

Operating Review

Paddy Power plc remains a small stake fixed odds bookmaker. Distribution is through our 129 Irish betting offices, three United Kingdom betting offices, our telephone betting service and our internet and interactive television services.

Betting Offices

The Group operates 132 betting offices throughout Ireland and the UK. (2001: 126). Five new offices were opened in Ireland in 2002 (2001: 7) with 2 relocations (2001: 2) and 1 extension (2001: nil). The Group continues to operate four racecourse outlets as well as a shop in Lansdowne Road, home of the Irish Rugby Football Union and home ground of the Football Association of Ireland. In addition to the opening, relocation and extensions of outlets the Group has also increased its level of maintenance across the estate in 2002. It is intended that every office that is not scheduled to be relocated or extended will undergo a degree of refurbishment by the end of 2004. In addition, the pipeline of new units, relocations, and extensions is at record levels.

In the UK the Group opened one new office (2001: 1). While only in operation three weeks by the year-end, it is already trading strongly. We have also been awarded licences for three further shops which are in various stages of fit out and will open in the first half of 2003. A further six licence applications have been made and will be heard in April and May 2003. The Group is actively developing a strong pipeline of properties for which licence applications will be made in 2003 and beyond. The Group will establish a UK based operational infrastructure in 2003 to support growth in 2003 and beyond.

At the year-end, the Group has no surplus property leases.

The Group has yet to install an EPOS system. Notwithstanding the administrative benefits of an EPOS system, one will only be installed when we are satisfied that it will not impact the flexibility of our trading ethos but add value to the customer.

We continue to improve our in shop broadcasting systems during 2002 so that Paddy Power now offers increased levels of live sports coverage throughout the estate.

Average stake per slip for the year was €15.29 (2001: €13.70) an increase of 12%.

Telephone Betting

The telephone betting service, which operates under the name Paddy Power Dial-a-Bet, has seen significant expansion in 2002. This has been driven by the expansion into the UK, marketed through both national print advertising and the use of teletext services. The profile of this new UK customer base clearly shows the appeal of the service and Paddy Power brand outside of an Irish customer base in the UK. The switch to tax-free betting in October 2001 has also driven significant growth in our Irish turnover.

We have continued to drive new product through the phone service offering increased levels of "betting in running" in 2002. Dial-a-Bet now offers separate racing and sports pages on teletext and is testing a "live shows" and results service. In addition, in response to customer demand, opening hours have also been extended to 10pm daily to provide facilities to bet on US sports and racing. We also regularly introduce extended hours to cater for key events. In 2002 this included the Breeders Cup where opening hours were extended to 11pm and the FIFA World Cup finals where operations commenced from 6am.

We have continued to see strong growth in the numbers of active and registered customers in 2002 in both markets.

	Registered		Active [^]	
	2002	2001	2002	2001
UK	17,460	1,043	5,974	1,043
Ireland	28,530	24,539	8,600	8,184
Total	45,990	25,582	14,574	9,227

[^]active customers are those that have placed a bet at least once in the last 3 months

Average stake per call was €92.89 (2001: €87.64) an increase of 6%.

In December 2002, Dial-a-Bet switched its telephone betting systems to the same software platform as the internet systems. Following a commissioning period this will allow the Group to make significant improvements to both customer service and to internal operations through the provision of a single customer account for both the On-line and Telephone channels. In addition, new call forecasting systems were also installed in late 2002 the benefits of which will be seen in 2003.

On-line

The On-line division contains both the Internet and Interactive TV channels.

This division has seen excellent growth in customer numbers and activity in 2002.

	Registered		Active [^]	
	2002	2001	2002	2001
UK	72,838	15,302	19,159	7,077
Ireland/other	48,489	27,129	10,501	7,681
Total	121,327	42,431	29,660	14,758

[^]active customers are those that have placed a bet at least once in the last 3 months

Average stake per bet was €26.63 (2001: €28.20) a decrease of 6%. The On-line channel is our largest distribution channel in the UK and continues to spearhead awareness of the Paddy Power brand in the UK. As with the Dial-a-Bet business the customer profile indicates a broad acceptance of the brand well beyond those with an Irish connection. Our unusual brand approach continues to win customers and awards with our unique view on Iain Duncan Smith's job prospects for 2003 judged one of the top 10 press advertisements in the UK in 2002.

The FIFA World Cup finals generated significant new registrations particularly through our award-winning free fantasy soccer game. The site has also continued to receive accolades for both content and usability, winning awards from both The Sunday Times and Web User magazine in 2002.

Growth in the product range continues to be a key element of this channel given the inherent diversity of its target market. The nature of the channel makes it easier to promote a wide variety of betting opportunities and the paddy.com product offering remains first class. For example, paddy.com now offers markets on 50 football leagues from around the world and in excess of 25 sub-markets on televised football games.

An average active customer bets 13 times a month (2001: 9).

Within this channel, interactive TV performance has disappointed as market penetration by the operators, together with systems usability issues, failed to meet expectations. We continue to review the potential of this channel.

As noted earlier, with Dial-a-Bet now being on the same software platform, it offers a number of opportunities for improved customer service and operational efficiency in 2003.



John O'Reilly

Chief Executive

25 February 2003