

Operating Review



Power Leisure remains focused as a small-stake, fixed-odds sports bookmaker. The Company has added to its existing licensed betting offices ('LBO') and telephone betting operations with the formal launch in June 2000 of our internet-based service, paddypower.com.

Licensed Betting Offices

During 2000 the Company opened a further five (1999: six) Paddy Power LBOs bringing the total number of outlets in operation in Ireland at the year end to 118. In addition, a single LBO was opened in central London in November 2000. We opened one racecourse LBO (1999: one) at Leopardstown to bring to four the number of racecourse-based LBOs. Our relocation program continued during the year with two LBOs (1999: two) relocated to larger and better-positioned premises. A further eight (1999: seven) LBOs were refurbished. During 2000 we commenced the installation of air-conditioning systems to regulate the temperature within all our LBOs and as of 31 December 2000 installations were complete in 60 out of the 118 LBOs with completion of the installations in all remaining LBOs scheduled for mid-2001.

During the year the average slip value within the LBOs increased by 20% from €10.12 to €12.15. (note: a slip may contain more than one bet). The reduction in betting duty from 10% to 5% of bets wagered from 1 July 1999 continued to have a positive impact on our turnover growth during the year. In June 1999 we introduced Sunday trading in a selected number of our LBOs. The number of LBOs opened on Sundays varied as we experimented with customer reaction. These changes to trading, while increasing our operating costs, generated increased turnover.

Market research commissioned by the Company (Lansdowne Market Research: August 2000) indicated that Paddy Power had unprompted awareness in the portion of the population in Ireland aged over 18 years of 60% and prompted awareness of 84%. This research also indicates that our customers are broadly representative of the population as a whole in terms of socio-economic groupings but tend to be biased significantly towards male customers. Female customers on average represent 14% of our customers. While this is a low level of participation the figure continues to grow over recent years. The age profile of our customers is older than the population as a whole. Nevertheless, we are achieving a growing penetration in the 18 to 34 year age bracket.

Telephone Betting

Our telephone betting service ('Dial-a-bet') continued its expansion during the year and ended the year with 19,967 registered customers and 7,390 active customers. (Note: active customers are defined as those that have bet with us in the previous three months.)

In December 2000 the telephone betting services were successfully relocated to the Company's new offices in Tallaght. The new facilities comprise 60 operator terminals servicing 120 incoming digital telephone lines. Our call management system allows monitoring of call handling standards and response times. Average transaction size per call increased by 1.9% from €80.73 in 1999 to €82.24. Market research indicated that our telephone-betting customers are particularly loyal to the services we offer and tend to use our service to the exclusion of others notwithstanding the availability of competing services.

Our market share in the Republic of Ireland in the combined telephone, internet and LBO channels measured as a proportion of total off-course turnover reported by Customs and Excise stood at 30% for the year ended 31 December 2000.

Operating Review continued

On-line Betting

In June 2000 our internet-based betting service ('paddypower.com') was formally launched. Based on our initial marketing campaign in Ireland we achieved a total of 12,433 account registrations by 31 December 2000. This number has grown to 14,441 by 13 February 2001. Of these 5,064 accounts at 31 December 2000 and 5,974 at 13 February 2001 are active (note: active accounts are those that have placed a bet within the previous three months). Our turnover through paddypower.com in 2000 of €8.5 million was generated on an average bet size of €31. During December 2000 active customers each bet, on average, 7.3 times during a four-week period. The achievement of a gross margin of 8.1% on this turnover must be measured against the burden of Irish government betting duty and levies borne by the Group, which represented 5.3% of turnover. The willingness and the ability of the Group to bear this taxation burden, which is necessary to maintain competitiveness with operators located in jurisdictions which levy a nominal tax on bets, is limited. In the absence of any material change in betting duty in either the UK or Ireland in the next few months the Group plans to locate operations in a more competitive jurisdiction for the benefit of customers. Irish and UK horse and dog racing which accounted for a significant majority of our turnover in our LBO's

accounted for less than 50% of our turnover through paddypower.com. Bets placed on soccer and golf generated a significant portion of paddypower.com turnover. We have executed contracts with ntl Group and Telewest, the two largest cable TV operators in the UK, which will allow our on-line service to be offered together with other bookmakers to the interactive (digital) TV customers of those companies. As of 31 December 2000 ntl Group announced that it had 530,700 interactive TV customers in the UK. At 14 November 2000 Telewest had 315,000 interactive TV customers. Both companies are committed to significant rollouts of their service throughout their respective franchised areas in 2001 and 2002. We expect to launch our service on the ntl Group system within the next few weeks together with the launch of our internet-based service to UK customers, paddypower.co.uk. We expect to launch our Telewest-based service by mid-2001. The Group currently plans to substantially increase the level of its expenditure on advertising and marketing in support of the UK launch of our interactive on-line services in 2001. We plan to review the results from this expenditure as the UK launch progresses. We anticipate that the impact of this expenditure together with related tax subsidisation costs will have a negative impact on Group earnings for 2001.