

Financial Review

Turnover

Turnover for the year ended 31 December 2002 was €673.8m (2001: €461.1m) an increase of 46% driven by excellent growth across all channels.

Betting office turnover grew by a total of 21% with like for like growth of 15.4% for the year as a whole. Cancellation of events in the early part of 2001 due to the foot and mouth crisis clearly impacted the like for like growth rates of 22.5% in the first half of the year making direct comparisons difficult. However, the Group continued to see like for like growth of 9% for the second half of the year.

Incremental growth was generated through the six new betting offices, two relocations, and one extension undertaken during the year together with the carry forward impact of new units opened part way through 2001.

Telephone betting saw extremely strong growth in the year with total turnover of €122.9m (2001: €55.5m) an increase of 121.3%. This growth has been fuelled by the decision to offer tax-free betting to our Irish phone business following changes to the UK betting tax regime in 2001. In addition, the penetration of the UK market which commenced in late 2001 was expanded in 2002 as the Group undertook a year long advertising campaign as well as making its prices available on teletext in the UK. Turnover from the UK contributed 31% of turnover for the Telephone channel during the year and is continuing to grow each month as a percentage of total business.

The On-line division grew by 195.1% with turnover for the year reaching €102.8m (2001: €34.8m). This business is now significantly larger in the UK than in Ireland with 58% of its turnover coming from the UK. It is the Group's largest single source of UK revenue.

Average slip values by channel

	2002	2001	Change
	€	€	%
Betting Offices	15.29	13.70	12
Telephones	92.89	87.64	6
On-line	26.63	28.20	(6)

Total slip volumes by channel (000's)

	2002	2001	Change
	'000	'000	%
Betting Offices	29,313	27,064	8
Telephones	1,323	634	109
On-line	3,861	1,238	212%

Gross Margin

Gross Margin, measured as the amount staked (excluding betting tax) less winnings returned to customers, increased by 36.5% to €77.0m (2001: €56.4m). The gross margin percentage fluctuated throughout the year within its normal ranges. However, margins for the year overall were near the mid-point of their normal trading ranges for each channel.

Total gross margin for the Group was 11.43% (2001: 12.24%) reflecting a change in mix by channel as well as changes within each channel. The betting offices saw a slight decrease in gross margin percentage averaging 13.14% (2001: 13.36%). The telephone gross margin percentage 7.93% (2001: 8.42%) also saw a decrease. However, a significant element of this was due to the lower margin obtained on the UK telephone business as it seeks to reach critical mass. The On-line division at 8.18% (2001: 6.42%) improved its gross margin percentage as it made further inroads into the mass market.

Gross Margin %	Year to 31/12/02 %	Year to 31/12/01 %
Betting offices	13.14	13.36
Telephone	7.93	8.42
On-line	8.18	6.42

Betting Taxes and Levies

2002 saw a number of changes to the betting tax regime. In Ireland, betting tax was reduced from 5% to 2% effective from 1 May 2002. In the UK the 15% gross profits betting tax which was introduced in October 2001 was in force for the full year. In addition, the British Horse Racing Boards (BHB) new data rights charge was implemented from 1 May 2002 under which 10% of gross profits on British horse racing must be paid to the BHB. This has been recharged to the customer via the 1% betting levy in the Irish betting offices and is likely to result in a small cost to the Group.

Operating Profit

Operating profit increased by 101 % to €17.1m from €8.5m in 2001 reflecting the strong turnover growth together with an overall increase in the Group's absolute gross margin.

	Year ended 31/12/2002 €m	Year ended 31/12/2001 €m
Betting Offices	19.2	16.6
Telephones	0.3	1.0
On-line	(2.4)	(9.1)
Total	17.1	8.5

Operating profit leverage on the higher gross margin differed for each channel due to their different fixed and variable cost structures. The betting offices grew gross margin by €9.3m (19%) to €58.9m notwithstanding a decrease in their gross margin percentage. Given the largely fixed operating cost base and the level of new shop openings, profit grew by €2.5m (15.1%) to €19.2m. Telephone gross margin increased by €5.1m (108%) to €9.7m. However operating profit fell by €0.7m to €0.3m due to start-up costs associated with the UK operation, the lower gross margin achieved on the new UK accounts and the new gross profits taxes and BHB costs. The On-line division increased its gross margin by €6.2m (276%) to €8.4m. Given its relatively low fixed cost base and the level of discretionary marketing expenditure, operating performance improved by €6.7m in the period.

Tax Rate

The corporation tax charge for the year was €3.0m (2001: €1.5m restated) representing an effective tax rate of 17% (2001: 17% restated).

During the year, the Group adopted FRS-19 "Deferred tax" and thereby changed its accounting policy for deferred tax to a full provision basis. This had no effect on the current year tax charge. The effect on the prior year tax charge was a decrease of €226k. The effect on net assets, by way of a prior year adjustment, was a reduction at 31 December 2001 and 2000 of €571k and €797k respectively.

Cash Flow and Liquid Resources

Net cash flow from operating activities was €30.4m (2001: €11.5m). This includes net cash inflow on customer account balances which totalled €0.8m (2001: €2.6m). Fixed asset investments were €8.1m (2001: €6.4m) including freehold premises and lease acquisition costs of €3.7m together with fit out costs for the betting office estate and additional computer hardware and software for the Telephone and On-line divisions.

Cash balances at 31 December 2002 totalled €36.4m (2001:€18.3m). Customer balances amounted to €3.4m (2001: €2.6m). Cash balances are substantially invested in short-term bank deposits, all of which is available on demand.

The Group has no borrowings other than finance leases.

Employees

The average number of persons employed by the Group during 2002 was 856 (2001: 757). At the year-end, the total number of employees was 904 (2001: 799).

Share Price

The Group's shares traded in the range of €4.05 to €6.0 (Stg£2.57 to Stg£3.78) with the year high reached on 23 May 2002. The share price at 31 December 2002 was €5.08/Stg£3.23 (2001: €4.00/stg£2.55) giving a market capitalisation of €240m /Stg£152m (2001: €189m/stg£120m). The year-end free float (shares not held by the Board or their connected parties) is 68% (2001: 42%).

Risk Management

The Group manages its betting risk through a central risk management team whose role is to compile the initial odds and subsequently manage the odds throughout the life of an event. The Group does not offer credit betting.

The Group's functional currency is the euro. Foreign exchange risk is small as the majority of foreign currency transactions revenues and expenses provide a natural hedge. The Group does not use any derivative financial instruments.

Dividend

The 2002 interim and proposed final dividend total €4.8m an increase of 100% on 2001 (€2.4m). This reflects the Board's continuing optimism for the business while being mindful of the Group's expansion plans.

Outlook


The outlook remains positive. Trading since the year-end has been strong with margins well within normal trading ranges.

The Irish betting office market remains our core business and we are confident it will continue to grow through a programme of new shop openings, relocations and extensions together with underlying organic growth. The UK LBO estate, while still in its infancy, will grow in 2003 and beyond to become a significant part of Group operations.

Further growth in our Telephone business is expected in both Ireland and the UK and we continue to expect our On-line business to break even for 2003.

As awareness of the Paddy Power brand continues to grow within the UK we expect our UK distribution channels to become an increasingly important part of the Group.

We will continue to review new product opportunities in the betting industry as appropriate.



Ross Ivers
Finance Director
25 February 2003