

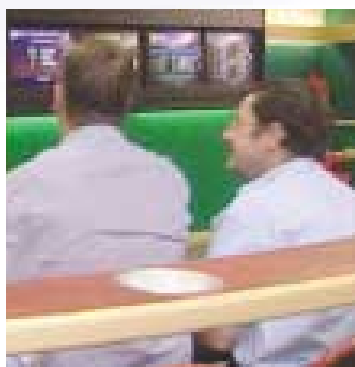
# Operating Review

*“Paddy Power remains focused as a small-stake, fixed-odds sports bookmaker. Distribution is primarily in the Republic of Ireland through Licensed Betting Offices (“LBO”), telephone betting and on-line betting.*

*The development of all channels in 2001 has been excellent. The Irish LBO business reached record turnover and profits while the success of the UK LBOs is encouraging and will lead to further exploration of this market. The Dial-a-Bet business continues to grow in Ireland and the UK generating substantial numbers of new customers. Our on-line business has also exceeded our forecasts and we expect it to breakeven over 2003.”*

Turnover in the LBOs increased in 2001 through growth in both slip volume and average slip value. Average slip value increased by 13% from €12.15 to €13.70 during 2001 (note: a slip may contain more than one bet) while slip volumes increased by 4%. We have continued to expand our Sunday opening with over half of our LBOs now open on Sundays from only 20 in 2000.

A second shop was opened in the UK in 2001. Our two UK shops, both in London, have continued to trade above expectations and we will continue to explore the UK market through further openings of a small number of additional LBOs as appropriate opportunities arise.



## Licensed Betting Offices

The Group continued to expand its LBO operation during 2001 with the addition of eight new outlets, seven in the Republic of Ireland and one in the United Kingdom, bringing the total estate to 126 outlets (2000: 118). Our relocation program continued during the year with two LBOs (2000: 2) relocated to larger and better-positioned premises. A further seven LBOs (2000: 8) were refurbished. At the year end the Group had no surplus property leases.

We continue to develop our customer offering through our LBO channel. During 2000 we commenced the installation of air-conditioning systems to regulate the temperature within all our LBOs. As of 31 December 2001 installations were complete in 123 out of the 126 LBOs. A new upgraded shop fit is in development and will be rolled out in 2002. We continue to enhance our in-shop broadcasting and display systems in line with our obsession to deliver enhanced customer satisfaction.

*During 2001 the Company  
opened a further eight  
Paddy Power LBOs bringing  
the total number of outlets  
in operation in Ireland at  
the year end to 126.*

Offices



## Operating Review

### Telephone Betting

Our telephone betting service ('Dial-a-Bet') continued its expansion during the year and ended the year with 25,582 (2000:19,967) registered customers and 9,227 (2000:7,390) active customers. (Note: active customers are defined as those that have bet with us in the previous three months.) Turnover increased by 41% to €55.5m. Average transaction size per bet increased by 7% from €82.30 in 2000 to €87.64.

The Dial-a-Bet service was launched into the UK during October 2001 opening 1,043 accounts by



Dial-a-Bet  
Telephone  
1800 721 82

*The Dial-a-Bet business continues to grow in Ireland and in the UK generating substantial numbers of new customers.*

year end. Paddy Power prices are now available in the UK via teletext on Channel 4, Sky and the Racing Channel as well as paddypower.com.

We continue to enhance customer service levels through improving our call handling. In December 2000 and January 2001 Dial-a-Bet operations were successfully relocated to the Group's new offices in Dublin. The new facility comprised 60 operator terminals servicing 120 incoming digital telephone lines. This was further expanded in 2001 giving a total capacity of 90 operators and is currently being enhanced to take 180 digital telephone lines together with a new software platform.

The combined impact of these actions continues to improve customer service through increased call handling and reduced queuing time.

In October 2001, Dial-a-Bet was restructured to avail of the new betting tax regime in the UK. This enabled Dial-a-Bet to offer tax free betting to Irish customers. While the Irish betting tax rate will reduce from 5% to 2% in May 2002 the rate will continue to be too high to offer tax free betting from Ireland. We will continue to review alternative locations to the UK to further reduce the tax cost.





**paddypower.com**  
ONLINE BETTING

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## Operating Review

### On-line Division

At 31 December 2001 the on-line division had a total of 42,431 (2000: 12,433) registered customers of which 14,758 (2000:5,064) were active at that date. On-line activities continued to expand in 2001 with the launch of paddypower.co.uk in May 2001 and the interactive television services. UK customers totalled 15,302 (2000: 2,069) at the year end. Bets are now being taken from over 70 countries as the Group accesses the Irish diaspora. We do not take bets from US residents. Total turnover for the year was €34.8m (2000: €8.5m).

On average, active customers bet 9.0 (2000: 7.3) times a month. An active customer is one who has bet in the last three months. Average stake for the year was €28.20 (2000: €31.40) a decrease of 10%.

The progress of the interactive TV channels with both NTL and Telewest has been disappointing in 2001 following their launch in March 2001 and April 2001 respectively. While our relative positioning on these platforms is satisfactory, the pace and extent of their penetration in the UK market remain uncertain.



*We continue to improve the services offered via our on-line division and commenced taking WAP bets in September 2001 and SMS bets in October 2001.*

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We continue to improve the services offered via our on-line division and commenced taking WAP bets in September 2001 and SMS bets in October 2001. The on-line brand presence has grown in the UK through advertising, public relations and joint marketing/affiliate deals including The Times newspaper, Big Brother and This Is London. In addition we have continually updated and improved the Paddy Power sites expanding both the range of events and the types of bets offered.

We continue to focus on customer service and are the only on-line site offering a customer loyalty program to selected customers.

### **British Horseracing Board**

The simultaneous change in the Irish betting tax rate on 1 May 2002 (a reduction from 5% to 2%) and the as yet undecided changes to the media rights for British Horseracing remain open issues. The proposed BHB turnover charge of 2.5% plus VAT is unacceptable and Power Leisure together with the rest of the bookmaking industry will resist such a charge. Power Leisure will continue to seek an equitable fee that reflects the reality of Irish bookmaking. Until such time as these fees are visible it is not possible to make a decision on the level of charges which will be passed on to the customer.