

Financial Review

We are very pleased with the Group's performance in 2001. With the conclusion of the Foot and Mouth crisis that impacted turnover in the first 6 months of 2001 the second 6 months saw turnover increase by 35% over 2001 with strong growth in all channels. The LBO and Dial-a-Bet margins were within their expected normal range while the on-line gross margin, which was disappointing in the first 6 months of 2001 at 4.51%, recovered to 7.7%.

Turnover

Turnover increased by 27% to €461.1m in 2001 (2000: €362.8m) with excellent growth across all channels. Overall growth in the LBO channel was 18% with like-for-like growth of 10%. This has been driven by growth in average slip values of 13% and slip volumes of 4%. Growth has been achieved by the continued expansion of the LBOs which saw eight new LBOs in 2001, seven refurbishments and two relocations. In addition we continued to increase the number of Sunday openings in 2001 with 70 LBOs now opening on Sundays compared to 20 in 2000. The LBO portfolio comprised 126 premises at year-end.

Telephone betting has seen extremely strong growth of 41% in 2001 with turnover reaching €55.5m (2000: €39.4m). The decision to offer tax-free betting on the telephones from 6 October 2001 has contributed to this growth. Total registered customers at 31 December 2001 were 25,582 (2000:19,967) with total active customers at the same date of 9,227 (2000: 7,390).

On-line turnover was €34.8m in 2001 (2000: €8.5m). Turnover levels have now reached in excess of €800,000 per week with total registered customers of 42,431 (2000:12,433) and total active customers of 14,758 (2000: 5,064) as at 31 December 2001.

Gross Margin

Gross Margin, measured as amount staked (excluding betting duty and levies) less winnings returned to customers, increased by 21.9% to €56.5m (2000: €46.3m).

Gross Margin percentages in the LBO and phone divisions for 2001 were 13.36% and 8.42% respectively. While margins fluctuated over the year, the total margins for the year were in line with the normal trading range. The on-line division, which disappointed in the first half with margins of 4.51%, recovered to 7.7% for the second 6 months as management implemented various actions to improve margin.

Gross Margins %	Year to 31/12/01	Year to 31/12/00
LBOs	13.36	13.38
Telephone betting	8.42	8.89
On-line	6.42	8.12

Betting Taxes and Levies

There were a number of significant changes in the betting taxes and levies in 2001. The Irish horseracing levy of 0.3% of turnover was abolished from 28 July 2001. This levy had been subsidised by the Group throughout 2001 costing €0.8m.

From 6 October 2001 the United Kingdom changed its betting tax structure from a turnover based tax paid by the customer to a 15% gross profits tax paid by the bookmaker. From this date the Group moved its telephone and on-line betting to the UK. This achieved a tax saving for the on-line division which

was previously subsidising Irish betting tax at 5% of turnover. It also allowed the Group to offer tax free betting on our telephone betting service.

The Irish government announced a reduction in Irish betting tax to 2% of turnover effective from 1 May 2002. Given the low gross margins of the telephone and internet business this rate remains higher than the UK effective rate. As we stated at the time of the Irish budget, the Group will not be relocating telephone and internet betting back to Ireland and will be continuing to seek the optimum location from which to operate.

Operating Profit

Operating Profit	6 Months to 31/12/01	6 Months to 30/06/01	Year to 31/12/00
LBOs	7,286	9,363	12,758
Telephone	481	480	866
On-line	(3,270)	(5,833)	(2,995)
Total	4,497	4,010	10,629

LBO operating profit increased by 30.5% reflecting the increased turnover offset by lower gross margin percentage compared to 2000. Telephone operating profits increased by 11% due to increased turnover offset by lower margin and the impact of UK gross margin taxes. The on-line division incurred losses of €9.1m, which was in line with expectations with losses in the second 6 months of 2001 reducing due to increased volumes and improved gross margins. In addition, marketing expenditure was significantly lower than in the first 6 months.

Total year operating costs of €47.8 m (2000: €35.7m) were in line with expectations.

Tax Rate

The corporation tax charge for the year was €1.8m (2000: €2.9m) representing an effective tax rate of 19.3%. The reduction in the effective rate is a consequence of the reduction in the statutory rate from 24% to 20%.

Cash Flow and Liquid Resources

Net cashflow from operating activities was €11.5m (2000: €20.1m). This includes a net inflow of €1.4m on customer balances which totalled €2.6m at 31 December 2001 (2000: €1.2m). Fixed asset investments were €6.4m primarily made up of fit out costs of €2.7m for the LBO estate, expanded call centre capacity (€1.9m) and computer equipment for both the internet and general use.

Net cash balances at 31 December 2001 totalled €18.3 m (2000: €16.0m). These were substantially invested in short term bank deposits all of which mature in less than 6 months.

The Group has no borrowings.

Employees

The average number of persons employed by the Group during 2001 was 757 (2000: 665). At year end total employees numbered 799 (2000: 676).

Share Price

The Group's shares traded in the range of €2.98 to €4.07 (stg £1.81 to stg £2.56) with the year high reached on 17 December 2001. The year end share price was €4.00/stg £2.55 (2000: €2.98/stg £1.88) giving a market capitalisation of €189m/stg £120m (2000: €140m/stg £87m). The year end free float is 42% (2000: 30%), the increase arising from the

sale of 2.34m shares by certain directors on 31 July 2001 under the terms of the lock in deed agreed when the Group was listed on the Irish and London Stock Exchanges.

The shares trade on the Irish and London exchanges with 82% and 18% of the trades in Dublin and London respectively.

Risk Management

The Group manages betting risk through a central risk management team whose responsibility it is to compile and monitor the odds throughout the life of an event. The Group does not offer credit and customers pay either in cash, via electronic payment or from monies held in a pre-funded client account.

Foreign exchange risk is minimal as the vast bulk of transactions are undertaken in local currency. The Group does not use any derivative financial instruments. Surplus cash is held on short term deposit with various banks approved by the Board.

Euro

The Group undertook significant work in preparation for the introduction of the Euro in January 2002. The transition has been very successful with no significant issues encountered.

The Group continues to evaluate the impact of the switch from the Punt to the Euro on average staking patterns and slip volumes. For example, turnover for the LBO division for the first six weeks of 2002 has increased by 20.1% year on year, with average slip volumes and values increasing by 14.8% and 4.6% respectively. It is too early to determine the contribution of the switch to the Euro to these results.

Dividends

The 2001 interim and proposed final dividend total €2.4m, an increase of 37% on 2000 (€1.8m) This reflects the Board's continuing optimism for the business while being mindful of the short term cash requirements to fund continued growth.

Outlook

The Irish LBO market remains our core market and we continue to see further growth opportunities within it. Due to the large success of our initial experience, we are currently planning a small number of additional openings in the UK.

Power Leisure has a proven track record of competing in a fully deregulated market having done so successfully in Ireland against most of the major UK betting chains.

The release of the Budd Report on the UK gaming and betting market is encouraging as it moves towards deregulation of the UK market and increased competition. Power Leisure plc fully supports any move to remove the so-called "demand test" for LBO licences, thereby allowing open competition.

The telephone business is well positioned for further growth both in Ireland and the UK. The on-line business, which is another channel supporting the Paddy Power brand, is in line to meet expectations in 2003. We are encouraged by the take-up to date in on-line betting.

As indicated trading in the early part of this year has been positive and we look forward to another year of growth in 2002.