

## Financial Review

### Turnover

The Group's turnover increased by 34.6% to €362.8 million over 1999. Like for like turnover in our LBOs increased by 21.4%, while aggregate LBO turnover grew by 28.6% which includes the impact of five additional LBOs opened during the year. Like for like turnover growth includes the positive impact of Sunday opening (which increased LBO aggregate turnover by approximately 5.8% over 1999). The growth is also positively impacted by the betting tax reduction from 10% to 5%, which occurred from 1 July 1999.

Telephone betting turnover growth remained strong recording 58.7% increase in turnover over 1999 with measurable increases in our customer call handling response times in December 2000 following the relocation of the operation to larger premises.

### Margin

Gross margin, measured as bets placed (excluding betting duty and levies) less winnings returned to customers increased by 44.5% over 1999 to €46.3 million. Expressed as a percentage of turnover by delivery channel the following margins were achieved:

Gross Margins	2000	1999
LBOs	13.38%	12.22%
Telephone betting	8.89%	8.50%
Internet-based	8.12%	–
Group Total	12.76%	11.88%

### Operating Profit

Operating profit grew by 51% over 1999 to €10.6 million. This profit is stated after charging significant launch costs for our internet-based operations which resulted in a loss of €3.0 million in this segment of our business. These costs include €0.5 million in respect of betting duty incurred on behalf of customers and an allocated share of marketing and advertising expenditure amounting to €1.3 million. We have continued to experience significant increases in property rents as rent reviews were settled during the year.

## *Financial Review continued*

### **Tax Rate**

Corporation tax charge for the year amounted to €2.9 million (1999: €2.1 million) which represents an effective tax rate of 26.8% (1999: 29.8%) against the standard rate of 24% (1999: 28%). The difference between the standard rate and our effective rate of tax is primarily due to significant investment in computer equipment which we depreciate over a three year period and depreciation on premises which is not tax deductible.

### **Cash Flow**

Net cash flow from operating activities grew by 116.7% over 1999 to €20.1 million. This cash was partially utilised in payments amounting to €9.6 million (1999: €3.3 million) to acquire fixed assets. Principally these assets comprised of computer equipment amounting to €4.9 million purchased in connection with the establishment of our Irish-based internet operations and the majority of equipment required for the UK launch of our on-line services in 2001.

Cash balances, which amounted to €16.1 million at 31 December 2000 (1999: €5.8 million), were increased by €3.6 million from the net proceeds of the share placing in December 2000. Cash balances include €0.6 million held on behalf of customers. The Group's cash balances are substantially invested in short-term bank deposits in accordance with our treasury management policies.

### **Dividends**

The provision for dividends paid and proposed in respect of the year ended 31 December 2000 increased by 45.6% over 1999 to €1.8 million. It is the Board's intention to adopt a progressive dividend payment policy mindful of the short-term requirements of our anticipated UK launch of on-line services and possible acquisition opportunities in that sector.

### **Employees**

The average number of persons employed by the Group during 2000 was 665 (1999: 537). At year end our employees numbered 676 (1999: 562).

### **Employee Share Schemes**

In conjunction with the listing of the Company's shares on the Irish and London Stock Exchanges a number of schemes were introduced by the Company to reward and incentivise employees. Details of these schemes are set out on pages 40 and 41. In addition, employees with over three years' service were invited to participate in the share placing in December 2000.

### **Outlook**

The outlook for all our operations remains positive. In the first six full weeks of 2001 like-for-like turnover in our LBO's increased by 18.8% and telephone-betting turnover was 25.4% ahead of the same period in 2000. As previously mentioned, turnover through paddypower.com continued to increase in the first seven weeks of 2001 with the number of active accounts increasing by 18.0% from 31 December 2000. Gross margins have remained satisfactory.

In January 2001 we launched the on-line version of our successful 'Lucky Numbers' product which is UK and Irish lottery result-based. We are optimistic of a substantial response from our customers to this product, which in our LBOs accounts for approximately 4% of turnover.

Our biggest challenge for 2001 will be to ensure the successful launch of our interactive service on the ntl and Telewest digital cable TV systems in the UK together with the internet-based paddypower.co.uk. All of these services will involve subsidisation of the UK betting duty and levies by the Group in the short term. Considerable press speculation has occurred in relation to the possible shift in the UK from a turnover-based tax to a gross profits-based tax. Assuming the rate of tax was reasonable such a move would be welcomed by our customers and the Group.