

Notes to the Financial Statements

Year ended 31 December 2002

1. Turnover and Segmental Information

The turnover of the Group relates to the provision of betting services, substantially all of which are conducted in Ireland and Great Britain.

Segmental information is as follows:		
Turnover by Delivery Channel	<i>Year ended</i> 31 December 2002 €'000	<i>Year ended</i> 31 December 2001 €'000
Licensed betting offices	448,096	370,698
Telephone betting	122,892	55,544
On-line betting	102,800	34,833
	673,788	461,075
Turnover by Region	<i>Year ended</i> 31 December 2002 €'000	<i>Year ended</i> 31 December 2001 €'000
Ireland & other	570,564	437,003
Great Britain	103,224	24,072
	673,788	461,075
Gross Profit by Delivery Channel	<i>Year ended</i> 31 December 2002 €'000	<i>Year ended</i> 31 December 2001 €'000
Licensed betting offices	58,859	49,539
Telephone betting	9,743	4,677
On-line betting	8,407	2,235
	77,009	56,451
Operating Profit/(Loss) by Delivery Channel	<i>Year ended</i> 31 December 2002 €'000	<i>Year ended</i> 31 December 2001 €'000
Licensed betting offices	19,167	16,649
Telephone betting	312	961
On-line betting	(2,396)	(9,103)
	17,083	8,507

Gross profit, operating profit and net assets by geographical segment and net assets by delivery channel have not been disclosed as, in the opinion of the directors, the information would be seriously prejudicial to the interests of the Group.

Notes to the Financial Statements

2. Interest Payable and Similar Charges	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2001 €'000</i>
Borrowings wholly repayable within five years – finance leases	156	71
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3. Interest Receivable and Similar Income	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2001 €'000</i>
Deposit interest	895	656
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4. Profit on Ordinary Activities Before Taxation	<i>Year ended 31 December 2002 €'000</i>	<i>Year ended 31 December 2001 €'000</i>
The profit on ordinary activities before taxation is stated after charging:		
Directors' emoluments		
– fees	207	107
– other emoluments including pension costs	1,423	1,095
Depreciation	5,805	4,911
Auditors' remuneration for audit services	41	41
Loss on disposal of fixed assets	2	4
Amortisation of goodwill	121	121
Operating lease rentals, principally premises	3,459	3,414

As permitted by section 3(2) of the Companies (Amendment) Act, 1986 no separate profit and loss account is presented in respect of the Company. The Company recorded a profit for the year before dividends of €12.1 million (2001: €14.6 million restated).

Amounts paid to the auditors and their associates by the Group in respect of non audit services were €80,000 (2001: €87,000).

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5. Directors' Emoluments

Included in Directors' emoluments are the following emoluments which have been paid during the year ended 31 December 2002:

	<i>Fees</i>	<i>Salary</i>	<i>Pension costs</i>	<i>Benefits</i>	<i>Annual bonus</i>	<i>Total emoluments 2002</i>	<i>Total emoluments 2001</i>
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Executive							
Stewart Kenny	63	106	322	22	-	513	314
Ross Ivers **	-	210	42	20	187	459	112
John O'Reilly*	-	226	57	18	213	514	272
Non-executive							
John Corcoran	38	-	-	-	-	38	38
Ian Armitage	16	-	-	-	-	16	16
Edward McDaid	16	-	-	-	-	16	16
David Power	16	-	-	-	-	16	16
Fintan Drury	8	-	-	-	-	8	-
Stephen Thomas	12	-	-	-	-	12	-
Peter O'Grady Walshe	19	-	-	-	-	19	402
Michael Quinn	19	-	-	-	-	19	16
	207	542	421	60	400	1,630	1,202

*John O'Reilly was appointed chief executive officer on 20 June 2002.

** As Ross Ivers joined the Group in 2001 the prior year comparative figures are for a five month period.

Benefits include provision of company car, life and medical insurance.

There were no loans outstanding to any Director at any time during the year.

6. Employee Information

	<i>Year ended 31 December 2002</i>	<i>Year ended 31 December 2001</i>
The average number of persons employed by the Group (including executive Directors) during the year was:	856	757
	<i>Year ended 31 December 2002</i>	<i>Year ended 31 December 2001</i>
	€'000	€'000
Aggregate payroll costs were as follows:		
Wages and salaries	22,548	16,630
Social welfare costs	2,202	1,773
Other pension costs and life assurance	633	478
	25,383	18,881

Notes to the Financial Statements

7. Tax on Profit on Ordinary Activities

	<i>Year ended</i> 31 December 2002 €'000	<i>Year ended</i> 31 December 2001 €'000 <i>(Restated)</i>
The charge based on profit on ordinary activities comprises:		
Corporation tax, principally at 16% (2001 – 20%)	3,488	720
(Over)under provision in previous year	(34)	12
Total current tax charge	3,454	732
Deferred tax – (reversing) originating timing differences	(425)	805
	3,029	1,537

The difference between the total current taxation charge shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax is as follows:

Tax on group profit on ordinary activities at the standard Irish corporation tax rate of 16% (2001 – 20%)	2,852	1,818
Effects of:		
Income taxable at higher rates	85	36
Expenses deductible for tax purposes	(56)	(58)
Depreciation in excess of (less than) capital allowances	607	(1,076)
Total current tax charge	3,488	720

8. Prior year adjustment

During the year, the Group adopted FRS 19 'Deferred Tax', and thereby changed its accounting policy in relation to accounting for deferred taxation. The effect of the adjustment was to increase the deferred tax provision and decrease the profit and loss account balance at 31 December 2000 by €797,746; decrease the deferred tax charge for the year ended 31 December 2001 by €226,380; and increase the deferred tax provision and decrease the profit and loss account balance at 31 December 2001 by €571,366.

9. Dividends

	<i>Year ended</i> 31 December 2002 €'000	<i>Year ended</i> 31 December 2001 €'000
Ordinary shares:		
– interim paid €0.034 per share (2001: €0.017)	1,603	801
– final proposed €0.068 per share (2001: €0.034)	3,206	1,603
	4,809	2,404

Notes to the Financial Statements

10. Earnings per Share	Year ended	Year ended
	31 December 2002	31 December 2001
	€'000	€'000 (Restated)
Profit for the financial year	14,793	7,555
	'000	'000
Weighted average number of shares in issue	47,144	47,144
Dilutive effect of options outstanding	3,856	3,848
Diluted weighted average number of shares	51,000	50,992
Basic earnings per share (cent)	31.38	16.03
Diluted earnings per share (cent)	29.00	14.82

11. Intangible Assets - Goodwill	Group	Group	Company	Company
	31 December	31 December	31 December	31 December
	2002	2001	2002	2001
	€'000	€'000	€'000	€'000
Cost				
Goodwill at cost	2,108	2,108	2,421	2,421
Amortisation				
Opening balance	962	841	962	841
Amortisation for year	121	121	121	121
Closing balance	1,083	962	1,083	962
Net book value				
At 31 December	1,025	1,146	1,338	1,459

Intangible assets in the Company arise from the amalgamation of three bookmaking businesses to form Paddy Power plc.

Notes to the Financial Statements

12. Tangible Assets

<i>Group</i>	<i>Freehold property</i>	<i>Fixtures, fittings & equipment</i>	<i>Computer equipment</i>	<i>Equipment screens</i>	<i>Motor vehicles</i>	<i>Total</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Cost						
At 1 January 2002	14,587	15,038	7,314	4,006	631	41,576
Additions	3,736	2,593	844	731	179	8,083
Disposals	-	-	-	-	(90)	(90)
At 31 December 2002	18,323	17,631	8,158	4,737	720	49,569
Accumulated Depreciation						
At 1 January 2002	4,241	8,368	2,972	3,095	151	18,827
Charge for year	698	1,908	2,581	482	136	5,805
Disposals	-	-	-	-	(57)	(57)
At 31 December 2002	4,939	10,276	5,553	3,577	230	24,575
Net book value						
At 31 December 2001	10,346	6,670	4,342	911	480	22,749
At 31 December 2002	13,384	7,355	2,605	1,160	490	24,994

The Group owns 12 freehold retail properties. These premises, in addition to one property where the Group has an option to purchase a freehold interest, had a net book value of €2.3 million at 31 December 2002 (31 December 2001: €2.3 million) and were valued on an existing use basis by Jones Lang LaSalle at 30 June 2000 at €5.8 million. This valuation has not been reflected in these financial statements.

<i>Company</i>	<i>Freehold & leasehold property</i>	<i>Fixtures fittings & equipment</i>	<i>Computer equipment</i>	<i>Equipment screens</i>	<i>Motor vehicles</i>	<i>Total</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Cost						
At 1 January 2002	14,101	14,570	1,693	4,006	559	34,929
Additions	3,288	2,081	401	679	159	6,608
Disposals	-	-	-	-	(90)	(90)
At 31 December 2002	17,389	16,651	2,094	4,685	628	41,447
Accumulated Depreciation						
At 1 January 2002	4,021	8,316	728	3,095	139	16,299
Charge for year	681	1,763	270	482	129	3,325
Disposals	-	-	-	-	(57)	(57)
Depreciation at 31 December 2002	4,702	10,079	998	3,577	211	19,567
Net book value						
At 31 December 2001	10,080	6,254	965	911	420	18,630
At 31 December 2002	12,687	6,572	1,096	1,108	417	21,880

Notes to the Financial Statements

13. Debtors	<i>Group</i>		<i>Company</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Sundry debtors and prepayments	1,570	1,110	1,138	811
Amounts owed by Group Companies	-	-	8,325	16,726
	1,570	1,110	9,463	17,537

All of the above debtors fall due within one year.

14. Creditors (Amounts Falling Due Within One Year)	<i>Group</i>		<i>Company</i>	
	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Trade creditors	2,190	1,765	2,190	1,765
Accruals	7,907	1,687	5,524	1,358
Customer balances	3,427	2,619	-	1,417
Corporation tax	2,709	720	2,709	720
PAYE and Social Welfare	623	633	623	533
Betting duty	861	505	651	455
Value added tax	982	1,010	1,147	1,010
Dividends payable	3,206	1,603	3,206	1,603
Finance leases	254	213	153	153
Amounts owed to Group companies	-	-	212	65
	22,159	10,755	16,415	9,079

15. Creditors (Amount Falling Due After One Year)	<i>31 December</i>		<i>31 December</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>	<i>€'000</i>
Finance lease obligations which fall due				
- between one and two years	480	213	313	153
- between two and five years	-	580	-	313
	480	793	313	466

Notes to the Financial Statements

16. Provisions for Liabilities and Charges – Deferred Tax	<i>Group</i> 31 December 2002 €'000	<i>Company</i> 31 December 2002 €'000
Balance as at start of year (restated)	1,602	1,602
Charge for the year (Note 7)	(425)	(425)
Balance as at end of year	1,177	1,177
All deferred tax relates to timing differences arising on fixed assets.		
17. Share Capital	<i>31 December 2002</i> €'000	<i>31 December 2001</i> €'000
Authorised		
70,000,000 ordinary shares of €0.10 each	7,000	7,000
Allotted, called up and fully paid		
47,144,120 ordinary shares of €0.10 each	4,714	4,714

The Company has the following employee share schemes:

(a) The Power Leisure plc May 2000 Executive Share Option Scheme (the “Executive Share Option Scheme”)

Under the May 2000 Executive Share Option Scheme options over a total of 3,543,000 shares were granted at an exercise price of €1.16 per share. Options over 240,000 shares were exercised in November 2000 and options over a further 48,000 shares have lapsed. The remaining options are exercisable as follows:

<i>Earliest exercise date</i>	<i>No. of shares</i>
1 May 2003	2,835,000
1 May 2004	165,000
1 May 2005	255,000
	3,255,000

On 21 November 2000 the shareholders approved the termination of this Scheme such that no further options may be granted pursuant to this scheme.

(b) The Power Leisure plc 2000 Restricted Share Scheme (the “Restricted Scheme”)

The Restricted Scheme was adopted by shareholders on 21 November 2000. Employees eligible to participate in the Restricted Scheme may not be participants in any other Company share option scheme (save for the Sharesave Scheme described below). In addition, to be eligible, a participant must have been an employee at 7 December 2000, must have at least three years continuous service, and have been listed in the allocation schedule attached to the Rules of the Restricted Scheme. The awards of shares granted under the Restricted Scheme are in the amounts of €3,175, €1,905 or €1,270 per eligible employee.

Notes to the Financial Statements

The shares cannot be sold within five years of the date of the award being granted. During this period of five years the shares are held by the Power Leisure Employee Benefit Trustee Limited for the benefit of the relevant employees.

At 31 December 2002 239,216 shares are held by the Power Leisure Employee Benefit Trustee Limited (2001: 225,908).

(c) The Power Leisure plc November 2000 Share Option (the "Share Option Scheme")

The Share Option Scheme was adopted by shareholders on 21 November 2000. The Share Option Scheme is available to directors, other than non-executive directors, and employees.

Options may be granted within a period of 10 years from 7 December 2000 at the higher of nominal or market value. Options may not be exercised earlier than three years from the date of grant and may only be exercised if the Group meets certain targets and any further condition on exercise which the Board determines to be appropriate. These targets require real growth (Consumer Price Index plus 5 percent compounded annually) in earnings per share of the Group over a period of not less than three years following the grant of an option.

Options granted under the share option scheme are:

<i>Options Granted</i>	<i>Total Granted</i>	<i>Exercise Price</i>	<i>Remaining Exercisable at 31 December 2002</i>
December 2000	50,000	€2.40	50,000
January 2001	10,290	€2.40	5,290
August 2001	382,466	€3.59	382,466
July 2002	193,500	€5.25	193,500
	636,256		631,256

(d) The Power Leisure plc Sharesave Scheme (the "Sharesave Scheme")

The Sharesave Scheme was adopted by shareholders on 21 November 2000 and was subsequently approved by the Revenue Commissioners.

All employees (including executive directors) who have not less than 12 months continuous service with the Group or any subsidiary nominated to join the Sharesave Scheme may be invited to apply for options to acquire shares. Options will normally be granted to all eligible employees in the 42 day period after the announcement of the interim or final results of the Company. The purchase price for each ordinary share in respect of which an option is granted shall not be less than 90 percent of the closing price of the shares on the Irish Stock Exchange on the dealing day last preceding the date of grant of the option or its nominal value. The aggregate maximum monthly contribution payable by an employee in connection with the scheme may not exceed €64.

The maximum number of shares under the Sharesave Scheme for which options may be granted shall not, when added to the number of shares which have been or remain to be issued pursuant to options granted, exceed one percent of the issued ordinary share capital of the Company. In addition, the number of shares for which options may be granted under the Sharesave Scheme in any period of ten successive calendar years shall not, when added to the number of shares which have been or remain to be issued pursuant to options in the Sharesave Scheme granted during the same period under any other employee share scheme of the Company, exceed ten percent of the issued share capital of the Company.

Notes to the Financial Statements

18. Derivatives and Other Financial Investments

The Group's financial assets and liabilities comprise cash balances and finance leases only. The Group does not use any derivative financial instruments.

19. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of Operating Profit to Net Cash Inflow from Operating Activities

	31 December 2002	31 December 2001
	€'000	€'000
Operating profit	17,083	8,507
Depreciation	5,805	4,911
Amortisation of goodwill	121	121
Increase in debtors	(282)	(440)
Increase/(decrease) in creditors	7,706	(1,642)
Loss on disposal of fixed assets	2	4
Net cash inflow from operating activities	30,435	11,461

(b) Analysis of Changes in Cash During the Year and Net Funds at Year End

	31 December 2002	31 December 2001
	€'000	€'000
Cash balance at 1 January 2001	18,307	16,054
Net cash inflow	18,066	2,253
Cash balance at 31 December 2002	36,373	18,307
Finance leases at 31 December 2002	(734)	(806)
Net funds at end of year	35,639	17,501

20. Financial Assets – Company

Investment in Subsidiaries at Cost

	2002	2001
	€'000	€'000
Balance, start of year	103	95
Additional investments	-	8
Balance, end of year	103	103

Investments comprise ordinary share capital.

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20. Financial Assets – Company (continued)

The Company had the following subsidiaries, all of which are wholly owned, at 31 December 2002:

<i>Name</i>	<i>Country of Incorporation</i>	<i>Activity</i>	<i>Registered Office</i>
Zephyr Limited	Ireland	Property Holding	
KOR Enterprises	Ireland	Property Holding	Airton House
Rexbury Limited	Ireland	Property Holding	Airton Road Tallaght
QC Holdings Limited	Ireland	Property Holding	Dublin 24
Pridepark Developments Limited	Ireland	Property Holding	
Power Leisure (IOM) Limited	Ireland	Call Centre Administration	Atlantic House 4-8 Circular Road Douglas, Isle of Man
Leisurebet Limited	Ireland	Bookmaker	Airton House Airton Road, Tallaght Dublin 24
Power Leisure Bookmaker Limited ¹	UK	Bookmaker	Suite 17 City Business Centre Lower Road, London SE16 2XB
Paddy Power (Malta) Limited	Malta	Non trading	Alpine House San Gwan Malta

1. Formerly Power Leisure (UK) Limited

21. Pension Arrangements

The Group operates defined contribution schemes for certain employees and executive Directors. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pension costs for the year amounted to €579,000 (2001: €399,000) and there were no significant amounts due to the scheme at year end (2001: Nil).

Notes to the Financial Statements

22. Commitments and Contingencies

(a) Guarantees

The Company has revolving credit and guarantee facilities of €6.98 million and €0.8 million respectively with AIB plc. These facilities are unsecured.

(b) Capital Commitments

The Group has commitments for capital expenditure not provided for in the financial statements amounting to €2.4 million (2001: €0.2 million).

(c) Operating Lease Commitments

The Group has annual commitments of €4.2 million (2001: €3.3 million) in respect of operating leases on properties which expire as follows:

	31 December 2002 €'000	31 December 2001 €'000
Leases which expire:		
- within 1 year	306	286
- between 2 and 5 years	656	367
- after 5 years	3,279	2,678
	4,240	3,331

23. Related Party Transactions

The Group paid rent of €19,046 (2001: €19,046) and €12,697 (2001: €12,788) during the year for retail properties occupied under long term leases and owned by Stewart Kenny and David Power respectively, both of whom are Directors.

David Power, a non-executive Director, received €8,000 (2001: €3,809) in respect of consulting fees. The Group engaged in hedging transactions with David Power in his capacity as an on-course bookmaker. In aggregate, bets totalling €4,080 (2001: €8,734) were placed by the Group with Richard Power On-Course Bookmakers and that firm placed bets totalling € 23,662 (2001: €8,539) with the Group.

The Company paid HG Pooled Management professional fees of €47,702 (2001: Nil) for recruitment services. Mr Ian Armitage, a non-executive Director of the Company is Managing Director of HG Pooled Management Limited.

The Company paid Tatoria Limited €27,478 (2001: €20,284) during the year for audio-visual services. Peter O'Grady Walshe, who resigned as a non-executive Director of Paddy Power plc on 29 August 2002, is a non-executive Director of Tatoria Limited.

ICC Bank plc, a licensed bank and shareholder in the Company, has provided leasing finance to the Group and the Group has placed deposits with the bank. Michael Quinn, who resigned as a non-executive Director of the Company on 29 August 2002, is a Director of the ICC Bank.

All of the above transactions were conducted on an arms length basis at normal commercial rates. No amounts were outstanding at year end in respect of these transactions.