18

TO ENTER THE **PADDY POWER ANNUAL REPORT 2006**
YOU MUST BE AT LEAST 18 YEARS OF AGE
and definitely NOT an American resident

Paddy Power plc

18

2006 was a huge year for us - we turned 18. But does growing up mean it's the end of all of our fun? Of course not - It means ADULT fun from here on in!

We're grown-ups and like all grown-ups we like to experiment. We no longer have to just sneak a look at those magazines on the top shelf; we can take them down and buy them. We can play strip poker with our friends, in fact we can go and set a new World record for the biggest ever strip poker tournament with 200 of our closest friends.

We are The Entertainment Company which specialises in betting. If it's fun it's for us. We've even made our Annual Report fun.

We're prepared to take risks. If somebody has a dream that a football player is going to score a goal from inside their own half, we'll offer them odds. Why? Because we can and that's what we do!

Let's go back to those top shelf magazines for a moment. If it was down to us to publish them we'd certainly have some fun. Read on & enjoy!

Paddy Power plc

On the morning of Saturday 19th August almost 200 people descended on the famous London venue known as the Café Royal to take part in one of the most unusual Guinness World Record attempts; the World's Largest Strip Poker Tournament.

Sitting nervously awaiting the first players to arrive it was hard to believe that the entire event began as a silly trademark Paddy Power April Fools prank six months earlier when a spoof press release made its way into several national newspapers.

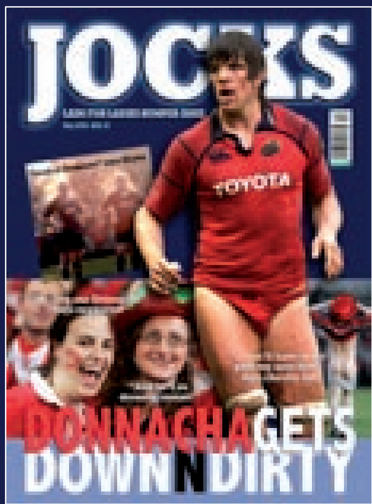
It wasn't long before the Napoleon Suite was fully seated with all 200 players in their stripping "uniform" of hat, tee-shirt, shorts & underwear.

There were many highlights from the day, but one of the best moments has to be the brave Laura Bennet etching her name (and picture!) into the history books by standing on her seat and becoming the first girl to twirl her towel around her head wearing nothing but a thong & a smile!

Jon Young from London was the eventual winner, but let's face it everyone was a winner. 200 people, 20 tables, very little clothing and a new World record. Job done!


PADDY POWER ORGANISES THE LARGEST EVER STRIP POKER TOURNAMENT
POKER
GUINNESS WORLD RECORDS
August 2006. Over £18
Go to page 4 for more great figures
It's Paddy's Cover Girl!
Entrant Cover Girl Laura at the Event
...more inside
Paddy Power
See all the action on this FREE DVD INSIDE
paddypower.com
Paddy shows more than his hand!
"WINNER TAKES ALL"
Jon 'Cold Nuts' Young pockets £10,000
(when he gets his pants back)
A Power Media Publication
"The Cafe Royal never saw the likes of it, come to think of it neither did Paddy!"


JOCKS
LADS FOR LADIES BUMPER ISSUE
May 2006. €23.19
"Load of Steamers" says Hooke
"We love our Donnacha" says supporter
"And he's so dreamy, mmm!"
"...you'll have to get past my arse first" says cheeky fan
DONNACHA GETS DOWN N DIRTY



I can say for definite that Donnacha O'Callaghan was not the only man to have his pants taken down last year. Picture the scene; it's May, it's the Millennium Stadium in Cardiff, 80,000 people there – 75,000 of them in red. There's only one Irish man wearing white, and that's Paddy Power!

Munster stumbled early in the campaign and looked down and out. Their odds drifted out to 40/1 and only the faithful believed. Not only did they believe, they piled in. At 40/1, at 20/1, at 10/1, at 8/1, you name it they backed it.

Peter Stringer is too one-dimensional, he never picks and goes himself, he always passes or kicks – that's what the form book says. The record book on the other hand says that Stringer duped the whole stadium and scooted into the corner.

The horns were blaring outside, but there was tumbleweed blowing through the Paddy Power trading room. The 6 foot 6 rugby odds compiler was sitting head in hands while the couple of lads from Munster were struggling to stifle their grins.

It wasn't pretty – but deep down we all wanted them to win!

Directors and Other Information

Directors
Fintan Drury *Chairman*
Patrick Kennedy *Chief Executive*
Breon Corcoran *Managing Director - Non Retail and Development*
Jack Massey *Finance 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*

Company Secretary and Registered Office
David Johnston
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
127 Lower Baggot Street, Dublin 2

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 0LS

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

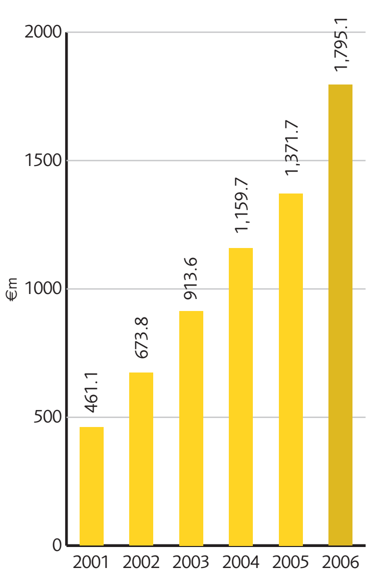
Registered Number
16956

Contents

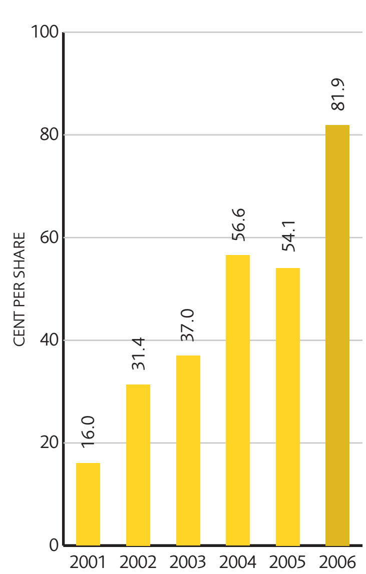
2006 Group Highlights

	Year ended 31 December 2006 €m	Year ended 31 December 2005 (restated) €m	% Change
Amounts staked			
Retail	**963.1**	794.3	+21%
Telephone	**306.6**	249.9	+23%
Online	**525.4**	327.5	+60%
Total amounts staked*	**1,795.1**	1,371.7	+31%
Total revenue*	**218.7**	160.8	+36%
Profit before taxation	**49.7**	31.3	+59%
Profit after taxation	**41.2**	27.0	+53%
Earnings per share			
Basic earnings per share	**€0.819**	€0.541	+51%
Adjusted earnings per share**	**€0.786**	€0.541	+45%
Dividends per share			
Interim paid	**€0.0943**	€0.0775	+22%
Final proposed	**€0.2277**	€0.1284	+77%
Total	**€0.3220**	€0.2059	+56%

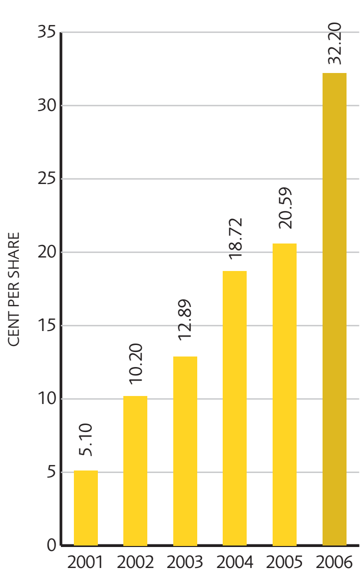
Amounts staked



Earnings per share



Dividends per share



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

** Adjusted earnings per share is calculated excluding a once-off after-tax property gain of €1,677,000 that was recorded in the year ended 31 December 2006.

Chairman's Statement

Dear Shareholder,

I am pleased to report on an exceptional year of growth and profitability for Paddy Power.

	2006	% Change
Turnover	€1,795m	+31%
Pre tax profit	€47.6m	+52%
Adjusted basic EPS	78.6 cent	+45%
Dividend	32.2 cent	+56%
Cash balances	€87.1m	+66%

(Results above and throughout this statement exclude the exceptional property gain of €2.1m pre-tax in 2006)

These record profits were driven by strong turnover growth across the Group. The ongoing investment in business development that I reported on last year has come through strongly in the 2006 results. In addition, Irish retail turnover received a boost from the introduction of tax-free betting, while all channels benefited from the World Cup. Our online business continues to grow strongly in both sportsbook and gaming and I am pleased to confirm that the results also reflect a significant level of investment for future growth.

We also benefited from an improved run of sporting results compared to 2005, but the overall run of results, while good, was not exceptionally favourable to bookmakers. As always there were plenty of fraught moments with patriotic punters rubbing their hands following a record haul of ten Irish winners at Cheltenham, an Irish winner at the Grand National, Ireland winning the Triple Crown and last but certainly not least, Munster finally fulfilling their destiny to win the Heineken Cup! However a fine showing by a range of outsiders in late December raised the Group's overall sportsbook gross win percentage margin broadly in line with expected levels.

2006 also marked the 18th anniversary of Paddy Power's formation through the merger of three Irish retail bookmakers. The evolution of the business since is evidenced by the fact that, while the Irish retail business has gone from strength to strength, it now accounts for just under half of our operating profit. Since its inception our non retail business has similarly evolved with over 50% of its turnover in 2006 coming from the UK and over 30% of its gross win generated from online gaming rather than sports betting. Many other things have changed during that period but the core ethos of Paddy Power to remain the most punter-friendly, innovative and entertainment based bookmaker lives on throughout our entire business.

Regulation

2006 saw some significant regulatory developments. The passing of the Unlawful Internet Gambling Enforcement Bill in the US in September effectively outlawed online gambling by US residents and the facilitation of related money transfers by banks. Overnight this resulted in billions of euro being wiped off the stock market valuation of companies which had targeted US gamblers and the creation of legal uncertainty for their executives. Paddy Power has never targeted the US market so our market value was not impacted in any material way. The Group has never sought players from the US and has for years had measures in place to proactively prevent any play from the US including:

- Prominent graphics, statements and terms and conditions at customer registration stating that we do not accept US customers;
- Payment controls to block deposits from bank cards issued in the US, transfers from US bank accounts or payments from US residents via e-wallet payment methods;
- Never targeting any advertising or promotional activity at US residents.

Closer to home, there was media coverage during the year in relation to the possibility of certain bookmakers, not including Paddy Power, introducing Fixed Odds Betting Terminals ('FOBTs') into Irish betting shops. While such machines are an established part of the UK betting environment and culture, our view was that neither the Government nor the punter in Ireland were likely to be in favour of their introduction. This view of the Government's position appears confirmed by the Government statement in December 2006 that they 'wished to warn those in the industry, in the strongest possible terms, that the Government was opposed to the introduction of such machines'. The Minister for Justice, Equality and Law Reform also announced, in August 2006, the possible regulation of land based casinos in Ireland. Given our knowledge and experience of the Irish market place and the strength of our brand, we would consider participation in land based casino developments in Ireland. We would hope to see clarification and implementation of the Government's position in the next number of months.

In continental Europe, the regulatory landscape continues to be far from uniform, with periodic swings towards increased liberalisation and restriction within individual member states. Overall however we are encouraged by our prospects in the medium term for online expansion, both as a result of countries that have already moved towards liberalisation and by ongoing action by the European Commission to ensure that any restrictions on the provision of services within the European Union are necessary, proportionate and non-discriminatory and therefore consistent with EU Law.

Chairman's Statement (continued)

The Board

As noted in the 2005 Annual Report, Tom Grace and Jack Massey were appointed to the Board in January 2006 and April 2006 respectively. Both appointments have brought valuable experience and new perspectives to the Group. More recently, we have announced the appointment of David Johnston as Company Secretary. We welcome David from O2 Ireland where he had been Chief Legal Counsel and Company Secretary. We also express our sincere gratitude and best wishes to the former Company Secretary, Nuala Hunt, who is leaving the Group.

Dividends and Capital Structure

As announced in our Interim Report for 2006, the Board is committed to a progressive dividend policy and is recommending an increase in the dividend payout ratio to 40% in the current year. A final dividend of 22.77 cent per share is therefore proposed, payable to shareholders on the register at 16 March 2007. This brings the total dividend for the year to €16.5m or 32.2 cent per share, an increase of 56% on the 20.59 cent paid in 2005. In the six years since flotation in 2000, Paddy Power will have therefore grown dividends per share at an average annual rate of 42%, a growth rate ahead of the already significant increase in average earnings per share growth of 29%.

The Group has historically retained a positive cash balance in order to be in a strong position to exploit the many development opportunities available to it. Given the very strong growth in the business in the last number of years, its very strong cash generative abilities and the significant growth in the Group's cash balances, maintaining flexibility for future growth and returning additional cash to shareholders are no longer mutually exclusive objectives. The Board obtains shareholder approval annually to buy back up to 10% of the company's issued share capital, and we will seek that approval again at this year's AGM. It is the Board's current intention to conduct share buybacks this year. The timing and amount of shares bought back will depend on the Group's pipeline of development opportunities as well as equity market conditions.

Outlook

2007 promises to be another exciting year for Paddy Power as we continue to expand across the Group. 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

2 March 2007

Chief Executive's Statement

Introduction

Paddy Power is a growth company. In the six years since flotation in 2000, we have increased turnover from €363m to almost €1.8 billion, an average annual growth rate of 31%, and earnings per share at an average annual growth rate of 29%. A particular feature of this very strong growth is that it has been achieved almost entirely organically, without recourse to acquisition. More importantly, looking forward, the Group today has a strong portfolio of businesses, each of which is well positioned to drive further turnover and profit growth.

Our Existing Businesses

These businesses are at varying stages of their life cycles; indeed, one of the particular attributes of Paddy Power is the excellent balance of activities that we have at different stages of development. Some are long established, substantial businesses; others are more recently launched, emerging businesses; whilst others are very recent investments which, although unlikely to contribute materially in the short-term, have excellent medium term prospects.

It is worthwhile considering our businesses in each of these three stages of development in greater detail:

(i) Our longer established, substantial businesses include our Irish retail and our telephone businesses. Both benefit from positions of leadership in the Irish market, from our unique brand, from the Group's innovative product range, and from the fantastic customer service for which Paddy Power is renowned. Both are also benefiting from significant recent investment: in the last five years, we have newly opened, refitted, extended or relocated over 85% of the 160 shops in our Irish estate, whilst our telephone business moved to a new state-of-the-art call centre in May 2006. Finally, both benefit from a positive external backdrop: continued population and economic growth, particularly in Ireland, and the continuing growth in live televised sport. The move to tax-free betting for punters, which Paddy Power introduced in December 2005, is a further positive for our Irish retail business.

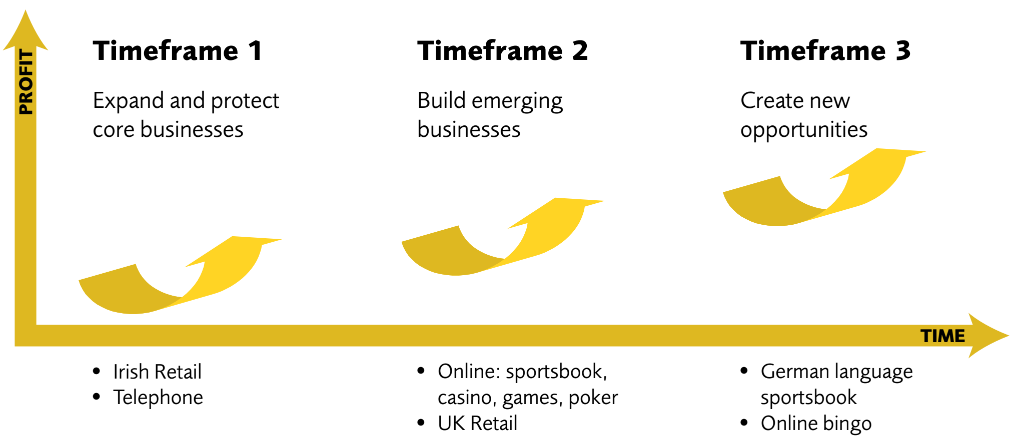
These positive market conditions attract increased competition every year, and the migration of customers from the telephone to the online channel is continuing. Nonetheless, our businesses have continued to grow strongly, with amounts staked increasing by 23% and 18% in the telephone and Irish retail businesses respectively last year.

(ii) Our recently launched emerging businesses include our online sportsbook, online casino, online games and online poker, as well as our UK retail business.

The online businesses are expanding rapidly, with amounts staked and gross win increasing by 60% and 57% respectively last year. Some people hold the view that products and services sold online can only be differentiated on the basis of price. We disagree with this; we differentiate ourselves versus our competition just as strongly in the online world as in our retail markets. This takes a number of different forms:

- Trading Product and Specials: our broader range of product as well as our Money-Back Specials, early payouts, double result payouts and the many other imaginative refunds that we regularly offer are highly valued by our online customers, and the centre piece of the paddypower.com home page is always dedicated to our latest such offering;
- Brand: the strength of our brand, as well as our retail presence in both the UK and Ireland, differentiates us against the myriad online-only players. We also employ a team of journalists to ensure that our websites and customer emails reflect the fun, and occasionally irreverent, side to our brand. For example, as a result of the polls introduced on our website last year, we now know "what's the most painful?" between "a fractured skull" (12% of votes), "a kick in the nuts" (43%), "childbirth" (11%) and "watching Bolton" (34%);

Strategy: Business Positioning



Chief Executive's Statement (continued)

- Customer Service: great customer service, an absolute throughout our businesses, is a particular feature of our online channel. Many of our online competitors outsource customer service; we on the other hand insist on it remaining in-house, and regard it as a recruitment ground for the rest of our businesses, with a substantial proportion of our customer service staff being third level students or graduates;
- Technology: our development team continues to use technology very effectively to tailor our websites to provide better and more accessible information, improve customer service and increase cross-selling opportunities.

As well as holding the leading market position in online betting and gaming in Ireland, this focus on differentiation has propelled paddypower.com to be the third largest online sportsbook in the UK (measured by number of visitors in the second half of 2006), ahead of many more substantial rivals. This is an enormous achievement, from a standing start a number of years ago.

Many of our online competitors have big international brands with very substantial budgets and indeed competition has increased even further in the last five months since the US market was effectively closed down. Nonetheless, the prospects for all of our online businesses are strong, as betting and gaming continue to increase in popularity, as the economies and also broadband penetration in our key markets continue to grow, and as we focus relentlessly on differentiating our proposition against the competition.

Another emerging business is our UK retail business. A great job has been done since 2003 developing our UK retail estate, and at the end of 2006 we had a substantial footprint of 58 shops within the M25. The 2005 Gaming Act which takes effect later this year in the UK will allow for extended shop opening hours, the installation of higher payout gaming machines and improved shop opening opportunities. Our priority now is to optimise our proposition in anticipation of this deregulated market and, in this regard, our overriding focus for 2007 is to continue to improve the performance of the existing estate rather than open a substantial number of additional new shops.

We remain optimistic about the prospects of our UK retail estate for several reasons, referred to in greater detail in the Operating & Financial Review, including:

- Our gross win continues to grow strongly, on both a total and like-for-like basis;
- Our brand recognition continues to grow strongly;
- Our market research indicates that our customers rate us much more highly than those of our competitors, and are more loyal and less likely to switch, whilst competitor customers are most likely to switch to us.

(iii) Our very recent investments include our online German language sportsbook and our online bingo business. These businesses rely less on cross selling to existing customers, but rather bring Paddy Power to entirely new customer groups. As such, they may take longer to have a material impact on the business than other online businesses launched in the last number of years, but we are confident about their medium-term prospects.

Business Development

In addition to the strong prospects of our existing businesses, we have increased the focus on new business development in 2006. Breon Corcoran's new role as managing director of non retail and development enables him to dedicate a substantial part of his time to seeking new opportunities for the Group, and through a number of senior hires he has built a top class development team to find the next set of new businesses for Paddy Power.

These opportunities fall into a number of categories:

- Accessing other segments of the betting market, as we did last year with our online bingo business;
- Expanding our presence in existing geographies, for example potentially opening Paddy Power casinos in Ireland;
- Deeper use of existing Group resources, such as our risk capabilities;
- Further geographic expansion, as we commenced in the last 12 months with our German language website;
- Stretching our brand into new areas, as we did last year with our online reverse auctions business.

Summary

As a result of these substantial opportunities, both in existing and potential new businesses, along with the quality of our people and our brand, we look forward to 2007 and beyond with confidence.

Patrick Kennedy
Chief Executive

2 March 2007

Operating & Financial Review

Paddy Power is a multi-channel, multi-national betting and gaming company. It operates through two main divisions: the retail division, which operates bookmaking shops in Ireland and the UK, and the non retail division, which provides telephone betting services to customers in Ireland and the UK together with an online channel that provides both betting and gaming services to English and German speaking customers in the UK, Ireland and continental Europe.

2006 was a year of spectacular growth in turnover, gross win and operating profits in both divisions. Our brand, the quality of our people and our innovative product range drove this growth, as they do every year. In addition, results last year benefited from the largest betting event in history, the 2006 football World Cup, which generated €4.0m of gross win for us directly, as well as a significant number of new customers.

The Retail Division

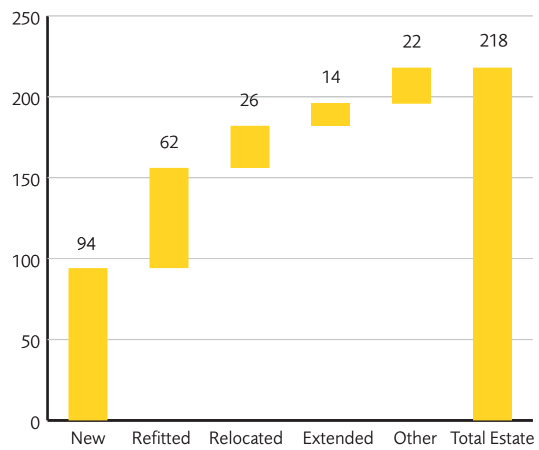
	2006	2005	% Change
Amounts staked	€963m	€794m	+21%
Sportsbook gross win percentage	12.54%	11.92%	+5%

The amounts staked over-the-counter ('OTC'), that is excluding FOBT gross win, in the combined Irish and UK estate grew by 21% to €956m. The average stake per slip increased by 9% to €20.82, while the number of slips grew by 10% to 45.9m. The OTC gross win percentage in the retail sportsbook was 12.5% as compared to 11.9% last year. This strong performance reflected a number of factors specific to the retail division. These included an increase in multiples within the mix, higher than average racing margins, as well as the anticipated positive impact of our Electronic Point of Sale ('EPOS') system.

EPOS was rolled out across the entire estate in 2006, bar a handful of shops scheduled for redevelopment, at a total capital cost of €10.4m which was under the budget we set out last year. The deployment was supported by a significant training investment and has met with a positive response from both customers and staff. Our priority has been to use the system to improve customer service by increasing the speed and accuracy of customer payouts, extending the product range and freeing up staff to devote more time to enhancing the special buzz and atmosphere that so differentiates Paddy Power shops. The system has also enabled us to measure more accurately customer demand for new offerings, as well as the effectiveness of accompanying point of sale, screen, audio and other promotions. We have also leveraged the intranet communications infrastructure of EPOS to provide in-shop customer information terminals and in-shop printing of marketing materials and coupons thereby reducing distribution costs. Further benefits also accrue in relation to risk management and security. Overall, we are confident of recouping an attractive return on our investment in EPOS.

Our trademark product innovation continues to give more choice to the retail customer. In horse racing, we now provide early prices for every UK and Irish horse race and lead the market in betting-without-the-favourite, match betting and distance betting. We have also expanded our sports betting, adding for example 15 extra soccer leagues from a range of countries including Poland, Japan, Romania, Hungary and Russia. To complete the package, we even provide Paddy Power soccer coupons in Polish, which involves more than just adding on '–ski' to the end of every team name!

Retail Estate Development - 2002 to 2006



(i) Irish Retail

€m	2006	2005	% Change
Amounts staked	833.1	703.8	+18%
Gross win	**104.4**	**83.6**	**+25%**
Gross profit	91.5	74.0	+24%
Operating costs	(69.5)	(59.9)	+16%
Operating profit	**22.0**	**14.1**	**+56%**

The amounts staked within Irish retail grew by 18% to €833m. Strong shop opening opportunities existed in 2006 and we opened 10 new shops, bringing our total number to 160. In addition, we grew like-for-like amounts staked by 14% as compared to 9% in 2005.

This strong growth is driven by the factors common to all our businesses, our brand, our product innovation and our customer service, but also by the following factors specific to our Irish retail estate:

- The very significant investment we have made in the estate in the last five years;
- The continuing positive economic and demographic backdrop in Ireland;

Operating & Financial Review
(continued)

- The move to 'tax-free' betting in December 2005 which boosted growth in 2006.

When the Irish Government announced in the December 2005 budget that it was eliminating the 2% customer based betting tax and replacing it with a 1% tax levied on the bookmaker from 1 July 2006, we decided not to wait; instead we offered our customers a discount equal to the tax from the morning after the budget. During 2006, this resulted in an average cost to Paddy Power, as a percentage of amounts staked, of 1.5% or €12.5m based on a 2% cost in the first half of the year and a 1% cost in the second half. This compares with a cost of €8.3m in 2005 when discounts to cover the 2% tax were offered within parts rather than all of the estate. In 2007 onwards, a full year at the lower tax rate of 1% should save the Group approximately €4m as compared to 2006.

In addition to the 10 shops newly opened during 2006, a further five shops were relocated, 10 refitted and three extended. Such shop developments incorporate our high quality interior furnishings and state-of-the-art technology infrastructure. This features 24 information screens, a dedicated sports gantry, customised audio and large screen televisions, all controlled via infrared technology from a central production studio. This enables us to co-ordinate and tailor information and coverage to local preferences, greatly improving the in-shop experience for customers. This substantial investment in our estate has contributed significantly to the growth in Irish retail by retaining existing retail punters and also attracting new footfall.

During the year, the Group made an exceptional profit of €2.1m on the sale of an Irish shop property. The Group acquired the property in 2006 under a purchase option within its lease and at the same time entered into an arm's length sale and lease back of the property. This is in line with the Group's policy in recent years to operate shops under leases rather than owning and managing property, giving us more flexibility in locating shops and ensuring we can react swiftly to any market changes. The Group currently owns 13 of its shops and has no current plans to sell any of these properties. In-house valuations of these premises indicate a market value of approximately €13m. These properties are carried on the balance sheet at a net book value based on their historical cost of €5m.

(ii) UK Retail

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

- We operated 58 outlets as at the end of December, an increase of 13 since December 2005;

- Our gross win grew by 59%, and by 15% on a like-for-like basis;

The Irish have taken over the World. 10 Cheltenham winners trained in the Emerald Isle, they say there's something in the grass. Who knows and who cares!

The parade of Champions was led by Gold Cup winner War of Attrition who got the ride of his life from Conor O'Dwyer to land the big one. And we all thought Michael O'Leary was about cheap this and low cost that. War of Attrition's win was anything but.

Then came Aintree and the greatest race in the world. 40 runners in a marathon over humungous fences. Forget winning, just getting around is an achievement in itself.

Numbersixvalverde has the honour of having more letters in his name than any previous winner. I don't know how we did but we got away with this one, it was probably because his name was too long for people to write on their betting slips!

It wasn't just a good jumps season, it was also a pretty decent flat one too. Aidan O'Brien cleaned up as usual, winning two of the classics – one of them with George Washington who as it turns out wouldn't really suit this magazine.


IRELAND'S BIGGEST-SELLING RIDING MAG
NEW!
FILLY
CENTREFOLD
April 2006. €4.21
STUD
"I just love it when he takes the reins and whispers in my ear"
War of Attrition
"Got a great ride off Tony McCoy in this year's Champion Hurdle"
Brave Inca talks openly with Paddy - Full Report page 16
"I have to take my hat off to Fran, he stayed in the saddle even when the going got soft"
Feathered Gale

THE CASINO MAGAZINE FOR ONLINE FUN AND GAMES
JACKPOT
December 2008. £7.77
CLICK PLAY WIN!
Hottest Games
ENCHANTED UNICORN
POWER BLACKJACK - PLAYER SUITE
MONOPOLY HERE & NOW
ROULETTE WITH SECTION BETS - PLAYER'S SUITE
Lady Luck in Las Vegas
RIVIERA
Paddy Power Casino Winner
Ann Murphy samples the delights of life as a high-roller in Vegas
A Power Media Publication

Ann Murphy's dream was to sample the delights of life as a high-roller in Las Vegas. The 55 year old Dublin native could be forgiven for thinking that the opportunity might have passed her by, but dream she did. Then one morning the telephone rang. She had won an all expenses paid trip to her spiritual home, fabulous Las Vegas, in a draw on Paddy Power Casino in June 2006.

Ann travelled with her son, Barry, and was immediately thrilled by the experience. "For the first three days you walk around in awe of how grand and over the top everything is," she enthused. "The most thrilling was just walking in the lobby of the Venetian for the first time, not really believing you were staying there and just the sheer luxury that surrounded you".

However, she soon settled into a groove and found her online gaming experience with Paddy Power Casino stood her well. "I played blackjack, roulette but mostly the slots. I thought about having a few games of hold 'em but reasoned I should get more poker practice in before attempting it."

Ann no longer dreams about sampling the life of a high-roller in Las Vegas. She's been there, done that, bought the t-shirt and it lived up to everything she had hoped for, even her wildest dreams had come true.

Operating & Financial Review
(continued)

- The group of shops opened before 2006 generated positive EBITDA in 2006;
- Our brand continues to grow strongly, with recognition of 21% amongst all adults in London, up from 16% in 2005;
- Market research indicates that our customers rate us more highly, on all key attributes, than those of our two largest competitors, and are more loyal and less likely to switch. It also indicates that customers of local competitors who would consider switching are, by a distance, most likely to switch to Paddy Power.

Thus while the overall estate continues to be loss making, due to the opening of new loss making shops and the necessary investment in the central infrastructure, the underlying trend is positive and the more mature outlets are cash positive. We expect this positive trajectory to continue as further shops reach maturity and we continue to focus on realising the benefits of the reasonable scale now achieved.

€m	2006	2005	% Change
Amounts staked OTC	123.0	86.3	+43%
Gross win	**23.6**	**14.8**	**+59%**
Gross profit	18.0	11.0	+64%
Operating costs	(24.0)	(15.7)	+53%
Operating loss	**(6.0)**	**(4.7)**	**+29%**

(2006 FOBT gross win above and throughout this review is shown inclusive of VAT of €1.2m for consistency with 2005)

In 2006, the amounts staked grew by 43% to €123m. Gross win growth of 59% to €23.6m was comprised of 88% growth in FOBT gross win to €8.1m, and 47% growth in OTC gross win to €15.5m. Like-for-like gross win grew by 15%, with OTC growth of 7% and FOBT growth of 38%. The OTC growth was impacted by the very strong FOBT growth with some punters switching their stakes between these products. There were 226 machines installed as at the end of the year, an increase of 31% compared to the end of 2005. The average gross win per machine per month increased 44% to €3,600 compared to €2,500 in 2005.

During 2006 we conducted an extensive review of our UK business, and its potential opportunities. We also strengthened its management team. We have as a result identified a number of valuable initiatives to improve the performance of the existing estate and implemented a number of these in late 2006, with more to come in 2007. We are pleased with progress to date. We expect just a few shop openings in 2007 as compared to the 15 or so in previous years as we continue to prioritise improving the performance of the existing estate in the run up to deregulation.

Operating & Financial Review (continued)

We also increased our FOBT profitability during 2006 by holding a competitive tender to improve our commercial terms, leveraging the growth in the estate and our increased turnover per machine, while also maintaining a first class product and service. The dual screen 'Rainmaker' machines we selected were installed across the estate in late 2006. We have also commenced a range of FOBT promotion initiatives and have recruited a dedicated FOBT manager. FOBT performance improvement is needed to offset the impact of the introduction of Amusement Machine License Duty ('AMLD') and the possible impact of the UK smoking ban. AMLD was introduced from August 2006 at a cost of €0.2m in 2006 and an expected cost of €0.7m in 2007. A smoking ban is scheduled to come into force in the UK in July 2007 and, while the introduction of the smoking ban in Ireland had no significant effect on retail turnover, the experience may be somewhat different in the UK due to the presence of FOBTs.

We welcome the implementation of the Gambling Act effective from September 2007 which will feature extended shop opening hours, the installation of higher payout gaming machines and improved shop opening opportunities. The removal of the 'demand test' for openings also gives us more flexibility in the format and size of our new shops. The Group is currently progressing the related license applications and is well prepared for the new requirements.

The Non Retail Division

The non retail division comprises telephone betting and online betting and gaming. Operating profit from the division increased by 43% to €29.4m, comprising €6.0m from the telephone channel, an increase of 65%, and €23.4m from the online channel, an increase of 38%. Betting on soccer represents a greater proportion of turnover in the non retail division as compared to retail, hence both non retail channels benefited particularly from the World Cup in 2006.

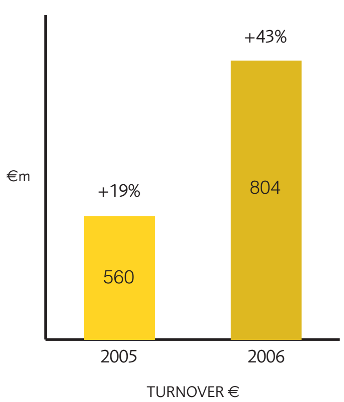
The guided range for non retail gross win percentages in 2006 was 8.0% to 9.0%. The actual gross win percentage was at the bottom of the guided range in the telephone channel at 8.0% and slightly outside the range in the online sportsbook at 7.9%. Nonetheless, the absolute amount of sportsbook gross win within the non retail division grew strongly by 41% in 2006, driven by exceptional turnover growth of 43%. This compares with growth in gross win of 14% and turnover of 19% in 2005.

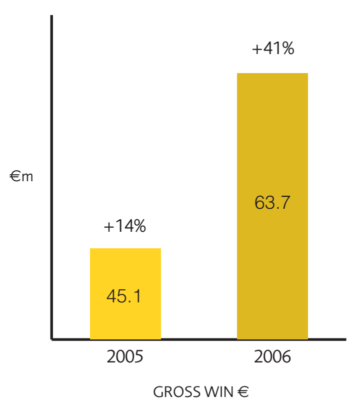
There were a number of reasons for the margin performance including some unfavourable results for bookmakers in sports such as rugby where non retail derives a greater proportion of its turnover as compared to retail. However the key factor behind this margin reduction were changes in the mix of business driven by a greater propensity of punters to bet on 'odds on' selections and the popularity of certain new products. For example, we experienced particularly strong growth in the year in financial markets betting and betting-in-running in a range of sports including soccer, tennis and snooker. These products tend to be single bet selections and have a bias towards 'odds on' selections resulting in lower than average margins. Nonetheless they are innovative, differentiating and popular new products, attracting good incremental turnover as evidenced by the 41% growth in non retail absolute gross win and we will continue to make new product decisions on the basis of such criteria. We would expect non retail margins to be approximately 50 basis points lower in the 7.5% to 8.5% range going forward.

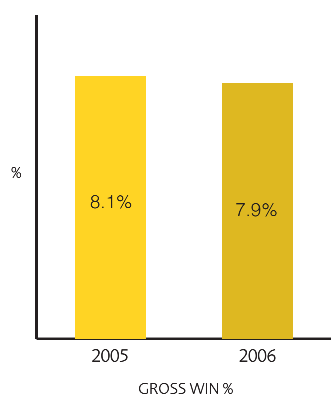
(i) The Telephone Channel

€m	2006	2005	% Change
Amounts staked	306.6	249.9	+23%
Gross win	**24.5**	**19.5**	**+26%**
Gross profit	22.4	17.2	+30%
Operating costs	(16.4)	(13.6)	+21%
Operating profit	**6.0**	**3.6**	**+65%**

Non Retail Sportsbook Turnover & Gross Win







Operating & Financial Review (continued)

The amounts staked within the telephone channel grew by 23% to €307m. Within this, bet volumes grew 9% to 3.0m while the average stake per bet increased 12% to €102.98. We prioritise profitability ahead of such metrics as customer numbers or market share and achieved growth in operating profit of 65% in 2006 despite a small reduction in active customers at the end of 2006.

Telephone Channel Active Customers	2006	2005	% Change
Ireland and Rest Of World	11,048	10,783	+2%
UK	8,923	10,148	-12%
Total	**19,971**	**20,931**	**-5%**

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

If you can't stand the sound of an unanswered phone, you'd be in good company with our dedicated Dial-A-Bet team that answered in excess of 2.5m calls in 2006, over 90% in less than 10 seconds. We continue to invest and refine our use of technology to improve our customer service and the volume of calls we can handle. For example, in 2006 we adapted and expanded the operators' on screen information to enhance our management of customer calls.

The successful growth of this business, together with Paddy Power as a whole, necessitated the relocation of our call centre to a new building beside our existing headquarters in Dublin in May 2006. The new building increased the call centre capacity by an initial 25% and also offers additional capacity as needed over the next few years.

Operating costs within the telephone channel increased by 21% to €16m reflecting volume growth and the investment in the new call centre location, partially offset by savings from operational efficiencies and reductions negotiated on third party charges.

(ii) The Online Channel

€m	2006	2005	% Change
Amounts staked	525.4	327.5	+60%
Gross win	**67.4**	**42.9**	**+57%**
Gross profit	51.7	33.4	+55%
Operating costs	(28.3)	(16.4)	+72%
Operating profit	**23.4**	**17.0**	**+38%**

The online channel had another strong year with 38% growth in operating profits, while at the same time making a number of important investments for future growth. These investments were reflected in the increase in operating costs by €11.9m to €28.3m. The major drivers of this increase were:

- The launch of new businesses and expansion of businesses recently launched;
- Volume driven promotional spend and marketing spend;
- Growth in variable costs due to increased activity levels.

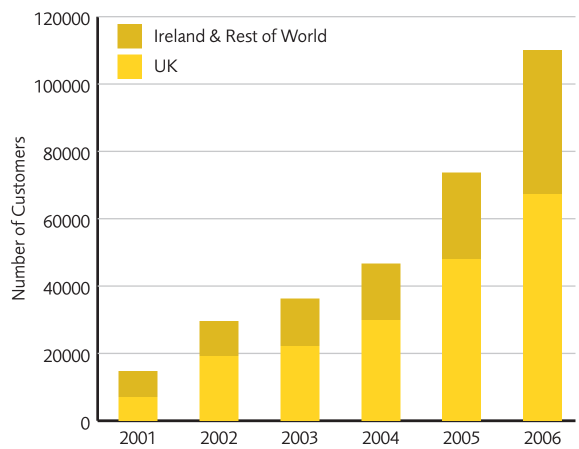
Customer numbers in the online channel continue to grow strongly in both the more mature sportsbook and the newer gaming products. The growing customer base has also demonstrated a developing propensity towards multi product usage.

Online Channel Active Customers	2006	2005	% Change
Ireland and Rest Of World	42,735	25,646	+67%
UK	67,380	48,015	+40%
Total	**110,115**	**73,661**	**+49%**

Online Customers Product Usage	2006	2005	% Change
Sportsbook only	60,811	48,137	+26%
Gaming only	25,885	11,277	+130%
Multi product customers	23,419	14,247	+64%
Total	**110,115**	**73,661**	**+49%**

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

Online Active Customers



Operating & Financial Review (continued)

(a) Sportsbook

The amounts staked online on the sportsbook increased by 60% to €497m. Within this, bet volumes grew 70% to 16.2m while the average bet value decreased 6% to €30.74. Gross win in the sportsbook increased by 52% to €39.1m.

Product innovation continues to be a key driver of this level of growth. During 2006 we introduced a range of new products to cater for the different time horizons and risk preferences of our customers. For those with less time available, we expanded our betting-in-running options, introducing 'next game' betting in tennis, 'next frame' betting in snooker and substantially expanded our successful financial indices betting. For the more risk adverse, we created race insurance, unique to Paddy Power, with the punter being refunded if his horse is placed. We are also the only bookmaker offering place-only betting on all UK races each day and most Irish races. For those with varying risk preferences, we even provide the 'bet randomiser' which generates a proposed bet for punters who submit their current state of luckiness!

We upgraded our sportsbook web site in 2006 to reflect the major growth in our events, markets and channels as well as changing customer preferences and tastes. The enhanced site includes easier navigation, better cross promotion of channels and a superior betting-in-running interface. We have also expanded our value added content and services comprising WAP and Java mobile phone services, 'bet-and-watch' racing, historical horse racing and soccer statistics as well as live score updates.

The German language online sportsbook launched in April incurred a small loss in 2006, in line with our expectations. It has been progressing satisfactorily, although our growth has been restricted by the German regulatory environment which has in particular constrained our promotional activity. Nonetheless we are encouraged by the EU Commission's strong position on freedom of choice for consumers. We have also expanded our product range to meet continental European preferences with the inclusion of ice-hockey, basketball and additional soccer leagues. Payment options were expanded to include Neteller and Moneybookers, both popular on the continent. We have also introduced the German speaking punter to our novelty bets with good media interest in our market on which person mentioned in former Chancellor Schröder's memoirs would take legal action against him – no winners as yet but the wife would always seem a good bet in this context, particularly at 33/1!

(b) Gaming

The online channel generates gaming revenues from casino, games, poker and bingo. Revenue from these sources, representing the operator's 'hold' or commission income, increased by 65% to €28.3m, with growth achieved across all four product categories.

Our commitment to poker and to the ongoing promotion of our brand led to our sponsorship of the 2006 Irish Open poker tournament. The Irish Open is the longest running poker tournament in Europe, but its 25th anniversary set new landmarks for the tournament as Ireland's first ever guaranteed €1m event and Ireland's largest ever poker event. The final was broadcast live across Europe on Sky Sports and was hailed as a tremendous success by commentators, the poker media and players alike. Paddy Power will guarantee the 2007 event for €2m, reflecting both the growth of our own poker business and the poker market overall. The first half of 2007 involves an important operational challenge for poker as we tackle the migration of our customers from the software of our existing network supplier to that of another operator that acquired them.

Product expansion in the gaming area also continued with the launch of online bingo, 'Live Games' with a studio presenter and an online version of the popular TV game show 'Deal Or No Deal'. These products encapsulate the Paddy Power brand values of fun, fair and friendly and give us particular potential to attract new types of customers.

Trading & Risk Management

Trading and risk management is at the heart of bookmaking and the function at Paddy Power is at the forefront of industry practice. The core responsibility of the function is the creation and pricing of all markets and the trading of those markets through their life. The function employs a mix of traditional bookmaking approaches married with risk management techniques from other industries and the extensive use of mathematical models and information technology. The quality of the function provides a powerful resource for product innovation and differentiation. For instance, in a typical match during the football World Cup finals we offered 70 markets as compared to 46 by our nearest UK or Irish competitor. Offering this range of markets directly addresses feedback from customer surveys but it also differentiates us, promotes loyalty, spreads our trading risk, and of course drives turnover!

In October 2006, the Starting Price Regulatory Commission ('SPRC') chaired by Lord Donoughue set out recommendations to strengthen the Starting Price ('SP') compilation process. The principal changes implemented were to increase the number of bookmakers included in the sample and to give priority to bookmakers offering each-way prices. Paddy Power believes the changes will contribute to a fairer and more accurate representation of the on-course market. However we would not expect the increase in the bookmakers sampled to have a dramatic impact on our margins given that intense competition between bookmakers, particularly amongst prices on the more favoured selections where the vast majority of turnover arises, ensures that prices on these selections are within a narrow range.

Operating & Financial Review (continued)

Marketing

Marketing has been a consistent strength at Paddy Power enabling us to develop a brand not only highly recognised, but recognised for what it stands for. We continue to strive to apply our fun, fair and friendly values consistently and throughout all aspects of our business.

The World Cup gave us a stage to demonstrate these values, particularly to potentially new customers to Paddy Power. For example, we not only offered different Money-Back Specials on every match day, we also refunded punters if their team was knocked out in penalty shoot outs, thereby bailing out unfortunate supporters of England, Argentina, France and Switzerland. In addition, we offered our English and other customers the best price amongst all bookmakers on England in the quarter finals. We also followed our punters into the pub for the match with our pub kits, including wee-goals (don't ask!) and pint glasses branded with pertinent bets including '10/1 Her Place; 5/4 The Chipper'!

We also continue to put marketing investment into local events to build relationships and interact on a more personal basis with our customers. During 2006 these events included the Paddy Power London '5-a-side' tournament, which attracted over 400 teams, and the Irish Karaoke Championships, where the ultimate winner from the 88 participating pubs went on to become World Champion.

At Paddy Power we pride ourselves on our range of novel and innovative betting markets, which both generate turnover and media coverage. During 2006 we tapped into the dominant topic of Irish conversation and national obsession of the last 15 years, property prices. Punters can now put their money where their mouth is as regards their views on the property market without recourse to the services of solicitors, estate agents or removal men! When the many betting markets we offer do nonetheless come up short relative to the needs of our punters, we are happy to try and oblige. Such was the case when Adrian Hayward approached us to have a bet on Liverpool's Xabi Alonso to score a goal from inside his own half, following a dream he'd had about it. In January 2006 he won £25,000 on the £200 he had at 125-1!

Crucially, we also always want to be fair to our customers. Living up to this principle manifests itself in many practical low profile ways such as responsible customer care and transparency on charges and terms. However, it is in our approach to certain official results that probably demonstrates the difference most prominently. As we put it when explaining the decision to refund backers of the Pakistan cricket team when they were deemed to have forfeited the fourth Test against England following an alleged ball tampering incident: 'In these circumstances we don't look at our rules but we ask ourselves what would we consider to be a fair result if we were the punter'. For the record, we also refunded losing bets on the draw - ensuring that nobody betting on this event ended up out of pocket. In addition to being the right thing to do, we believe that the differentiation, loyalty and turnover that this approach generates more than covers any short-term cost.

People

Our people are critical to everything we do and we are fortunate to have some of the most dedicated, skilled and creative people working in the industry. As we continue to grow, we have a significant need for more people and new skills, and we are committed to developing staff internally for new or expanded roles, as well as recruiting externally. Accordingly, we invest substantially in training and development courses through our own human resources team and utilising external specialists as required. We also focus heavily on bringing new talent into the organisation. In 2006, we ran targeted graduate recruitment campaigns in both the UK and Ireland. We also expanded the net globally to track down the best people and have benefited from the diversity of experience and skills that recruits from as far afield as South Africa, India, Russia and Poland have brought to us during 2006, particularly in areas such as information technology. While high calibre people continue to be a scarce resource for many parts of our business, especially e-commerce, we have been successfully attracting, developing and retaining such people. Some positions are certainly easier to fill than others. We teamed up with RTÉ – the Irish national TV channel, to offer a dream job as a Paddy Power sports trader in the documentary 'No Experience Required'. Julian Canny came out the winner out of over 100 hopefuls and continues to trade soccer betting-in-running with us.

The average number of employees in the Group during 2006 was 1,414 (2005: 1,255). At the year end, the total number of employees was 1,468 (2005: 1,374).

Operating & Financial Review (continued)

Taxes

The corporation tax charge for the year was €8.5m. Excluding adjustments relating to prior years, the underlying effective tax rate for 2006 was 16.4% as compared to 14.7% for 2005. As highlighted in our Interim Report, the Group's effective tax rate increased from July 2006 as a result of the non-deductibility of the revised 1% turnover based tax on amounts staked within Irish retail. Given the amount staked within Irish retail, this change added €0.5m to the tax charge for the second half of 2006. Excluding the impact of the higher corporation tax applicable to the Irish retail property disposal, the underlying effective tax rate for the second half of 2006 was approximately 17%. No corporation tax is currently payable in the UK due to tax losses. The Group's effective tax rate is above the Irish statutory rate due to the impact of a number of non-deductible expenses.

Cash Flow, Cash Balances and Foreign Exchange Risk

Cash balances at 31 December were €87.1m compared to €52.3m at 31 December 2005, an increase of €34.8m. This includes cash balances held on behalf of customers of €13.4m compared to €10.0m at 31 December 2005. Net cashflow from operating activities was €67.7m in 2006 compared to €41.4m in 2005, an increase of 64%. This was driven by operating profit growth of 51% combined with the net cash inflow into customers' accounts of €3.4m. Capital expenditure on tangible and intangible assets of €25.8m primarily comprised the fit out of new and the upgrading of existing retail outlets, and the roll out of EPOS.

The Group has no borrowings. Exposures from interest rate changes are therefore limited to the direct impact on interest income on deposits and the indirect impact from any resulting changes in consumer spending. 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. Foreign exchange risk in the business is small. The Group generates sterling inflows from UK based customers of the online and telephone channels, partially offset by the Group's need for sterling as it expands in the UK. Group policy allows the Group to hedge 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.

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

2 March 2007

Board of Directors

Executive Directors

Patrick Kennedy (aged 37) is the Chief Executive. He joined the Group in an executive capacity in September 2005 and became 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 Chief Financial Officer of Greencore Group plc. He joined Greencore in 1998 with responsibility for group development and was central to the acquisition and integration of Hazlewood Foods in 2001. He 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 35) is the Managing Director - Non Retail and Development. He joined the Group in April 2001 with responsibility for development of the non retail business. In May 2006, his role was expanded to include responsibility for new business development, strategy and acquisitions. He previously worked with J.P. Morgan and Bankers Trust. He is a graduate of Trinity College, Dublin and holds an MBA from INSEAD. He was appointed to the Board in August 2004.

Jack Massey (aged 38) is the Finance Director. He joined the Group and was appointed to the Board in April 2006. He previously worked with ITG Europe, the European division of the NYSE quoted company, Investment Technology Group Inc., where he had been Chief Operating Officer since 2002. Jack joined ITG Europe in 1998 as Finance Director. Prior to that, he worked with Ulster Bank Markets as Head of Financial and Management Reporting and previous to that as a Manager with Arthur Andersen. He is a Fellow of the Institute of Chartered Accountants in Ireland and a graduate of University College Dublin.

Non-Executive Directors

Fintan Drury (aged 48), Chairman, is chairman of sports and conference 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, and a former non-executive Chairman of RTÉ, the Irish state broadcaster. A former news journalist with RTÉ, Fintan 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 joined the Board of Paddy Power in August 2002 and was appointed Chairman in May 2003.

Stewart Kenny (aged 55) 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 1988 to 2002 and Chairman from 2002 to 2003.

Tom Grace (aged 58) was appointed as a non-executive director in January 2006. Tom was a partner with PricewaterhouseCoopers from 1972 to 2005, where he led the Insolvency Department since 1987. With 34 years experience at PricewaterhouseCoopers, Tom also worked in the audit and management consultancy divisions, 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 51) was appointed as 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 60) 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 46) was appointed as 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 270 outlets in Ireland, the UK, Europe and Asia.

Directors' Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2006.

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', 'paddypowerpoker.com' and 'paddypowerbingo.com'. It provides its services principally in Ireland and the United Kingdom.

Results

The Group's profit after taxation of €41.2m reflects an increase of 53% on the 2005 profit figure of €27.0m. Basic earnings per share amounted to 81.9 cent compared with 54.1 cent in the previous year, an increase of 51%. The financial results for the year are set out in the consolidated income statement on page 43. Shareholders' funds at 31 December 2006 amounted to €128.1m (2005: €96.1m).

Dividends

An interim dividend amounting to 9.43 cent per share was paid during 2006. The directors recommend that a final dividend of 22.77 cent per share, amounting to €11.7m, be paid on 25 May 2007 to shareholders registered at close of business on 16 March 2007. This would make a total distribution of profit to shareholders of €16.5m in respect of the year ended 31 December 2006 (2005: €10.3m).

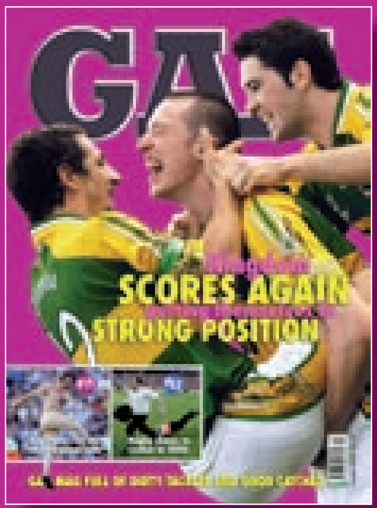
Business Review and Key Performance Indicators

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 Operating & Financial Review on pages 9 to 18.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group and Company, as required to be disclosed in accordance with the terms of European Accounts Modernisation Directive (2003/51/EEC), include those that could arise from adverse developments in the following areas:

- the regulatory, taxation or legislative environment applicable to the Group's activities;



It only happens a couple of times a year that Croke Park is full of beefy, testosterone oozing men with steam coming off their bodies hugging and kissing each other. That's All Ireland Final day.

One of the sights for sore eyes of the football Championship was the vision of Ciarán McDonald's blond flowing locks swaying in the wind as he ran rings around his opponents. He inspired Mayo to another All Ireland Final.

How unlucky they were to come up against the mighty Kingdom led by their own Kieran, that monster of a man, Kieran Donaghy. It was a case of men against boys and Kerry dominated Mayo from start to finish as they piled on the pain. Mayo deserved more but the Kingdom collected.

One of the imponderables of the year was how Cork could be favourites to beat Kilkenny in the Hurling final. Cork had a few scares along the way, most memorably against Limerick and coming from behind to beat Waterford.

The Cats on the other hand were awesome all season, they never got out of second gear and were unbeaten. They ultimately got the cream.


GAA
Kingdom
SCORES AGAIN
putting themselves in
STRONG POSITION
P19
Dub shows his stuff at All-Ireland Semi
P62
Rugby comes to Croker in 2006
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Ella's plans to bogey Europe's Ryder Cup hopes

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Directors' Report (continued)

- the intensity of competition in the Group's markets;
- the economic, demographic, technological and other macro factors affecting demand for the Group's products;
- social, media or political sentiment towards the Group and its businesses;
- relationships with key suppliers, particularly those supplying software platforms to support existing and future products and data required for sports betting;
- disruption to the sporting calendar due to weather or other factors;
- the ability of the Group to attract and retain key employees;
- the ability of the Group to manage its bookmaking risk so as to achieve gross win margins within the percentage ranges that it has guided;
- the ability of the Group to avoid disruption to its key information technology systems.

The Board regularly monitors all of the above risks and appropriate actions are taken to mitigate those risks or address their potential adverse consequences.

Further details in relation to the Group's trading risk function are included in the Trading & Risk Management section of the Operating & Financial Review on page 16. The composition and responsibilities of the Risk Committee are set out on pages 34 and 35. The Board has also established financial risk management objectives and policies which have been implemented by executive management, details of which are given in Note 26 on page 75.

Market Research

The Group undertakes continuing market research across all business divisions in both Ireland and the UK. In 2006, research undertaken included brand research and customer satisfaction surveys.

"I'm such an idiot", said Phil Mickelson. "I usually hit the ball 10 yards further in that situation", said Monty. "The mistakes that cost me were putts not going in": genius insight from Jim Furyk.

"Did he win? I went to bed", said the punters who backed Ogilvy. "I can't believe that muppet threw it away", said many a punter on Mickelson, Monty & Furyk. "I can't believe we got our money back!" said the Paddy Power punters.

That was the big special, money back if you're second and that was the US Open – it's not all about the Ryder Cup you know!

But what an event it was. Roads were built, photos were doctored, magazines were sued, pints were sunk and punts were landed – apparently there was a bit of golf too!

The Europeans looked pretty in pink but their golf hit a purple patch that left the Americans trailing in their wake. It wasn't much of a contest but it was the Ryder Cup in Ireland.

Directors' Report (continued)

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 2006, the Trust purchased 280,000 (2005: 190,000) Paddy Power plc shares at a cost of €3.7m (2005: €2.6m). During 2006, the Trust transferred 55,500 (2005: nil) ordinary shares that had vested to a former director of the Company, John O'Reilly. At 31 December 2006 the Trust held 654,500 (2005: 430,000) ordinary shares in Paddy Power plc, representing 1.28% (2005: 0.85%) 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 2 March 2007	%
Fidelity Investments Ltd	**5,071,042**	9.90%
Nordea Investment Funds SA	**3,814,800**	7.45%

Board of Directors and Company Secretary

Tom Grace was appointed to the Board on 3 January 2006 and Jack Massey was appointed to the Board on 25 April 2006. Both were elected by the shareholders at the AGM in May 2006 along with Fintan Drury who was re-elected after retiring by rotation. Stephen Thomas resigned from the Board on 16 May 2006, having completed a full three year term. Patrick Kennedy, Stewart Kenny, Nigel Northridge and David Power retire from the Board by rotation in 2007 and, being eligible, offer themselves for re-election. Further information on the dates of appointment of the directors is given in the Remuneration Committee Report on page 40. On 2 March 2007, Nuala Hunt resigned as Company Secretary and David Johnston was appointed as Company Secretary in her place.

Directors' Remuneration

Details of directors' remuneration are given in the Remuneration Committee Report on pages 38 to 40 and in Note 6 to the financial statements on pages 57 and 58.

Directors' and Secretary's Interests

The interests of the directors and secretary who held office at 31 December 2006 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 December 2006	31 December 2005 (or date of appointment if later)
Fintan Drury	**19,400**	19,400
Patrick Kennedy	**16,000**	3,000
Breon Corcoran	**70,448**	70,448
Jack Massey	**5,000**	5,000
Tom Grace	**5,000**	5,000
David Power	**4,398,788**	4,398,788
Nigel Northridge	**3,000**	1,000
Stewart Kenny	**419,832**	419,832
Brody Sweeney	**-**	-
Nuala Hunt (Secretary)	**14,000**	3,500

There have been no changes in the above shareholdings between 31 December 2006 and the date the directors approved these financial statements.

Directors' Report (continued)

The directors and the company secretary, who held office at 31 December 2006, had the following movements in share options during the year and held the following share options at 31 December 2006:

	Number of options at start of year	Options exercised during the year	Options granted during the year	Number of options at end of year	Exercise price (a)	Exercise period
Patrick Kennedy (b)	-	-	1,785	1,785	€11.29	5 December 2011 – 5 June 2012
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) (c)	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 market price of the Company's shares at 31 December 2006 was €15.06 and, for the year then ended, the Company's daily closing share price ranged between €11.90 and €16.29 (2005: ranged from €10.37 to €15.95 and was €12.10 at year end).
(b) The options granted during the year were under the terms of the Company's Sharesave Scheme (see Note 19).
(c) These options were exercised on 1 March 2006 when the market price of the shares was €13.00.

During the financial year ended 31 December 2006 the executive directors had the following interests and were conditionally granted the following shares 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
Patrick Kennedy	70,000	80,000	150,000	9 March 2006	€12.55
Breon Corcoran	95,000	85,000	180,000	9 March & 25 May 2006	€12.55 & €13.68
Jack Massey	-	35,000	35,000	25 May 2006	€13.68

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 19 of the consolidated financial statements.

Transactions with directors and parties related to them have been disclosed in Note 6 to the financial statements on page 58. The directors and secretary have no interests in shares in any other Group companies.

Employees

Enthusiastic, energised and customer focused employees are critical to Paddy Power's success. These employee qualities have been a recurring feature at the Group and were perhaps best exemplified in 2006 by the dedication of our retail staff in embracing new technology and ways of working thereby ensuring the successful roll out of EPOS across the retail estate and significant enhancements to customer service.

The Group continued to attract new talent as well as focusing on the development and retention of employees. Opportunities for employment, training and development are determined on the basis of each individual's ability and performance record, irrespective of their gender, ethnic origin, nationality, age, religion, sexual orientation or disability. Employee policies are aligned to our business needs and take into account external legislation and internal codes of conduct as well as Paddy power's values as an organisation. We continue to engage proactively with our staff, for example through our established retail employee communications group.

Safety, Health and Welfare at Work Act 2005

Paddy Power is committed to the safety and well being of employees at work and has taken all the necessary steps to ensure compliance with the Safety, Health and Welfare at Work Act 2005. The 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 and induction training in health, fire and general safety for all new employees, conducted by our area trainers at the start of employees' induction training. All of our appointed contractors must submit an up to date Health and Safety Statement and proof of their public liability insurance before we award any contract. Prior to the commencement of any major works within the Group, the appointed contractor must submit a 'method statement' describing how the proposed works will be carried out safely. We service all of our essential emergency and fire alarm systems on a quarterly basis to protect our staff and to ensure that we comply with relevant statutory regulations.

Political Donations

No political donations were made by the Group during the year which require disclosure in accordance with the Electoral Acts 1997 to 2002.

Corporate and Social Responsibility

Paddy Power appreciates that it has important responsibilities to its customers and the broader community, as well as to its employees and shareholders. The Group is committed to acting fairly and properly in all its dealings with all stakeholders. Set out below are brief overviews of some areas of particular focus for the Group:

Responsible Gambling

We strive to protect the small number of our customers who may have difficulties with gambling. If a customer does develop a problem with gambling we actively refer them to the relevant experts who can help. Part of the reason we are in a position to do this is our close association with Gamcare, a registered charity and leading authority on the provision of information, advice and practical help to promote responsible gambling. All of our customer service staff undergo regular Gamcare training to ensure they offer the most professional service possible to those who might be suffering from a problem with gambling. We believe the most effective approach is to provide customers with information about problematic behaviour signs and offer them a range of self exclusion options. In this context, we offer our customers the option of setting limits on the maximum value and frequency of their deposits. In addition, we have strict processes in place to ensure that any customers who wish to go further and exclude themselves completely from transactions with Paddy Power can do so. We also recommend that those with gambling problems install software to block certain types of online sites.

It is illegal for anyone under the age of 18 to open an account, or to bet, with Paddy Power and we take our responsibilities in this area very seriously. We carry out electronic age verification checks whenever a potential customer is proposing to use a payment method that might be available to someone under 18 years of age and the public data infrastructure exists for us to complete such checks. In this regard, we also work very closely with age verification software providers to help develop new and better ways of verifying the age of potential customers over the increasing range of payment methods available. We also recommend that our online customers install filtering software if they share their computer with anyone under the age of 18. Staff in our shops are trained to be vigilant, to request reliable proof of age if they are in any doubt and to refuse bets from anyone under the age of 18.

Environment

Paddy Power has a proactive approach to helping all personnel conduct business in a manner that protects the environment. The Group encourages efficient use of resources, recycling wherever possible and is compliant with all relevant environmental legislation. The Group has introduced a complete waste management policy in head office and retail shops nationwide and everything from glass to general office paper is recycled. Examples of environmental initiatives adopted in 2006 include:

- installation of long life energy efficient light bulbs in all new and refurbished shops;
- use of more efficient, and lower cost, combined heat and power ('CHP') generated electricity in all Irish shops;
- replacement of night storage heating in shops with lower electricity consumption split heating and cooling systems;
- reducing the level of packaging waste in respect of all cased goods and furniture;
- installation of more water efficient flushing systems in newly fitted shops to reduce water consumption; and
- a charity-administered mobile phone and used inkjet cartridge recycling programme in our head office.

Directors' Report (continued)

We also want to keep the environmental impact of our annual report package to a minimum. The paper used was manufactured in a mill with IS01 4001 accreditation and the report contains 80% minimum de-linked post consumer waste content. Shareholders are also encouraged to elect to receive electronic means of communication.

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 €111,279 on charitable donations (2005: €81,505).

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

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

2 March 2007

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

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 2006 provide, in relation to such financial statements, that references in the relevant part of these Acts 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 2006. 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 company 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

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

2 March 2007

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 fulfil its obligations. 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 there have been a number of changes in Board personnel. Stephen Thomas stepped down from the Board at the AGM in May 2006, and Tom Grace and Jack Massey were appointed to the Board in January and April 2006 respectively.

Our policy on corporate governance is as follows:

Board Role and Responsibilities

Your Board has overall responsibility for the leadership and control of the Group. Responsibility for the management of the Group has been delegated by the Board to executive management. This delegation is effected through the Chief Executive, who is accountable to the Board for its exercise. The functions of Chairman and Chief Executive are not combined and both roles' responsibilities are clearly divided. A number of responsibilities of the Board are delegated to Committees of the Board.

Certain decisions of the Group are formally reserved to the Board. The Board has responsibility for approving Group strategy, annual budgets, major acquisitions and capital projects, and treasury policy. It sets governance policies and ensures implementation thereof. It defines the roles and responsibilities of the Chairman, Chief Executive, other directors and the Board sub-committees, appoints and removes directors from the boards of the Company and its subsidiary companies. In addition, the Board approves the interim and final financial statements, reviews the Group's systems of internal control and approves any significant changes in accounting policies. It approves all resolutions and related documentation put before shareholders at general meetings. The Board sets the Group's dividend policy, approves the interim dividend and recommends the final dividend.

Board Composition

It will be at the discretion of the Board itself to decide on the appropriate 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 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 include high quality non-executives sourced from the different geographic markets in which the Group operates.

It is essential that all Board members have sufficient time to add real value to your Company. With this in mind and, reflecting the regulatory obligations and the wider demands of this Board, it has been agreed that our non-executive directors should not hold more than three directorships of publicly quoted companies. In addition the Chairman cannot be the chairman of any other publicly quoted company. We have 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 non-executive directorships with no more than one other group.

Tenure

The current Board comprises a mix of executive directors, founding directors and directors 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, just two have been members since the Company was launched on the Stock Exchange in December 2000. The Board is actively seeking to recruit at least one additional independent non-executive director for appointment in 2007. After this appointment the Board membership will increase to ten, five of whom will be independent non-executive directors, two of whom will be non-executive founder directors and three of whom will be executive directors.

In 2004, the Board decided that, effective from the date of flotation, all non-executive directors of Paddy Power would serve a maximum of two three year terms. It was agreed that the Nominations Committee would retain the right, in special circumstances, to extend the tenure of any non-executive director for a further term, up to an absolute maximum of nine years in total. David Power and Stewart Kenny, both founder members of the Company, have now completed two three year terms. The Board has performed a very rigorous review of the appropriateness of their serving for a third term and believes that their vast experience of the betting industry continues to be central to your Company's continued development and success and hence that their continuance in office for a further three year term is in the best interests of the Company. Accordingly, they offer themselves for re-election for a third and final term at the forthcoming Annual General Meeting in May 2007.

Corporate Governance
(continued)

The Non-Executive Directors' Responsibilities

In addition to their statutory responsibilities as outlined in the Statement of Directors' Responsibilities on page 28, 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. Effective Paddy Power Board members are enthusiasts for the business. Mere attendance at meetings is not sufficient, what matters is the director's active participation and contribution in these meetings.

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

In addition to their 'standard' roles, the Board felt it would be very beneficial if individual non-executive directors were in a position to act as mentors to an individual or a team within the business, especially on strategic issues to which the director involved could contribute their relevant skills, experience and guidance. 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, however, is a wider role. 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 World Cup started with 20 of the first 23 favourites winning – it wasn't pretty, just like ZZ's head butt!

Then came the knockout stages and the dreaded penalty shoot outs. The worst match of the tournament was Switzerland's draw with Ukraine, it went to penalties and both teams deserved to lose. Because Switzerland were beaten on penos, we refunded all losing outright bets on them to win the tournament so three of our customers were happy!

Then came the biggest betting match of the tournament so far. Hosts Germany against tournament favourites Argentina. Now both of these teams had been heavily backed before the tournament so the last thing we wanted was a massive refund…

The Argies were in front, but up popped Klose after 80 minutes and the writing was on the wall. The Argies went out on penos and the punters got their money back. At least it couldn't get any worse than that for the poor bookies.

Beckham's tears, Rooney's stamp, Carvalho's groin, Ronaldo's wink, Ronaldo's penalty. Enough said. Money back on England, we felt an awful lot sorer than Ricardo Carvalho!


DEFEND
KEANO APPROVED
WORLD CUP EXCLUSIVE
Zidane defends Mother's honour
July 2006. €4.22


October 2006. €1.11
WELL
WICKET
IT'S JUST NOT CRICKET
Bush reveals his weapon of Mass Destruction
Cricket against Australia is never over until the fat boy spins
FREE WITH THIS ISSUE
Irish NO-HOPERS head to West Indies for World Cup in 2007
Paddy Power offer HUGE odds against getting into Super 8!
YOUR VERY OWN COMMANDER IN CHIEF

I want to take you back to last year– yes 2006, the year when Irish people knew nothing about cricket! If ever there was an example of what Paddy Power is all about, it was during the controversial 4th England v Pakistan cricket test at the Oval.

It was all very confusing. The umpires accused Pakistan of ball tampering when the teams broke for tea, and then Pakistan refused to come back out to play.

Eventually when they did come out, the powers that be said it was all too late and awarded England a forfeit. So what about all of those poor punters who backed Pakistan? And even more importantly the vast majority who backed England?

The resounding vote from around the industry was "all bets void". The resounding vote from Paddy Power was "all bets void"- if you backed a loser, but "winner alright" if you backed England.

Rules are rules, but sometimes you've just got to think of it from the punters' point of view and do the right thing…Right George?

Corporate Governance
(continued)

The Chairman is responsible for the leadership of the Board, ensuring its continued effectiveness in carrying out its duties 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.

A performance evaluation of the Board, its committees and its individual directors is 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 existing 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 to discuss all aspects of the business's performance and, on an occasional basis, we meet with other senior members of the management team together.

Directors' Fees

As reported in the 2005 Annual Report the standard non-executive fee was set at €55,000 in 2006. It was also agreed that chairs of committees would be paid an additional fee of €10,000 and that the Chairman would receive an annual fee of €160,000. These fees were set for a two year period and, barring exceptional circumstances, will not be reviewed again until 2008.

Non-executive directors are not eligible to participate in the Group bonus schemes, option plans or long term incentive plans. None of the remuneration of the non-executive directors is performance related. The non-executive directors' fees are not pensionable and non-executive directors are not eligible to join any Group pension plans.

Corporate Governance (continued)

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.

As I have previously said, 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 me 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 a senior independent director, David Power undertakes the review as it is felt he is in the best position to do so. David was not appointed during my tenure and has had the added benefit of serving under each of the chairmen of Paddy Power.

Board Operations and Committees

The Board holds at least eight full Board meetings each year. Each non-executive member of the Board sits on at least one committee and each non-executive director mentors one part of the business where it is felt they can 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 2 March 2007 is as follows:

Remuneration

David Power (Chair); Fintan Drury.

Nominations

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

Audit

Tom Grace (Chair); David Power; Brody Sweeney.

Risk

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

Audit Committee

The Audit Committee's responsibilities include:

- monitoring the integrity of the financial statements of the Company;
- reviewing the Group's internal 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's 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; and
- ensuring that there are appropriate procedures in place to mentor and evaluate the general business risks to which the Group is exposed.

The Audit Committee has unrestricted access to the Group's external and internal auditors, with whom it meets at least twice a year, both with and without management. These meetings ensure that there are no restrictions on the scope of their audits, and allow discussion of any matters that the auditors did not wish to raise in the presence of management.

The Audit Committee is responsible for ensuring that auditor objectivity and independence is safeguarded where the auditor also provides non-audit services to the Group. The Audit Committee reviewed the letter from the Group's external auditor confirming their independence and objectivity. During the year the Committee also performed a review of the audit and non-audit services provided by the external auditor, and the fees charged for those services, to ensure there was no impairment of independence.

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 38 to 40.

Corporate Governance (continued)

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 such policies are being correctly applied and that the expertise and systems within the organisation are consistent with the level of risk undertaken. The Committee also 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. Compliance with these risk limits is reported daily to senior management and internal audit. Internal audit also carries out reviews of the risk function. The Group does not offer credit betting.

Attendance at Board and Committee Meetings

There were nine full meetings of the Board in 2006.

The attendance at Board and Committee meetings by the directors who held office in 2006 are set out below:

	Note	Board	Audit	Remuneration	Nominations	Risk
Number of meetings held in 2006:		9	5	6	3	2
Attended by:						
F Drury*		9		6	3	
N Northridge*		9			3	2
T Grace*		9	5			
S Thomas*	a)	2		1		
B Sweeney*		9	5			
D Power**		9	4	6		2
S Kenny**	b)	9			3	1
P Kennedy***		9			3	2
J Massey***	c)	6				
B Corcoran***		9				2

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

a) Stephen Thomas resigned on 16 May 2006, before which there were four Board meetings, two of which he attended.
b) Stewart Kenny was appointed to the Risk Committee on 20 June 2006, after which there was one meeting.
c) Jack Massey joined the Board on 25 April 2006, after which there were six Board meetings, all of which he attended.

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

Due to the number of independent directors serving in 2006 it was not possible to populate the committees in accordance with the Combined Code at all times. The Group is committed to complying with corporate best practice and significant effort has and is being expended to identify and appoint at least one additional non-executive director. It is the Board's intention to complete this appointment in 2007.

Corporate Governance (continued)

With regard to the Nominations Committee, which comprises four directors, two of whom are independent non-executive directors, the Board believes that the current 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 include a Group budget approved by the Board.
- Expenditure and income are regularly compared to previously approved budgets.
- The Board establishes appropriate treasury risk policies for implementation by executive management. Compliance with risk limits are reported on 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.

The Board, through the Audit Committee, is responsible for conducting a review of the effectiveness of the Group's systems of internal controls. This review has been performed in respect of the year ended 31 December 2006. The directors consider 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 its corporate website ('www.paddypowerplc.com'). This contains copies of investor presentations and annual reports as well as providing access to Regulatory New Service ('RNS') statements and corporate press releases. All shareholders are encouraged to attend the Annual General Meeting where they are afforded the opportunity to question the Board.

There is regular discussion between Group management and analysts, brokers and institutional shareholders, ensuring that the market is appropriately informed on business activities. Visits to the Group headquarters are encouraged and tours of our retail outlets are undertaken regularly. Feedback from major shareholders and reports by analysts are communicated to directors so directors can monitor their views on the Group.

The short-term financial performance of Paddy Power can be significantly influenced throughout the financial year by the run of sporting results. This is normal in the sports betting industry. For example, a disproportionate number of favourites winning at a major horse racing festival will depress short-term profitability, whereas a disproportionate number of outsiders winning will have the opposite effect. The experience of the industry is that this typically balances out over a more extended period. Accordingly, the Board does not believe that the typical levels of short-term profit volatility intrinsic to our business should significantly influence the investment decisions of a reasonable investor or that it should be likely to have a significant effect on the Company's share price.

Corporate Governance (continued)

The Board and Management of Paddy Power carefully monitor any significant variances in financial performance to assess, based on the experience of the Company, whether such variances are attributable to the run of sporting results and therefore likely to be short-term in nature or reflect a trend which may impact on the overall performance of the Company going forward. The Board considers these two categories of variances to be fundamentally different as to their likely influence on the investment decisions of a reasonable investor and therefore on the Company's share price. The Board makes its judgments in respect of announcements to the market and its obligations under the disclosure rules to which the Company is subject against this background.

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

2 March 2007

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:

David Power (Chairman, Remuneration Committee)
Fintan Drury

Stephen Thomas, an independent director, was Chairman of the Remuneration Committee until he stepped down from the Board in May 2006. The members of the Committee 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 met six times in 2006 and operated within agreed terms of reference. The Remuneration 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. In addition to the remuneration of the executive directors, the Committee is also responsible for approving the remuneration of five of the most senior executives ('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 Board, including the non-executive directors.

Remuneration Policy

General

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

- To reward executive directors and senior executives in a manner that ensures that they are properly rewarded and motivated to perform in the best interests of shareholders over the long term.
- To provide the level of remuneration required to attract and retain executive directors and senior executives 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 this 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 and Benefits

Salaries of executive directors are set by reference to those prevailing in the market. Employment related benefits relate principally to medical, life and health insurances and to the provision of a company car or car allowance. No fees are payable to executive directors.

Performance Bonus

Under current arrangements, which are reviewed annually by the Remuneration Committee, executive directors have targeted 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.

Pension Entitlements

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

Remuneration Committee Report (continued)

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	31%	69%
Breon Corcoran*	28%	72%
Jack Massey	29%	71%
Non-Executive		
Fintan Drury		100%
Tom Grace		100%
Stewart Kenny		100%
Nigel Northridge		100%
David Power		100%
Brody Sweeney		100%

** this percentage excludes the possible impact of the Long Term Incentive Bonus Plan outlined below.*

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 ('LTIP'). This plan, details of which are included in Note 19 to the consolidated 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' and secretary's interests in the Directors' Report on page 25.

Share Options

The policy of the Remuneration Committee is to motivate executives, excluding senior management eligible for LTIP awards, 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 19 to the consolidated financial statements. Details of options granted to the executive directors prior to the introduction of the LTIP are included with the directors' and secretary's interests in the Directors' Report on page 25. All options are granted at the market price on the date of grant and, with the exception of options granted under Revenue Approved Sharesave Schemes, no options are granted at a discount.

The market price of the Company's shares at 31 December 2006 was €15.06 and, for the year then ended, the Company's daily closing share price ranged between €11.90 and €16.29.

Long Term Incentive Bonus Plan

The Board considers the online business to be a central driver of growth in the Group over the medium term, and that it is very important to maintain the considerable momentum which the Group has generated in developing online market share. Breon Corcoran, Managing Director – Non Retail and Development, has been key in developing this market since his arrival at the Group in 2001, and under his direction the online business has grown and developed from an operating loss of €9.1m in 2001 to an operating profit of €23.4m in 2006. The Board considers the retention of Breon Corcoran in the Group as key and, on the recommendation of the Remuneration Committee, adopted a long term incentive bonus plan on 18 October 2006 designed to retain him in the Group. This is the only occasion on which the Group has adopted a long term incentive bonus plan designed for an individual director.

Payment under the plan is dependent upon the combined online and telephone businesses ('non retail') achieving very challenging operating profit targets in the year ended 31 December 2009. Should Breon Corcoran guide the non retail division to achieve these targets, the Board is satisfied that the payment of the long term incentive under the plan will represent very good value to shareholders. Under the plan, Breon Corcoran has the potential to earn a cash payment of between €1.0m and €2.5m if the non retail business generates operating profit in 2009 above predefined thresholds. The operating profit targets contained in the plan will be adjusted if the Group makes relevant acquisitions or makes material changes in the relevant geographical scope of its businesses. In the event of a change of control of the Company before 31 December 2009 that materially reduces Breon Corcoran's ability to achieve the plan's targets, €2.5m will become payable to him within one week of the accounts for the financial year ended 31 December 2009 being signed. The Remuneration Committee will determine the calculation, adjustment or achievement of the targets under the plan.

Remuneration Committee Report (continued)

No changes (except for minor amendments to benefit the administration of the plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for the participant in the plan or for the Company or other members of the Group) will be made to the beneficiary of the plan, the limits on the amount of cash payable or the maximum entitlement of Breon Corcoran under the plan, or to take account of any capitalisation issue, rights issue or open offer, subdivision or consolidation of shares or reduction of capital or any other variation of the capital of the Company, without the prior approval of the Company's shareholders in general meeting.

Whilst a related accrual has been made at year end, no payment obligation has crystallised under the plan at this point. Payment under the plan is scheduled for around March 2010, at which date Breon Corcoran must also be employed by the Group for a payment to be made to him. Payments under the plan are not pensionable.

The plan will be available for inspection from the date of publication of this document until the close of the Company's Annual General Meeting on 22 May 2007 at the Company's registered office, and at the place of the general meeting for at least 15 minutes before and during the meeting.

Executive Directors' Service Contracts

The notice period for Patrick Kennedy is 12 months, and it is six months for both Breon Corcoran and Jack Massey. All executive directors are employed on contracts with a normal retirement age of 65. No executive director is entitled to any contractual termination payment other than for payment in lieu of notice.

Non-Executive Directors' Service Contracts

Non-executive directors, in accordance with best practice, are not appointed on service contracts, rather they are issued with a letter confirming the terms of the appointment. 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 expected to give three months' notice of resignation, but this is without prejudice to their right to resign immediately if they feel it appropriate. None of the non-executive directors have an entitlement to a termination payment.

Retirement of Directors by Rotation

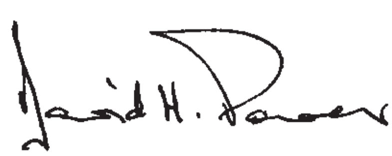
At each Annual General Meeting of the Company, every director who has been in office at the completion of each of three successive Annual General Meetings since he was last appointed or re-appointed, shall retire from office. Patrick Kennedy, Stewart Kenny, Nigel Northridge and David Power will retire at the 2007 AGM, and have indicated their willingness to be re-appointed.

Details of the service periods of the directors are:

	Appointed by Board	Last elected by shareholders	Term expires
Fintan Drury	29 August 2002	16 May 2006	AGM 2009
Patrick Kennedy	23 March 2004	22 June 2004	AGM 2007
Breon Corcoran	31 August 2004	17 May 2005	AGM 2008
Jack Massey	25 April 2006	16 May 2006	AGM 2009
Tom Grace	3 January 2006	16 May 2006	AGM 2009
Stewart Kenny	1 June 1988	22 June 2004	AGM 2007
Nigel Northridge	22 July 2003	22 June 2004	AGM 2007
David Power	1 June 1988	22 June 2004	AGM 2007
Brody Sweeney	16 February 2005	17 May 2005	AGM 2008

Directors' Detailed Emoluments

Full details of the emoluments of the directors are set out in Note 6 to the consolidated financial statements on pages 57 and 58.



David Power
Chairman, Remuneration Committee

2 March 2007

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 2006, 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 28.

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 2006 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 financial statements are 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 Operating & 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 judgments 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.

Independent Auditor's Report to the Members of Paddy Power plc (continued)

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 2006 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 2006 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 2006; and
- the Company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2006.

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 on pages 20 to 27 is consistent with the financial statements.

The net assets of the Company, as stated in the Company balance sheet on page 77, 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 2006 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

2 March 2007

Consolidated Income Statement

Year ended 31 December 2006

	Note	Before exceptional item 2006 €'000	Exceptional item (Note 7) 2006 €'000	Total 2006 €'000	Total 2005 (restated) €'000
Amounts staked by customers				**1,795,090**	1,371,710
Continuing Operations					
Revenue		**218,706**	**-**	**218,706**	160,848
Direct betting costs	*4*	**(35,090)**	**-**	**(35,090)**	(25,278)
Gross profit		**183,616**	**-**	**183,616**	135,570
Employee expenses	*5*	**(64,227)**	**-**	**(64,227)**	(51,076)
Property expenses		**(21,174)**	**-**	**(21,174)**	(17,398)
Marketing expenses		**(17,309)**	**-**	**(17,309)**	(11,346)
Technology and communications		**(11,537)**	**-**	**(11,537)**	(8,171)
Depreciation and amortisation		**(15,512)**	**-**	**(15,512)**	(11,295)
Other expenses, net		**(8,395)**	**2,098**	**(6,297)**	(6,166)
Total operating expenses		**(138,154)**	**2,098**	**(136,056)**	(105,452)
Operating profit		**45,462**	**2,098**	**47,560**	30,118
Financial income	*8*	**2,149**	**-**	**2,149**	1,226
Financial expense	*8*	**(10)**	**-**	**(10)**	-
Profit before tax		**47,601**	**2,098**	**49,699**	31,344
Income tax expense	*10*	**(8,033)**	**(421)**	**(8,454)**	(4,390)
Profit for the year from continuing operations		**39,568**	**1,677**	**41,245**	26,954
Earnings per share					
Basic	*11*			**€0.819**	€0.541
Diluted	*11*			**€0.811**	€0.529

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

Patrick Kennedy　　Jack Massey

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

2 March 2007

Consolidated Statement of Recognised Income and Expense

Year ended 31 December 2006

	2006 €'000	2005 €'000
Profit for the year	**41,245**	26,954
Foreign exchange translation difference	**1**	(1)
Total recognised income and expense	**41,246**	26,953

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

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

2 March 2007

Consolidated Balance Sheet

As at 31 December 2006

	Note	31 December 2006 €'000	31 December 2005 €'000
Assets			
Property, plant and equipment	12	**76,240**	72,400
Intangible assets	13	**9,260**	3,615
Goodwill	14	**1,880**	1,880
Deferred tax assets	20	**195**	167
Total non current assets		**87,575**	78,062
Trade and other receivables	15	**4,203**	2,134
Cash and cash equivalents	16	**87,061**	52,318
Total current assets		**91,264**	54,452
Total assets		**178,839**	132,514
Equity			
Issued capital	17	**5,124**	5,040
Share premium	17	**10,163**	7,548
Shares held by long term incentive plan trust	17	**(8,137)**	(4,929)
Other reserves	17	**6,536**	4,142
Retained earnings	17	**114,445**	84,250
Total equity		**128,131**	96,051
Liabilities			
Deferred tax liabilities	20	**-**	843
Total non current liabilities		**-**	843
Trade and other payables	21	**49,140**	34,873
Current tax payable		**1,568**	747
Total current liabilities		**50,708**	35,620
Total liabilities		**50,708**	36,463
Total equity and liabilities		**178,839**	132,514

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

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

2 March 2007

Consolidated Cash Flow Statement

Year ended 31 December 2006

	Note	2006 €'000	2005 €'000
Cash flows from operating activities			
Profit before taxation		**49,699**	31,344
Financial income		**(2,149)**	(1,226)
Depreciation and amortisation		**15,512**	11,295
Cost of employee share-based payments		**3,184**	2,289
(Gain)/loss on disposal of property, plant and equipment		**(1,183)**	267
Cash from operations before changes in working capital		**65,063**	43,969
(Increase)/decrease in trade and other receivables		**(2,013)**	222
Increase in trade and other payables		**13,209**	3,320
Cash generated from operations		**76,259**	47,511
Income taxes paid		**(8,526)**	(6,101)
Net cash from operating activities		**67,733**	41,410
Cash flows from investing activities			
Purchase of property, plant and equipment		**(17,855)**	(23,925)
Purchase of intangible assets		**(7,921)**	(2,068)
Proceeds from disposal of property, plant and equipment		**3,028**	329
Interest received		**2,094**	1,254
Net cash used in investing activities		**(20,654)**	(24,410)
Cash flows from financing activities			
Proceeds from the issue of new shares		**2,699**	903
Purchase of shares by employee trust		**(3,742)**	(2,623)
Dividends paid		**(11,293)**	(10,168)
Net cash used in financing activities		**(12,336)**	(11,888)
Net increase in cash and cash equivalents		**34,743**	5,112
Cash and cash equivalents at start of year		**52,318**	47,206
Cash and cash equivalents at end of year	*16*	**87,061**	52,318

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

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

2 March 2007

Notes to the Consolidated Financial Statements

1. General information

Paddy Power plc (the 'Company') and its subsidiaries (together referred to as the 'Group') provide sports betting services through a chain of licensed betting offices ('Paddy Power Bookmaker') together with telephone betting ('Dial-a-Bet') and online interactive betting services ('paddypower.com'). The Group also provides online gaming services through 'paddypower.com', 'paddypowerpoker.com', 'paddypowercasino.com' and 'paddypowerbingo.com'. It provides these services principally in Ireland and the United Kingdom.

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

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

2. Basis of preparation and summary of significant accounting policies

The consolidated financial statements are prepared on the historical cost basis except for betting transactions, which are recorded as financial instruments, and share-based payments, both of which are stated at fair value. The consolidated financial statements are presented in euro, rounded to the nearest thousand.

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

The accounting policies applied in the preparation of these consolidated financial statements are consistent with those set out in the Annual Report for the year ended 31 December 2005 except for a change in the Group's revenue recognition policy which is outlined below.

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

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

1. In relation to sports betting activities, revenue now represents the net gain/(loss) on betting transactions (stake less payout) from customers, whereas previously revenue represented amounts staked by customers and the payout was shown separately in cost of winning bets. In the 2005 Annual Report this gain/(loss) on betting transactions was reported by the Group as 'Gross Win'.

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

Notes to the Consolidated Financial Statements (continued)

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

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

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

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

The consolidated income statement of the Group will continue to show amounts staked by customers but this is for information purposes only. Amounts staked represent amounts received in respect of bets placed on sporting events in the period and net winnings from gaming. This is consistent with the presentation of gross revenue in the year ended 31 December 2005.

Recent accounting pronouncements

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

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

Basis of consolidation

The Group's financial statements consolidate the financial statements of Paddy Power plc and its subsidiary undertakings based on accounts made up to the end of the financial year. A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated on consolidation except to the extent that unrealised losses provide evidence of impairment.

Judgements and estimates

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

Notes to the Consolidated Financial Statements (continued)

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

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

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

Revenue

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

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

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

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

Segment reporting

Business segments are distinguishable components of the Group that provide products and services that are subject to risks and returns that are different from other business segments. Geographical segments provide services within a particular economic environment that are subject to risks and rewards that are different from those components operating in alternative economic environments. The Group has determined that its business segments of retail and non retail are the primary reporting segments.

Foreign currency

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

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

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items. Depreciation is calculated to write off the cost less estimated residual value of property, plant and equipment on a straight line basis over their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings: Freehold	50 years
Buildings: Leasehold improvements	unexpired term of the lease, except for leases with an initial term of ten or less years, which are depreciated over the unexpired term of the lease plus the renewal length of the lease if there is an unconditional right of renewal
Fixtures and fittings	3 - 7 years
Computer equipment	3 years
Motor vehicles	5 years

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

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

Goodwill

Goodwill recognised under Irish Generally Accepted Accounting Practice ('GAAP') prior to the date of transition to IFRS is stated at net book value as at the transition date. Goodwill recognised subsequent to 1 January 2004, representing the excess of purchase consideration over fair value of net identifiable assets acquired defined in accordance with IFRS 3 'Business Combinations', is capitalised. Goodwill is initially recognised as an asset at cost and is thereafter measured at cost less any accumulated impairment losses. Goodwill is not amortised but is reviewed for impairment annually. Any impairment in the value of goodwill is dealt with in the income statement in the period in which it arises.

Intangible assets

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

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

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

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

Computer software	3 - 5 years
Licences	5 - 20 years

Impairment

The carrying amounts of property, plant and equipment, intangible assets and goodwill are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the recoverable amount of the asset, or the cash generating units to which it relates, is estimated. For intangible assets that are not yet available for use and goodwill, the recoverable amount is estimated at each annual balance sheet date, regardless of whether any indication of the impairment exists. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of such assets or cash generating units is the greater of their fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Notes to the Consolidated Financial Statements (continued)

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

Trade and other receivables

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

Non-derivative financial instruments

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

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

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

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

Leases

Leases, under the terms of which the Group assumes substantially all the risks and rewards of ownership, are classified as finance leases. The assets acquired by way of finance lease are stated at an amount equal to the lower of fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment loss. Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability and the charge is allocated to the income statement during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

Income tax

Income tax in the income statement comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Pensions

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

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

Long term incentive bonus plan

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

Share-based payments

The Group operates equity-settled share option schemes for employees under which employees acquire options over Company shares. The fair value of share options granted is recognised as employee benefit cost with a corresponding increase in the share-based payment reserve in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

The Group operates an equity-settled share save scheme ('SAYE') for employees under which employees acquire options over Company shares at a discounted price subject to the completion of a savings contract. The fair value of share options granted is recognised as an employee benefit cost with a corresponding increase in the share-based payment reserve. The fair value is measured at grant date and spread over the period of the savings contract. The fair value of the options granted is measured using a Black Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

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

Own shares held

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

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in Note 25.

Notes to the Consolidated Financial Statements (continued)

3. Segment reporting

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

(a) By business segment

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

Business segment information for the year ended 31 December 2006:

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

Business segment information for the year ended 31 December 2005:

	Retail 31/12/05 (restated) €'000	Non retail 31/12/05 (restated) €'000	Other unallocated 31/12/05 (restated) €'000	Total 31/12/05 (restated) €'000
Revenue	98,460	62,388	-	160,848
Direct betting costs	(13,484)	(11,794)	-	(25,278)
Gross profit	84,976	50,594	-	135,570
Depreciation and amortisation	(8,481)	(2,814)	-	(11,295)
Other operating costs	(64,348)	(23,737)	(6,072)	(94,157)
Operating profit	12,147	24,043	(6,072)	30,118
Financial income	-	-	1,226	1,226
Profit before tax	12,147	24,043	(4,846)	31,344
Total assets	67,346	9,141	56,027	132,514
Segment liabilities	10,432	12,165	13,866	36,463
Capital expenditure	24,302	3,166	-	27,468

3. Segment reporting (continued)

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

(b) By geographic segment

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

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

3. Segment reporting (continued)

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

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

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

4. Direct betting costs

Direct betting costs comprise:

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

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

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

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

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

5. Employee expenses and numbers

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

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

6. Directors' emoluments and transactions with key management personnel

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

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

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

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

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

Other transactions with directors

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

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

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

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

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

Transactions with key management personnel comprising executive and other senior management

Key management personnel compensation is as follows:

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

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

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

Notes to the Consolidated Financial Statements (continued)

7. Exceptional item

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

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

8. Net financing costs

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

9. Statutory and other information

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

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

10. Income tax expense

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

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

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

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

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

11. Earnings per share

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

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

12. Property, plant and equipment

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

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

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

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

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

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

13. Intangible assets

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

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

14. Goodwill

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

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

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

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

Impairment tests for cash generating units containing goodwill

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

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

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

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

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

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

14. Goodwill (continued)

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

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

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

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

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

15. Trade and other receivables

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

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

16. Cash and cash equivalents

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

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

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

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

The carrying amounts of these assets approximate their fair values.

Notes to the Consolidated Financial Statements (continued)

17. Share capital and reserves

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

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

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

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

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

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

17. Share capital and reserves (continued)

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

18. Dividends paid on equity shares

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

19. Share schemes

The Company has the following employee share schemes:

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

Under the May 2000 Executive Share Option Scheme, options over a total of 3,543,000 shares have been granted at an exercise price of €1.16 per share. These options were granted prior to 7 November 2002 and accordingly, do not fall within the scope of IFRS 2 'Share-based Payment'.

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

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

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

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

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

19. Share schemes (continued)

The Paddy Power plc 2000 Restricted Share Scheme (the 'Restricted Scheme')

The Restricted Scheme was adopted by shareholders on 21 November 2000. Employees eligible to participate in the Restricted Scheme may not be participants in any other Company share option scheme (except for the Sharesave Scheme described below). In addition, to be eligible, a participant must have been an employee at 7 December 2000, must have had at least three years continuous service, and must have been listed in the allocation schedule attached to the Rules of the Restricted Scheme. The awards of shares granted under the Restricted Scheme were in the amounts of €3,175, €1,905 or €1,270 per eligible employee.

The shares cannot be sold within five years of the date of the award being granted. During this period of five years the shares are held by the Power Leisure Employee Benefit Trust for the benefit of the relevant employees.

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

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

The Share Option Scheme was adopted by shareholders on 21 November 2000 and modified by the shareholders on 22 June 2004. The Share Option Scheme is open to directors, other than non-executive directors, and employees. Options may be granted within a period of ten years from 7 December 2000 at the higher of nominal and current market value. Options may not be exercised earlier than three years from the date of grant and may only be exercised if the Group meets certain targets and any further condition on exercise which the Board determines to be appropriate. These targets require real growth (Consumer Price Index ('CPI') plus five percent compounded annually) in earnings per share of the Group over a period of not less than three years following the grant of an option. Since November 2000, 1,423,672 options have been granted under the scheme. Options granted before 7 November 2002 do not fall within the scope of IFRS 2 'Share-based Payment'. Options granted after 7 November 2002 have been included in the calculation of the Group's share-based payment reserve.

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

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

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

19. Share schemes (continued)

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

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

The Paddy Power plc Sharesave Scheme (the 'Sharesave Scheme')

The Sharesave Scheme was adopted by shareholders on 21 November 2000 and was subsequently approved by the Revenue Commissioners.

All employees (including executive directors) who have not less than 12 months continuous service with the Company or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. Options will normally be granted to all eligible employees in the 42 day period after the announcement of the interim or final results of the Company. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 75 percent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme may not exceed €320.

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

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

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

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

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

19. Share schemes (continued)

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

Long Term Incentive Plan

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

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

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

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

19. Share schemes (continued)

Paddy Power 2004 Second Tier Option Scheme

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

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

Summary of options outstanding

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

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

Summary of share-based payments expense

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

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

General

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

Notes to the Consolidated Financial Statements (continued)

20. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

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

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

Unrecognised deferred tax assets:

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

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

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

Movement in temporary differences during the year:

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

21. Trade and other payables

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

21. Trade and other payables (continued)

Sports betting open positions

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

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

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

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

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

22. Commitments and contingencies

(a) Guarantees

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

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

(b) Capital commitments

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

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

Notes to the Consolidated Financial Statements (continued)

22. Commitments and contingencies (continued)

(c) Operating lease commitments

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

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

23. Related parties

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

24. Group entities

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

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

24. Group entities (continued)

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

25. Events after the balance sheet date

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

26. Financial instruments

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

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

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

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

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

27. Accounting estimates and judgements

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

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

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

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

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

Company Balance Sheet

As at 31 December 2006

	Note	**31 December 2006 €'000**	31 December 2005 €'000
Fixed assets			
Intangible assets	*3*	**1,189**	435
Goodwill	*4*	**854**	975
Tangible assets	*5*	**48,806**	50,096
Financial assets	*6*	**3,764**	1,855
		54,613	53,361
Current assets			
Debtors	*7*	**28,127**	26,830
Cash at bank and in hand		**74,503**	45,678
		102,630	72,508
Creditors (amounts falling due within one year)	*8*	**(51,512)**	(34,804)
Net current assets		**51,118**	37,704
Total assets less current liabilities		**105,731**	91,065
Provision for liabilities and charges	*9*	**-**	(1,247)
Net assets		**105,731**	89,818
Capital and reserves			
Called up share capital	*10*	**5,124**	5,040
Share premium	*11*	**10,163**	7,548
Capital redemption reserve	*12*	**662**	662
Capital conversion reserve fund	*12*	**260**	260
Share-based payment reserve	*12*	**5,613**	3,220
Shares held by long term incentive plan	*12*	**(8,137)**	(4,929)
Profit and loss account		**92,046**	78,017
Shareholders' funds – all equity interests		**105,731**	89,818

Notes 1 to 17 form part of these financial statements.

On behalf of the Board

Patrick Kennedy
Chief Executive

Jack Massey
Finance Director

2 March 2007

Notes to the Company Financial Statements

Year ended 31 December 2006

1. Basis of preparation and 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.

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 €25.1m (2005: €19.2m).

Financial assets

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

Tangible assets and depreciation

Tangible 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 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	3 - 7 years
Computer equipment	3 years
Motor vehicles	5 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 instalments 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.

Pensions

The Company operates a number of defined contribution pension 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 Company'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.

1. Basis of preparation and accounting policies (continued)

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 FRS 1, 'Cash Flow Statements', a cash flow statement has not been prepared as the Company is a wholly owned subsidiary of a company which itself publishes consolidated financial statements that include a cash flow statement in the required format.

Related party transactions

Under the exemption granted by FRS 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 payments

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 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 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 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 Company balance sheet.

Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders, or, in the case of the interim dividend, when it has been approved by the Board of Directors and paid. Dividends declared after the balance sheet date are disclosed in Note 25 to the consolidated financial statements.

Notes to the Company Financial Statements (continued)

Year ended 31 December 2006

2. Employee expenses and numbers

	2006 €'000	2005 €'000
Wages and salaries	**27,154**	24,004
Social security costs	**2,453**	1,485
Defined contribution pension and life assurance costs	**713**	794
Equity-settled transactions	**1,275**	881
Other staff costs	**1,348**	1,366
	32,943	28,530

	2006	2005
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	**783**	595

Details of transactions with directors are set out in Note 6 to the consolidated financial statements.

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 have been granted at an exercise price of €1.16 per share. These options were granted prior to 7 November 2002 and, accordingly, do not fall within the scope of FRS 20 'Share-based Payment'.

Since May 2000, options over 2,565,000 shares have been exercised and options over 27,000 shares were outstanding at 31 December 2006 (2005: 327,000). Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2005	Options exercised during year	Options outstanding at 31 December 2006	Earliest exercise date*	Exercise price	Market price at date of exercise
300,000	300,000	-	1 May 2003	€1.16	€13.35
6,000	-	6,000	1 May 2004	€1.16	-
21,000	-	21,000	1 May 2005	€1.16	-
327,000	**300,000**	**27,000**			

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

During 2005, 18,000 options were exercised at an exercise price of €1.16 when the market price ranged from €13.44 to €14.18.

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

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'.

Notes to the Company Financial Statements (continued)

Year ended 31 December 2006

2. Employee expenses and numbers (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 ten years from 7 December 2000 at the higher of nominal and current market value. Options may not be exercised earlier than three years from the date of grant and may only be exercised if the Group meets certain targets and any further condition on exercise which the Board determines to be appropriate. These targets require real growth (Consumer Price Index plus five percent compounded annually) in earnings per share of the Group over a period of not less than three years following the grant of an option. Since November 2000, 369,466 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.

Since November 2000, options over 332,466 shares have been exercised. Options over 37,000 shares were outstanding at 31 December 2006 (2005: 327,466), of which none were exercisable at 31 December 2006 (2005: 302,466).

Movements in the share options under this scheme during the year were as follows:

Options outstanding at 31 December 2005	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2006	Earliest exercise date*	Exercise price
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
-	12,000	-	-	12,000	October 2009	€14.40
327,466	**12,000**	**-**	**302,466**	**37,000**		

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

Of the 302,466 options over shares exercised during 2006, 302,000 were exercised when the share price was €14.10 and 466 were exercised when the share price was €14.60.

During 2005, no options over shares were exercised, and options in respect of 15,000 shares were granted at an exercise price of €14.80 per share.

The fair value of share options granted during the year has been determined using a Black Scholes model and amounts to €31,560 (2005: €56,781). The significant inputs into the model was a share price for the grant date of €14.40 (2005: €14.80), the exercise price shown above, the standard deviation of expected share price returns of 26% (2005: 25%), the expected term as disclosed above, and an annual risk free rate of 3.69% (2005: 3.14%). The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's share price over the last three years.

2. Employee expenses and numbers (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 Company or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. Options will normally be granted to all eligible employees in the 42 day period after the announcement of the interim or final results of the Company. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 75 percent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme may not exceed €320.

Options granted before 7 November 2002 do not fall within the scope of 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.

Options outstanding at 31 December 2005	Options granted during year	Options lapsed during year	Options exercised during year	Options outstanding at 31 December 2006	Earliest exercise date*	Exercise price
Granted before 7 November 2002						
1,060	-	672	388	-	July 2005	€4.95
Granted after 7 November 2002						
162,550	-	15,822	-	146,728	October 2008	€11.60
-	61,105	1,834	-	59,271	December 2009 & December 2011	€11.29
163,610	**61,105**	**18,328**	**388**	**205,999**		

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

During 2006, options over 388 shares were exercised when the share price was €12.75. During 2005, options over 162,550 shares were granted at an exercise price of €11.60, and options over 34,874 shares were exercised at an exercise price of €4.95 when the market price ranged from €13.30 to €15.13. During 2005, options in respect of 1,090 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 €219,000. The significant inputs into the model were the share price of €15.05 (2005: €14.50) at the grant date, the exercise price of €11.29, the standard deviation of expected share price returns of 26% (2005: 25%), the option life disclosed above, and an annual risk free rate of 3.69% (2005: 3.00%). The volatility measured as the standard deviation of expected share price returns is based on a statistical analysis of the Company's daily share price over the last three years.

2. Employee expenses and numbers (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) is achieved over the minimum vesting period of three years. To the extent the grant does not vest in full in respect of the minimum vesting period, the award will continue in effect in accordance with the rules and will vest if the growth target is met over the four year period measured from the commencement of the minimum vesting period. To the extent the award does not vest in full in respect of such four year period, the grant will continue in effect in accordance with the rules and will vest if the growth target is met over the five year period measured from the commencement of the minimum vesting period, provided, however, that to the extent the grant has not vested on or before the latest vest date specified above, the grant will automatically lapse in its entirety immediately following such date.

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

During the year, awards of 80,000 shares and 35,000 shares (2005: 115,000 shares) were granted to senior management (including executive directors). The share prices at the dates of grant were €12.55 and €13.68 respectively (2005: €13.80 to €14.40). The total cost of this grant is estimated at €1,483,000 (2005: €1,215,000) 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. three years. The operating profit for 2006 is stated after an LTIP charge of €1,078,000 (2005: €828,407). As a result of the resignation of a director of the Company in 2005, an award of 30,000 shares granted in 2005 lapsed during the year.

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

Notes to the Company Financial Statements (continued)

Year ended 31 December 2006

2. Employee expenses and numbers (continued)

Paddy Power 2004 Second Tier Option Scheme

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

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

Summary of options outstanding

The total number of options outstanding at 31 December 2006 was 269,999 (2005: 818,076). These options had exercise prices ranging from €3.59 to €14.80 (2005: €3.59 to €14.80).

	Options outstanding at 31 December 2005	**Options granted during year**	**Options lapsed during year**	**Options exercised during year**	**Options outstanding at 31 December 2006**
Executive share option scheme	327,000	-	-	300,000	27,000
Share option scheme	327,466	12,000	-	302,466	37,000
Sharesave scheme	163,610	61,105	18,328	388	205,999
Total	**818,076**	**73,105**	**18,328**	**602,854**	**269,999**

General

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

Notes to the Company Financial Statements (continued)

Year ended 31 December 2006

3. Intangible assets

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

	Licences €'000	Computer software €'000	Total €'000
Cost			
Balance at 1 January 2006	279	527	806
Reclassification	-	(527)	(527)
Additions	1,069	-	1,069
Transfers	15	-	15
Balance at 31 December 2006	1,363	-	1,363
Amortisation			
Balance at 1 January 2006	42	329	371
Reclassification	-	(329)	(329)
Amortisation for year	132	-	132
Balance at 31 December 2006	174	-	174
Net book value			
At 31 December 2005	237	198	435
At 31 December 2006	1,189	-	1,189

During 2006, the directors reviewed the classification of computer software and determined that it should be included within tangible assets rather than intangible assets.

4. Goodwill

	€'000
Cost	
Balance at 1 January 2006 and 31 December 2006	2,421
Amortisation	
Balance at 1 January 2006	1,446
Amortisation for year	121
Balance at 31 December 2006	1,567
Net book value	
At 31 December 2005	975
At 31 December 2006	854

Goodwill arose from the assets acquired as part of the amalgamation of three bookmaking businesses to form Paddy Power plc.

Notes to the Company Financial Statements (continued)

Year ended 31 December 2006

5. Tangible assets

	Land, buildings & leasehold improvements €'000	Fixtures, fittings & equipment €'000	Computer equipment €'000	Computer software €'000	Motor vehicles €'000	Total €'000
Cost						
At 1 January 2006	30,449	37,942	7,976	-	928	77,295
Reclassification (Note 3)	-	-	-	527	-	527
Additions	3,997	9,070	2,555	2,423	202	18,247
Disposals	(1,369)	(389)	(12)	-	(214)	(1,984)
Transfers	(2,076)	(7,298)	(8,653)	770	(724)	(17,981)
At 31 December 2006	31,001	39,325	1,866	3,720	192	76,104
Accumulated depreciation						
At 1 January 2006	7,659	16,845	2,348	-	347	27,199
Reclassification (Note 3)	-	-	-	329	-	329
Charge for year	1,582	4,655	613	268	26	7,144
Disposals	(441)	(236)	(9)	-	(82)	(768)
Transfers	(383)	(3,987)	(1,687)	(328)	(221)	(6,606)
At 31 December 2006	8,417	17,277	1,265	269	70	27,298
Net book value						
At 31 December 2005	22,790	21,097	5,628	-	581	50,096
At 31 December 2006	22,584	22,048	601	3,451	122	48,806

The net book value of land, buildings and leasehold improvements at 31 December 2006 includes €20.5m (2005: €17.7m) in respect of leasehold improvements.

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

During 2006, assets with a net book value of €11.4m were transferred from the Company to a subsidiary, Power Leisure Bookmaker Limited. On transfer these assets had an original cost of €18.0m and an accumulated depreciation balance of €6.6m. During 2006, computer equipment with a cost value of €1.3m, either not available for use or in test as of 31 December 2005 and included computer equipment additions in 2005, was reclassified as computer software.

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

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

Notes to the Company Financial Statements (continued)

Year ended 31 December 2006

6. Financial assets

	Unlisted investments in subsidiary companies €'000	Capital contributions €'000	Total €'000
Balance at 1 January 2006	103	1,752	1,855
Movement during year	-	1,909	1,909
Balance at 31 December 2006	**103**	**3,661**	**3,764**

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 (2005: €103,000). The Company's subsidiaries are listed in Note 24 to the consolidated financial statements.

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

7. Debtors

	31 December 2006 €'000	31 December 2005 €'000
Sundry debtors and prepayments	**1,079**	1,060
Amounts owed by Group companies	**25,641**	25,770
Deferred tax (Note 9)	**1,407**	-
	28,127	26,830

All of the above debtors fall due within one year.

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

8. Creditors (amounts falling due within one year)

	31 December 2006 €'000	31 December 2005 €'000
Trade creditors	**5,609**	5,517
Accruals	**7,202**	4,600
Corporation tax	**639**	516
PAYE and social welfare	**603**	978
Betting duty	**2,060**	3,193
Value added tax	**157**	393
Amounts owed to Group companies	**35,242**	19,607
	51,512	34,804

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

Notes to the Company Financial Statements (continued)

Year ended 31 December 2006

9. Provision for liabilities and charges

	2006 €'000	2005 €'000
Deferred tax		
Cost		
At beginning of year	**1,247**	997
(Credited)/charged to the profit and loss account for year	**(2,654)**	250
At end of year	**(1,407)**	1,247

Deferred tax at 31 December 2006 and 2005 is analysed by category as follows:

	31 December 2006 €'000	31 December 2005 €'000
Capital allowances	**(1,127)**	1,255
Employee benefits	**(280)**	(8)
Deferred tax (asset)/liability	**(1,407)**	1,247

All of the above deferred tax balances are in respect of Irish corporation tax.

10. Share capital

See Note 17 to the consolidated financial statements.

11. Share premium

See Note 17 to the consolidated financial statements.

12. Other reserves and shares held by long term incentive plan

See Note 17 to the consolidated financial statements.

13. Dividends paid on equity shares

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

14. Pension arrangements

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

Pension costs for the year were €616,000 (2005: €774,000) and the amount due to the schemes at 31 December 2006 amounted to €71,000 (2005: €75,000).

Notes to the Company Financial Statements (continued)

Year ended 31 December 2006

15. Commitments and contingencies

(a) Guarantees

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

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

(b) Capital commitments

The Company has entered into commitments for capital expenditure not provided for in the financial statements amounting to €115,000 (2005: €900,000).

(c) Operating lease commitments

The Company has annual commitments of €7.027m (2005: €6.178m) in respect of operating leases on properties where the lease terms expire as follows:

	31 December 2006 €'000	31 December 2005 €'000
Within 1 year	**501**	768
Between 2 and 5 years	**1,164**	790
After 5 years	**5,362**	4,620
	7,027	6,178

16. Statutory information

	2006 €'000	2005 €'000
Auditor's remuneration	**105**	105
Directors' remuneration	**2,647**	3,033
Depreciation	**7,144**	6,893
Amortisation of intangible assets	**132**	234
Amortisation of goodwill	**121**	121
Operating lease rentals, principally premises	**6,542**	6,536

17. Approval of financial statements

The financial statements of the Company for the year ended 31 December 2006 were approved for issue by the Board of Directors on 2 March 2007.

Five Year Financial Summary

Financial information for the Group for the five years ended 31 December 2006 is set out below in euro and Pounds Sterling.

	2006 €'000	**2005 €'000**	**2004 €'000**	**2003 €'000**	**2002 €'000**
Amounts staked	**1,795,090**	1,371,710	1,159,658	913,624	673,788
Revenue	**218,706**	160,848	134,110	94,610	78,848
Operating profit	**47,560**	30,118	31,103	19,632	17,083
Profit before tax	**49,699**	31,344	32,109	20,410	17,822
Profit for the year	**41,245**	26,954	27,447	17,551	14,793
Net cash inflow from operating activities	**67,733**	41,410	41,167	32,144	30,435
Total equity	**128,131**	96,051	78,697	52,274	40,146

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

	2006 Stg£'000	**2005 Stg£'000**	**2004 Stg£'000**	**2003 Stg£'000**	**2002 Stg£'000**
Amounts staked	**1,223,730**	937,986	797,399	630,390	437,951
Revenue	**149,094**	109,989	92,216	65,280	51,250
Operating profit	**32,422**	20,595	21,387	13,546	11,104
Profit before tax	**33,880**	21,433	22,079	14,083	11,584
Profit for the year	**28,117**	18,431	18,873	12,110	9,615
Net cash inflow from operating activities	**46,174**	28,316	28,307	22,179	19,782
Total equity	**87,348**	65,680	54,113	36,068	26,094
Exchange rates used are	**1.4669**	1.4624	1.4543	1.4493	1.5385

Note: 2006, 2005 and 2004 amounts are reported under IFRS, while amounts for all previous years are reported under Irish GAAP. The principal differences between IFRS and Irish GAAP relate to the non-amortisation of goodwill and the treatment of share-based payments according to IFRS.

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 above).

Payment of Dividends in Euro

Dividend payments are made in euro by default. However, shareholders wishing to opt for payments in Pounds Sterling 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, Collector General's Division, 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 of 20%. 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 may be 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.

Shareholders not liable for DWT

Shareholders who receive a dividend in a beneficial capacity can, in certain circumstances, be exempted from DWT. Provided the shareholder furnishes a properly completed declaration on a standard form to the Company's Registrar, and 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 managers of approved retirement funds or an approved Minimum Retirement Fund; and
- 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 91. 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 91, for a refund of the DWT so deducted.

Qualifying Intermediaries

Dividends received by qualifying intermediaries on behalf of a shareholder who is exempt from DWT 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; or
- 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 Union, 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 91. 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 91.

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;

Additional Information For Shareholders (continued)

(b) an unincorporated entity which is not resident in the Republic of Ireland and is resident for tax purposes in a relevant territory;

(c) a company which is not resident in the Republic of Ireland and is resident in a relevant territory (by virtue of the law of that 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;

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

(e) a company not resident in the Republic of Ireland, the principal class of the shares of which, or
   (i) where the company is a 75 per cent subsidiary of another company, of that other company, or
   (ii) where the company is wholly-owned by two or more companies, of each of those companies,

   is substantially and regularly traded on one or more than one recognised stock exchange in a relevant territory or on such other stock exchange as may be approved of by the Minister for Finance.

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. However, it is important to note where trusts are concerned that only non-resident discretionary trusts, which are resident in a relevant territory, can obtain an exemption from DWT. In that circumstance, the trustee of the discretionary trust may make the declaration. The individual beneficiaries of a non-resident bare trust, where the beneficiaries are resident in a relevant territory, may obtain an exemption from DWT where:
  – the trustees of the trust have been authorised by the Revenue Commissioners to act as a Qualifying Intermediary, and
  – where an exemption declaration has been made to the Qualifying Intermediary by the beneficiaries.
- 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 'A. Irish Resident Shareholders' on page 92.

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. In accordance with the requirements of legislation, this information is also furnished to the Irish Revenue Commissioners.

Financial calendar

Announcement of:

Final results for 2006	5 March 2007
Ex-dividend date	14 March 2007
Record date for dividend	16 March 2007
Annual General Meeting	22 May 2007
Dividend payment date	25 May 2007

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 Conrad Hotel, Earlsfort Terrace, Dublin 2 at 11.00 am on Tuesday 22 May 2007. In addition to the ordinary business which deals with the Report and Accounts, the dividend, the re-appointment of directors, and the Auditors' remuneration, there are various items of special business which are described further below.

Resolutions 3 (a), (b), (c) and (d) of the ordinary business propose the re-appointment of four directors. Messrs Stewart Kenny, Nigel Northridge, David Power and Patrick Kennedy, having served on the Board for three years, retire in accordance with Regulation 87 of the Articles of Association and being eligible, offer themselves for re-appointment. In view of their experience and skills, and their contribution to the Board to date, the Board recommends the re-appointment of each of these directors. Biographical information on these directors is given on page 19 in the Annual Report.

Shareholders are being asked in resolution 5 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 shares up to five percent of the issued ordinary share capital of the Company at the date of the resolution (currently equal to 2.56m shares). If renewed, this authority will expire at the next AGM in 2008 or 21 November 2008, whichever is earlier.

Shareholders are being asked in resolution 6 to renew the authority to empower the Company, or any subsidiary, to make market purchases of the Company's shares. No more than ten percent of the issued share capital of the Company may be acquired under this authority. The price range at which shares may be acquired cannot be less than the nominal value of the Company's shares and cannot be greater than the higher of (1) 105% of the average price of the Company's shares over the five dealing days prior to the date of purchase by the Company or (2) the price of the last independent trade and the highest current bid on the trading venues where the purchase is carried out. Shares purchased by the Company may be cancelled or held in treasury pending cancellation or reissue.

The total number of options to subscribe for shares in the Company on 30 March 2007 is 914,684, and represents 1.8% of the issued share capital of the Company on that date. This percentage would increase to 2.1% 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 21 November 2008, 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. It is the Board's current intention to exercise this power to purchase shares in 2007.

Shareholders are also being asked in resolution 7 to pass a resolution authorising the Company to reissue shares purchased by it and not cancelled as treasury shares off market within a price range, 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 authority sought will expire on the date of the next Annual General Meeting of the Company or 21 November 2008, whichever is earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act 1990.

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 Industrial Estate, Dublin 18, by no later than 11am on 20 May 2007. 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

30 March 2007

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 Conrad Hotel, Earlsfort Terrace, Dublin 2 on Tuesday 22 May 2007 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 2006 and the reports of the Directors and Auditors thereon.
2. To declare a final dividend of €0.2277 per share for the year ended 31 December 2006.
3. To re-elect by separate resolution
   Resolution 3 (a) Stewart Kenny
   Resolution 3 (b) Nigel Northridge
   Resolution 3 (c) David Power
   Resolution 3 (d) Patrick Kennedy

   who retire in accordance with Regulation 87 of the Articles of Association and, being eligible, offer themselves for re-election.
4. To authorise the Directors to fix the remuneration of the Auditors for the year ending 31 December 2007.

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

5. 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 (as defined in section 23 of the Companies (Amendment) Act 1983) 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 the Companies (Amendment) Act did not apply to any such allotment provided that, pursuant to Regulation 8(d)(ii), the maximum aggregate nominal value of shares to which this authority relates shall be an aggregate nominal value of €240,383 or five percent of the nominal value of the Company's issued ordinary share capital at the close of business on the date on which this resolution shall be passed; 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 21 November 2008 unless previously renewed, varied or revoked by the Company in general meeting".
6. 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 and that 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 21 November 2008 unless, in any such case, previously renewed, varied or revoked by the Company in general meeting."
7. As a special resolution
   "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 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 21 November 2008 unless, in any such case, previously renewed, varied or revoked in accordance with the provisions of Section 209 of the Companies Act 1990."

By Order of the Board

David Johnston
Company Secretary
30 March 2007

Registered Office:
Airton House
Airton Road
Tallaght
Dublin 24

To get the most from our 2006 Betting Review you'll need a quick 30-second lesson in bookmaking:

The short-term financial performance of Paddy Power can be significantly influenced month to month by the run of sporting results, as well as the absolute amount of money staked. This is normal in the sports betting industry.

For example a disproportionate number of favourites winning at a major horse racing festival will depress short-term profitability, whereas a disproportionate amount of outsiders winning will have the opposite effect. The experience of the industry is that this typically balances out over a more extended period.

To illustrate this phenomenon, we have graphed our absolute gross win by month in 2006 behind the Betting Review text for each month. The graph is drawn from Paddy Power's perspective – turn it upside down for the highs and lows for punters!

Enjoy.

2006

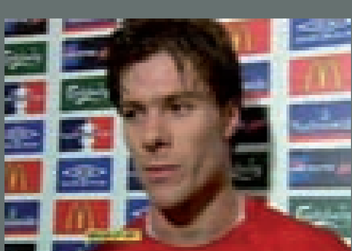
JANUARY

It's always nice to start the year with a bang and courtesy of Liverpool mid-fielder, Xabi Alonso, we did! One Liverpool fan, Adrian Hayward, "had a dream" that Alonso would score a goal this season from inside his own half which he duly did in January against Luton in the FA Cup. His 60-yard screamer cost us £25,000 (£200 @ 125/1) and put a smile the size of the Kop End across this lucky lad's face.

We were smiling too on January 8th when we enjoyed some of the best soccer results ever with Celtic losing to Clyde and Man Utd failing to beat Burton Albion, a team we also sponsored. Our smile however was short-lived with a number of high profile gambles being landed in Irish racing.

The first of these was inspired by Pricewise in the Racing Post when Charlie Swan's What A Native was supported from 8/1 in the morning into 4/1 by post time before landing the Leopardstown Chase. We did well to avoid the brunt of the business in the morning but were stung nonetheless as this public gamble intensified. There was no avoiding the second gamble however when that cute old fox Tony Martin landed the Thyestes Chase at Gowran with Dun Doire. They left the bookmakers battered and bruised and it wouldn't be the last we would hear of this Trainer and Horse.

In tennis it was the same old same old with Roger Federer cruising to Australian Open glory.



FEBRUARY

If the punters won the opening foray in January then the bookmakers certainly struck back in February. The racing results were the best we've seen in months with a string of well backed favourites beaten. What goes around comes around!

In the Superbowl the Pittsburgh Steelers finally got their heads in front when justifying favouritism to easily beat the Seattle Seahawks.

In the other odd shaped ball game, the Six Nations kicked off. We started off by stumbling home against Italy while England hammered Wales and amazingly Scotland beat France.

In the next round we scored four second half tries against France but unfortunately conceded six. England rolled on with a crushing victory over Italy in Rome.

We ended the month hammering Wales and seeing Scotland beat England in a pretty bizarre tournament. All to play for!

We may have cleaned up on the racing in February but we did our best to give it all back. We celebrated our 18th birthday towards the end of the month and though it would be a little cheeky to ask for presents from our customers, instead we bombarded them with money back specials and bonus offers – happy birthday Paddy Power!

MARCH

March was a great month to be Irish. The Gaffer, Steve Staunton, made his debut for Ireland with an impressive 3-0 drubbing of Sweden – this managerial lark is easy!

Then it was off to Cheltenham to watch the Irish contingent walk away with a record ten winners; however, you'll be glad to know that things were not as bad as they seemed. The two opening races on the Tuesday saw the defeat of the Irish "banker bet" Sweet Wake in the opener and a win for the overlooked Voy Por Estedes in the Arkle Chase but just when we began to smile we were hit with three consecutive body blows from the raiding party in the form of Brave Inca in the Champion Hurdle and in the following two handicaps from our old friend Dun Doire and Native Jack.

So there were three Irish winners on the opening day and then four more obliged on the Wednesday: however three of these, with the exception of Skys The Limit in the Coral Cup, were good results for us including Newmill landing the Champion Chase and leaving former champ Moscow Flyer in his wake.

There was only one Irish winner on the Thursday and this fellow did little damage at 50/1 however a huge gamble on Golden Cross in the Stayers Hurdle left us screaming for My Way De Solzen in a desperate battle up the famed hill. Thankfully our screams were not in vain.

So up early on Saturday, brush off the Cheltenham hangover and off to Twickers to try to upset the six points favourites England and win the Triple Crown. Horgan scored the first try (but was it really a try? And do we really care?). Then drama of the highest order, Horgan says "go go gadget arms" and scores a try with the last play of the game and Ireland win the triple crown. What a week!

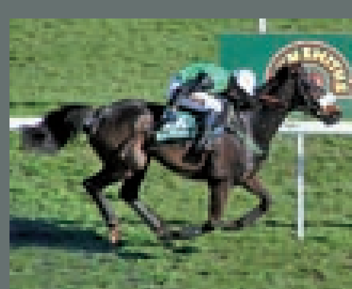
APRIL

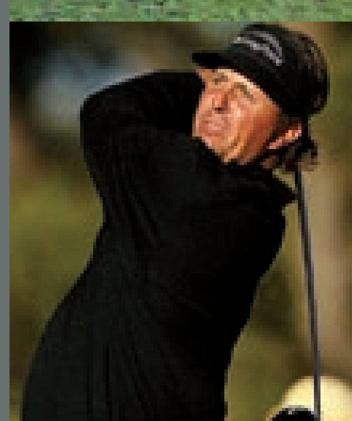
Turning to golf for a moment and thankfully our team of sports traders managed to keep us on the right side of Phil Mickelson who looked a very impressive winner of the US Masters. Unfortunately we got some spanking with our Money-Back special on this event in which we promised to refund losing bets on players who birdied the 18th hole in the final round. Refunds included World Number One Tiger Woods, the ever popular Ernie Els, 2003 champion Mike Weir and Ireland's most popular player, Padraig Harrington. Other refunds included runner-up Tim Clark, Sergio Garcia, Shingo Katayama, Ben Curtis, Ted Purdy and joint-third placed Chad Campbell. As if this wasn't enough we also paid the top FIVE each way places.

April was the month of the racing festivals with Aintree, Fairyhouse and Punchestown all taking place. Just as in March the punters rolled up their sleeves, took off their gloves and bet like men.

The victory of Numbersixvalverde in the Grand National should have been a bad result but for some reason last year's Irish National winner was not that popular - maybe his name was too long to fit on a betting slip! We also got a cracker in the Irish National with victory going to the outsider Point Barrow and at that stage we were having a bumper harvest. However many of the big fancies for Punchestown obliged and there was plenty to smile about as a punter as the month came to a close.

The Champions League and Heineken Cups were simmering nicely to a boil and we saw Arsenal beat Juventus and Villareal to reach the final, but unlucky for them the Barcelona juggernaut trundled through Benfica and AC Milan to await the Gunners.





T T I N G

Chelsea were crowned Premiership Championships in May – but you already knew that because we had paid out the previous September (that's not a misprint!). Thankfully they did too, because if they'd blown it I'd have had to run naked around Stamford Bridge – not a pretty sight!

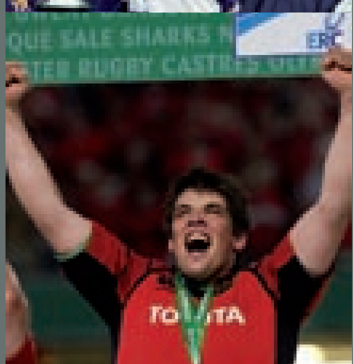
Steve Staunton's got a bit of a rude awakening when Chile came to Lansdowne Road and beat us 1-0. But the big football story of May was in Paris.

Barcelona were the best backed Champions League finalists ever. Jens Lehman was sent off, but Sol Campbell put Arsenal into an unlikely lead. You'd think the Gunners being 1-0 up would put off the Barcelona punters – not a chance! Amazingly the Spaniards were as big as 15/2 to win the match and the punters piled in. Barca won, the punters won, and for every winner there has to be a loser – the bookies were hammered. It was our worst football result in the history of the company.

In the FA Cup final a Stephen Gerrard wonder volley got the reds into extra time and they went on to win on penalties – which of course meant that anyone who'd backed West Ham got their money back.

Munster 23, Biarritz 19. We could hear the car horns tooting on the road outside but the office was eerily quiet, in fact there were a few tears among the odds compilers. This was a bloodbath. There were 75,000 Munster fans in Cardiff, the same again in Limerick, and twice as many around the country. Munster were backed at all odds, by all customers. Ouch! Ouch! Ouch!

MAY



In June Sir Percy won a thriller of a Derby. He beat 66/1 shot Dragon Dancer by a short head, but hey, you can't be too greedy!

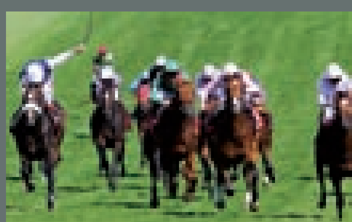
The Federer express was derailed in the French Open Final. It was the first time Federer has been anything like 5/6 to win a match but Raphael Nadal stood up to the greatest and maintained his two year unbeaten record on clay. Nadal is the only thing that stood in the way of a Federer grand slam of grand slams.

In the US Open Geoff Ogilvy managed to keep his head as Mickelson, Monty and Harrington all managed to completely bottle it in the closing stages – thanks Geoff, the biggest bullet we dodged in the whole of 2006!

There was also a little football tournament which kicked off in June. What a start for punters. 20 of the first 23 favourites won their matches – was this some kind of sick joke? Our soccer experts were busy preparing their CVs when up stepped the minnows of the USA to hold Italy to a draw – this wasn't just a beano, it was the ultimate beano. It stopped the rot and was our best ever soccer result. It really was a year of best evers and worst evers and biggest evers.

We kicked on from the USA and enjoyed a run of draws in the knockout games which saw us recoup all of that money we had lent to the punters.

JUNE



The World Cup reached its heady climax in July and Zinedine Zidane stole the show. He was always a very clever footballer, but ensured that in his last ever game he will always be remembered for using his head.

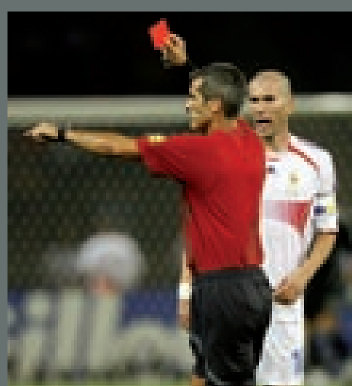
We still don't know what Materazzi said to him, but what we do know is that our punters reaped the rewards of yet another Paddy Power special. We had pledged to give money back on any team that was knocked out of the World Cup on penalties. Up stepped Switzerland, hardly even noticed it. Then came Argentina, ouch. Then it was England's turn, double ouch. And finally it was France in the final, whose stupid idea was this anyway?

At least we got something back when Wayne Rooney's missus, Colleen McLoughlin, was photographed in the press more than any other Wag. Posh Spice was the hot favourite, but could only come in a sorry second.

The British Open was pretty boring, but it was emotional for Tiger. He got to the front and just kept going. Garcia mounted a semi challenge on the last day but Hoylake was a Tiger track for sure. He was another well backed favourite and went on to confirm that he was definitely off our Christmas card list by going on and winning another 5 consecutive Championship events.

An impressive and expensive run of six victories which included two majors and two World Championship Events. It took our own Padraig Harrington to finally stop his run in Japan.

JULY



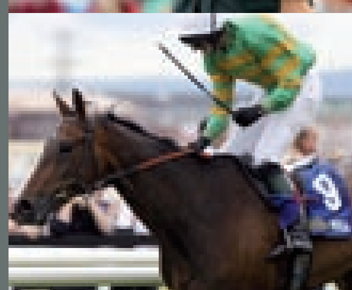
In August we had Galway. The memories are fuzzy as usual but Far from Trouble did land a bit of a touch in the Plate and Cuan na Grai went off like a scalded cat and never came back to them in the hurdle.

We know Tiger won the USPGA, but what about Ireland against Holland in Lansdowne Road? We were stuffed 4-0 and lucky that it wasn't 10 – was this the same team that beat the Swedes?

But the real story of August was the new World Champion, Jon Young. What an athlete, he showed incredible stamina and a complete lack of self respect when staying on best of all to become the first ever Paddy Power World Strip Poker Champion. And it's official, it's in the Guinness Book of Records.

What a tough day at the office, wandering around the Café Royal in London surrounded by naked people!

AUGUST



R E V I E W

We had to go away from home to the high flying World Cup hosts Germany in September. This was on the back of that 4-0 drubbing by Holland. God help Stan!

We were beaten alright, but it was one of those heroic defeats where we played like men and the luck of the Irish deserted us. A reprieve for Staunton, and a pretty good result for the bookies – no matter what the form book suggests, people still punt with their hearts rather than their heads.

We all went to the dogs in September and witnessed an awesome performance from Razldazl Billy who lived up to his name when sprinting clear in the Paddy Power Irish Greyhound Derby Final. He picked up a juicy cheque for €175,000 but we got the prize money back when the nationwide plunge on Kieran Fallon's Bar the Devil went pear shaped.

It was the most hyped up event ever, there's no way it could live up to it. They were going to struggle to get the crowds because of the tight security, the traffic was going to be a shocker. How wrong those knockers were.

It blew a gale and lashed down with rain, but that wouldn't dampen the spirits of the fans at the Ryder Cup. The Europeans went into the week as slight 4/5 favourites with many of the pragmatists backing the USA because of the Tiger factor. The dreamers were right.

Darren Clarke arrived on the first tee and the crowd went wild. It was emotional, it was brilliant, it was bloody expensive. There are a lot of believers in fairytales out there and they piled on Europe. They also piled on Clarke to hole the winning putt – and by God did they try to engineer it. Thanks be to Henrik Stenson it wasn't big Darren.

SEPTEMBER

The Prix de l'Arc de Triomphe was an unbelievable touch for punters. It was all thanks to the Japanese. Deep Impact – a wonder horse in the land of the rising sun came to Paris and brought a fan club of what seemed like a million people. They were queuing at the tote windows from early morning piling their euro on Deep Impact.

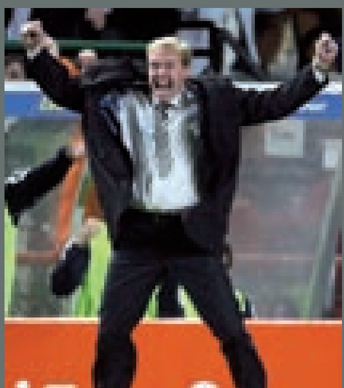
So what does that have to do with me if I'm sitting on my couch in Dublin watching the greatest flat race of the year? The Japanese have only gone and manipulated the tote pools! That means that Deep Impact is a fraction of the odds he should be, so everything else is a multiple of the odds they should be.

If you backed Rail Link you should have got 8/1, but those canny punters who spotted the rick ended up getting 23/1 for their money.

Cyprus 5, Ireland 2. That is not a misprint, it's an embarrassment but not a misprint. Surely Staunton had to go. Cyprus were 11/2 to win the match at home, and we didn't take a bean on them.

Stan was a very lucky man that we played the Czechs the same week. He was even luckier that the players decided to perform and grab a draw. The Czechs were punted off the boards down to 8/11 favourites and for once we could cheer for Ireland with a clear conscience.

OCTOBER



We may have blown our chances for one World Cup, but there's nothing wrong with being the second best team in the world a year before another World Cup.

South Africa and Australia came, and they were conquered. We also sent the Pacific Islanders home with their tails between their legs. It must be the first time Ireland have ever been single figure odds to win a World Cup, in any sport.

The only problem is that Ireland keep winning and keep covering the handicap. This means that we keep losing – it's just not fair!

It all went pear shaped for Andy Robinson's England. They could nearly have got a result against New Zealand, but then were beaten by Argentina and South Africa. It's a pretty torrid time for English rugby but Brian Ashton has justified the odds of 5/2 and taken over as coach. Maybe he can steady the ship.

When you sponsor a huge race meeting and you're a bookie, the least you should expect is to get a couple of outsiders winning and getting a bit of a return on your investment. We went to Cheltenham to officially raise the curtain on the National Hunt Season with the Paddy Power Gold Cup meeting.

Ten winning favourites over three days, and five of them were on Paddy Power Gold Cup day. The only result we got was in the big race itself, when Exotic Dancer kicked on to beat the favourite. Even at 16/1 that was only a get out because it was ridden by Tony McCoy and backed in from 28/1 in the morning. What a swizz!

NOVEMBER

I bet you thought you'd get through the year without hearing about the smallest trophy in the world and the biggest collapse in the world. That's right, England have been well and truly walloped by the Aussies.

There wasn't a huge amount of confidence in England before the start, in fact the Aussies were red hot favourites to win back the Ashes. They were very well backed even at short odds and the most popular bet was for an Australian whitewash – funny enough they duly obliged. The good news for England fans is that Shane Warne has retired.

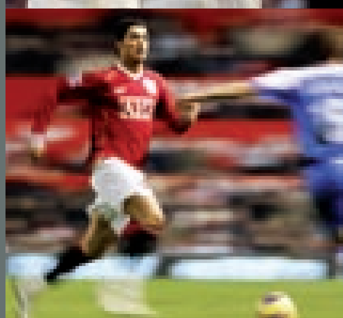
Chelsea began to stutter as Man Utd cranked up the pressure on the Champs. John Terry went on the injured list and the blues duly managed to drop points against both Fulham and Reading after scraping by Everton and Wigan. It was a case of flip flopping favourites between the Reds and the Blues throughout December and it was United who ended the year 1/2 favourites to finish on top.

On the racing front we were guaranteed drama in the build up to Cheltenham when Kauto Star took the routes out of a couple on the way to justifying red hot favouritism in the King George at Kempton. God is clearly a bookie because Noel Meade's Jazz Messenger scuppered Straw Bear's attempt to complete one of the most popular doubles of the year.

At Leopardstown Brave Inca did the bookies a favour for a change when beating Iktitaf and cemented his place at the top of the Champion Hurdle market.

The highlight of the week for many was Tom Taaffe's Cane Break holding off the late challenge of Ballistraw to win the Paddy Power Chase under top weight, the first horse ever to carry that much to victory in the race. Next stop Aintree!

DECEMBER



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