ireland and Rest Of World	25,646	16,721	10,783	10,207
UK	48,015	29,982	10,148	8,326
Total	73,661	46,703	20,931	18,533

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

The Online Channel

The significant expansion of the online operation seen over the previous four years continued in 2005 with record levels of activity throughout the business. The gradual shift of this channel away from bookmaking into online betting and gaming accelerated in 2005 as the take up of the new products launched in 2004 grew significantly. These were supplemented in 2005 by the launch of poker, which has performed very well in its first year of operation. Ongoing development of the core sportsbook product has continued with a range of ancillary features being added to increase the overall attractiveness of the site.

Online Active Customers	2005	2004
Sportsbook Only	48,137	35,321
Gaming Only	11,277	2,338
Multi product customers	14,247	9,044
Total	73,661	46,703

The development of the management team has been a major feature of the non retail division over the year. The addition of new product lines and the speed of their growth required that responsibilities for individual product lines be split into separate management teams. We are delighted with the calibre of the individuals that we have attracted, who have come from a wide range of leading e-commerce companies.

2006 will see an expansion of the online channel into continental Europe with at least one European language being added. We recruited a dedicated European team in 2005 to manage this project initially based in Dublin. We expect to be operational in quarter two and to run at a small loss for 2006.

The Telephone Channel

2005 was another year of significant development for the telephone business.

Over the past three years we have been actively engaged in increasing the average telephone stake size to reflect the higher delivery costs of this channel in comparison to both the online and retail channels. As part of this process we encouraged lower staking customers to switch to the online channel. We have also made a number of improvements to the telephone service during the year.

The changing profile of our telephone customers, together with the service changes and improved operational efficiencies, greatly improved the profitability of the business.

Operations Review (continued)

However, notwithstanding the changes we have made, the underlying growth in the business means that our current facility in Dublin is reaching capacity. We will therefore be moving the call centre in 2006 to a new building beside our existing headquarters in Dublin. This will increase the call centre capacity by an initial 25% and also offers additional capacity as needed over the next few years. It also frees up space in our head office to facilitate the expansion of our other businesses.

Trading and Risk Management

Trading and risk management is at the heart of a bookmaking business and 2005 has seen continued development of this function. It is responsible for the creation and pricing of all markets and the trading of those markets through their life.

Betting has become more sophisticated as the number of events and the number of markets on each event increase. The increasing promotional capabilities in the retail business through its expanded screens system, together with the almost unlimited ability to promote product on the internet, requires an ever expanding product range. At the same time the speed of information flows is greater, requiring greater management of the betting markets offered.

These changes in the speed and quantum of information also provide additional opportunities to create markets. Live sport together with improved technology allows "Betting in Running" to be offered through the internet and telephones. With the advent of EPOS it can also be done effectively through the shops.

The ability to hedge markets has substantially changed over the past few years as betting exchanges have grown. While providing a previously unavailable method of hedging, their growth has also led to a gradual change in the way that the on track bookmakers manage risk. This change impacts the value and role of the track based starting price system as it no longer fully reflects the weight of money bet at the track. The debate on the role of an off track starting price is set to continue and is an area that Paddy Power will watch with interest. Paddy Power has used, and will continue to use, both the on and off track market and the betting exchanges as appropriate to manage risk.

The levels of changes noted above mean that continued investment in risk management is essential and has been ongoing through 2005. This investment takes several forms. The need to monitor price movements in the market place requires increased technology to ensure that our relative position in the market is clearly understood in detail at all times. Investment in back office efficiency is essential to ensure that pricing and trading decisions are implemented across all the business channels as quickly as possible and with minimum risk of error. Increased headcount is needed as more sports are covered and specialist traders are put in place in each area. However, increased automation and sophisticated mathematical model allows greater productivity from individual traders who can cover more markets with greater accuracy. Some of the solutions noted above come from the EPOS implementation while others require separate solutions. 2006 will see continued investment in risk as Paddy Power further develops its market leading risk management operation.

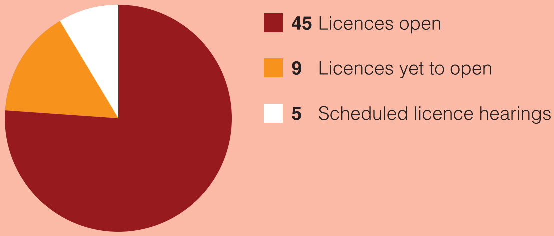
These actions will improve the overall quality and productivity of the risk management operation and help generate incremental revenue through new products launches. They will however have a limited impact on gross win percentages given the need to operate within a very competitive market place.

Marketing

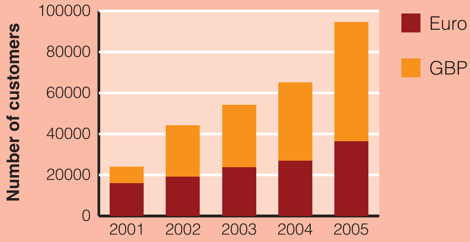
2005 was another very productive year for the marketing team as they reinforced Paddy Power's brand recognition and positioning in Ireland while building on the brand growth achieved in 2004 in the UK.

Our approach to our brand has remained consistent. Small stake betting is about entertainment and Paddy Power continues to position itself as fun, fair and friendly. Our approach to marketing can be best illustrated through highlighting some key marketing events in 2005.

59 UK SHOPS IN PROGRESS



NON RETAIL ACTIVE CUSTOMERS



The Papal elections in April generated significant media and customer interest. A quick decision was taken to send a team to Rome for the conclave with specially prepared marketing materials, backed up by a Paddy Power Papal Elections website. It was a risk that paid off handsomely, generating global coverage of Paddy Power, significant revenue and increasing our brand awareness to both our customers and investors.

In September, after only seven matches, we declared Chelsea "winners" of the English Premiership and paid out all winning bets. As well as delighting many customers and demonstrating the Paddy Power difference, it generated substantial media coverage.

Both of these events illustrate Paddy Power's core principles of being creative and fast moving. This willingness to make quick decisions enables us to gain first mover advantage. They also show that we are prepared to take risks in areas that clearly demonstrate our brand values.

Our Irish outdoor brand campaign in September emphasised that Paddy Power was no longer just about sports betting but encompassed a whole selection of online games. As our posters said "there's a place for fun and games" and paddypower.com is it. While the campaign generated unexpected debate it was very successful in reinforcing the notion that Paddy Power is about fun and entertainment.

These high profile "one off" events are balanced with a whole range of more traditional sponsorship deals covering sports, horse racing and entertainment using television, radio and print media. In 2005, we also increased our online sponsorships, becoming official online betting partner to both Arsenal and Liverpool football clubs to add to our Charlton Athletic and Aston Villa deals. In addition, as official betting partner to the Big Brother TV show, we generated significant exposure in the UK, capturing an audience that we would not normally reach through the more traditional sporting sponsorships.

As always, novelty betting is a great source of entertainment for customers and is another area where Paddy Power's sense of fun can be demonstrated. It can also generate very significant commentary and discussion especially when it goes "wrong." In June 2005 it went "wrong" when betting on the colour of the Queen's hat at Ascot. Who would have thought a brown hat at 12/1 would be a winner? Well, one "lucky" customer did as, only two hours before the Queen appeared at Ascot, a four thousand pound bet was placed with the price already having shortened to 8/11.

The willingness to take risks continues in 2006. As early as the second week of January, we took short term sponsorship deals for Burton Albion FC in their FA Cup match against Manchester United and for Roy Keane's debut match for Celtic. Upset results in both games delivered excellent exposure for us.

People

Staff numbers increased significantly to 1,374 from 1,199 by the year end as the organisation grew both in Ireland and the UK. Having the right people is fundamental to the success of Paddy Power and, as we continue to grow and change, there is a constant need for more people and new skills. Some of these will be hired from outside the organisation and some will be developed in house.

As planned, 2005 has seen significant investment in the training and development of staff throughout the organisation. Working through our own human resources team and with the aid of external specialists, we have developed a series of very successful in-house training courses covering a variety of management skills. In addition, a significant number of new staff have joined us and, as mentioned earlier, we are delighted with the calibre of the staff we have attracted to the online channel and to the organisation as a whole.

Patrick Kennedy
Chief Executive

28 February 2006

Financial Review

The Group has no discontinued operations and all activities are considered core.

Revenue

Sports betting revenue represents the amount staked (excluding revenue based betting taxes or levies) by the customer including the revenue from free bets. Gaming revenue represents net customer losses. Poker revenue represents the commission ("rake") earned by Paddy Power. For gaming and poker, revenue is equal to the gross win (see below).

Revenue for the year to 31 December 2005 was €1,371.7m (2004: €1,159.7m), an increase of 18.3 % on 2004. Revenue growth has been strong across all three channels ranging from 5.6 % to 39.7 %.

Retail revenue grew by 15.3% in 2005 from €688.7m to €794.3m. Irish retail revenue grew by 12.1% to €703.7m from €628.1m in 2004. Like-for-like growth rates within Ireland were 8.65%, reflecting the continued market growth and Paddy Power's strong position within it. Like-for-like growth includes the impact of our continuing refurbishment programme referred to in the operations review, but excludes the impact of the seven new outlets opened during the year. We continue to invest in new in-shop display systems as detailed in the operations review which, through the display of additional product, will continue to drive revenue growth. There were no significant changes in opening hours of the estate during the year.

UK retail revenue grew by 49.4% to €90.5m (2004: €60.6m).We are pleased with the revenue growth in the UK, which has been driven by growth in the number of shops, an increase in brand recognition, continued product development and improved display systems.

The online channel continued to see strong growth, with revenue increasing by 39.7% to €327.5m (2004: €234.4m). Growth in the sportsbook was 35%, which was driven by continued improvement in the online product offering, growth in the Paddy Power brand and continued growth in the online betting market. Casino and gaming products grew strongly with revenue from non bookmaking product totalling €17.2m (2004: €5.9m).This includes the rake income from poker, which commenced in February 2005. 67% (2004:69%) of revenue in the online channel comes from the UK, with the vast majority of the balance from Ireland.

2005 saw an acceleration in the repositioning of the telephone business that commenced in 2004 as we increasingly focus on higher stake customers. As expected, 2005 saw some loss of lower value business, particularly in the second half of the year where we made a number of significant product changes. We remain very happy with the development of the business and, as noted in the operations review, we will be moving into an expanded call centre in 2006. Revenue for the year grew to €249.8m (2004: €236.5m). The UK now accounts for 36.4% of revenue (2004:46.7%) with the balance from Ireland.

Average slip/bet values by channel

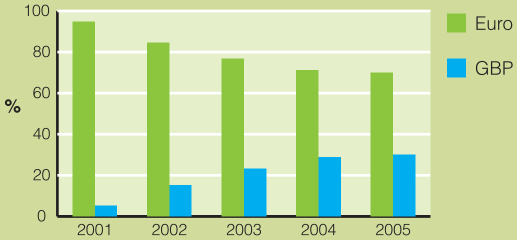
	2005 €	2004 €	Change %
Retail	**19.03**	18.21	4.5
Telephone	**91.79**	83.45	10.0
Online	**32.59**	27.09	20.3

(Note: Retail slips can contain more than one bet per slip, while other channels are a single bet per slip. Online comprises the sportsbook only.)

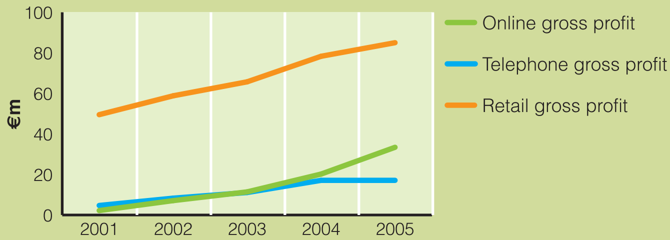
Average bet sizes are in line with expectations. Average bet size in the Irish retail business has continued to increase. As expected, we have seen a welcome reduction in the UK average as the shops start to mature. Given the different cost dynamics of handling bets through each channel, we continue to seek a higher average bet size in the telephone channel where the cost of delivery is higher, while encouraging lower staking customers to use the internet.

Fixed odds betting terminals (FOBTs) income has grown in our UK estate with 172 machines installed at year end. Average gross drop per machine per month was €2.5k (2004: €2.5k). Gaming machines are not permitted in Ireland.

TURNOVER BY CURRENCY (%)



GROSS PROFIT BY CHANNEL (€ MILLION)



Bet volumes

	2005 '000	2004 '000	Change %
Retail	**41,744**	37,811	10.4
Telephone	**2,722**	2,835	-4.0
Online	**9,522**	8,363	13.9

(Note: Retail volumes refer to the number of slips processed while other channels refer to the number of bets processed. Online comprises the sportsbook only.)

Gross Win and Gross Profit

Gross win represents the gross betting or gaming profit (the difference between the amount staked and the amount paid in winnings) to Paddy Power before any other deductions. For poker and gaming income the gross win is equal to the revenue i.e.100% margin.

Gross profit is the gross win less betting taxes and levies, discounted bets, direct software supplier costs and data rights.

Gross win percentages by channel

	2005 12 months to 31 Dec %	2005 6 months to 31 Dec %	2004 12 months to 31 Dec %
Retail	**12.40**	12.43	12.88
Telephone	**7.79**	6.93	8.31
Online	**13.11**	14.85	10.98

Gross win by channel

	2005 €'000	2004 €'000	Change %
Retail	**98,460**	88,701	11.0
Telephone	**19,454**	19,664	-1.1
Online	**42,934**	25,745	66.8
Total	**160,848**	134,110	19.9

Gross profit by channel

	2005 €'000	2004 €'000	Change %
Retail	**84,976**	78,296	8.5
Telephone	**17,151**	17,151	0
Online	**33,443**	20,186	65.7
Total	**135,570**	115,633	17.2

(Note: These numbers include FOBT and gaming income.)

Total gross win increased by 19.9% to €160.8m (2004: €134.1m) while gross profit increased by 17.2% to €135.6m (2004: €115.6m). Bookmaking gross win percentages were poor in 2005. Over the course of the year results favoured the punter with the big horse racing results being particularly good for the customers. In addition, retail trading conditions in Ireland were tough as the level of tax-free betting and other concessions increased though the course of the year. The increased competition levels, combined with further expectations of a complete move to tax-free betting, gave rise to a revision to the expected annual gross win percentages in November. This reduced both the retail and phone gross win percentage range by 1% and 0.5% respectively, while increasing the online sportsbook gross win percentage range by 0.5%.

We now expect the annual bookmaking gross win percentages (i.e. excluding FOBT and gaming income) to be as follows:

Retail	11%-13%
Non Retail	8%-9%

Bookmaking gross win percentages will continue to be influenced by the level of pricing and trading concessions in the marketplace as well as bet type mix, sports mix, customer mix, risk management and, as always, the run of results. We continue to expect volatility in gross win percentages from year to year.

Gross win from online gaming was €17.2m (2004: €5.9m), comprising gross win from the casino, poker and fixed odds games. This is an increase of 192% and reflects the strong growth we have seen in our casino and games business together with

Financial Review (continued)

the impact of the new poker business in 2005. In addition to generating absolute earnings growth, the increase in gaming revenue will continue to provide some insulation against the inherent volatility of the sportsbook.

Fixed odds betting terminals generated €4.3m (2004: €1.4m) of gross win, an increase of 217%.

Gross profit grew by 17.2%, reflecting the movement in gross win offset by the changes in the mix of betting taxes/discounts, software supplier costs, and data rights. Gross profit was 84% of gross win (2004:86%). Further change is expected in 2006 as a result of the changes in the Irish betting tax rules and the drop in BHB data rights charges.

Overall the business remains highly leveraged to small changes in the gross profit percentage.

Operating Profit

Operating profit decreased in the year by 3.2%. This reflects the strong growth rates achieved across the business, the leverage impact of the changes in the gross win percentages, continued investment in the business and the growth of new products.

In the retail division operating profit declined by 47% as the higher revenue was offset by the poorer gross win percentages. Costs grew in line with expectations, reflecting the growth of both the Irish and UK estates.

In the telephone business operating profit declined by 20%. Despite continued revenue growth, this was also more than offset by the poor gross win percentages.

The online sportsbook saw continued growth in revenue which compensated for the lower gross win percentages. This was enhanced by the growth in the newer gaming products, giving an overall increase in operating profits of 92%.

The online channel now accounts for 56% of Group earnings compared to 28% in 2004, while the total non retail division accounts for over 66% (2004:43%).

Tax Rate

The corporation tax charge for the year was €4.4m (2004: €4.7m) representing an effective tax rate of 14% (2004: 14.5%). This compares with the statutory rate in Ireland of 12.5% and the UK statutory rate of 30%. No corporation tax is payable in the UK in respect of 2005 due to tax losses. The Group's effective tax rate remains above the statutory rate due to the disallowance of certain expenses and this is likely to continue going forward.

Cash Flow, Cash Balances and Foreign Exchange Risk

Cash balances at 31 December 2005 were €52.3m (2004: €47.2m), an increase of €5.1m. This includes cash held in customer accounts of €10m (2004: €6.5m).

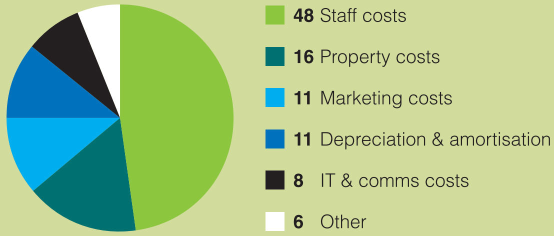
Cash from operating activities totalled €41.4m, an increase of €0.2m from 2004. Cash from operating activities included net cash inflow from customer accounts of €3.5m. Interest income was €1.2m, an increase of €0.2m, reflecting higher average cash balances. Capital expenditure decreased by 7% to €25.7m from €27.7m in 2004.

The significant capital expenditure reflects the high levels of property activity in both Ireland and the UK due to the expansion and refurbishment of the retail estate. We expect this to continue as we expand at similar rates in the future, although we should see a short term reduction as the refurbishment programme in Ireland temporarily slows down.

Cash balances are invested in accordance with defined treasury policies approved by the Board. These policies limit the risk rating of institutions that can be used, the concentration of risk with any one institution or within any category of institutions and the term of deposits. Cash balances are substantially invested in short-term bank deposits with maturities of 120 days or less. At year end, all deposits were available at twenty four hour notice.

The Group has no borrowings. Interest rate exposure is thereby limited to interest income on deposits and the impact of the economy in general. The Group remains highly cash-generative and this, together

OPERATING COSTS BY CATEGORY (%)



with existing cash balances, will be used to fund expansion. Only on determination of the scale of expansion in the UK, which is partly dependent on the timing of deregulation and the potential for strategic acquisition to enhance our online business, can the Board clearly identify potential surplus cash. Should the Group not require any of its cash reserves, the Board will determine the best method of returning it to shareholders. The Company has the ability to buy back its own shares.

Foreign exchange risk in the business is small. As the Group expands in the UK it will require sterling to fund its capital expenditure. Much of this can be naturally hedged from the sterling gross profit generated in sterling from the online and telephone divisions, as these divisions primarily have a euro cost base and so generate surplus sterling. Group policy allows the Group to hedge the foreign exchange exposure for up to six months. At the year end, no foreign exchange contracts were open. The Group's presentation currency is the euro and translation risk exists with its sterling subsidiaries.

Employees

The average number of employees in the Group during 2005 was 1,255 (2004: 1,076). At the year end, the total number of employees was 1,374 (2004: 1,199).

Share Price

The Company's daily closing share price ranged between €10.37 and €15.95 in 2005. The share price at 31 December 2005 was €12.10 (2004: €10.85) giving a market capitalisation of €609m (2004: €543m). The year end free float (shares not held by the directors or related parties) was 89.02% (2004: 88.03%).

Trading and Risk Management

The Group manages its betting risk through a central risk management and trading team whose role it is to compile the initial odds and, subsequently, to manage the odds and risk exposures throughout the life of the event. Risk limits are in place within the trading room and compliance with limits is reported daily to senior management and internal audit. Internal audit also carries out reviews of the risk function.

A betting risk management sub-committee of the Board operates under the chairmanship of David Power, a non-executive director. This Committee sets overall policy for betting risk. Limits are agreed with the Committee and set annually but are subject to review by the Committee at any time.

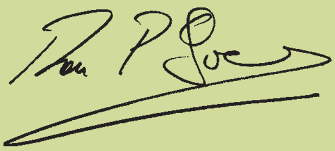
The Group does not offer credit betting.

Transition to International Financial Reporting Standards (IFRS)

There has been no material impact on the financial results by the transition from Irish GAAP to IFRS as detailed in the notes to the financial statements.

Dividend

The 2005 interim and proposed final dividend total is 20.59 cent per share (2004: 18.72 cent per share), amounting to €10.3m (2004: €9.3m), an increase of 10% on 2004. This represents dividend cover of 2.63 times (2004: 2.94).



Ross Ivers
Chief Financial Officer

28 February 2006

Board of Directors

Executive Directors

Patrick Kennedy (aged 36) is the Chief Executive. He joined the Group in an executive capacity in September 2005 and took over as Chief Executive on 1 January 2006. Patrick was already a Board member, having been appointed as a non-executive director in March 2004. Patrick was previously the Chief Financial Officer of Greencore Group plc. He joined Greencore in 1998 with responsibility for Group development, was appointed to the Board of Greencore in 2001, and assumed the CFO role in 2002. Prior to joining Greencore Patrick worked with KPMG Corporate Finance both in Ireland and internationally and as a strategy consultant with McKinsey Management Consultants in London, Dublin and Amsterdam.

Breon Corcoran (aged 34) is the Commercial Director. He joined the Group in April 2001 and since then has been responsible for development of the Non-Retail business. He previously worked with J.P. Morgan and Bankers Trust. He is a graduate of Trinity College and holds an MBA from INSEAD. He was appointed to the Board in August 2004.

Non-Executive Directors

Fintan Drury (aged 47), Chairman, is chairman of sports management company Platinum One (formerly called DSMI), and is a director of a number of other private companies. He is also a non-executive director of Anglo Irish Bank plc. A former news journalist with RTÉ, Mr Drury founded Drury Communications, a leading corporate communications consultancy, in 1988. He retired from this business in 1999 when he sold his controlling interest in the company. He was appointed to the Board of Paddy Power in 2002, and was appointed Chairman in May 2003.

Stewart Kenny (aged 54) was a co-founder of Paddy Power in 1988. He has considerable experience in the betting industry, training with Ladbrokes in London for two years before establishing a chain of betting shops, Kenny O'Reilly Bookmakers. He sold that business to Coral in 1986 and subsequently re-entered the business, opening ten betting shops between 1986 and 1988. He was the Group Chief Executive from May 1988 until June 2002 and also Chairman from June 2002 until May 2003.

Tom Grace (aged 57) was appointed a non-executive director in January 2006. Tom was a partner with PricewaterhouseCoopers up to 2005, where he led the Insolvency Department since 1987. With 34 years experience at PricewaterhouseCoopers, Tom also worked in the audit division and management consultancy division, principally in the area of financial advice. Tom is also well known as a former rugby international. He won 25 international rugby caps for Ireland between 1972 and 1978 and captained the side on eight occasions. He also toured as a British and Irish Lion in 1974.

Nigel Northridge (aged 50) was appointed a non-executive director in July 2003. He is the Chief Executive of Gallaher Group plc. He held various sales and marketing roles with Gallaher after joining the company in 1976, before assuming responsibility for continental Europe in 1988. In 1990, he was appointed Managing Director of Gallaher (Dublin) in his native Ireland and was subsequently appointed UK Sales and Marketing Director in 1994 and Group Sales and Marketing Director in 1996. He was appointed Chief Executive of Gallaher in January 2000. He is also a non-executive director of Aggreko plc.

David Power (aged 59) co-founded Paddy Power in 1988 and has been a non-executive director since that date. He merged a significant proportion of the betting shops controlled by him and trading as Richard Power Bookmakers with Paddy Power in 1988. He is an on-course bookmaker.

Brody Sweeney (aged 45) was appointed a non-executive director in February 2005. He is one of Ireland's leading entrepreneurs, being the founder and Executive Chairman of O'Brien's Irish Sandwich Bars, which has over 260 outlets in Ireland, the UK, Europe and Asia.

Stephen Thomas (aged 53) was appointed a non-executive director in August 2002. He has extensive experience of the UK leisure sector and is Chief Executive of Luminar plc. He co-founded Luminar in 1997, which today is the largest independent operator of late night entertainment venues in the UK comprising over 280 businesses including national brands such as Chicago Rock Café, Jumpin Jaks, Liquid, The Orange House, and The Jam House. Prior to this he held senior positions with a number of UK-based leisure companies including Whitbread & Co plc, Grosvenor Leisure Limited and Rank Leisure Services.

Directors' Report

The directors submit their report together with the financial statements for the year ended 31 December 2005.

Principal Activities

The Group provides 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'). It provides online gaming services principally through 'paddypower.com', 'paddypowercasino.com' and 'paddypowerpoker.com'. It provides its services principally in Ireland and the United Kingdom.

Results

The Group's profit after taxation of €27.0 million reflects a decrease of 1.8% on the 2004 profit figure. Basic earnings per share amounted to €0.5408 compared with €0.5655 in the previous year, a decrease of 4.4%. The financial results for the year are set out in the Consolidated income statement on page 34. Profit for the year amounted to €27.0 million (2004: €27.4 million). Shareholders' funds at 31 December 2005 amounted to €96.1million (2004: €78.7 million).

Dividends

An interim dividend amounting to 7.75 cent per share was paid during 2005. The directors recommend that a final dividend of 12.84 cent per share, amounting to €6.4 million, be paid on 19 May 2006 to shareholders registered at close of business on 10 March 2006. This would make a total distribution of profit to shareholders of €10.3 million in respect of the year ended 31 December 2005 (2004: €9.3 million).

Business Review and Key Performance Indicators

A detailed commentary incorporating key performance indicators by channel including; active customers, average slip/bet values, bet volumes, gross win and gross profit is contained in the Operations and Financial Reviews on pages 10 to 17.

Principal Risks and Uncertainties

Information in respect of the principal risks and uncertainties facing the Company and the Group, as required in accordance with the terms of European Accounts Modernisation Directive (2003/51/EEC), are provided in the *"Trading and Risk Management"* section of the Operations Review on page 12. The composition and responsibilities of the Risk Committee are set out on pages 26 and 27. The Board has established financial risk management objectives and policies which have been implemented by executive management, details of which are given in Note 25 on page 62.

Market Research

The Group undertakes continuing market research across all business divisions in both Ireland and the UK. In 2005 research undertaken included brand research and customer satisfaction surveys in addition to focus groups previewing advertising campaigns.

Events Since the Year End and Future Developments

There have been no significant events affecting the Group since the year end other than the recommendation to pay dividends to shareholders as noted above. The directors do not anticipate any substantial changes to the nature of the business.

Own Shares Held

The Paddy Power plc Employee Benefit Trust ("the Trust") was established to manage the long-term incentive plan. During the year ended 31 December 2005, the Trust purchased 190,000 (2004: 240,000) Paddy Power plc shares at a cost of €2.6 million (2004: €2.3 million). At 31 December 2005 the Trust held 430,000 (2004: 240,000) ordinary shares in Paddy Power plc representing 0.85% (2004: 0.48%) of the issued share capital.

Substantial Holdings

Details of interests of over 3% in the ordinary share capital which have been notified to the Company are set out below:

	Holding at 28 February 2006	%
Fidelity Investments Ltd	**4,529,298**	8.99%
Nordea Investment Funds SA	**3,934,900**	7.81%

Board of Directors

John O'Reilly retired from the Board on 31 December 2005 and Ross Ivers stepped down from the Board on 6 December 2005. Tom Grace was appointed to the Board on 3 January 2006 and is proposed for election by the shareholders at the AGM in May 2006. Fintan Drury retires from the Board by rotation in 2006 and being eligible offers himself for re-election. Stephen Thomas will step down from the Board at the AGM in 2006, having completed a full three-year term. Further information on the dates of appointment of the directors is given in the Remuneration Committee's Report on pages 30 and 31.

Directors' Report (continued)

Directors' Remuneration

Details of directors' remuneration are given in the Remuneration Committee's Report on pages 30 and 31 and in Note 6 to the financial statements on pages 46 and 47.

Directors' and Secretary's Interests

The interests of the directors and secretary who held office at 31 December 2005 in the share capital of Paddy Power plc, all of which were beneficially owned, were as follows:

	Number of ordinary shares of €0.10 each	
	31 Dec 2005	31 Dec 2004 (or date of appointment if later)
Fintan Drury	**19,400**	19,400
Patrick Kennedy	**3,000**	3,000
John O'Reilly	**613,889**	613,889
Breon Corcoran	**70,448**	20,000
David Power	**4,398,788**	4,898,788
Nigel Northridge	**1,000**	1,000
Stewart Kenny	**419,832**	419,832
Stephen Thomas	**5,000**	5,000
Brody Sweeney	**-**	-
Nuala Hunt (Secretary)	**3,500**	3,500

There have been no changes in the above shareholdings between 31 December 2005 and the date the directors authorised these financial statements.

The directors and the company secretary had the following share options at 31 December 2005:

	Number of options at start of year	**Exercised during the year**	**Options granted during the year**	**Number of options at end of year**	**Exercise price (a)**	**Exercise period**
John O'Reilly	300,000	-	-	300,000	1.16	1 May 2003 - 1 May 2006
Breon Corcoran	50,000	50,000 (b)	-	-	3.59	1 August 2004 - 1 August 2007
Breon Corcoran	448	448 (c)	-	-	4.95	1 July 2005 - 31 December 2005
Breon Corcoran	20,000		-	20,000	8.15	24 February 2007- 24 February 2010
Breon Corcoran	-	-	1,020	1,020	11.60	6 October 2008 - 6 April 2009
Nuala Hunt (Secretary)	25,000	-	-	25,000	5.25	24 July 2005 - 24 July 2008
Nuala Hunt (Secretary)	8,000	-	-	8,000	8.15	24 February 2007 - 24 February 2010
Nuala Hunt (Secretary)	-	-	1,020	1,020	11.60	6 October 2008 - 6 April 2009

(a) The closing share price during the year ended 31 December 2005 ranged from €10.37 to €15.95 and was €12.10 at year end (2004: ranged from €7.15 to €11.00 and was €10.85 at year end).

(b) These options were exercised on 8 September 2005 when the market price of the shares was €14.41.

(c) These options were exercised on 5 September 2005 when the market price of the shares was €14.34.

Transactions with directors and parties related to them have been disclosed in Note 22 to the financial statements on page 60. The directors and secretary have no interests in shares in any other Group companies.

During the financial year ended 31 December 2005 directors who held office at 31 December 2005 were conditionally awarded the following share grants under the long-term incentive plan scheme:

	Grants outstanding at start of year	Granted during year	Grants outstanding at end of year	Date shares granted	Share price at date of grant
John O'Reilly	60,000	-	60,000	22 June 2004	€9.43
Breon Corcoran	30,000	65,000	95,000	22 Jun 2004 – 23 December 2005	€9.43 – €13.80
Patrick Kennedy	-	70,000	70,000	19 September 2005	€14.40

The awards are subject to the rules of the scheme and will vest if the growth performance targets are met over the minimum vesting period. Further details of the scheme are outlined in the Remuneration Committee Report and in detail in Note 18 to these financial statements.

Employees

An enthusiastic and energised team of employees is essential to Paddy Power's success. Paddy Power aims to deliver the best customer experience and recognises that people make the difference. The continued success of Paddy Power is due to its ability to respond quickly to the ever changing and expanding environment in which it operates. The Group continues to attract new talent, as well as focusing on the development and retention of employees. All vacancies are advertised internally. Paddy Power is committed to constantly reviewing work practices and procedures to ensure that the Group provides a rewarding career and a friendly favourable working environment, whilst meeting the demands and customer requirements of the business.

The Group has an established employee communications group comprising representatives from staff and management who meet regularly. This discussion group is encouraged to offer suggestions for change and ideas that are promptly considered and responded to. This forum also gives the Group an opportunity to provide information about the Group's plans, activities and results, and ensures that new developments are communicated and agreed with staff.

Paddy Power is an equal opportunities employer and strongly promotes a work environment free from discrimination.

Safety, Health and Welfare at Work Act, 2005

The Safety, Health and Welfare at Work Act 2005 came into effect during the year. Paddy Power has taken all the necessary steps to ensure compliance with the changes made in the new Act. The Group pursues an active policy of providing a safe place of work for its employees and visitors to its premises. The new Act imposes certain obligations on employers in respect of health and safety in the workplace. Appropriate measures have been taken to ensure that health and safety standards are complied with at all relevant locations and that all applicable Group companies meet the requirements of the Act. These measures include safety statements at all locations, induction training in health, safety and fire safety for all new employees, receipt of method safety statements from contractors and proactive updating and actioning of shop risk assessments. We are currently planning a geographical health and safety audit in all of our retail shops and re-evaluating our risk assessments on a yearly basis.

Charities

Paddy Power maintains relationships with a large number of charitable organisations, ranging from those supporting the local communities in which our shops play a key role, through to national charities focusing on the welfare of specific groups. During the year the Group spent €81,505 on charitable donations (2004: €90,730).

Directors' Report (continued)

Political Donations

No political donations greater than €1,800 were made during the year.

Corporate and Social Responsibility

Social responsibility is an important issue to Paddy Power. The Group's strategy is predicated on looking after customers over the longer-term. Paddy Power acknowledges that there are significant behavioural differences between traditional fixed-odds betting and new gaming products. In recognition of these differences the Group works closely with Gamcare, a registered charity and leading authority on the provision of information, advice and practical help promoting responsible gambling. During 2005 all non retail customer service staff received training in responding to individuals who might be suffering from problem gambling. Work with Gamcare is ongoing and all new customer service recruits now receive Gamcare training. All Irish retail staff adhere to the polices and procedures of Gamcare. In 2005 all UK retail staff completed training on the Group's approach to responsible gambling and on the administration of the customer self exclusion process as part of the induction programme. Plans are underway to have the Group's practice and procedure audited by Gamcare. This is in line with industry practice in the UK.

Environment

Paddy Power plc has a proactive approach to assisting all personnel to conduct business in a manner that protects the environment. The Group encourages efficient use of resources, encourages recycling where possible and is compliant with all relevant environmental legislation. Examples of initiatives adopted in 2005 included: improvements in energy efficiency with the installation of long life light bulbs in all of the refitted shops; reduction in packaging waste on all case goods and furniture; installation of a water efficient flushing system in the refitted shops which reduces water wastage by one third; and the use of a mobile phone and used inkjet re-cycling plan in head office which is administered by a charity. The Group, in association with Onyx Ireland, has introduced a complete waste management policy in head office and everything from glass to general office paper is recycled. We have also introduced a cardboard baler in our warehouse for all of the Group. This has proven to be of great benefit to the recycling plan and reduces the charge to remove waste by 60%. All of our cleaners, both internal and external, have now adopted the policy to use environmental friendly chemicals in both head office and in the retail shops. Each of our appointed contractors is aware of the importance of the environment and are all tasked to keep us informed of all new energy saving products on the current market.

We also want to keep the environmental impact of our annual report package to a minimum. Thus, the paper used in this report was manufactured in a mill with ISO 9002 and IS01 4001 accreditation. The Report is woodfree, ECF, acid-free, recyclable and biodegradable.

Books of Account

The measures which the directors have taken to ensure that proper books of account are kept are: the appointment of suitably qualified personnel; the adoption of suitable policies for recording transactions, assets, and liabilities; and the appropriate use of computers and documentary systems. The Group and Company books of accounts are kept at Airton House, Airton Road, Dublin 24.

Auditor

In accordance with Section 160 (2) of the Companies Act 1963, the auditor, KPMG, will continue in office.

Going Concern

The directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

On behalf of the Board

Fintan Drury

Patrick Kennedy

Patrick Kennedy
28 February 2006

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the Group and Company financial statements, in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and have elected to prepare the Company financial statements in accordance with Generally Accepted Accounting Practice in Ireland, comprising applicable law and the financial reporting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland.

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Acts 1963 to 2005 provide, in relation to such financial statements, that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company.

In preparing each of the Group and Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Acts 1963 to 2005. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish Stock Exchange, the directors are also responsible for preparing a Directors' Report and reports relating to directors' remuneration and corporate governance that comply with that law and those Rules.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Fintan Drury

Patrick Kennedy

Corporate Governance

The 2003 Annual Report discussed at length the Board's view on corporate governance, its importance, its role in your Company and how the Board expects to fulfill its obligations as well as giving a number of undertakings. I have not repeated that discussion in this year's report but have set out below our policies on corporate governance. There have been no substantive changes in the past year.

Since my last report the Board has seen further change. Two executive directors, John O'Reilly and Ross Ivers, stepped down from the Board in December, and in early January Tom Grace joined the Board as a non-executive director. He was subsequently appointed Chairman of the Audit Committee. In addition, Patrick Kennedy, who was a non-executive director, became an executive director when he joined the Group as Chief Executive designate in September 2005. The impact of these changes is that at certain stages in the year we were unable to staff all the committees strictly in accordance with best practice and some temporary appointments were made. This is discussed in further detail under Board Operations and Committees.

What follows represents our policy on corporate governance:

Board Composition

It will be at the discretion of the Board itself to decide on the right number of directors for the business at any point. The majority of the Board should be independent non-executive directors. The Board should comprise a mix of the necessary business skills required to provide the basic oversight of the management of the business and to contribute to the development and advancement of business strategy. Paddy Power is a specialist business and should always retain the betting industry savvy that has been part of the fabric of its Board, both as a private and public Company. The Board should also comprise high quality non-executives from the different geographic markets in which the Group operates.

What we want to ensure is that Board members have sufficient time to add real value to your Company. The regulatory obligations and the wider demands of this Board mean that it has been agreed that no non-executive director should hold more than three directorships of publicly quoted companies. The Chairman cannot be the chairman of any other publicly quoted company. It is also agreed that there should be no more than two Paddy Power directors on the Board of any one other listed company. Executive directors should hold no more than one non-executive director position.

Tenure

The current Board comprises a mix of executive directors, founding directors and those who were recruited for the particular skill and experience they would bring to Paddy Power. The Board is going through a period of change. Of the nine directors currently serving on the Board, two have been members since the Company was launched on the Stock Exchange in December 2000. The Board is actively recruiting an additional independent non-executive director for appointment in 2006 and will be joined by a new executive Finance Director, Jack Massey in April 2006. On the making of these appointments the Board will increase to comprise three executive directors, two non-executive founder directors and the remainder being independent non-executive directors.

The Board decided that all non-executive directors of Paddy Power would serve a maximum of two three-year terms effective from the date of floatation. The Nominations Committee would retain the right, in special circumstances, to extend the tenure of any non-executive director for a further term, to an absolute maximum of nine years in total. David Power and Stewart Kenny will have completed two terms in office in December 2006.

The Non-Executive Directors' Responsibilities

In addition to their statutory responsibilities as outlined in the Statement of Directors' Responsibilities on page 23, it has been agreed by your Board that all directors will have three specific responsibilities:

- Attendance at Board meetings
- Membership of at least one Board sub-committee
- Role as a 'mentor' to a particular area of the business

Regular contact with each other, and availability to the Chairman and to the Chief Executive for advice and ideas, remain critical. To be an effective Paddy Power Board member means being an enthusiast for the business. Attendance at meetings is not sufficient. Active participation during formal Board and committee meetings is what matters.

The non-executive directors will also meet once a year without their executive director colleagues or your Chairman.

In addition to the 'standard' roles, the Board felt it would be very beneficial if individual non-executive directors were in a position to act as a mentor to an individual or a team within the business on strategic issues they might face where the director involved would have relevant skills and experience. This is not about non-executives straying into operational affairs that are the business of management. It is about giving life to the Board's real desire to provide business counsel that can help grow the business and, with it, shareholder value. It is also a further check on the growing pressures on a Board to just supervise, dot i's and cross t's.

In that context, it is important too that non-executives do not feel either restricted by the corporate governance rules of engagement or feel that simple compliance with them will be sufficient to meet their obligations. That has never been the Paddy Power way and a commitment to corporate governance should not be interpreted as a change in our drive for innovation.

The Chairman's Role

The Chairman is a non-executive director and carries the same responsibilities as all his non-executive colleagues. His role is wider of course. As well as conducting Board meetings and being a member of sub-committees, your Chairman is the one constant in the management of Board affairs.

The Chairman is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda. The Chairman is also responsible for ensuring that all directors receive accurate, timely and clear information. The Chairman facilitates the effective contribution of his non-executive colleagues and ensures constructive relationships exist between executive and non-executive directors. He is the guarantor of effective communications with shareholders.

Performance evaluation of the Board, its committees and its individual directors will be undertaken annually. Your Chairman will act on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, appointing new members to the Board or seeking the resignation of directors.

While there may be a perception that Board business revolves exclusively around meetings, this is not the case. Board counsel must be available to senior management at all times. Your Chairman is the normal source of such advice and encouragement, but by no means the only one. The need to source the most relevant expertise at short notice means that the Chairman must have regular contact with individual Board members to ensure that there is a seamless interaction between the senior executive team and the non-executive directors.

As Chairman I also meet with the non-executive directors independently of the executive directors. I meet regularly with the Chief Executive and the Finance Director, to discuss all aspects of the business performance. I also have regular meetings with the Chief Executive and on an occasional basis, with him, I meet with other senior members of the management team.

Corporate Governance (continued)

Directors' Fees

In July 2003, the standard non-executive fee was set at €40,000. It was agreed that chairs of committees would be paid an additional fee of €10,000 and that the Chairman would receive an annual fee of €110,000. These figures were set for an eighteen month period until 31 December 2004. The Board decided to retain the same fee levels for 2005 noting in last year's report that there was likely to be a marked increase in 2006.

The new fees have now been agreed and are as follows:

Chairman of the Board	€160,000
Committee chairman	€10,000
Non-executive director	€55,000

These fees have been set for the next two years and, barring exceptional circumstances, will not be reviewed again until 2008.

I refer, in my Chairman's Statement, to the process undertaken by the Nominations Committee for the recruitment of the new Chief Executive. At the start of this process we engaged consultants to provide some overall guidance and to ensure that it was appropriately managed. However, the Nominations Committee managed the process over an eight month period with a considerable investment of time by all concerned.

Board Effectiveness

Each director is expected to perform to the highest standards with regard to both their general contribution and their contribution through committees and mentoring.

It is my responsibility to ensure that the performance of all directors is at the levels required. In addition to the formal Board meetings I have met with all directors individually to discuss their performance. The non-executive directors have also met without myself and the executive directors. David Power has conducted a detailed review of my performance with all directors, the results of which have been discussed with me. In the absence of having a senior independent director David Power undertook the review as it was felt he was in the best position to do so. David was not appointed during my tenure and has had the benefit of serving under each of the chairmen of Paddy Power.

Board Operations and Committees

The Board will hold at least nine full Board meetings each year. Each member sits on at least one committee and each non-executive director is also asked to 'mentor' one part of the business where it is felt they could provide additional specialist advice to senior management. I expect all Board members to be available to me between meetings.

The composition of the Board committees as at 28 February 2006 is:

Remuneration

Stephen Thomas (Chair); David Power; Fintan Drury

Nominations

Fintan Drury (Chair); Nigel Northridge; Patrick Kennedy; Stewart Kenny

Audit

Tom Grace (Chair); David Power; Brody Sweeney

Risk Management

David Power (Chair); Patrick Kennedy; Nigel Northridge; Breon Corcoran

Audit Committee

The Audit Committee's responsibilities include:

- monitoring the integrity of the financial statements of the Company
- reviewing the Group's internal financial controls
- monitoring and reviewing the effectiveness of the Group's internal audit function
- making recommendations to the Board in relation to the appointment and removal of the Group's external auditor
- approving the remuneration and terms of engagement of the external auditor
- evaluating the performance of the external auditor, including their independence and objectivity
- approving non audit services provided by the auditor in accordance with the Group policy on non audit services
- developing and ensuring compliance with the Group's policy on the provision of non-audit services
- reviewing arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters

The committee's responsibilities have been expanded from January 2006 onwards to include ensuring that there are appropriate procedures in place to monitor and evaulate the general business risks to which the Group is exposed.

The Audit Committee has unrestricted access to the Group's external auditor and internal auditors with whom it meets at least twice a year, both with and without management.

Remuneration Committee

The Remuneration Committee is primarily responsible for making recommendations to the Board on remuneration policy for the Group's executive directors and selected senior management. The report of the Remuneration Committee is set out on pages 30 to 31.

Nominations Committee

The Nominations Committee is primarily responsible for recommending candidates to the Board for appointment as directors and ensuring that appropriate procedures are followed for all such appointments.

In appointing new non-executive directors the committee agrees the preferred profile of the director with the Board as a whole and receives written recommendations from existing directors. Given the industry knowledge of the Board and the committee members, as well as their general commercial experience, it is felt that this approach is more effective than using either advertised search or recruitment agencies. The quality of directors found using this approach has been excellent and the Board believes this is the best method for your Company.

Risk Committee

The Risk Committee is responsible for ensuring that policies in respect of betting risk are appropriate to a group of Paddy Power's size, for monitoring that policies are being correctly applied and that the expertise and systems within the organisation are consistent with the level of risk undertaken.

Corporate Governance (continued)

The attendance at Board and committee meetings by the directors is set out below:

	Number of meetings held and attended by the directors					
	Note	**Board**	**Audit**	**Remuneration**	**Nominations**	**Risk**
Number of meetings held in 2005:		9	3	8	1	2
Attended by:						
F Drury*		9		8	1	
N Northridge*		9			1	2
Tom Grace*	a)	N/A				
S Thomas*		6		7		
B Sweeney*	b)	7	3			
D Power**	c)	9	3	8		2
S Kenny**		9			1	
P Kennedy***	d)	8	2			
J O'Reilly***	e)	9			1	2
R Ivers***	f)	8				2
B Corcoran***		9				1

** Independent Non-Executive Director*
*** Non-Executive Director*
****Executive Director*

a) Tom Grace joined the Board on 3 January 2006
b) Brody Sweeney was appointed to the Board on 16 February 2005 and was a director for eight Board meetings and three Audit Committee meetings
c) David Power acted as chairman of the Audit Committee for one meeting
d) Patrick Kennedy became an executive director in September 2005 after joining the Group as Chief Executive designate. He chaired two Audit Committee meetings
e) Retired 31 December 2005
f) Resigned 6 December 2005

As discussed, the Board is in a state of transition. The number of independent non-executive directors is now five (including the chairman) and there are four non-independent directors (including two executive directors).

No senior independent director has been appointed as the Board wishes to complete the appointment of new independent directors and give the new Board some time to consider this matter. A decision will be made in 2006.

Given the changes in independent directors serving in 2005 it was not possible to populate the committees in accordance with the combined code at all times. On appointment of a new independent director the composition of the committees will be reviewed.

In respect of the Nominations Committee, which comprises four directors, two of whom are independent non-executive directors, the Board believes that the balance of independence, industry knowledge and experience best suits the task at hand. The quality of their work is reflected in the excellent quality of the appointments and no changes to the composition of this committee are planned.

Internal Control

The Combined Code annexed to the listing rules of the Irish Stock Exchange and the UK Listing Authority states that:

1. The Board should maintain a sound system of internal control to safeguard shareholders' investment and Group assets.

2. The directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal control and should report to shareholders that they have done so. The review should cover all material controls, including financial, operational and compliance controls and risk management. The directors have overall responsibility for the Group's system of internal control and have delegated responsibility for the implementation of this system to executive management.

The Board has established a process of compliance which addresses the Board's responsibility to maintain, review and report on all internal controls, including financial, operational and compliance risk management.

The principal processes comprising the system of internal control are:

- Budgets are prepared for approval by executive management and included in a Group budget approved by the Board.
- Expenditure and income are regularly compared to previously approved budgets.
- The Board establishes treasury risk policies as appropriate, for implementation by executive management. Compliance with risk limits are reported on daily by the risk management department and reviewed by senior management and internal audit.
- All material commitments for expenditure and payments are compared to previously approved budgets and are subject to prior approval by personnel designated by the Board of Directors.
- Regular financial results are submitted to and reviewed by the Board of Directors.
- The directors, through the Audit Committee, review the effectiveness of the Group's system of internal control.
- An audit and security department, independent of operations, monitors the activities of the betting operations and the risk management division, including the verification of winning bets. They also undertake internal control reviews throughout the organisation. The head of this department meets regularly with the Audit Committee and also presents annually to the Board.

A review of the effectiveness of the system of internal control was carried out during the year to 31 December 2005. The directors considered that the procedures necessary to implement the Turnbull guidelines on internal control in the Combined Code have been properly established.

Relations with Shareholders

The Group is committed to ongoing communication with its shareholders. The Group operates an investor relations section on the corporate website. This contains copies of investor presentations and annual reports as well as providing access to RNS statements and corporate press releases.

There is regular discussion between Group management and analysts, brokers and institutional shareholders, ensuring that the market is collectively informed on business operations. Visits to the Group headquarters are encouraged and tours of our retail outlets are undertaken regularly. All shareholders are encouraged to attend the Annual General Meeting where they are afforded the opportunity to question the Board.

Compliance

The directors confirm that the Company has complied throughout the accounting period with the provisions of the Combined Code, except as noted in this commentary.

Conclusion

As in previous years I would invite you all to consider the above carefully, and encourage any shareholders who have questions relating to this Corporate Governance Statement to contact me by email at fdrury@paddypower.com.

Fintan Drury
Chairman

28 February 2006

Remuneration Committee Report

The report on directors' remuneration and interests has been prepared by the Remuneration Committee on behalf of the Board of Directors in accordance with the requirements of the Irish Stock Exchange's Combined Code on Corporate Governance.

The Remuneration Committee

As at the date of this report, the Remuneration Committee consisted of the following non-executive directors:

Stephen Thomas (Chairman)
David Power
Fintan Drury

The majority of members of the Committee are independent; they have no personal financial interest (other than as shareholders) in the matters addressed by the Committee, and have no conflicts of interest arising from cross-directorships. The Committee meets as required, but at least twice each year, and operates within agreed terms of reference. The Committee has responsibility for making recommendations to the Board on the Group's general policy relating to executive remuneration, and to determine, on behalf of the Board, specific remuneration packages for the executive directors. Outside independent professional advice is sought where necessary. The Committee is also responsible for approving executive remuneration of five of the most senior executives as well as the bonus schemes in operation within the Group.

The remuneration of the Chairman of the Board is determined by the Board, excluding the Chairman.

The remuneration of the non-executive directors is determined by the entire Board, including the non-executive directors.

Remuneration Policy

General

The Remuneration Committee determines the Group's policy on executive directors' remuneration. The objectives of the policy are:

- To reward executive directors in a manner that ensures that they are properly rewarded and motivated to perform in the best interests of shareholders.
- To provide the level of remuneration required to attract, retain and motivate executive directors of an appropriate calibre.

Salaries and other benefits are reviewed annually. The Remuneration Committee takes into account the performance of the individual, comparisons with peer group companies, institutional guidelines and reports from specialist consultants. The experience of the individual and his/her level of responsibility are also taken into account.

Consistent with the policy, the benefit packages awarded to executive directors are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration, designed to motivate them, but not to detract from the goals of corporate governance.

Basic Salaries

Salaries of executive directors are set by reference to those prevailing in the market.

Performance Bonus

Under current arrangements, which are reviewed annually by the Remuneration Committee, executive directors have target bonuses of 40% to 50% of salary subject to the attainment of specific and stretching targets set for each individual. The level earned in any one year depends on the Committee's assessment of each individual's performance and the overall performance of the Group against predetermined targets for the year. The maximum payout under the bonus scheme can be twice the bonus target and this will only be achieved with substantial out-performance of strict financial targets that are set annually. The minimum payment is 30% of bonus target.

Long Term Incentive Plan

It is Group policy to motivate its senior management to deliver superior performance over the long term and at the Annual General Meeting, held on 22 June 2004, the shareholders approved the 2004 Long Term Incentive Plan. This plan, details of which are included in Note 18 to the financial statements, allows shares conditionally awarded to executives to be earned over a three to five year period subject to the achievement of testing earnings per share growth targets. Details of share grants to the executive directors are included with the directors' interests in the Report of the Directors on pages 19 to 22.

Share Options

The policy of the Remuneration Committee is to motivate its executive directors and other executives by granting them share options. Accordingly, options have been granted under the terms of employee share incentive plans approved by shareholders. Further details of these plans are given in Note 18 to the financial statements. Details of options granted to the executive directors are included with the directors' interests in the Report of the Directors on pages 19 to 22. Non-executive directors are not eligible to participate in the employee share incentive plans.

The market price of the Company's shares at 31 December 2005 was €12.10 and for the year then ended, the Company's daily closing share price ranged between €10.37 and €15.95.

Targeted Remuneration

The targeted composition of each director's annual remuneration (excluding sundry benefits) is as follows:

	Performance-related	Non-performance-related
Executive		
Patrick Kennedy	33%	67%
Breon Corcoran	29%	71%
Non-Executive		
Fintan Drury		100%
Stewart Kenny		100%
Nigel Northridge		100%
David Power		100%
Brody Sweeney		100%
Stephen Thomas		100%
Tom Grace		100%

Directors' Service Contracts

The notice period for Patrick Kennedy and Breon Corcoran is one year. No executive director is entitled to any contractual termination payment other than for payment in lieu of notice.

Non-executive directors, in accordance with best practice, are not appointed on service contracts. They are appointed for a fixed initial period of three years, and may be re-appointed for further fixed periods, up to a total of six years unless there are exceptional circumstances. This is referred to in more detail in the Corporate Governance Report. Non-executive directors are issued on appointment or re-appointment with a letter confirming the terms of their appointment. Non-executive directors are expected to give three months' notice of resignation, but this is without prejudice to their right to resign immediately if they feel it appropriate. At each Annual General Meeting of the Company, every director who has been in office at the completion of each of three successive Annual General Meetings since he was last appointed or re-appointed, shall retire from office. A director who retires at an Annual General Meeting may be re-appointed, if willing to act.

Executive directors are employed on rolling contracts with a retirement age of sixty five and all directors cease holding office on reaching their seventy fifth birthday.

The details of the service agreements for the non-executive directors throughout the year were as follows:

	Appointed by Board	Last elected by Shareholders	Term expires	Contractual termination payment
Fintan Drury	29 August 2002	3 June 2003	AGM 2006	Nil
Stewart Kenny	1 June 1988	22 June 2004	AGM 2007	Nil
Nigel Northridge	22 July 2003	22 June 2004	AGM 2007	Nil
David Power	1 June 1988	22 June 2004	AGM 2007	Nil
Stephen Thomas	29 August 2002	3 June 2003	AGM 2006	Nil
Brody Sweeney	16 February 2005	17 May 2005	AGM 2008	Nil
Tom Grace	3 January 2006	Proposed for AGM 2006	AGM 2009	Nil

Directors' Pension Entitlements

The Group does not operate any defined benefit pension plan or Group defined contribution scheme for non-executive directors. Each executive director has an independent pension trust into which the Group makes defined contributions. The Group makes no pension provision in respect of the non-executive directors.

Directors' Detailed Emoluments

Full details of the emoluments of the directors are set out in Note 6 to the financial statements on pages 46 and 47.

Stephen Thomas
Chairman, Remuneration Committee

28 February 2006

Independent Auditor's Report

to the Members of Paddy Power plc

We have audited the Group and Company financial statements (the ''financial statements'') of Paddy Power plc for the year ended 31 December 2005, which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated cash flow statement, the Consolidated statement of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Company financial statements in accordance with applicable law and the accounting standards issued by the Accounting Standards Board and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), are set out in the Statement of Directors' Responsibilities on page 23.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Acts 1963 to 2005 and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you our opinion as to: whether proper books of account have been kept by the Company; whether at the balance sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Company balance sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Statement, the Operations Review, the Financial Review and the Remuneration Committee Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2005 and Article 4 of the IAS Regulation;
- the Company financial statements give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Company's affairs as at 31 December 2005; and
- the Company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2005.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Company. The Company balance sheet is in agreement with the books of account.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2005 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

KPMG

Chartered Accountants
Registered Auditor

Dublin

28 February 2006

Consolidated Income Statement

Year ended 31 December 2005

	Note	31 December 2005 €'000	31 December 2004 €'000
Gross revenue	3	**1,371,710**	1,159,658
Cost of winning bets	4	**(1,236,140)**	(1,044,025)
Net revenue from betting activities		**135,570**	115,633
Employee expenses	5	**(51,076)**	(40,212)
Property expenses		**(17,398)**	(14,406)
Marketing expenses		**(11,346)**	(7,485)
Technology and communications		**(8,171)**	(7,212)
Depreciation and amortisation		**(11,295)**	(8,624)
Other expenses		**(6,166)**	(6,591)
Total operating expenses		**(105,452)**	(84,530)
Operating profit		**30,118**	31,103
Financial income	7	**1,226**	1,060
Financial expense	7	**-**	(54)
Profit before tax		**31,344**	32,109
Income tax expense	9	**(4,390)**	(4,662)
Profit for the year		**26,954**	27,447
Earnings per Share			
Basic	10	**€0.541**	€0.565
Diluted	10	**€0.529**	€0.543

The profit for the year is entirely attributable to equity holders of the Company.

Notes 1 to 27 form part of these consolidated financial statements.

On behalf of the Board

Fintan Drury | **Patrick Kennedy**

28 February 2006

Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2005

	31 December 2005 **€'000**	31 December 2004 €'000
Profit for the year	**26,954**	27,447
Foreign exchange translation difference	**(1)**	1
Total recognised income and expense	**26,953**	27,448

The total recognised income and expense for the year is entirely attributable to equity holders of the Company.

Notes 1 to 27 form part of these consolidated financial statements.

On behalf of the Board

Fintan Drury
28 February 2006

Patrick Kennedy

Consolidated Balance Sheet

As at 31 December 2005

	Note	**31 December 2005**	31 December 2004
		€'000	€'000
Assets			
Property, plant and equipment	11	**72,400**	57,707
Intangible assets	12	**3,615**	2,944
Goodwill	13	**1,880**	1,880
Deferred tax assets	19	**167**	73
Total non current assets		**78,062**	62,604
Trade and other receivables	14	**2,134**	2,290
Cash and cash equivalents	15	**52,318**	47,206
Total current assets		**54,452**	49,496
Total assets		**132,514**	112,100
Equity			
Issued capital	16	**5,040**	5,005
Share premium	16	**7,548**	6,680
Shares held by long-term incentive plan trust	16	**(4,929)**	(2,306)
Other reserves	16	**4,142**	1,854
Retained earnings	16	**84,250**	67,464
Total equity		**96,051**	78,697
Liabilities			
Deferred tax liabilities	19	**843**	397
Total non current liabilities		**843**	397
Trade and other payables	20	**34,873**	30,197
Current tax payable		**747**	2,809
Total current liabilities		**35,620**	33,006
Total liabilities		**36,463**	33,403
Total equity and liabilities		**132,514**	112,100

Notes 1 to 27 form part of these consolidated financial statements.

On behalf of the Board

Fintan Drury
28 February 2006

Patrick Kennedy

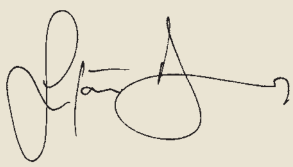
Consolidated Cash Flow Statement

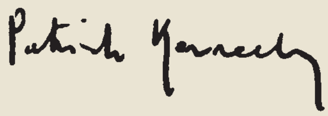
Year ended 31 December 2005

	31 December 2005	31 December 2004
	€'000	€'000
Cash flows from operating activities		
Profit before taxation	**31,344**	32,109
Financial income	**(1,226)**	(1,060)
Financial expense	**-**	54
Depreciation and amortisation	**11,295**	8,624
Cost of employee share-based payments	**2,289**	906
Loss/(Gain) on disposal of fixed assets	**267**	(31)
Cash from operations before changes in working capital	**43,969**	40,602
Decrease/(Increase) in trade and other receivables	**222**	(129)
Increase in trade and other payables	**3,320**	4,548
Cash generated from operations	**47,511**	45,021
Interest paid	**-**	(54)
Income taxes paid	**(6,101)**	(3,800)
Net cash from operating activities	**41,410**	41,167
Cash flows from investing activities		
Purchase of property, plant and equipment	**(23,925)**	(25,949)
Purchase of intangible assets and goodwill	**(2,068)**	(1,330)
Proceeds from disposal of property, plant and equipment	**329**	69
Interest received	**1,254**	1,086
Net cash used in investing activities	**(24,410)**	(26,124)
Cash flows from financing activities		
Capital element of finance lease payments	**-**	(421)
Proceeds from the issue of new shares	**903**	2,929
Purchase of shares by employee trust	**(2,623)**	(2,306)
Dividends paid	**(10,168)**	(7,212)
Net cash used in financing activities	**(11,888)**	(7,010)
Net increase in cash and cash equivalents	**5,112**	8,033
Cash and cash equivalents at start of year	**47,206**	39,173
Cash and cash equivalents at end of year	**52,318**	47,206

Notes 1 to 27 form part of these consolidated financial statements.

On behalf of the Board





Fintan Drury
28 February 2006

Patrick Kennedy

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' and 'paddypowercasino.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 4.

The consolidated financial statements of the Group for the year ended 31 December 2005 comprise the financial statements of the Company and its subsidiary undertakings and were authorised for issue by the Board of Directors on 28 February 2006.

2. Basis of preparation and summary of significant accounting policies

The consolidated financial statements are prepared on the historical cost basis and are presented in euro, rounded to the nearest thousand, except for share based payments which are stated at fair value.

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 for the year ended 31 December 2005 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 2005. These are the Group's first consolidated financial statements prepared on this basis and IFRS 1 has been applied. The accounting policies set out below have been applied consistently throughout the year and prior year.

An explanation of how the transition to IFRS affected the financial position and the results of the Group, together with details of the transitional exemptions availed of, is provided in Note 27 on pages 63 and 64.

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. 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.

Recent accounting pronouncements

The IFRSs adopted by the EU applied by the Group in the preparation of these financial statements are those that were effective at 31 December 2005, together with the early adoption of the Amendment to IAS 39 – The Fair Value Option. The IFRSs set out below have been adopted by the EU prior to 28 February 2006, are not yet effective and have not been early adopted in these financial statements. The directors have formed the opinion that the adoption of these pronouncements will not have a significant effect on the Group's financial statements.

- Amendment to IAS 1 – Capital disclosures (effective 1 January 2007)
- Amendment to IAS 19 – Actuarial Gains and Losses, Group Plans and Disclosures (effective 1 January 2006)
- Amendments to IAS 39 – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective 1 January 2006)
- Amendments to IAS 39 and IFRS 4: Financial Guarantee Contracts (effective 1 January 2006)
- IFRS 6 – Exploration for and Evaluation of Mineral Resources (effective 1 January 2006)
- IFRS 7 – Financial Instruments: Disclosures (effective 1 January 2007)
- IFRIC 4 – Determining Whether an Arrangement Contains a Lease (effective 1 January 2006)
- IFRIC 5 – Rights to Interests arising from Decommissioning Restoration and Environmental Rehabilitation Funds (effective 1 January 2006)

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

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.

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 IFRS's 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 26.

Revenue

Revenue is measured at the fair value of the consideration received or receivable from customers and represents amounts receivable for services that the Group provides as set out below. Revenue is stated exclusive of value-added taxes, betting taxes and levies.

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).

Sports betting revenue represents the gross takings receivable from customers in respect of individual bets placed on events that have occurred by the period end. Amounts collected from customers in respect of bets placed on events that have not occurred by the year end are subject to uncertainty and are treated as a liability, deferred income, until the actual events occur.

Fixed odds games betting and online casino and games revenues represent net winnings ('customer drop' being amounts staked net of customer winnings) from customers on activities completed by the year end.

In the case of peer to peer games (including online poker), revenue represents commission income ('rake') and tournament fees earned from peer to peer games, completed by the year end.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective rate of interest and is shown as an operating activity in the Consolidated cash flow statement.

Rental income in respect of the subletting of certain retail premises is recognised on a straight line basis as a credit to operating expenses.

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 business segments are the primary reporting segments.

Notes to the Consolidated Financial Statements (continued)

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

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. Foreign exchange differences arising after 1 January 2004, the date of the transition to IFRS, on retranslation of opening net assets and results for the year are recognised directly in a separate component of equity.

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

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

Goodwill

Goodwill recognised under Irish 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 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 it which it arises.

Intangible assets

Intangible assets, including licences and computer software, are capitalised at cost and amortised on a straight line basis over their estimated useful economic lives. The estimated useful lives of intangible assets are as follows:

Computer software	3-5 years
Licences	20 years

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

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 sales price 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.

Cash and cash equivalents

Cash and cash equivalents for the purpose of the statement of cash flows comprises cash balances and call deposits.

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.

Notes to the Consolidated Financial Statements (continued)

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

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. 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 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.

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 retail segment comprises a chain of licensed betting offices in Ireland and the United Kingdom. The non retail segment represents the Group's telephone betting, online sports betting, online casino and games and peer to peer games (including online poker).

	Retail 31/12/05 €'000	Retail 31/12/04 €'000	Non Retail 31/12/05 €'000	Non Retail 31/12/04 €'000	Total 31/12/05 €'000	Total 31/12/04 €'000
Revenue	794,321	688,651	577,389	471,007	1,371,710	1,159,658
Segment result	12,147	18,716	24,043	15,369	36,190	34,085
Unallocated Group expenses					(6,072)	(2,982)
Operating profit					30,118	31,103
Financial income/expense					1,226	1,006
Income tax expense					(4,390)	(4,662)
Profit after tax					26,954	27,447
Segment assets	67,346	59,313	9,141	7,381	76,487	66,694
Unallocated Group assets					56,027	45,406
Total assets					132,514	112,100
Segment liabilities	10,432	9,675	12,165	10,218	22,597	19,893
Unallocated Group liabilities					13,866	13,510
Total liabilities					36,463	33,403
Capital expenditure	24,303	24,645	3,166	3,097	27,468	27,742
Depreciation/amortisation	8,481	6,585	2,814	2,039	11,295	8,624
Non cash expenses other than depreciation	1,103	440	1,453	435	2,556	875

(b) By geographic segment

	Ireland & Other 31/12/05 €'000	Ireland & Other 31/12/04 €'000	UK 31/12/05 €'000	UK 31/12/04 €'000	Total 31/12/05 €'000	Total 31/12/04 €'000
Revenue	960,548	827,465	411,162	332,193	1,371,710	1,159,658
Segment assets	106,623	96,622	25,891	15,478	132,514	112,100
Capital expenditure	18,599	17,084	8,870	10,658	27,468	27,742

Notes to the Consolidated Financial Statements (continued)

3. Segment reporting (continued)

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

	31 December 2005	31 December 2004
	€'000	€'000
Revenue		
Retail	**794,321**	688,651
Telephone	**249,871**	236,546
Online	**327,518**	234,461
	1,371,710	1,159,658
Gross win		
Retail	**98,460**	88,701
Telephone	**19,454**	19,664
Online	**42,934**	25,745
	160,848	134,110

Gross win represents the gross betting or gaming profit (the difference between the amount staked and the amount paid in winnings) to Paddy Power before any other deductions. For poker and gaming income the gross win is equal to the revenue.

Gross profit		
Retail	**84,976**	78,296
Telephone	**17,151**	17,151
Online	**33,443**	20,186
	135,570	115,633
Operating profit		
Retail	**9,480**	17,727
Telephone	**3,649**	4,549
Online	**16,989**	8,827
	30,118	31,103

4. Cost of winning bets

Cost of winning bets comprises:

	31 December 2005	31 December 2004
	€'000	€'000
Cost of winning bets paid	**1,210,862**	1,025,548
Software supplier costs	**5,552**	2,846
Data rights	**3,603**	4,732
Other cost of sales	**16,123**	10,899
	1,236,140	1,044,025

Software supplier costs comprise direct costs incurred under supplier agreements in the provision of online casino and fixed odds gaming services and fixed odds betting terminals.

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

Other cost of sales comprises discounts on bets and taxes paid in relation to gross win.

5. Employee numbers and expenses

	31 December 2005	31 December 2004
	€'000	€'000
Wages and salaries	**41,586**	33,631
Social security costs	**3,157**	2,726
Defined contribution pension and life assurance costs	**1,211**	1,029
Share based payments	**2,289**	906
Other staff costs	**2,833**	1,920
	51,076	40,212

	31 December 2005	31 December 2004
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:	1,255	1,076

Notes to the Consolidated Financial Statements (continued)

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	Other €'000	2005 €'000	2004 €'000
Executive								
Patrick Kennedy (1)	36	155	47	9	54	-	301	38
John O'Reilly (2)	-	428	435	29	158	-	1,050	883
Ross Ivers (3)	-	306	358	28	122	154	968	498
Breon Corcoran (4)	-	210	31	16	132	-	389	167
Non-Executive								
Fintan Drury	110	-	-	-	-	-	110	110
Brody Sweeney (5)	35	-	-	-	-	-	35	-
Stewart Kenny	40	-	-	-	-	-	40	40
Nigel Northridge	40	-	-	-	-	-	40	40
David Power	50	-	-	-	-	-	50	50
Stephen Thomas	50	-	-	-	-	-	50	50
Edward McDaid (6)	-	-	-	-	-	-	-	24
Ian Armitage (6)	-	-	-	-	-	-	-	25
John Corcoran (7)	-	-	-	-	-	-	-	37
	361	1,099	871	82	466	154	3,033	1,962

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 up to 18 September 2005 after which he became a full time executive of the Company as Chief Executive Designate. Patrick Kennedy was previously appointed to the Board in a non-executive capacity on 23 March 2004.
2. Amounts in respect of John O'Reilly include a supplemental one off pension contribution of €300,000 in acknowledgement of his very significant contribution to the Group on his retirement on 31 December 2005.
3. As part of the agreement reached with Ross Ivers to leave his position as Group Finance Director, he received a payment of €154,000, and a supplemental pension contribution of €307,000 was made to his pension scheme.
4. Breon Corcoran was appointed to the Board on 31 August 2004.
5. Brody Sweeney was appointed to the Board on 16 February 2005.
6. Edward McDaid and Ian Armitage retired from the Board on 22 June 2004.
7. John Corcoran retired from the Board on 1 December 2004.

Benefits include provision of a company car, life and medical insurance.

There were no loans outstanding to any director at any time during the year. Other related party transactions between the Group and the directors, all of which are on normal commercial terms, are set out in Note 22 on page 60. Details of directors' interests in share awards and share options are set out on pages 20 and 21.

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

Transactions with key management personnel comprising executive directors and other senior management.

Key management personnel compensation is as follows:

	31 December 2005	31 December 2004
	€'000	€'000
Wages and salaries	**3,164**	2,759
Social security costs	**366**	291
Defined contribution pension and life assurance costs	**1,069**	365
Share based payments	**2,045**	822
Other staff costs	**199**	150
	6,843	4,387

	31 December 2005	31 December 2004
	€'000	€'000
Executive directors	**2,672**	1,548
Other key management personnel	**1,760**	1,726
Social security costs	**366**	291
Share based payments	**2,045**	822
	6,843	4,387

7. Net financing costs

	31 December 2005	31 December 2004
	€'000	€'000
Financial income:		
– Deposit interest income	**1,226**	1,060
Financial expenses:		
– Finance lease interest	**-**	(54)
	1,226	1,006

8. Statutory and other information

	31 December 2005	31 December 2004
	€'000	€'000
Directors' emoluments	**3,033**	1,962
Auditor's remuneration for audit services	**140**	77
Loss/(Gain) on disposal of property, plant and equipment	**267**	(31)
Depreciation	**9,875**	7,602
Amortisation of intangible assets	**1,420**	1,022
Operating lease rentals, principally premises	**8,828**	7,119
Operating lease income	**(148)**	(89)

Amounts paid to the auditor in respect of non-audit services, comprising tax fees, were €160,000 (2004: €204,000).

Notes to the Consolidated Financial Statements (continued)

9. Income tax expense

	31 December 2005	31 December 2004
	€'000	€'000
Recognised in the income statement		
Current tax charge	**4,249**	4,705
Increase/(Decrease) in deferred tax charge	**352**	(101)
Prior year (over)/under provision in respect of current tax	**(211)**	58
Total income tax expense in income statement	**4,390**	4,662

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:

		31 December 2005		31 December 2004
		€'000		€'000
Profit before tax		**31,344**		32,109
Tax on Group profit on ordinary activities at the standard				
Irish corporation tax rate of 12.5% (2004 – 12.5%)	12.5%	**3,918**	12.5%	4,014
Expenses deductible for tax purposes	(1.4%)	**(432)**	(0.1%)	(23)
Depreciation on non-qualifying fixed assets	2.7%	**837**	1.4%	458
Interest income taxable at the higher rates	0.9%	**280**	0.4%	133
Other adjustments	0.0%	**(2)**	0.1%	22
(Over)/Under provision in prior year	(0.7%)	**(211)**	0.2%	58
Total income tax expense in income statement	14.0%	**4,390**	14.5%	4,662

No corporation tax is payable in the UK due to the availability of tax losses. A deferred tax asset of €2.76 million (2004: €2.07 million) 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.

10. 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:

		31 December 2005	31 December 2004
Profit attributable to equity holders of the Company (€'000)		**26,954**	27,447
The basic weighted average number of ordinary shares in issue is calculated as follows:			
In issue at beginning of year		**50,045,581**	47,807,120
Adjustments for	– shares issued during year	**152,251**	853,907
	– own shares held	**(357,952)**	(124,590)
Weighted average number of ordinary shares		**49,839,880**	48,536,437
Basic earnings per share		**€0.541**	€0.565
The weighted average number of ordinary shares for diluted earnings per share is calculated as follows:			
Basic weighted average number of shares in issue during year		**49,839,880**	48,536,437
Adjustments for	– share option scheme	**872,641**	1,989,469
	– share save scheme	**56,360**	64,688
	– shares held by long term incentive plan trust	**(71,948)**	(115,410)
	– long term incentive plan	**270,199**	78,912
Weighted average number of ordinary shares		**50,967,132**	50,554,096
Diluted earnings per share		**€0.529**	€0.543

Notes to the Consolidated Financial Statements (continued)

11. 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 2004	28,178	32,119	6,931	757	67,985
Additions	7,481	15,064	3,078	289	25,912
Disposals	(254)	(4,228)	-	(195)	(4,677)
Balance at 31 December 2004	35,405	42,955	10,009	851	89,220
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
Accumulated depreciation					
Balance at 1 January 2004	6,025	16,504	5,761	259	28,549
Charge for year	1,621	4,884	835	262	7,602
Disposals	(254)	(4,226)	-	(158)	(4,638)
Balance at 31 December 2004	7,392	17,162	6,596	363	31,513
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
Net book value					
At 1 January 2004	22,153	15,615	1,170	498	39,436
At 31 December 2004	28,013	25,793	3,413	488	57,707
At 1 January 2005	28,013	25,793	3,413	488	57,707
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 2005 includes €27.3 million (2004: €22.0 million) in respect of leasehold improvements.

Computer equipment includes an amount of €4.2 million (2004: €1.2 million) in respect of equipment which was either not available for use or in test. Accordingly these assets have not been depreciated during the year ended 31 December 2005. The carrying cost of these assets includes €0.5 million (2004: €0.1 million) in respect of internal labour costs.

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.

11. Property, plant and equipment (continued)

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 are capitalised as part of the cost of the related asset and depreciated over the assets' expected useful life.

12. 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 2004	3,504	876	4,380
Additions during year	1,478	352	1,830
Balance at 31 December 2004	4,982	1,228	6,210
Balance at 1 January 2005	4,982	1,228	6,210
Additions during year	1,650	441	2,091
Balance at 31 December 2005	6,632	1,669	8,301
Amortisation			
Balance at 1 January 2004	2,216	28	2,244
Amortisation for year	974	48	1,022
Balance at 31 December 2004	3,190	76	3,266
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
Net book value			
At 1 January 2004	1,288	848	2,136
At 31 December 2004	1,792	1,152	2,944
At 1 January 2005	1,792	1,152	2,944
At 31 December 2005	2,087	1,528	3,615

Notes to the Consolidated Financial Statements (continued)

13. Goodwill

	Irish retail €'000	UK retail €'000	Total €'000
Balance at 1 January 2004	904	-	904
– arising through business combinations	-	976	976
Balance at 31 December 2004	904	976	1,880
Balance at 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 in respect of the UK retail division arose on the acquisition of two London bookmaking businesses, prior to the date of transition to IFRS in December 2004, and is stated at net book value as at the transition date.

Impairment tests for cash-generating units containing goodwill

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

	31 December 2005 €'000	31 December 2004 €'000
Irish retail	**904**	904

The recoverable amount of the Irish retail underlying cash generation 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 a further five year period are extrapolated assuming a weighted average revenue growth rate of 5% and a gross win of 12% which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. A pre-tax discount rate of 10%, which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows.

	31 December 2005 €'000	31 December 2004 €'000
UK retail	**976**	976

The recoverable amount of the two London underlying cash generation 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 a further five year period are extrapolated assuming a weighted average revenue growth rate of 5% and a gross win of 13% which are based on experience and are consistent with management's expectations for market development and growth in market share where applicable. A pre-tax discount rate of 10%, which reflects the specific risks relating to the underlying business segments, has been used in discounting the projected cash flows.

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

Goodwill was also tested for impairment at 1 January 2004, the date of transition to IFRS, even though no indication of impairment existed.

14. Trade and other receivables

	31 December 2005 €'000	31 December 2004 €'000
Sundry receivables and prepayments	**2,134**	2,290

15. Cash and cash equivalents

	31 December 2005 €'000	31 December 2004 €'000
Cash at bank and in hand	**3,538**	1,333
Short term bank deposits	**48,780**	45,873
Cash and cash equivalents in the statement of cash flows	**52,318**	47,206

The effective interest rate on short term bank deposits was 2.55% (2004: 2.22%); these deposits have an average maturity date of 53 days (2004: 73 days).

Notes to the Consolidated Financial Statements (continued)

16. 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 2004	47,807,120	4,781	3,975	922	-	-	47,229
Shares issued	2,238,461	224	2,705	-	-	-	-
Own shares acquired: 240,000 ordinary shares	-	-	-	-	(2,306)	-	-
Total recognised income and expense	-	-	-	1	-	-	27,447
Equity settled transactions	-	-	-	-	-	931	-
Dividends to shareholders	-	-	-	-	-	-	(7,212)
Balance at 31 December 2004	50,045,581	5,005	6,680	923	(2,306)	931	67,464
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	-	-	-	-	-	1,183	-
Dividends to shareholders	-	-	-	-	-	-	(10,168)
Balance at 31 December 2005	50,397,168	5,040	7,548	922	(4,929)	3,220	84,250

The total authorised share capital of the Company comprises 70,000,000 ordinary shares of €0.10 each (2004: 70,000,000 ordinary shares of €0.10 each). All issued share capital is fully paid.

During the year, 351,587 ordinary shares of €0.10 each (2004: 2,238,461 ordinary shares of €0.10 each) were issued as a result of the exercise of share options, for total consideration of €903,000 (2004: €2,929,000), giving rise to share premium of €868,000 (2004: €2,705,000).

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 (2004: €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 (2004: €260,000) arose on the redenomination of the ordinary share capital of the Company at the time of conversion from IEP to euro. The foreign exchange reserve at 31 December 2005 was €nil (2004: €1,000).

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).

At 31 December 2005, the Company held 430,000 of its own shares (2004: 240,000) which were acquired at a total cost of €4,929,000 (2004: €2,306,000). The Company's distributable reserves at 31 December 2005 are restricted by this amount.

17. Dividends paid on equity shares

	31 December 2005	31 December 2004
	€'000	€'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)	**6,416**	6,234

18. 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 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 IFRS 2 'Share Based Payment'.

Since May 2000 options over 3,069,000 shares have been exercised and options over a further 90,000 shares have lapsed. Options over 384,000 shares were outstanding at 31 December 2005 (2004: 591,000). 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	
42,000	15,000	27,000	1 May 2004	€1.16	€13.58-€14.09
249,000	192,000	57,000	1 May 2005	€1.16	€13.44-€14.70

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

During the year ended 31 December 2004, 1,959,000 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")

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 (save for the Sharesave Scheme described below). In addition, to be eligible, a participant must have been an employee at 7 December 2000, must have 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 2005, 272,903 Ordinary shares (2004: 272,903) owned by employees are held on their behalf by Power Leisure Employee Benefit Trust.

Notes to the Consolidated Financial Statements (continued)

18. Share schemes (continued)

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, 1,124,372 options have been granted under the scheme. Options granted before 7 November 2002 do not fall within the scope of IFRS2 'Share Based Payments'. 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 185,290 shares have been exercised and options over 95,825 shares have lapsed. Options over 843,257 shares were outstanding at 31 December 2005 (2004: 809,516), of which 377,466 were exercisable at 31 December 2005 (2004: 352,466). 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	Market price at date of exercise
Granted before 7 November 2002							
352,466	-	-	50,000	302,466	August 2004	€3.59	€14.41
138,000	-	13,000	50,000	75,000	July 2005	€5.25	€14.05 - €15.20
Granted after 7 November 2002							
85,000	-	-	-	85,000	May 2006	€5.00	
105,366	-	-	-	105,366	February 2007	€8.15	
8,000	-	-	-	8,000	March 2007	€8.90	
107,000	-	13,000	-	94,000	June 2007	€9.43	
13,684	-	-	-	13,684	September 2007	€9.80	
-	15,741	-	-	15,741	February 2008	€12.89	
-	144,000	-	-	144,000	September 2008	€14.80	

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

During the year ended 31 December 2004, options over 50,000 shares were exercised at an exercise price of €2.40 when the market price was €8.45; options over 5,290 shares were exercised at an exercise price of €2.40 when the market price per share was €8.15; and options over 30,000 shares were exercised at an exercise price of €3.59 when the market price was €8.45. During the year ended 31 December 2004, options in respect of 18,000 shares at an exercise price of €5.25 per share lapsed; and options in respect of 9,325 shares at an exercise price of €8.15 per share lapsed.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €481,000 (2004: €505,000). The significant inputs into the model were share prices for the two grant dates of €12.89 and €14.80 (2004: share prices for three grant dates ranging from €8.15 - €9.80), 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.

18. Share schemes (continued)

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 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 2004	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2005	Earliest exercise date*	Exercise price
Granted before 7 November 2002						
47,430	-	1,783	44,587	1,060	July 2005	€4.95
Granted after 7 November 2002						
-	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 €889,000. 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.

Notes to the Consolidated Financial Statements (continued)

18. Share schemes (continued)

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.

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 120,000 shares, 70,000 shares and 60,000 shares (2004: 240,000 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €13.80, €14.40 and €12.27 respectively (2004: €9.43). The total cost of this grant is estimated at €2,986,000 (2004: €2,263,000) 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. 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 €1,937,000 (2004: €754,000).

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 Consolidated balance sheet in accordance with the Group'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 Group employees.

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2005			31 December 2004		
	Assets 2005 €'000	**Liabilities 2005 €'000**	**Total 2005 €'000**	Assets 2004 €'000	Liabilities 2004 €'000	Total 2004 €'000
Property plant and equipment	**-**	**(783)**	**(783)**	-	(363)	(363)
Lease premiums – income element	**-**	**(60)**	**(60)**	-	(34)	(34)
Freehold and leasehold interest	**156**	**-**	**156**	66	-	66
Employee benefits	**11**	**-**	**11**	7	-	7
	167	**(843)**	**(676)**	73	(397)	(324)

Unrecognised deferred tax assets:

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

	31 December 2005 €'000	31 December 2004 €'000
UK tax losses	**2,760**	2,073

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 2004 €'000	Recognised in income 2004 €'000	**Balance at 31 December 2004 €'000**	Recognised in income 2005 €'000	**Balance at 31 December 2005 €'000**
Property, plant and equipment	32	331	**363**	420	**783**
Lease premiums – interest element	5	29	**34**	26	**60**
Freehold and leasehold interest	464	(530)	**(66)**	(90)	**(156)**
Employee benefits	(76)	69	**(7)**	(4)	**(11)**
	425	(101)	**324**	352	**676**

20. Trade and other payables

	31 December 2005 €'000	31 December 2004 €'000
Trade payables	**5,594**	4,570
Customer balances	**10,034**	6,462
Deferred income	**2,077**	1,737
PAYE and social security	**1,182**	1,100
Value added tax	**570**	538
Betting duty	**3,488**	1,356
Accruals	**11,928**	14,434
	34,873	30,197

Notes to the Consolidated Financial Statements (continued)

21. Commitments and contingencies

(a) Guarantees

The Group has guarantee facilities of €3.8 million with Allied Irish Banks 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

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

	31 December 2005 €'000	31 December 2004 €'000
Property, plant and equipment	**3,787**	1,300
Intangible assets	**143**	200
	3,930	1,500

(c) Operating lease commitments

The Group leases various licensed betting 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 2005		31 December 2004	
	Annual commitment €'000	**Total commitment €'000**	Annual commitment €'000	Total commitment €'000
Within 1 year	**848**	**848**	595	595
Between 2 and 5 years	**1,008**	**3,015**	1,219	3,515
After 5 years	**7,459**	**128,916**	5,975	109,272
	9,315	**132,779**	7,789	113,382

22. Related parties

Transactions with Directors

In addition to the directors' emoluments disclosed in Note 6, in the year ended 31 December 2005 directors were paid the amounts set out below:

Stewart Kenny received €60,000 (2004: €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 winning €78,772 (2004 – losing €15,900) with Richard Power On-Course Bookmakers and that firm placed bets with the Group losing €32,314 (2004 – losing €20,289).

The Group paid rent of €nil (2004: €21,000) and €38,727 (2004 – €38,727) during the year for retail properties occupied by the Group under long term leases and owned by Stewart Kenny and David Power respectively. Stewart Kenny no longer holds an interest in any property leased by the Group since 1 October 2004.

All of the above transactions were conducted on an arm's length basis at normal commercial terms.

23. Group entities

The Company has the following subsidiaries, all of which are wholly equity owned, at 31 December 2005 and 31 December 2004:

	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	Property holding	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	Top Floor, 14 Athol Street, Douglas, Isle of Man, IM1 1JA
Paddy Power Entertainment Limited	Isle of Man	Non-trading	Top Floor, 14 Athol Street, Douglas, Isle of Man, IM1 1JA
Paddy Power Isle of Man Limited	Isle of Man	Bookmaker	Top Floor, 14 Athol Street, Douglas, Isle of Man, IM1 1JA
Paddy Power BCI Limited	Alderney	Poker	York House, Victoria Street, Alderney, GY9 3TA
Paddy Power Alderney Limited	Alderney	Casino	York House,Victoria Street, Alderney, GY9 3TA
Paddy Power (Malta) Limited	Malta	Non-trading	Alpine House, San Gwan, Malta

In addition to the above subsidiaries, the Group utlitises 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.

Notes to the Consolidated Financial Statements (continued)

24. Events after the balance sheet date

In respect of the current year, the directors propose that a final dividend of 12.84c per share (2004: 12.52c per share) will be paid to shareholders on 19 May 2006. 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 10 March 2006. The total estimated dividend to be paid amounts to €6,416,000 (2004: €6,234,000).

25. 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 credit rating at P2 or better.

At 31 December 2005, 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 Groups profit before taxation.

26. Accounting estimates and judgements

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

Costs incurred during the year in respect of an Electronic Point of Sale system amounting to €3.0 million (2004: €1.2 million) have been capitalised in accordance with the Group's accounting policy, and are included at cost, within property, plant and equipment, at 31 December 2005. This system is currently nearing the completion of its final development and testing phase and the directors believe that it will be implemented throughout the Group during the year ending 31 December 2006.

Trade and other payables includes €2,077,000 (2004: €1,737,000) which relates to amounts collected from customers in respect of bets placed on events that have not occurred by the year end, which are subject to uncertainty and are treated as deferred revenue, until the actual events occur. The accounting treatment of such bets under IFRS is currently under discussion across the betting industry. An alternative treatment under discussion is to recognise such bets as financial instruments. Had these bets been accounted for as financial instruments during the year ended 31 December 2005, revenue from betting would have been reported as gross win rather than the gross amount staked, with these bets at 31 December 2005 being measured at fair value. The estimated impact on profit of measuring these bets at fair value at 31 December 2005, rather than treating them as deferred revenue, is not material.

Goodwill of €1.9 million (2004: €1.9 million) 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 €3,220,000 at 31 December 2005. 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.

27. Explanation of transition to IFRS

An explanation of how the transition to IFRS has affected the financial information is outlined below:

First time adoption of International Financial Reporting Standards ('IFRSs').

Up to and including the year ended 31 December 2004, the Group's financial statements were prepared in accordance with Irish Company Law and accounting standards issued by the Accounting Standards Board as promulgated by the Institute of Chartered Accountants in Ireland (Irish GAAP).

IFRS 1 'First-time adoption of International Financial Reporting Standards' (IFRS 1), is the accounting standard governing the implementation of IFRS for the first time. This standard allows or requires a number of exceptions to its general principle that the standards in force at the reporting date should be applied retrospectively.

At the transition date 1 January 2004, the exemptions to retrospective implementation availed of are that the Group has implemented the requirements of IFRS 2 'Share Based Payments' to all equity settled share based payments granted after 7 November 2002 that had not vested by 1 January 2005; has set the cumulative transition reserve to zero and has not restated business combinations prior to the transition date in accordance with IFRS 3 'Business Combinations'.

The principal changes to the Group's financial statements resulting from the implementation of IFRS are set out in the table and related notes below:

Restatement of Retained Earnings under Irish GAAP to IFRS	**1 January 2004 €'000**
Retained earnings – Irish GAAP	42,596
IFRS 2 – Share-based payment	(25)
IAS 12 – Income taxes	552
IAS 10 – Events after the balance sheet date	4,106
Retained Earnings – IFRS	47,229

Restatement of Consolidated Income Statement under Irish GAAP to IFRS	**31 December 2004 €'000**
Operating Profit – Irish GAAP	31,134
IFRS 2 – Share-based payment	(152)
IFRS 3 – Business combinations: non amortisation of goodwill	121
Operating Profit – IFRS	31,103

Restatement of Consolidated Balance Sheet under Irish GAAP to IFRS	**31 December 2004 €'000**
Total Assets – Irish GAAP	111,906
IFRS 3 – Business combinations: non amortisation of goodwill	121
IAS 12 – Income taxes	73
Total Assets – IFRS	112,100
Total Liabilities – Irish GAAP	40,116
IAS 10 – Events after the balance sheet date	(6,234)
IAS 12 – Income taxes	(479)
Total Liabilities – IFRS	33,403

Notes to the Consolidated Financial Statements (continued)

27. Explanation of transition to IFRS (continued)

Total Equity – Irish GAAP	71,790
IFRS 3 – Business combinations	121
IFRS 2 – Share-based payment	-
IAS 10 – Events after the balance sheet date	6,234
IAS 12 – Income taxes	552
Total Equity – IFRS	78,697

Total Equities and Liabilities – Irish GAAP	111,906
IFRS 3 – Business combinations	121
IFRS 2 – Share-based payment	-
IAS 12 – Income taxes	73
Total Equities and Liabilities – IFRS	112,100

IFRS 2 'Share-based Payment'

The effect on the income statement of implementing IFRS 2 to the various Group share-based payment schemes is an increase in employee expenses €152,000 for the year ended 31 December 2004. This cost gives rise to a corresponding increase in a newly created reserve for share-based payments. In addition to the income statement effect, IFRS 2 resulted in a reclassification of reserves from retained earnings to the reserve for share-based payments. This resulted in transfers of €25,000, and €754,000 from retained earnings to the reserve for share-based payments as at 1 January 2004 and 31 December 2004 respectively.

IFRS 3 'Business Combinations'

The effect on the income statement of implementing IFRS 3 is a decrease in the goodwill expense of €121,000 for the year ended 31 December 2004 respectively, due to the cessation of goodwill amortisation in respect of acquisitions.

IAS 38 'Intangible Assets'

The Group has reviewed the requirements of IAS 38 'Intangible Assets' and has reclassified assets, principally licence acquisition costs and computer software, from property, plant and equipment to intangibles based on the definition of an intangible asset outlined in the standard.

The effect on the income statement of implementing IAS 38 is a reclassification of depreciation expense to amortisation expense of €1,022,000 for the year ended 31 December 2004. The net overall effect on the income statement of the reclassification is €nil. The effect on the balance sheet is a reduction in the cost of property, plant & equipment and an increase in the cost of intangible assets of €4,380,000, and €6,210,000 as at 1 January 2004 and 31 December 2004 respectively. Similarly accumulated depreciation is reduced by €2,244,000, and €3,266,000 as at 1 January 2004 and 31 December 2004 respectively with corresponding increases in the accumulated amortisation of intangibles. This gives an overall effect of a reduction in the net book value of property plant and equipment and an increase in intangible assets of €2,136,000, and €2,944,000 as at 1 January 2004 and 31 December 2004 respectively.

IAS 10 'Events after the Balance Sheet Date'

Under IAS 10 'Events after the Balance Sheet Date', 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 in trade and other payables and increase in retained earnings of €4,106,000 and €6,234,000 as at 1 January 2004 and 31 December 2004 respectively.

IAS 12 'Income Taxes'

In accordance with IAS 12 'Income Taxes', the Group has recognised deferred tax on interests in freehold land and buildings as at 1 January 2004 and 31 December 2004. This resulted in the recognition of additional deferred tax assets of €73,000; a reduction in deferred tax liabilities of €479,000; and an increase in retained earnings of €552,000 as at 1 January 2004 and 31 December 2004.

Company Balance Sheet

As at 31 December 2005

	Note	31 December 2005 €'000	31 December 2004 (as restated) €'000
Fixed assets			
Intangible fixed assets	3	**435**	470
Goodwill	4	**975**	1,096
Tangible fixed assets	5	**50,096**	41,598
Financial fixed assets	6	**1,855**	447
		53,361	43,611
Current assets			
Debtors	7	**26,830**	27,690
Cash at bank and in hand		**45,678**	46,558
		72,508	74,248
Creditors (amounts falling due within one year)	8	**(34,804)**	(36,633)
Net current assets		**37,704**	37,615
Total assets less current liabilities		**91,065**	81,226
Provision for liabilities and charges	9	**(1,247)**	(997)
Net assets		**89,818**	80,229
Capital and reserves			
Called up share capital	10	**5,040**	5,005
Share premium	11	**7,548**	6,680
Capital redemption reserve	12	**662**	662
Capital conversion reserve fund	12	**260**	260
Share based payment reserve	12	**3,220**	931
Shares held by long-term incentive plan	12	**(4,929)**	(2,306)
Profit and loss account		**78,017**	68,997
Shareholders' funds – all equity interests		**89,818**	80,229

Notes 1 to 17 form part of these financial statements.

On behalf of the Board

Fintan Drury
28 February 2006

Patrick Kennedy

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 €'000	31 December 2004 €'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
Granted before 7 November 2002						
302,466	-	-	-	302,466	August 2004	€3.59
Granted after 7 November 2002						
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
Granted before 7 November 2002						
47,430	-	1,783	44,587	1,060	July 2005	€4.95
Granted after 7 November 2002						
-	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 entirely 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
Balance at 31 December 2005	527	279	806
Amortisation			
Balance at 1 January 2005	110	27	137
Amortisation for year	219	15	234
Balance at 31 December 2005	329	42	371
Net book value			
At 31 December 2004	223	247	470
At 31 December 2005	198	237	435

4. Goodwill

	€'000
Cost	
Balance at 1 January 2005 and 31 December 2005	2,421
Amortisation	
Balance at 1 January 2005	1,325
Amortisation for year	121
Balance at 31 December 2005	1,446
Net book value	
At 31 December 2004	1,096
At 31 December 2005	975

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 subsidary 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 €'000	31 December 2004 €'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 €'000	31 December 2004 €'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)
Total Liabilities as restated	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
Profit and Loss Account as restated	68,997
Share-based Payment Reserve as previously stated	-
FRS 20 – Share-based payment	931
Share-based Payment Reserve as restated	931
Financial fixed assets as previously stated	103
FRS 20 – Share based payment	344
Financial fixed assets as restated	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.

Five Year Financial Summary

Financial information for the Group for the five years ended 31 December 2005 is set out below in euro and sterling.

	2005	**2004**	**2003**	**2002**	**2001**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Revenue	**1,371,710**	1,159,658	913,624	673,788	461,075
Operating profit	**30,118**	31,103	19,632	17,083	8,507
Profit on ordinary activities before taxation	**31,344**	32,109	20,410	17,822	9,092
Profit on ordinary activities after taxation	**26,954**	27,447	17,551	14,793	7,555
Net cash inflow from operating activities	**41,410**	41,167	32,144	30,435	11,461
Net equity	**96,051**	78,697	52,274	40,146	30,162

Set out below is the above financial information translated into sterling at the rates shown below, for illustrative purposes only.

	2005	**2004**	**2003**	**2002**	**2001**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
	Stg£'000	**Stg£'000**	**Stg£'000**	**Stg£'000**	**Stg£'000**
Revenue	**937,986**	797,399	630,390	437,951	286,168
Operating profit	**20,595**	21,387	13,546	11,104	5,280
Profit on ordinary activities before taxation	**21,433**	22,079	14,083	11,584	5,643
Profit on ordinary activities after taxation	**18,431**	18,873	12,110	9,615	4,689
Net cash inflow from operating activities	**28,316**	28,307	22,179	19,782	7,114
Net equity	**65,680**	54,113	36,068	26,094	18,722
Exchange rates used are	**1.4624**	1.4543	1.4493	1.5385	1.611

Note: 2005 and 2004 amounts are reported under IFRS, while amounts for all previous years are reported under Irish GAAP.

Additional Information for Shareholders

Listings

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

Registrar

Enquiries concerning shareholdings should be addressed to the Company's Registrar:

Computershare Investor Services (Ireland) Limited,
Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18.
Telephone: +353-1-216 3100.
Facsimile: +353-1-216 3151.
Website: www.computershare.com.

Payment of Dividends Direct to a Bank Account

Dividends are paid by cheque however, shareholders resident in Ireland or in the UK may have their dividends paid by electronic transfer direct to a designated bank account. Shareholders who wish to avail of this facility should contact the Company's Registrar (see details above).

Payment of Dividends in Euro

Dividend payments are made in euro by default. However, shareholders wishing to opt for sterling payments either by cheque or direct to their bank account may do so by contacting the Registrar (see details above).

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.

Dividend Withholding Tax ('DWT')

Note: The following information, which is given for the general guidance of shareholders, does not purport to be a definitive guide to relevant taxation provisions. It is based on the law and practice as provided for under Irish tax legislation. Shareholders should take professional advice if they are in any doubt about their individual tax positions. Further information concerning DWT may be obtained from:

DWT Section, Office of the Revenue Commissioners, Government Offices,
Nenagh, Co. Tipperary, Ireland.
Telephone: +353-67-63400.
Facsimile: +353-67-33822.
E-mail infodwt@revenue.ie

General

With certain exceptions, dividends paid by Irish resident companies on or after 6 April 2000 are subject to DWT at the standard rate of income tax, to apply at the reduced rate of 20% from 6 April 2001. DWT, where applicable, is deducted by the Company from all dividends. The following summarises the position in respect of different categories of shareholder:

A. Irish Resident Shareholders

Individuals

Individuals resident in the Republic of Ireland for tax purposes are liable to DWT in respect of dividends received. Individual shareholders are liable to Irish income tax on the amount of the dividend before deduction of DWT, and the DWT is available for offset against their income tax liability; where the DWT exceeds such liability, the shareholder may apply to the Revenue Commissioners, at the address shown above, for a refund of the excess.

Additional Information for Shareholders (continued)

Shareholders not liable for DWT

Shareholders who receive the dividend in a beneficial capacity can be exempted from DWT. Provided the shareholder furnishes a properly completed declaration on a standard form to the Company's Registrar, not less than three working days prior to the relevant dividend payment record date, the following classes of shareholders may receive their dividends gross:

- Companies resident in the Republic of Ireland for tax purposes;
- Qualifying Employee Share Ownership Trusts;
- Exempt Approved Pension Schemes;
- Collective Investment Undertakings;
- Charities exempt from income tax on their income;
- Athletic/amateur sports bodies whose income is exempt from income tax;
- Designated stockbrokers receiving a dividend for the benefit of the holder of a Special Portfolio Investment Account ('SPIA');
- Qualifying fund manager of approved retirement fund or an approved Minimum Retirement Fund;
- Persons exempt from tax on income from personal injury claims.

Copies of the relevant declaration form may be obtained from the Company's Registrar or from the Revenue Commissioners at their addresses shown on page 79. Once lodged with the Company's Registrar, the declaration form remains current from its date of issue until 31 December in the fifth year following the year of issue, or, within such period, until the exempt shareholder notifies the Registrar that entitlement to exemption is no longer applicable. Where DWT is deducted from dividends paid to shareholders not liable to DWT, the shareholder may apply to the Revenue Commissioners, at the address shown on page 79, for a refund of the DWT so deducted.

Qualifying Intermediaries

Dividends received by qualifying intermediaries on behalf of a shareholder are not liable for DWT and may be received without deduction of DWT. A 'qualifying intermediary' is a person who receives dividends on behalf of a third party, is resident for tax purposes in the Republic of Ireland or in a relevant territory*, and:

- holds a licence under the Central Bank Act, 1971, or a similar authorisation under the law of a relevant territory, or is owned by a Company which holds such a licence;
- is a member firm of the Irish Stock Exchange or of a recognised stock exchange in a relevant territory; or
- otherwise is, in the opinion of the Irish Revenue Commissioners, a person suitable to be a qualifying intermediary; and who (a) enters into a qualifying intermediary agreement with the Irish Revenue Commissioners and (b) is authorised by them as a qualifying intermediary.

**A 'relevant territory' means a member state of the European Communities, other than the Republic of Ireland, or a country with which the Republic of Ireland has entered into a double taxation agreement.*

Information concerning conditions to be satisfied by intending qualifying intermediaries may be obtained from the Irish Revenue Commissioners at the address shown on page 79. A qualifying intermediary should ensure that it receives completed declarations from underlying shareholders eligible for DWT exemption, so as to be in a position to notify the Company's Registrar, in advance of each dividend record payment date, of the extent to which the dividend payable to the qualifying intermediary is to be paid without deduction of DWT. A shareholder wishing to ascertain whether an entity is a qualifying intermediary should contact the Irish Revenue Commissioners at the address shown on page 79.

B. Non-Irish Resident Shareholders

The following categories of shareholder not resident for tax purposes in the Republic of Ireland may claim exemption from DWT, as outlined below:

(a) an individual who is neither resident nor ordinarily resident for the purpose of tax in the Republic of Ireland and who is resident for tax purposes in a relevant territory;

(b) an unincorporated entity resident for tax purposes in a relevant territory;

(c) a company which is resident in a relevant territory and which is not under the control, whether directly or indirectly, of a person or persons who is/are residents for the purpose of tax in Ireland; or

(d) a company which is ultimately controlled, whether directly or indirectly, by a person or persons who is/are resident for the purposes of tax in a 'relevant territory';

(e) a company not resident in the Republic of Ireland, the principal class of whose shares are traded on a recognised stock exchange in a relevant territory or on such other stock exchange as may be approved by the Minister for Finance, including a company which is a 75% subsidiary of such a company; or a company not resident in the Republic of Ireland that is wholly owned by two or more companies, each of whose principal class of shares is so traded.

To claim exemption, any such shareholder must furnish a valid declaration, on a standard form available from the Irish Revenue Commissioners and from the Company's Registrar, to the Company's Registrar not less than three working days in advance of the relevant dividend payment record date, accompanied by:

- Categories (a) and (b): The declaration must be certified by the tax authority of the country in which the shareholder is resident for tax purposes. Where the shareholder is a trust, the declaration must be accompanied by a certificate signed by the trustee(s) showing the name and address of each settlor and beneficiary and a notice in writing from the Irish Revenue Commissioners stating that the Irish Revenue Commissioners have noted the contents of the certificate.
- Category (c): The declaration must be certified by the tax authority of the country in which the company is resident for tax purposes. The company's auditor must also certify the declaration.
- Categories (d) and (e): The declaration must be certified by the company's auditor.
- Dividends received by a shareholder who is a qualifying intermediary on behalf of a qualifying non-resident person may be received without declaration of DWT – see 'Qualifying Intermediaries' under 'Irish Resident Shareholders' at A on page 79.

C. Dividend Statements

Each shareholder receives a statement showing the shareholder's name and address, the dividend payment date, the amount of the dividend, and the amount of DWT, if any, deducted there from. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

Financial calendar

Announcement of final results for 2005	1 March 2006
Ex-dividend date	8 March 2006
Record date for dividend	10 March 2006
Annual General Meeting	16 May 2006
Dividend payment date	19 May 2006

Letter to Shareholders

To all shareholders

I am writing to you to outline the background to the resolutions to be proposed at the forthcoming Annual General Meeting of Paddy Power plc (the "Company"), all of which are recommended by the Board for approval. Your attention is drawn to the notice of the Annual General Meeting ("AGM") of the Company, to be held at the Westbury Hotel, Grafton Street, Dublin 2 at 11.00 am on 16 May 2006. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the election/re-election of directors, and the Auditor's remuneration, there are various items of special business which are described further below.

Resolutions 3(a), 3(b) and 4 of the ordinary business propose the election of Tom Grace and Jack Massey and the re-election of myself. Tom Grace and Jack Massey were appointed by the directors since the last Annual General Meeting and in accordance with the Articles of Association of the Company put themselves forward for election by the shareholders. I, having served on the Board for three years, retire in accordance with Regulation 87 of the Articles of Association and being eligible, offer myself for re-election. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the election/re-election of each of these directors.

Shareholders are being asked in resolution 6 to renew the directors' authority to allot shares for cash without being required to offer them first to shareholders. This authority is limited to an allotment of up to an aggregate nominal value equal to 5% of the nominal value of the Company's issued ordinary share capital i.e. 2.5 million shares. If renewed, this authority will expire at the next AGM in 2007 or 15 November 2007, whichever is the earlier.

Shareholders are being asked in resolution 7 to renew the authority to empower the Company, or any Subsidiary, to make market purchases of the Company's shares and to determine the price at which treasury shares may be re-issued off market. No more than 10% of the issued share capital of the Company may be acquired under this authority at a price range which is no less than the nominal value of the Company's shares and no greater than 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or reissue. Any treasury shares which are re-issued off market must be re-issued within a price range determined by a special resolution of the Company which shall not be less than 95%, nor more than 120%, of the average price of the Company's shares over the ten dealing days prior to the date of re-issue by the Company.

The total number of options to subscribe for shares in the Company on 27 February 2006 is 1,492,588 which represents 3.0% of the issued share capital of the Company on that date. This percentage would increase to 3.3% if the full authority to buy shares is used. The authority sought will expire on the date of the next Annual General Meeting of the Company or 15 November 2007, whichever is earlier. The Board will only exercise the power to purchase shares in the future at price levels at which it considers purchases to be in the best interests of the shareholders generally after taking account of the Group's overall financial position. The Board has no immediate plans to make any such purchase.

Action to be taken

A Form of Proxy for use at the Annual General Meeting is enclosed with this Annual Report. The Form of Proxy will be valid if lodged at the registered office of the Company or with the Company's registrars, Computershare Investor Services (Ireland) Limited, Heron House, Corrig Road, Sandyford, Dublin 18 by no later than 11.00am on 14th May 2006. Alternatively you may wish to submit your votes via the internet and instructions on how to do so are shown on the form. All proxy forms must be lodged no later than 48 hours before the time appointed for the meeting. The completion and lodging of the Form of Proxy will not prevent you from attending and voting in person at the meeting should you so wish.

Recommendation

The directors believe that the resolutions proposed are in the best interests of the Company and its shareholders, and so they recommend that you vote in favour of these resolutions at the AGM, as they intend to themselves in respect of their shares.

Yours sincerely

Fintan Drury
Chairman

28 February 2006

Notice of Annual General Meeting of Paddy Power plc

NOTICE is hereby given that the Annual General Meeting of Paddy Power plc (the "Company") will be held at the Westbury Hotel, Grafton Street, Dublin 2 on 16 May 2006 at 11.00 am for the following purposes:

To consider and if thought fit, to pass the following resolutions, which will be proposed as ordinary resolutions:

1. To receive and consider the financial statements for the year ended 31 December 2005 and the reports of the directors and auditor thereon.

2. To declare a final dividend of €0.1284 per share for the year ended 31 December 2005.

3. To elect by separate resolution the following persons as directors who are recommended by the Board for election:

   Resolution 3 (a) Tom Grace
   Resolution 3 (b) Jack Massey

4. To re-elect Fintan Drury, who retires in accordance with Regulation 87 of the Articles of Association and being eligible, offers himself for re-election.

5. To authorise the directors to fix the remuneration of the auditors for the year ending 31 December 2006.

   As Special Business
   As special business to consider and, if thought fit, pass the following resolutions:

6. As a special resolution
   "That for the purposes of Regulation 8(d) of the Articles of the Association of the Company, the directors are hereby empowered to allot equity securities for cash pursuant to and in accordance with the provisions of their authority pursuant to Section 20 of the Companies (Amendment) Act 1983 as if sub-section (1) of Section 23 of Companies (Amendment) Act did not apply; pursuant to Regulation 8(d)(ii), the maximum aggregate nominal value of shares to which this authority relates shall be an aggregate nominal value equal to 5% of the nominal value of the Company's issued ordinary share capital for the time being; and the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or 15 November 2007 unless previously renewed, varied or revoked by the Company in general meeting".

7. As a special resolution
   "That the Company and/or any subsidiary (being a body corporate referred to in the European Communities (Public Limited Companies Subsidiaries) Regulations 1997) of the Company be generally authorised to make market purchases (as defined by Section 212 of the Companies Act, 1990) of shares of any class of the Company on such terms and conditions and in such manner as the directors may from time to time determine in accordance with and subject to the provisions of the Companies Act 1990 and to the restrictions and provisions set out in Regulation 47(a) of the Articles of Association of the Company.

   That the re-issue price range at which any treasury share (as defined in Section 209 of the Companies Act 1990) for the time being held by the Company, may be re-issued off market, shall be the price range set out in Article 47(b) of the Articles of Association of the Company;

   and the authorities hereby conferred shall expire at the close of business on the earlier of the date of the next annual general meeting of the Company or 15 November 2007 unless, in any such case, previously renewed, varied or revoked by the Company in general meeting."

By Order of the Board

Nuala Hunt
Company Secretary
28 February 2006

Registered Office:
Airton House
Airton Road
Tallaght
Dublin 24.

Notice of Annual General Meeting of Paddy Power plc (continued)

Notes

Any member entitled to attend and vote at the meeting is entitled to appoint a proxy (who need not be a member of the Company) to attend, speak and vote in his/her place. Completion of a Form of Proxy will not affect the right of a member to attend, speak and vote at the meeting in person. A Form of Proxy is enclosed with this Notice.

To be valid, Forms of Proxy duly signed must be returned together with the power of attorney or such other authority (if any) under which they are signed (or a notarially certified copy of such power or authority) so as to reach the Company's Registrar, Computershare Services (Ireland) Limited, P.O. Box 954, Sandyford, Dublin 18 by not later than 11.00a.m. on 14 May 2006.

The Company, pursuant to Regulation 14 of the Companies Act, 1990 (Uncertificated Securities) Regulations, 1996, specifies that only those shareholders registered in the register of members of the Company as at 11.00a.m. on 14 May 2006 (or in the case of an adjournment as at 48 hours before the time fixed for the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries in the register after that time will be disregarded in determining the right of any person to attend and/or vote at the meeting.