Tuesday 25 February 2014

# Ladbrokes plc

# PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013


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**2013: Challenging financially but tangible operational progress achieved enhancing our competitive position**

**2013 financial performance**

- Group net revenue(1) down 0.6%(2)
- Group operating profit(1) (3) of £138.3 million down 32.9%
- Underlying earnings per share(4) down 36.4% to 11.7p
- Full year dividend maintained at 8.9p (2012: 8.9p)
- Full year exceptional costs of £51.6 million largely driven by costs of transition to Playtech products and platforms, business restructuring and impairment of shop licences
- High Rollers contributed £5.9 million of operating profit (2012: £30.0 million)

**Significant operational progress**

- Long term partnership signed with Playtech to accelerate Digital revenue growth from H2 2014 onwards
- New mobile site on proven Mobenga platform launched in December with positive early feedback
- Launch in Q4 of Ladbrokes Exchange and new poker product
- Ladbrokes Innovation Lab established to deliver ongoing mobile product improvements – three upgrades already delivered and strong future pipeline
- UK Retail presence grown with 121 new shops opened in higher footfall locations
- Self Service Betting Terminals (SSBTs), Sky TV and free Wifi rolled out across estate in H2
- Expansion delivered in Spain, new product launched in China and opportunity secured in Australia

**2014 H1 focus on completing planned operational, platform and product upgrades**

- Digital – complete product migration, introduce single wallet and apply CRM expertise to drive performance in H2 and beyond
- Machines – roll out of new Clarity gaming machines ahead of the World Cup to deliver benefits in H2
- Retail – optimise retail estate to improve quality of earnings with 40 to 50 shop closures
- Group – completion of the remaining platform, product and capability upgrades means H1 2014 Group operating profit is targeted to be ahead of H2 2013 but down on the comparative period with further growth anticipated through H2 2014

**Confidence in business underpins commitment to 2014 dividend**

- Digital growth driven by new products allied to Ladbrokes Israel CRM expertise and Playtech agreement to December 2017
- New product capabilities allow us to leverage brand strength to attract and retain customers
- Continued evolution of Retail product ensures strong underlying cashflow
- International markets offer further opportunities for growth
- Free cash flow will benefit from capex returning to more normalised levels (FY14 c.£60-65 million)
- Dividend commitment in 2014 of at least 8.9p

**Richard Glynn, Chief Executive, commented:**

"While our financial results for 2013 were disappointing, we made real operational progress which has continued into this year. We remain confident about the direction of the business and the momentum we are creating.

"As we have made clear, H1 is about delivery and H2 is about growth. Our immediate focus is on the completion of our remaining platform, product and capability upgrades, notably single wallet and CRM, which will begin to deliver tangible benefits from the World Cup onwards.

"The early evidence from our changes to the desktop sportsbook and to our mobile offer are encouraging, giving us confidence that where our product upgrades and improved capabilities converge behind our brand, we have a powerful proposition. We look forward to competing even harder through the course of this year."

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m | Year on year change % |
|---|---|---|---|
| **Revenue (1)** | **1,111.2** | **1,053.3** | **5.5** |
| Revenue incl High Rollers | 1,117.7 | 1,084.4 | 3.1 |
| | | | |
| **Operating profit (3) by division** | | | |
| UK Retail | 133.9 | 180.7 | (25.9) |
| European Retail | 15.6 | 20.2 | (22.8) |
| Digital (5) | 8.2 | 31.8 | (74.2) |
| Core Telephone Betting | (1.6) | (1.5) | (6.7) |
| Corporate costs | (17.8) | (25.1) | 29.1 |
| **Total operating profit (1) (3)** | **138.3** | **206.1** | **(32.9)** |
| High Rollers | 5.9 | 30.0 | (80.3) |
| **Group operating profit (3)** | **144.2** | **236.1** | **(38.9)** |
| | | | |
| Profit before tax | 67.6 | 200.7 | (66.3) |
| Profit after tax | 67.0 | 190.3 | (64.8) |
| | | | |
| **Adjusted basic earnings per share (4)** | **11.7p** | **18.4p** | **(36.4)** |
| Basic earnings per share | 7.3p | 21.0p | (65.2) |
| | | | |
| Total dividend per share | 8.9p | 8.9p | - |
| | | | |
| **Financial position** | | | |
| Cash generated by total operations | 212.7 | 283.2 | (24.9) |
| Net debt | 398.6 | 386.9 | (3.0) |

(1) *Excluding High Rollers.*
(2) *Adjusted for change in machine taxation from VAT to MGD. Reported Group net revenue up 5.5%.*
(3) *Operating profit is defined as profit before tax, net finance expense and exceptional items of £51.6 million (2012: £6.0 million).*
(4) *Adjusted to exclude exceptional items and High Rollers.*
(5) *Before the Betdaq and Australian acquisitions in 2013, Digital operating profit is £11.5 million (2012: £31.8 million).*

## Chief Executive's Review

### Group overview

2013 saw us continue to build a stronger and more competitive business. Our financial results reflected the disruption from these necessary changes and also some market-wide difficulties. They did not, however, reflect the real operational progress made. We enter 2014 confident in our ability to deliver the final changes needed to establish a far more competitive offer that will be attractive to customers and drive shareholder benefits in H2 and beyond.

### UK Retail

- **Overview**

High street betting continues to be an attractive proposition for customers and offers a resilient source of income despite a difficult trading and regulatory environment.

- **2013 Financial performance**

With changes made to the way in which machine profits are taxed and sector wide rising cost of horseracing picture rights both impacting us from the start of the year, our UK Retail business faced significant headwinds.

Net revenue for the year was broadly flat year on year at £800.9 million. In OTC, the year finished strongly but not enough to mitigate the well publicised negative impact of the extreme hot weather which seriously affected footfall and gross win margin during the summer.

Gross win margin for the year was 16.9%, up slightly on 2012 (16.7%) supported by our investment in the trading platform. Q4 2013 returned to a more normalised gross win margin at 17.1% (Q3 2013: 14.9%) following the well publicised Q3 impact of reduced racing fields and a customer friendly start to the football season.

Machines have been a material driver of UK Retail revenue delivering double digit growth in each of the last two years. While we anticipated machine performance would slow, reflecting the more competitive environment and the relative age of our machine estate against peers, the slowdown was greater than expected. Machine gross win was up 2.4% for the year but down 2.1% (Q4: down 2.4%) on a per shop per week basis. The change in taxation from VAT to MGD resulted in an additional £12.9 million of machine related tax during the year.

Operating costs increased by 6.6% (or £33.1 million) during the year. Like for like cost inflation was limited to 3.0% (or £14.9 million) following delivery of operating efficiencies. The majority of the like for like cost increase was driven by the increase in content charges of £9.1 million. The remaining increase in operating costs was driven by our investment in shop openings during 2012 and 2013 (net increase of 101 shops during 2013). Moving forward we expect a similar level, c.3.0% of like for like cost inflation as we absorb the sector wide increase in the cost of Irish horseracing picture rights. Overall, costs are expected to increase by around 5.0%. This includes c.£5 million additional depreciation related to new shops.

In 2013 we derived £4.0 million of profit from our associate holding in the broadcaster SIS. However the loss of a major contract towards the end of 2013 and subsequent restructuring costs mean we do not expect to receive this income in 2014.

- **2013 Operational highlights**

Retail remains an integral part of the betting experience for customers, habits are changing and we have continued to invest to ensure it remains relevant and compelling.

As well as the expansion of the estate we delivered a more interactive sports betting proposition with the introduction of more content with Sky TV, Wifi and a new broadcast facility, Ladbrokes TV, for all of our shops. We also introduced c.1,400 SSBTs to offer a greater product and betting range, particularly for football customers.

During the year, we continued to expand our Retail estate into higher footfall locations opening and acquiring a total of 121 new shops during the year. Together with our openings in 2012, new shops are continuing to generate an attractive return on investment equal to a projected IRR of around 30%.

- **2014 Focus**

The focus for 2014 will be to maximise income through improving our competitive offer and optimising the retail estate.

In February we began to roll out the 9,000 new Clarity gaming machines ahead of the World Cup. While the roll out is carefully planned to minimise disruption, experience suggests there will be an adoption lag with benefits therefore being weighted towards H2 in 2014. The introduction of more sophisticated gaming machines is key to us maintaining a leading machine offer in an increasingly competitive market.

During 2013 we invested strongly in improving the retail experience for our customers. More sporting content, new broadcast facilities, Wifi and SSBTs all provide customers with a more varied and flexible betting experience than traditionally served by OTC alone. During 2014 operational teams will be focussed on maximising the impact from these investments, specifically concentrating on differentiating our offer to suit local market demand.

The complexion of the UK high street has changed dramatically over recent years. Accordingly we accelerated the expansion of our estate, opening new shops in areas of higher footfall. Going forward some rationalisation in the LBO market seems likely, because of rising operating costs and the likelihood of pressure on rents as the economy recovers. This is a process which the bigger brands should benefit from. During 2014 Ladbrokes will be a net closer of 40-50 shops as we increasingly focus on optimising the estate and improving quality of earnings by reducing the tail of non contributing shops.

Recent focus on problem gambling and scrutiny of high stake machines has concentrated attention on responsible gambling. While we have procedures in place both locally and centrally, the introduction of the new Association of British Bookmakers code in March 2014 for harm minimisation along with voluntary industry commitments to promote responsible gambling will mean changes in our retail offer in the coming months. Our strong view is that this represents an opportunity to engage with customers, build trust and ultimately loyalty. Responsible gambling is not a passing regulatory issue but a fact of life for all operators and an issue we take very seriously. Problem gamblers, contrary to popular myth, are not good for business.

**European Retail**

Our increasing presence in European markets continues to offer benefits as it assists the Group in gaining access to growth markets and has the potential to mitigate the impact of any UK regulatory and economic change on our UK Retail business.

Ireland endured a difficult year, reflecting wider economic trends and a continued competitive trading environment similar to the UK. On a like for like constant currency basis, amounts staked and gross win fell and a poor Cheltenham allied to rising costs contributed to operating profit being down 28.2% to £10.2 million.

In Belgium, where we are the largest retail betting operator in the country with 359 outlets, 2013 was a year of consolidation after record results in 2012. Operating profit for the year was flat at £8.4 million. In H1 2014 we will be delivering a number of new initiatives, including SSBTs and virtual products, that will drive growth in our retail operations. We also intend to leverage the strong Ladbrokes brand by launching a digital service ahead of the 2014 World Cup. Together these should combine to establish Ladbrokes as the leading multi-channel betting operator in the territory.

In Spain, we recorded another year of expansion as the slow but steady regional regulation process continues to allow us to grow the retail activities of Sportium, our JV with Cirsa Group. Despite ongoing economic difficulties in Spain, the JV delivered overall positive EBITDA for the year on revenues up 22.6% on a constant currency basis. In 2013, Sportium opened retail outlets in Murcia and Galicia making a total of six regions in which our brand now operates. During 2013 we also agreed with Cirsa to extend the JV into digital channels and consequently in December we launched Sportium.es, using Playtech technology across all our products, and combined our respective digital businesses, LBapuestas.es and Cirsa.es.

In 2014 we intend to leverage both our digital capabilities and our broad retail distribution network to establish ourselves as the leading multi-channel betting operator in Spain. We also remain hopeful that during 2014 regulatory approval will be given for the provision of online slots products. Our commitment to expand into Spain as new regions regulate (e.g. Catalunya in 2014) means we expect to generate further start up losses as we build our presence.

**Digital**

- **Overview**

The Digital market continues to evolve with mobile offering the greatest growth opportunity. Our focus has been on making our digital product more competitive, whilst developing the platform for enhanced CRM, and therefore leading to enhanced customer lifetime values.

- **2013 Financial performance**

With the move to Playtech products and integration of systems and expertise progressing well but not yet complete, the decline in revenue and profit reflects this process of transition and a lack of a competitive customer offer for most of 2013.

*Digital business excluding the Betdaq and Australian acquisitions*

Operating profit before exceptional items during the year was £11.5 million, down 63.8% on 2012 with revenue 9.4% (£16.8 million) down. Operating costs (excluding depreciation and amortisation) were 2.4% (£3.1 million) better than 2012 but depreciation and amortisation was £5.4 million higher following significant investment in our core capabilities over the past two years.

Gross win margin grew to 7.9% up 90bps (2012: 7.0%) supported by our new trading platform. Mobile amounts staked were up by 23.3% but desktop stakes were down 28.6%. Mobile amounts staked accounts for 31% of sportsbook (Q4 2013: 35%) and that share continues to grow. Gaming revenue was impacted by the inefficiencies in dual running our existing supplier contract alongside our contract with Playtech leading to a 12.7% fall.

*Acquisitions*

The acquisitions during the year of Betdaq and the Australian businesses generated £13.7 million of net revenue and costs and taxes of £17.0 million to give an underlying operating loss of £3.3 million with Australia particularly hit by unfavourable results in the Spring Racing Carnival period.

- **2013 Operational performance**

2013 was a significant year with a new sportsbook, new mobile and new Exchange product all launched as well as the partnership with Playtech. These were critical steps towards the creation of a competitive and compelling digital offer able to exploit the strength of the Ladbrokes brand. The agreement with Playtech came into force from 1 May and runs until December 2017. The first step of the deal was the creation of the wholly owned Ladbrokes Israel which delivers a team highly experienced in digital marketing, with a proven track record in market leading CRM and in developing efficient customer acquisition processes. We are pleased with the transition following what has been a major organisational change.

As part of the deal, Playtech is also providing a full suite of new gaming/casino product and a new back office system, IMS. Product migration was started during the year with the launch of the new 'Vegas' games casino. We also successfully migrated onto the Playtech iPoker network in December and Live Dealer was added at the very start of 2014.

Our capability in the digital area was further enhanced through the creation of a separate Digital team with dedicated expert management, all of whom have clear areas of expertise and accountability. This focus and expertise has been supplemented by a partnership agreement with Chelsea Apps Factory, a specialist company with wide experience in the betting and gaming sector and the creation of a Ladbrokes Innovation Lab with a remit to innovate and improve the mobile product. It is pleasing to report that we have already delivered a further three releases of our mobile product including live streaming functionality.

In December as planned we launched a new highly competitive mobile offer on the proven Playtech Mobenga platform. Initial customer reaction is encouraging and performance good both in total customer downloads and amounts staked. The mobile launch was preceded in April by the desktop sportsbook launch. Customers initially took time to adapt to the new site. However, since making improvements to performance and product, staking levels have stabilised.

In November we soft launched the Ladbrokes Exchange to further differentiate our offer and meet the demand from the approximately 30% of our customers estimated to regularly use an exchange account. This was only possible through integrating with Betdaq betting exchange which we purchased in February 2013.

We entered the Australian market for the first time in September and believe there is considerable growth potential for Ladbrokes in this market.

- **2014 Focus**

The focus for 2014 is simple, to mobilise our business behind our brand and complete the development process that delivers highly competitive products with a single wallet. This will allow us to deliver best in class CRM and thereby achieve growth in lifetime customer values.

During H1 of 2014, we do not expect much growth as we transition all remaining gaming products from our existing supplier over to Playtech. Once complete this will allow the introduction of a new single back office system, IMS, for both gaming and sportsbook and the delivery of a single betting wallet for customers again to be delivered in H1 2014. These improvements are fundamental to enhanced CRM, the remaining key deliverable in enabling us to compete strongly and grow during H2 of 2014.

With work to reshape the business largely complete, we do not expect any further fixed costs increases. However, depreciation is likely to be c.£7 million higher year on year reflecting the capex invested during 2013. The World Cup and the introduction of the Place of Consumption tax (POC) in December 2014 mean the sector will likely see a higher marketing spend. It remains our intention to compete aggressively but sensibly to attract new customers and utilise CRM to improve lifetime value. Our marketing programme for 2014 will follow our previous guidelines of 25% to 30% of net revenue.

It is expected that the introduction of POC at 15% of gross win will impact our Digital business in the region of around £2 million in 2014. We will work hard to mitigate some of the impact.

Expanding our customer base internationally is a longer term mitigation to the POC impact on our business. 2014 will see us look to build on our investment in Australia and will also see our additional digital launch in Belgium leading to a start up loss during 2014.

**Inherent strengths of business offer firm foundations to build**

The Ladbrokes brand remains one of the most recognised and relevant in the UK betting and gaming sector. We believe that the convergence of products, platforms and capabilities alongside our brand will act as a catalyst for growth, particularly with the growth of multi-channel customers.

Our solid free cash flow generation has enabled us to invest significantly to make Ladbrokes more competitive. Our balance sheet is strong and we have sizeable committed bank facilities and bonds through 2016 and 2017. Our resilient cash generation and good liquidity has allowed us to recommend a dividend per share of 8.9p for 2013 and to commit to paying at least this amount per share again for 2014.

**Regulation and cost pressures**

The Government's triennial review into stakes and prizes completed in October with the recommendation that in the B2 and B3 machine category, there was no evidence to change current stake and prize limits. However, there was some concern on the association of B2 machines with problem gambling. The industry was effectively 'put on review' pending further research.

We continue to engage with our regulators and seek to lead the industry in navigating the correct course that balances shareholder interests with a socially responsible approach to providing betting and gaming services. We will be rolling out the industry code for harm minimisation across our retail estate ahead of the 1 March 2014 deadline and will fully support further industry wide initiatives on this important topic.

While the business has always placed a high degree of focus on responsible gambling, we are taking further actions to reinforce its position at the heart of Ladbrokes. There will be a Board committee dedicated to the topic and from 2015, we will formalise responsible gambling measures into Executive remuneration. We also have considerable data from our Odds On loyalty card and believe this has a significant role to play in managing responsible gambling. We will look to use our insights to learn more about at risk behaviour and how to target information at individual players. We will continue to share these learnings across the industry.

2013 also saw a high level of industry engagement on the Gambling Act regulations which will see POC introduced, with a likely start date of December this year. How the tax impacts the wider market is as yet unclear. A poorly enforced tax will be little deterrent to some operators outside of the UK acting illegally and will create an uncompetitive environment for established UK operators. Proper enforcement should negate such movement as the threat of prosecution, IP blocking and transaction blocking would drive some of the market to more established players and we would be confident that our offer and brand would prove an attractive proposition.

Outside of regulatory pressures we have again experienced rising content costs for our shops and negotiated a new levy agreement which includes extra funding to try and improve the racing product. The tensions in paying for the provision of sport through levies and sponsorships as well as for content is increasing and it is clear that the escalating nature of the costs will at some point become unsustainable across the market.

**Current trading and outlook**

Sporting results so far in 2014 have largely favoured customers. In January, the industry experienced poor results, particularly in football and horseracing. While fair to expect that customers will recycle some of these winnings, it is unlikely that we will recoup all in this year. We also face a first quarter gross win margin comparative which was very strong in 2013. Machine gross win has been ahead of Q4 2013 albeit benefiting from a weaker weather related comparable and potentially some recycling from OTC. As a result, in the period 1 January to 18 February 2014, Group net revenue[(1) (3)] was down around £11 million on the prior year.

Taking into account the timing of the delivery of the tangible benefits from completion of the Digital business improvements and the factors referred to above, we currently target H1 2014 Group operating profit[(1) (2)] to be ahead of H2 2013 but down on the comparative period with further growth anticipated through H2 2014.

With an early encouraging response to our product upgrades, improved capabilities already evident in 2014 and significant improvements on track to be delivered, we remain confident in the capability of the business to drive operational and financial performance in H2 and beyond.

*(1)* *Excluding High Rollers.*
*(2)* *Excluding exceptional items.*
*(3)* *2013 net revenue is on a proforma basis to be comparable to net revenue in 2014 following the change from VAT to MGD from 1 February 2013.*

**Enquiries to:**

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**Notes to editors:**

The Company will be hosting an analyst presentation at the Nomura Auditorium (One Angel Lane, London, EC4R 3AB) at 9:30am this morning. This will be available to listen into by dialling +44 (0)20 3427 1915 – pass code: 1287075.

Alternatively a live webcast of the presentation, with slides, will be available at the 'Investor Centre' on www.ladbrokesplc.com. A recording of the webcast will be available, at the same location, from 12pm (UK time) the same day. Similarly a replay phone facility will be available, for 7 days, on +44 (0)20 3427 0598 – pass code: 1287075.

For further information on Ladbrokes plc, please visit our corporate website at www.ladbrokesplc.com. High-resolution images are available to download from the media centre section under the heading 'Image Library'.

**Audited results for the year ended 31 December 2013**

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m | Year on year change % |
|---|---|---|---|
| *Net revenue by division:* | | | |
| UK Retail (1) | 800.9 | 739.5 | 8.3 |
| European Retail (1) | 128.8 | 126.2 | 2.1 |
| Digital | 175.0 | 178.1 | (1.7) |
| Core Telephone Betting | 6.5 | 9.5 | (31.6) |
| Group net revenue (exc. High Rollers) (1) | 1,111.2 | 1,053.3 | 5.5 |
| High Rollers | 6.5 | 31.1 | (79.1) |
| Group net revenue (1) | 1,117.7 | 1,084.4 | 3.1 |
| Operating profit (2) (exc. High Rollers) | 138.3 | 206.1 | (32.9) |
| Operating profit (2) from High Rollers | 5.9 | 30.0 | (80.3) |
| Profit before net finance expense, tax and exceptional items | 144.2 | 236.1 | (38.9) |
| Net finance expense (3) | (25.0) | (29.7) | 15.8 |
| Profit before tax and exceptional items | 119.2 | 206.4 | (42.2) |
| Exceptional items before tax (4) | (51.6) | (5.7) | (805.3) |
| Profit before tax | 67.6 | 200.7 | (66.3) |
| Income tax expense | (0.6) | (10.4) | (94.2) |
| Profit after tax | 67.0 | 190.3 | (64.8) |

| | | | |
|---|---|---|---|
| EBITDA (3) | 209.0 | 291.1 | (28.2) |
| Basic earnings per share (3) | 12.3p | 21.6p | (43.1) |

*(1) Group, UK Retail and European Retail net revenue performance is flattered by the machine VAT being replaced by MGD on 1 February 2013. Proforma 2012 numbers are provided in the business review section.*

*(2) Operating profit is defined as profit before tax, net finance expense and exceptional items of £51.6 million (2012: £6.0 million).*

*(3) Before exceptional items.*

*(4) Exceptional items are profits or losses on disposal or impairment of non-current assets or businesses, unrealised gains and losses on derivative financial instruments, corporate transaction costs, changes in fair value of contingent consideration and any other non-recurring items considered exceptional by virtue of their nature and size.*

## Business Review

### UK Retail

| | Year ended 31 December 2013 | Year ended 31 December 2012 | Year on year change | Proforma Year ended 31 December 2012 | Year on year change |
|---|---|---|---|---|---|
| | £m | £m | % | £m | % |
| - OTC amounts staked | 2,360.0 | 2,409.8 | (2.1) | 2,409.8 | (2.1) |
| - Machines amounts staked | 11,671.9 | 11,846.7 | (1.5) | 11,864.7 | (1.5) |
| Amounts staked | 14,031.9 | 14,256.5 | (1.6) | 14,256.5 | (1.6) |
| - OTC gross win | 403.6 | 407.8 | (1.0) | 407.8 | (1.0) |
| - Machines gross win | 422.6 | 412.7 | 2.4 | 412.7 | 2.4 |
| Gross win | 826.2 | 820.5 | 0.7 | 820.5 | 0.7 |
| Adjustments to GW (1) | (25.3) | (81.0) | 68.8 | (17.5) | (44.6) |
| - OTC net revenue | 392.5 | 399.6 | (1.8) | 399.6 | (1.8) |
| - Machines net revenue | 408.4 | 339.9 | 20.2 | 403.4 | 1.2 |
| Net revenue | 800.9 | 739.5 | 8.3 | 803.0 | (0.3) |
| Gross profits tax | (59.0) | (59.7) | 1.2 | (59.7) | 1.2 |
| Machine Games Duty | (76.4) | - | n/a | (63.5) | (20.3) |
| | 665.5 | 679.8 | (2.1) | 679.8 | (2.1) |
| Associate income | 4.0 | 3.4 | 17.6 | 3.4 | 17.6 |
| Operating costs | (535.6) | (502.5) | (6.6) | (502.5) | (6.6) |
| Operating profit (2) | 133.9 | 180.7 | (25.9) | 180.7 | (25.9) |

(1) *Fair value adjustments, free bets and VAT.*
(2) *Before exceptional items.*
(3) *Proforma 2012 reflects the change from VAT on machines to Machine Games Duty which took effect from 1 February 2013.*
(4) *Greyhound tracks account for £11.5 million of amounts staked and £7.4 million of gross win in 2013 (2012: £11.5 million amounts staked and £7.4 million gross win).*

### Small decline in OTC

OTC gross win declined by 1.0% (£4.2 million) in 2013, a year which did not benefit from a major football tournament (Euro 2012 generated £5.9 million gross win). We have continued to experience a slow decline in OTC stakes, down 2.1% for the year (down 5.0% on a like for like number of shops) though encouragingly positive during the second half.

Gross win margin for the year was 16.9% (2012: 16.7%) up slightly on 2012 supported by our investment in the trading platform and despite a well publicised poor third quarter for bookmakers across the market, driven largely by particularly customer friendly football results during the early months of the new football season.

After a record level of net revenue in 2012, UK Retail has faced a challenging year in 2013, with cost and taxation headwinds exacerbated by slower than expected machines growth in an increasingly competitive market.

### Competitive machines market

The growth of machines has been a major contributor to UK Retail operating profit over the last three years. It was expected after such a prolonged period of growth and with our machine cabinets approaching the end of their lifespan that performance would slow during 2013. The slowdown in the market has however been more marked than expected. Although the period of hot weather in the UK during July and early August undoubtedly contributed to this with footfall significantly down, it is clear that competition in the machines market has intensified. Interestingly, lower stake games (B3) grew in popularity year on year while higher stake (B2) were broadly flat.

In 2013 there were an average 8,874 gaming machines sited in the estate compared to 8,345 in 2012. At 31 December 2013 there were 9,091 gaming machines (2012: 8,583).

**Cost and taxation pressures**

Operating costs increased by 6.6% (or £33.1 million). Costs on a like for like basis rose by 3.0% with an increase in content costs representing the largest part of this, driven by a significant increase in the cost of horseracing picture rights applied across the sector.

In February the Government changed the way in which machine revenues are taxed, with a new Machine Games Duty (MGD) replacing the previous system of VAT and Amusement Machine Licensing Duty (AMLD). This change resulted in additional tax of £12.9 million during the year.

**Managing the estate**

Shop openings have proven a compelling investment (c.200 new shops added since 2012) with growth in profit per shop across the estate driving a strong return on investment.

The potential for growth in the sector remains, particularly from untapped opportunities in local markets. However, it is clear that although revenue growth during 2013 has been suppressed by one off and results driven factors, the market as a whole is becoming more competitive, with a number of shops now finding it harder to contribute. We expect this to continue in 2014.

At 31 December 2013 there were 2,297 shops in Great Britain (2012: 2,196). During the year we opened 113 new licenses, acquired a further eight and closed 20.

**Focus in 2014**

In October we agreed a new contract with our machine supplier, Global Draw (a division of Scientific Games), with new gaming machines rolling out to all shops by the end of the first half 2014. With our current gaming machines having been introduced back at the start of 2011 and competitors having upgraded during the intervening period, the rollout of more sophisticated and modern gaming machines is key to us maintaining a strong offer in what has become a very competitive area. Ending the former gaming machine agreement early has led to an exceptional charge of £6.2 million.

During 2013 we extended the range of sporting content we are able to broadcast to customers through new deals with SIS and Sky. During 2014, we will provide our customers with more ways to bet as well as innovative offers and competitive prices, using our expanded and flexible coverage to provide customers with the sport they want to watch and bet on. We will also be looking to drive returns from the investment made in SSBTs and the rollout of in shop Wifi, both designed to give customers more choice than traditional OTC in how they choose to interact with us in the shop environment.

We have enlarged our estate footprint over the past few years, expanding into areas of high footfall and unmet demand. Going forward we expect rationalisation in the market in response to the imbalance between shorter term increases in taxes and content, and slower revenue growth per unit. We will be a net closer of shops during 2014, as we optimise the estate including reducing any tail of unprofitable sites to improve our quality of earnings.

The Football World Cup is expected to provide an excellent revenue and new customer opportunity. With the migration to our new digital services expected to complete towards the end of the first half we will be focussing on promoting these with our shop customers, many of whom already use digital betting services but have not remained loyal to Ladbrokes given the more sophisticated products offered by our competitors in recent years.

**European Retail**

Operating profit (before exceptional items) within European Retail of £15.6 million declined 22.8%. European Retail comprises our operations in Ireland, Belgium and Spain. These are discussed in more detail below.

**Ireland**

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m | Year on year change % | Proforma Year ended 31 December 2012 £m | Year on year change % |
|---|---|---|---|---|---|
| - OTC amounts staked | 516.7 | 535.7 | (3.5) | 535.7 | (3.5) |
| - Machines amounts staked | 142.2 | 158.6 | (10.3) | 158.6 | (10.3) |
| Amounts staked | 658.9 | 694.3 | (5.1) | 694.3 | (5.1) |
| - OTC gross win | 77.4 | 76.3 | 1.4 | 76.3 | 1.4 |
| - Machines gross win | 5.6 | 6.0 | (6.7) | 6.0 | (6.7) |
| Gross win | 83.0 | 82.3 | 0.9 | 82.3 | 0.9 |
| Net revenue | 80.9 | 80.0 | 1.1 | 80.9 | - |
| Betting tax | (7.4) | (7.4) | - | (7.4) | - |
| Machine Games Duty | (1.0) | - | n/a | (0.9) | (11.1) |
| | 72.5 | 72.6 | (0.1) | 72.6 | (0.1) |
| Operating costs | (62.3) | (58.4) | (6.7) | (58.4) | (6.7) |
| Operating profit [1] | 10.2 | 14.2 | (28.2) | 14.2 | (28.2) |

[1] *Before exceptional items.*
[2] *Proforma 2012 reflects the change from VAT on machines to Machine Games Duty which took effect from 1 February 2013.*

It has been a difficult year for our Irish division reflecting wider economic trends and the continuation of a highly competitive trading environment, particularly in the Republic of Ireland. Although we have seen amounts staked decline as well as an unfavourable set of results at Cheltenham (c.£2 million less gross win versus 2012), gross win decline of £1.5 million on a constant currency basis was mitigated by a broader product offering and enhanced trading technology and processes.

Operating costs were up 6.7% (3.3% on a constant currency basis) during the year as we replicated changes made to our UK operating model in Ireland. Investment in the estate with the rollout of Sky, SSBTs in the Republic of Ireland, and new Global Draw machines in Northern Ireland reflects our continuing confidence in the Irish market place.

Operating profit in Ireland of £10.2 million was 28.2% lower year on year. At 31 December 2013 there were 79 Ladbrokes shops in Northern Ireland (2012: 79) and 216 in the Republic of Ireland (2012: 213).

**Belgium**

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m | Year on year change % |
|---|---|---|---|
| Amounts staked | 186.9 | 181.6 | 2.9 |
| Net revenue | 47.9 | 46.2 | 3.7 |
| Betting tax | (7.3) | (6.9) | (5.8) |
| Gross profit | 40.6 | 39.3 | 3.3 |
| Operating costs | (32.2) | (30.9) | (4.2) |
| Operating profit (1) | 8.4 | 8.4 | - |

*(1) Before exceptional items.*

In Belgium, where we are the largest retail betting operator, 2013 was a year of consolidation following record results in 2012, partly driven by taxation changes in 2011.

Horseracing remained the most popular product in terms of betting activity with a 1.2% decline in staking offset by growth in both football and greyhounds. Overall amounts staked increased by 2.9%. Operating costs were up £1.3 million (4.2%) for the year (0.8% on a constant currency basis). Despite the challenging conditions, operating profit of £8.4 million was flat year on year.

The number of Ladbrokes shops declined slightly with 17 closures, although Ladbrokes' betting services were made available in 53 additional outlets as some newsagents took advantage of regulatory changes to allow betting products to be sold there.

In 2014 we will deliver a number of new initiatives including SSBTs and virtual product, which will help us develop our customer offer. We also intend to leverage our strong brand by launching a digital service ahead of the 2014 Football World Cup.

At 31 December 2013 there were 359 outlets, a combination of Ladbrokes shops and also newsagent outlets offering Ladbrokes betting services.

**Spain**

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m | Year on year change % |
|---|---|---|---|
| Operating loss (1) | (3.0) | (2.4) | (25.0) |

*(1) Before exceptional items.*

2013 marked the fifth anniversary since the start of trading of our Sportium joint venture with Cirsa and another record year in terms of amounts staked, up 20.8% on a constant currency basis against 2012 as the slow but steady regional liberalisation process continues to allow us to expand. Despite ongoing economic difficulties in the region we saw the JV (pre addition of Ladbrokes head office costs) deliver overall positive EBITDA for the year.

In 2013, Sportium opened retail outlets in Murcia and Galicia making a total of six regions where our brand now operates. We also opened additional outlets in our existing regions of Madrid, Aragon and Valencia. In 2014 we are hopeful that a further three regions, including Catalunya, will also formally approve the provision of retail betting services.

During 2013 we agreed with Cirsa to extend the JV into digital channels and consequently in December last year we launched Sportium.es, using Playtech technology across all our products, combining our respective digital businesses - LBapuestas.es and Cirsa.es. Our ongoing investment and necessary start up costs in Spain, including the new digital launch, means that we expect to generate further start up losses as we build our presence.

At 31 December 2013 there were a total of 753 outlets where Sportium services are available.

**Digital**

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m | Year on year change % |
|---|---|---|---|
| Net revenue | | | |
| - Sportsbook | 73.7 | 77.8 | (5.3) |
| - Casino and Games | 68.2 | 75.8 | (10.0) |
| - Poker | 7.5 | 10.9 | (31.2) |
| - Bingo | 11.9 | 13.6 | (12.5) |
| Net revenue | 161.3 | 178.1 | (9.4) |
| Betdaq revenue | 9.7 | - | n/a |
| Australia revenue | 4.0 | - | n/a |
| Total net revenue | 175.0 | 178.1 | (1.7) |
| Betting tax | (2.8) | (1.5) | (86.7) |
| Operating costs | (164.0) | (144.8) | (13.3) |
| Operating profit [1] | 8.2 | 31.8 | (74.2) |

*(1) Before exceptional items.*

**New partners**

In March 2013 we announced a new five year partnership with the software and digital marketing experts Playtech. This was a critical step towards the creation of a compelling digital service for our customers and one befitting the Ladbrokes brand. Playtech is helping us to establish a new digital team in Israel, whose focus is on business intelligence, CRM and growth in customer value.

From 1 May 2013, our new, wholly owned subsidiary, Ladbrokes Israel began operations with a team highly experienced in digital marketing, with a proven track record in using Playtech's market leading CRM and in developing efficient customer acquisition processes.

**New products**

Playtech is also providing us with a full suite of new gaming/casino products for our customers to enjoy, as well as a new and comprehensive back office system. 2013 has seen us start a period of integration which we are on plan to complete during the first half of 2014.

Product migration started in 2013 with the launch of the new 'Vegas' games casino and latterly, the successful transition of our poker product which was migrated onto the Playtech iPoker network in December. The user friendly poker platform allows us to launch our own fully branded, customisable poker rooms supporting multiple languages and currencies.

**Mobile focus**

Mobile gambling is the fastest growing and most exciting area of digital gambling. In the UK in 2008, mobile gambling only accounted for 4% of digital gambling. In 2013 this had grown to 21%, with estimates that penetration will be over half of digital gambling by 2017 (source: H2 Gambling Capital November 2013).

Mobile has understandably been a key focus for us, with the successful launch of our new mobile sportsbook in December. Acknowledging these are early days, we have seen encouraging signs with amounts staked and sign ups up by more than 50% and active players growing by more than 30% year on year since the launch. Mobile generated 31% of sportsbook stakes (Q4 2013: 35%). We are expecting to build on these growth rates, putting further marketing weight behind the product with a view to increase our market share in this area.

Continual product development is key to customer appeal, which is why we joined forces with the mobile technology specialist Chelsea Apps Factory towards the end of the year. This partnership will help to accelerate our mobile offering in what is a competitive and growing market.

**Differentiation**

Back in February we completed the acquisition of Betdaq, a provider of peer to peer style sports betting. Betting via an exchange has become a very popular form of sports betting and is widely used by customers, not only as a substitute for but also complementary to their activity with a fixed odds provider, such as Ladbrokes. We expect exchange led betting to become an increasingly integrated part of our offer over the course of 2014.

**Diversification**

During the year Ladbrokes strengthened its presence in two strategically key markets, Australia and Spain, the former through a small acquisition of a relatively new business, Gaming Investments Pty Ltd, which included the online bookmaker Bookmaker.com.au and the extensive sports affiliate network, Panda Gaming Pty Ltd. Although relatively small (initial cash consideration of £13.9 million) the acquisition extends our global reach, providing a low cost entry into the exciting, regulated Australian sports betting market.

Towards the end of 2013, we also launched Sportium.es in Spain and will be combining our existing Spanish online business LBapuestas with our established joint venture with the Spanish gaming company Cirsa.

We continue to maintain a close ongoing review of developments in other international markets and will seek to launch services where regulatory, economic and fiscal conditions allow us to grow profitably.

**Capability**

During the year we appointed a new Managing Director of the Digital business, Jim Mullen, who began work in October. In conjunction with our partners in Israel, Jim has been enhancing our capability, making several new senior appointments in order to strengthen our team. He is also overseeing the move to a new customer services operation based in Manila.

**Focus in 2014**

Much of the transitional change to our Digital business has now been concluded. During the first half of 2014 we will complete the remaining but pivotal steps needed to migrate the rest of our products onto Playtech's systems and introduce their back office system, IMS, which will power our gaming and sportsbook offer alike. This represents a fundamental shift for the business which will then be able to compete on a more level footing in the second half of 2014 and beyond.

**Performance overview**

Operating profit of £8.2 million was 74.2% (£23.6 million) down with revenue declining by 1.7% (£3.1 million) and an increase in operating costs of £19.2 million (13.3%).

The acquisition during the year of the Betdaq and Australian businesses generated £13.7 million of net revenue and operating costs and betting taxes of £17.0 million. On a like for like basis (excluding these businesses) net revenue for the year declined by £16.8 million (9.4%), with operating costs up by £2.3 million (1.6%).

Operating profit, excluding these businesses was £11.5 million (2012: £31.8 million).

**Sports betting**

Sportsbook net revenue declined by 5.3% in 2013 driven by a 13.1% reduction in amounts staked. Part of this decline relates to improvements in liability management processes, which has helped to reduce the impact of 'unprofitable' staking. However we also saw a disappointing customer response to our new desktop sportsbook launched during the second quarter. Improvements made during the latter part of the year, together with the release of our new mobile product and plug in of the sportsbook into Playtech's back office system, scheduled for the early part of 2014, gives us confidence in a much improved performance in the months to come.

Sportsbook gross win margin of 7.9% was up by 90 basis points (2012: 7.0%) supported by favourable sporting results during the early part of 2013 as well as the investment in our new trading platform and processes.

In play betting is a key driver of market growth and we remain focussed on providing the best pre event and Bet in Play content on the new website and on our new mobile product. In 2013, we traded over 85,000 events/matches (2012: 70,000) and Bet in Play volumes now represents 65% of all non-racing sportsbook stakes.

In December, we signed an agreement with Perform, a market leading provider of digital sports media, to provide streaming for a number of international sporting events - particularly football and tennis - which will drive our in play betting performance, providing an enhanced overall customer experience both on mobile and desktop.

**Gaming**

Gaming net revenue was down 12.7% to £87.6 million. We completed the migration of our poker product from our existing supplier Microgaming to Playtech in December. We expect to migrate all remaining gaming products during the first half of 2014 as contractual commitments permit. Once fully supported by Playtech software we will be in a position to compete more strongly with more advanced CRM driven by Playtech's back office systems.

With the majority of mobile growth over the past few years coming from sports betting, gaming on the mobile is a real focus for Ladbrokes and we will explore all cross sell opportunities from the new sportsbook mobile platform as well as combining the best possible third party content to offer alongside Playtech's games. In December we signed a deal with Net Entertainment, which expands our range of games further and re-affirms our commitment to work with a broad range of suppliers, using an open source platform.

**Costs**

Operating costs, excluding the in year acquisitions of Betdaq and the Australian business, were up by £2.3 million (1.6%). Excluding depreciation and amortisation, costs were £3.1 million (2.4%) lower than 2012 reflecting reduced staff costs (primarily bonus) and marketing in Spain.

Increased depreciation and amortisation for 2013 (additional £5.4 million) reflects the investment in our new website and trading platform.

**Core Telephone Betting**

| | Year ended 31 December 2013 | Year ended 31 December 2012 | Year on year change |
|---|---|---|---|
| | £m | £m | % |
| Amounts staked | 186.4 | 266.6 | (30.1) |
| Net revenue | 6.5 | 9.5 | (31.6) |
| Gross profits tax | (0.4) | (1.3) | 69.2 |
| Operating costs | (7.7) | (9.7) | 20.6 |
| Operating loss [1] | (1.6) | (1.5) | (6.7) |

(1) *Before exceptional items.*

Traditional telephone betting is a declining part of the bookmaking sector, with many customers migrating to digital services on a PC, tablet or mobile. Towards the end of 2012 we introduced a minimum stake per call of £25 which has accelerated this process. Amounts staked of £186.4 million in 2013 were 30.1% lower than 2012.

Net revenue for the year of £6.5 million was down 31.6%, reflecting the decline in amounts staked, with the gross win margin of 3.9% flat year over year. A reduction in operating costs of £2.0 million ensured that the operating loss for the year was restricted to £1.6 million (2012: £1.5 million).

**High Rollers**

High Rollers generated an operating profit for the year of £5.9 million (2012: £30.0 million).

## Financial review

### Trading summary

### Revenue recognition – reconciliation to gross win

The Group reports the gains and losses on all betting and gaming activities as revenue in accordance with IAS 39, which is measured at the fair value of the consideration received or receivable from customers less fair value adjustment for free bets, promotions and bonuses. Gross win includes free bets, promotions and bonuses, as well as VAT payable on machine income.

A reconciliation of gross win to revenue for continuing operations is shown below.

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m |
|---|---|---|
| Gross win | 1,194.8 | 1,203.6 |
| Adjustments (1) | (71.4) | (49.5) |
| VAT (2) | (5.7) | (69.7) |
| Revenue | 1,117.7 | 1,084.4 |

(1) *Includes free bets, promotions, bonuses and other fair value adjustments.*
(2) *From 1 February 2013, VAT on machines was replaced by MGD which is included as an operating expense, rather than as a deduction from revenue.*

The table below sets out the gross win and net revenue for each division.

| | Year ended 31 December 2013 | | Year ended 31 December 2012 | |
|---|---|---|---|---|
| | Gross win £m | Net revenue £m | Gross win £m | Net revenue £m |
| UK Retail | 826.2 | 800.9 | 820.5 | 739.5 |
| European Retail | 130.9 | 128.8 | 128.5 | 126.2 |
| Digital | 224.0 | 175.0 | 213.1 | 178.1 |
| Core Telephone Betting | 7.2 | 6.5 | 10.3 | 9.5 |
| High Rollers | 6.5 | 6.5 | 31.2 | 31.1 |
| Total | 1,194.8 | 1,117.7 | 1,203.6 | 1,084.4 |

### Revenue

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m | Year on year change % |
|---|---|---|---|
| **Excluding High Rollers** | | | |
| Group revenue (reported) | 1,111.2 | 1,053.3 | 5.5 |
| Group revenue proforma (1) | 1,111.2 | 1,117.7 | (0.6) |
| **Including High Rollers** | | | |
| Group revenue (reported) | 1,117.7 | 1,084.4 | 3.1 |
| Group revenue proforma (1) | 1,117.7 | 1,148.8 | (2.7) |

Group revenue increased by £33.3 million (3.1%) to £1,117.7 million (2012: £1,084.4 million). Excluding High Rollers, revenue increased by £57.9 million (5.5 %) to £1,111.2 million (2012: £1,053.3 million).

On a proforma basis, Group revenue decreased by £31.1 million (2.7%) to £1,117.7 million (2012: £1,148.8 million). Excluding High Rollers, revenue decreased by £6.5 million (0.6%) to £1,111.2 million (2012: £1,117.7 million). The decrease is mainly attributable to a decline in Digital revenue across both Sportsbook and Gaming, reduced revenue in Core Telephone Betting due to lower activity from high staking customers as well as a result of implementing a £25 minimum transaction limit per call and a lower OTC performance in UK Retail.

**Operating profit [2]**

Operating profit [2] decreased by £91.9 million or 38.9% to £144.2 million (2012: £236.1 million).

Excluding High Rollers, operating profit [2] decreased by £67.8 million or 32.9% to £138.3 million (2012: £206.1 million) reflecting reduced profits from all divisions, partially offset by decreased corporate costs.

**Corporate costs**

Before exceptional items, total corporate costs decreased by £7.3 million to £17.8 million (2012: £25.1 million). The reduction is primarily due to no bonus accruals as 2013 targets were not met, reduction in share based payment charges and a credit of £2.7 million arising on the Hilton hotel guarantees (see note 12).

**Finance expense**

Before exceptional items, net finance expense of £25.0 million was £4.7 million lower than last year (2012: £29.7 million) mainly due to a lower blended average interest rate of 6.7% (2012: 7.6%).

**Profit before tax**

The reduction in trading profits has resulted in a 42.2% decrease in profit from continuing operations before taxation and exceptional items to £119.2 million (2012: £206.4 million).

**Exceptional items before tax**

Total exceptional items before tax of £51.6 million (2012: £5.7 million) includes the following:

- £27.2 million of asset impairments comprises £15.8 million against certain IT software assets principally arising as a result of business combinations and a net impairment charge in the Retail estate (£11.4 million);
- £9.6 million of restructuring costs across the Group which are largely due to changes in the Group operational structure following the business combination with Playtech;
- £8.4 million of integration costs in respect of the business combinations with Playtech and Betdaq;
- £6.2 million fee for early contract renewal in relation to machines in UK Retail designed to provide a machine refresh in the whole estate two years early;
- £5.4 million loss on closure of shops in UK and European Retail and closure of Digital sites;
- £2.9 million of corporate transaction costs associated with the business combinations in the year;
- A credit to the income statement of £(2.8) million following the required annual re-assessment of the contingent consideration in relation to business combinations offset by £1.1 million of costs associated with the Australian acquisition in respect of estimated contingent consideration payable to key management; and
- A profit on the sale and leaseback of freehold shops in the UK Retail estate of £(6.4) million.

**Taxation**

The Group taxation charge for continuing operations before exceptional items was £6.1 million. This represents an effective tax charge of 5.1% (2012: 5.2%). There was a tax credit of £5.5 million in relation to exceptional items in 2013 (2012: £0.3 million credit).

**Dividend**

The Board announces a final dividend of 4.60 pence per share (2012: 4.60 pence per share) taking the full year dividend to 8.90 pence per share (2012: 8.90 pence per share).

The dividend will be payable on 15 May 2014 to shareholders on the register on 28 March 2014.

**Earnings per share (EPS) – Group**

*Underlying*
EPS (before exceptional items and High Rollers) decreased by 36.4% to 11.7 pence (2012: 18.4 pence), reflecting the decreased profit before tax.

*Total*
EPS (before exceptional items) decreased by 43.1% to 12.3 pence (2012: 21.6 pence), reflecting the decreased profit before tax. EPS (including the impact of exceptional items) was 7.3 pence (2012: 21.0 pence). Fully diluted EPS (including the impact of exceptional items) was 7.2 pence (2012: 20.6 pence) after adjustment for outstanding share options and other potentially issuable shares.

**Cash flow, capital expenditure, borrowings and banking facilities**

Cash generated by operations was £212.7 million. After net finance expense paid of £23.5 million, income taxes paid of £2.9 million, £89.6 million on capital expenditure and intangible additions, £36.7 million spent on business combinations and £9.5 million cash inflow from sale and leaseback of freehold properties; cash inflow was £69.5 million. Post dividend payment of £81.2 million, net cash outflow was £11.7 million.

At 31 December 2013, gross borrowings of £422.0 million less cash and cash equivalents of £23.4 million resulted in a net debt of £398.6 million (31 December 2012: £386.9 million).

**Going concern**

In assessing the going concern basis, the directors considered the Group's business activities, the financial position of the Group and the Group's financial risk management objectives and policies. The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

(1) *2012 revenue adjusted for the impact of MGD which came in to effect from 1 February 2013 as MGD is an operating expense compared to VAT on machines which was deducted from gross win in arriving at net revenue.*
(2) *Operating profit is defined as profit before tax, net finance expense and exceptional items of £51.6 million (2012: £6.0 million).*

## Principal risks and uncertainties

Key risks are reviewed by the Executive Committee (made up of executive directors and senior executives) and the Board of Ladbrokes plc on a regular basis and where appropriate, actions are taken to mitigate the key risks that are identified.

The principal risks and uncertainties which could impact the Group are detailed on pages 22 to 24 of the Group's Annual Report and Accounts 2013 and are as follows:

**Strategy**

Achieving the Group's strategy will deliver long-term growth for the benefit of all stakeholders whilst minimising some of the key risks that Ladbrokes faces. Failure to achieve the strategy has the potential to affect the business and its performance.

**General risks faced by Ladbrokes that are comparable to those faced by most other businesses:**

***Marketplace***

Changes in the economic environment, weakening of the Eurozone and changes in consumer leisure spend.

***Financial***

The availability of debt financing and costs of borrowing, taxation and the pension fund liability.

***Operational***

The recruitment and retention of key talent, execution and management of key projects and international expansion.

**Specific risks which are either unique to Ladbrokes or apply to the industry it operates in:**

***Marketplace***

*Competition*

Ladbrokes faces competition primarily from other land based bookmakers, online betting exchanges and other online gambling operators. In particular, the online gambling market is characterised by intense and substantial competition and by relatively low barriers to entry for new participants. In addition, Ladbrokes faces competition from market participants who benefit from greater liquidity as a result of accepting bets and wagers from jurisdictions in which Ladbrokes chooses not to operate (because of legal reasons or otherwise).

***Betting and gaming industry***

*Taxes, laws, regulations and licensing*

Regulatory, legislative and fiscal regimes for betting and gaming in key markets around the world can change, sometimes at short notice. Such changes could benefit or have an adverse effect on Ladbrokes and additional costs might be incurred in order to comply with any new laws or regulations.

*Increased cost of product*

Ladbrokes is subject to certain financing arrangements intended to support industries from which it profits. Examples are the horseracing and the voluntary greyhound racing levies which respectively support the British horseracing and greyhound industries. In addition, Ladbrokes enters into contracts for the distribution of television pictures, audio and other data that are broadcast into Ladbrokes' betting shops. A number of these are under negotiation at any one time.

***Operational and bookmaking***

*Trading, liability management and pricing*

Ladbrokes may experience significant losses as a result of a failure to determine accurately the odds in relation to any particular event and/or any failure of its risk management processes.

*High fixed cost base*

Ladbrokes has a relatively high fixed cost base as a proportion of its total costs, consisting primarily of employee, rental and content costs associated with its betting shop estate. This means that falls in revenue could have a significantly adverse effect on Ladbrokes' profitability unless the Group reduces its costs substantially in the short to medium term.

*Loss of key locations*

Ladbrokes has a number of key sites, in particular Imperial House at Rayners Lane in London, its head office and main operations centre, its premises in Europort in Gibraltar from where online betting and gaming operations are based and in Tel Aviv, Israel where our Digital marketing operation operates from.

***Information technology and communications***

*Technology failure*

Ladbrokes' operations are highly dependent on technology and advanced information systems and there is a risk that such technology or systems could fail. In particular, any damage to, or failure of online systems and servers, electronic point of sale systems and electronic display systems could result in interruptions to financial controls and customer service systems.

*Data management*

Ladbrokes processes sensitive personal customer data (including name, address, age, bank details and betting and gaming history) as part of its business and therefore must comply with strict data protection and privacy laws in all jurisdictions in which the Group operates. Ladbrokes is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation. This could also result in prosecutions and the loss of the goodwill of its customers and deter new customers.

*Technology changes*

The market for online and mobile gambling products and services is characterised by technological developments, new product and service introductions and evolving industry standards. Failure by Ladbrokes to use leading technologies effectively, develop its technological expertise, enhance its products and services and improve the performance, features and reliability of its technology and advanced information systems, could have a material adverse effect on its competitive position.

*Failure in the supply chain*

Ladbrokes is dependent on a number of third parties for the operation of its business. The withdrawal or removal from the market of one or more of these major third party suppliers, or failure of third party suppliers to comply with contractual obligations could adversely affect Ladbrokes' operations.

**Statement of Directors' Responsibilities**

The following statements are extracted from pages 57 to 116 of the Annual Report and Accounts 2013 and are repeated here for the purposes of compliance with DTR 6.3.5. These statements relate solely to the Annual Report and Accounts 2013 and are not connected to the extracted information set out in this announcement or the Preliminary Announcement.

Statement of directors' responsibilities in relation to the consolidated financial statements

Each of the directors, whose names and functions are listed in pages 30 and 31 of the Annual Report and Accounts 2013, confirm that, to the best of each person's knowledge and belief:

- the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's and the Company's performance, business model and strategy;
- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

Statement of the directors' responsibilities in relation to the Company financial statements

Each of the directors, whose names and functions are listed in pages 30 and 31 of the Annual Report and Accounts 2013, confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Richard Glynn Ian Bull

24 February 2014

## Consolidated income statement

| | Year ended 31 December 2013 | | Year ended 31 December 2012 | |
|---|---|---|---|---|
| | Before exceptional items[1] £m | Total £m | Before exceptional items[1] £m | Total £m |
| **Continuing operations** | | | | |
| Revenue | 1,117.7 | 1,117.7 | 1,084.4 | 1,084.4 |
| Operating expenses before depreciation and amortisation[2] | (911.2) | (935.0) | (795.9) | (799.6) |
| Share of results from joint venture and associates | 2.5 | 2.5 | 2.6 | 2.6 |
| EBITDA | 209.0 | 185.2 | 291.1 | 287.4 |
| Depreciation, amortisation and amounts written off non-current assets | (64.8) | (92.6) | (55.0) | (57.3) |
| Profit before tax and net finance expense | 144.2 | 92.6 | 236.1 | 230.1 |
| Finance expense | (25.0) | (25.0) | (29.9) | (30.0) |
| Finance income | - | - | 0.2 | 0.6 |
| Profit before tax | 119.2 | 67.6 | 206.4 | 200.7 |
| Income tax expense | (6.1) | (0.6) | (10.7) | (10.4) |
| **Profit for the year** | 113.1 | 67.0 | 195.7 | 190.3 |
| Attributable to: | | | | |
| - equity holders of the parent | 113.1 | 67.0 | 195.7 | 190.3 |
| - non-controlling interests | - | - | - | - |
| Earnings per share on profit for the year: | | | | |
| - basic | 12.3p | 7.3p | 21.6p | 21.0p |
| - diluted | 12.2p | 7.2p | 21.2p | 20.6p |
| Proposed dividends (note 6) | 4.60p | 4.60p | 4.60p | 4.60p |

(1) *Exceptional items are profits or losses on disposal or impairment of non-current assets or businesses, unrealised gains and losses on derivative financial instruments, corporate transaction costs, changes in fair value of contingent consideration and any other non-recurring items considered exceptional by virtue of their nature and size. Details of the exceptional items are given in note 4.*

(2) *The Group has combined cost of sales and administrative expenses into operating expenses as described in note 2. The 2012 comparatives have been restated for this change.*

## Consolidated statement of comprehensive income

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m |
|---|---|---|
| **Profit for the year** | 67.0 | 190.3 |
| **Other comprehensive income/(expense):** | | |
| *Items that will be reclassified to profit or loss:* | | |
| Currency translation differences | - | (2.2) |
| *Total items that will be reclassified to profit or loss:* | - | (2.2) |
| *Items that will not be reclassified to profit or loss:* | | |
| Re-measurement of defined benefit pension scheme | 9.1 | (9.6) |
| Tax on re-measurement of defined benefit pension scheme | (4.8) | 2.2 |
| *Total items that will not be reclassified to profit or loss* | 4.3 | (7.4) |
| **Other comprehensive income/(expense) for the year, net of tax** | 4.3 | (9.6) |
| **Total comprehensive income for the year** | 71.3 | 180.7 |
| Attributable to: | | |
| - equity holders of the parent | 71.3 | 180.7 |
| - non-controlling interests | - | - |

## Consolidated balance sheet

| | Notes | 31 December 2013 £m | 31 December 2012 £m |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Goodwill and intangible assets | | 770.7 | 666.6 |
| Property, plant and equipment | | 224.5 | 214.8 |
| Interest in joint venture | | 6.5 | 4.8 |
| Interests in associates and other investments | | 17.5 | 15.9 |
| Other financial assets | | 5.5 | 6.5 |
| Deferred tax assets | | 17.0 | 24.6 |
| Retirement benefit asset | | 53.1 | 36.5 |
| | | 1,094.8 | 969.7 |
| **Current assets** | | | |
| Trade and other receivables | | 53.0 | 73.7 |
| Cash and short-term deposits | 9 | 24.0 | 19.4 |
| | | 77.0 | 93.1 |
| **TOTAL ASSETS** | | **1,171.8** | **1,062.8** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Bank overdraft | | (0.6) | (0.1) |
| Trade and other payables | | (181.3) | (140.1) |
| Corporation tax liabilities | | (0.1) | (0.7) |
| Other financial liabilities | | (1.5) | (1.3) |
| Provisions | | (1.3) | (2.5) |
| | | (184.8) | (144.7) |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 9 | (422.0) | (406.2) |
| Other financial liabilities | | (61.9) | (10.5) |
| Deferred tax liabilities | | (72.3) | (75.0) |
| Provisions | | (2.5) | (4.1) |
| | | (558.7) | (495.8) |
| **TOTAL LIABILITIES** | | **(743.5)** | **(640.5)** |
| **NET ASSETS** | | **428.3** | **422.3** |
| **EQUITY** | | | |
| Issued share capital | | 269.5 | 266.4 |
| Share premium | | 212.9 | 195.5 |
| Treasury and own shares | | (116.7) | (114.9) |
| Retained earnings | | 55.5 | 68.2 |
| Foreign currency translation reserve | | 5.8 | 5.8 |
| **Equity shareholders' funds** | | **427.0** | **421.0** |
| Non-controlling interests | | 1.3 | 1.3 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **428.3** | **422.3** |

## Consolidated statement of changes in equity

| | Issued share capital £m | Share premium £m | Treasury and own shares £m | Retained earnings £m | Foreign currency translation reserve(1) £m | Attributable to the equity shareholders of the Company £m | Non-controlling interest £m | Total share-holders equity £m |
|---|---|---|---|---|---|---|---|---|
| At 1 January 2012 | 266.2 | 194.6 | (113.3) | (49.5) | 8.0 | 306.0 | 0.7 | 306.7 |
| Profit for the year | - | - | - | 190.3 | - | 190.3 | - | 190.3 |
| Other comprehensive expense | - | - | - | (7.4) | (2.2) | (9.6) | - | (9.6) |
| Total comprehensive income | - | - | - | 182.9 | (2.2) | 180.7 | - | 180.7 |
| Issue of shares | 0.2 | 0.9 | - | - | - | 1.1 | - | 1.1 |
| Share-based payments charge | - | - | - | 9.2 | - | 9.2 | - | 9.2 |
| Net movement in shares held in ESOP trusts | - | - | (1.6) | (0.4) | - | (2.0) | - | (2.0) |
| Equity dividends | - | - | - | (74.0) | - | (74.0) | - | (74.0) |
| Non-controlling interests | - | - | - | - | - | - | 0.6 | 0.6 |
| At 31 December 2012 | **266.4** | **195.5** | **(114.9)** | **68.2** | **5.8** | **421.0** | **1.3** | **422.3** |
| | | | | | | | | |
| At 1 January 2013 | **266.4** | **195.5** | **(114.9)** | **68.2** | **5.8** | **421.0** | **1.3** | **422.3** |
| Profit for the year | - | - | - | 67.0 | - | 67.0 | - | 67.0 |
| Other comprehensive income | - | - | - | 4.3 | - | 4.3 | - | 4.3 |
| Total comprehensive income | - | - | - | 71.3 | - | 71.3 | - | 71.3 |
| Issue of shares | 3.1 | 17.4 | - | - | - | 20.5 | - | 20.5 |
| Share-based payments charge | - | - | - | 2.0 | - | 2.0 | - | 2.0 |
| Net movement in shares held in ESOP trusts | - | - | (1.8) | (4.8) | - | (6.6) | - | (6.6) |
| Equity dividends | - | - | - | (81.2) | - | (81.2) | - | (81.2) |
| Non-controlling interests | - | - | - | - | - | - | - | - |
| **At 31 December 2013** | **269.5** | **212.9** | **(116.7)** | **55.5** | **5.8** | **427.0** | **1.3** | **428.3** |

*(1) The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.*

## Consolidated statement of cash flows

| | Notes | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m |
|---|---|---|---|
| **Net cash generated from operating activities** | 10 | 186.3 | 245.1 |
| | | | |
| **Cash flows from investing activities:** | | | |
| Interest received | | - | 0.2 |
| Dividends received from associates | | 2.3 | 2.3 |
| Payments for intangible assets | | (45.3) | (51.8) |
| Purchase of property, plant and equipment | | (44.3) | (50.5) |
| Proceeds from the sale of property, plant and equipment | | 9.5 | 0.8 |
| Acquisition of businesses | 13 | (36.7) | (2.0) |
| Cash obtained through acquisitions of businesses | | 3.3 | - |
| Purchase of interest in joint venture | | (3.1) | (1.5) |
| Net cash used in investing activities | | (114.3) | (102.5) |
| | | | |
| **Cash flows from financing activities:** | | | |
| Proceeds from issue of shares | | 1.1 | 1.1 |
| Purchase of ESOP shares | | (3.2) | (2.0) |
| Proceeds from borrowings, net of issue costs | | 15.2 | 56.9 |
| Repayment of borrowings | | - | (131.4) |
| Dividends paid | 6 | (81.2) | (74.0) |
| Net cash used in financing activities | | (68.1) | (149.4) |
| | | | |
| Net increase/(decrease) in cash and cash equivalents | | 3.9 | (6.8) |
| Effect of changes in foreign exchange rates | | 0.2 | (0.3) |
| Cash and cash equivalents at beginning of the year | | 19.3 | 26.4 |
| | | | |
| **Cash and cash equivalents at end of the year** | | 23.4 | 19.3 |
| | | | |
| Cash and cash equivalents comprise: | | | |
| Cash at bank and in hand | | 24.0 | 19.4 |
| Bank overdraft | | (0.6) | (0.1) |
| | | 23.4 | 19.3 |

## Notes to financial information

1. Corporate information

Ladbrokes plc (the Company) is a limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded. The principle activities of the Company and its subsidiaries (the Group) are described in note 3.

The consolidated financial statements of the Group for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 24 February 2014.

2. Basis of preparation

(a) The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

(b) The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union. The consolidated financial statements have been prepared in accordance with the accounting policies followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013.

The financial information set out in this document does not constitute the Group's statutory accounts for the year ended 31 December 2013 or 31 December 2012. The annual report and financial statements for the year ended 31 December 2013 were approved by the Board of Directors on 25 February 2014 along with this preliminary announcement, but have not yet been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the year ended 31 December 2013 was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Statutory accounts for the year ended 31 December 2012 have been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the year ended 31 December 2012 was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The 2013 annual report and financial statements, together with details of the Annual General Meeting, will be despatched to shareholders on 18 March 2014. The Annual General Meeting will take place at Deutsche Bank AG, London at 11am on 7 May 2014.

(c) To assist in understanding the underlying performance, the Group has defined the following items of income and expense as exceptional in nature:

- profits or losses on disposal or impairment of non-current assets or businesses;
- unrealised gains and losses on derivative financial instruments;
- corporate transaction costs; and
- changes in the fair value of contingent consideration.

Any other non-recurring items are considered individually for classification as exceptional by virtue of their nature and size.

The exceptional items have been included within the appropriate classifications in the consolidated income statement.

(d) Changes in accounting policies

The Group has combined 'cost of sales before depreciation and amortisation' and 'administrative expenses' into 'operating expenses before depreciation and amortisation' within the consolidated income statement. This is consistent with how costs are reported and managed within the business. The prior year comparative consolidated income statement has been restated to reflect this change.

From 1 January 2013 the Group has applied, for the first time, certain standards, interpretations and amendments. These include IFRS 13 Fair Value Measurement, IAS 19 Employee Benefits (Revised 2011) and amendments to IAS 1 Presentation of Financial Statements and IFRS 7 Financial Instruments: Disclosures.

## Notes to financial information

2. Basis of preparation (continued)

(d) Changes in accounting policies (continued)

None of these standards, interpretations and amendments have had a significant impact on the results or financial position of the Group.

The following new standards, interpretations and amendments have been issued but are not effective for the financial year beginning 1 January 2013 and have not been early adopted. They should not have a material impact on the results or financial position of the Group:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IFRS 9 Financial Instruments – Classification and Measurement
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 21 Levies

3. Segment information

Management has determined the Group's operating segments based on the reports reviewed by the Board of directors to make strategic decisions.

The performance of the Group's continuing businesses is assessed and measured according to the nature of the services provided. IFRS 8 requires segment information to be presented on the same basis as that used by the Board for assessing performance and allocating resources, and the Group's operating segments are aggregated into the five reportable segments detailed below:

- UK Retail: comprises betting activities in the shop estate in Great Britain.
- European Retail: comprises all activities connected with the Ireland (Northern and Republic of), Belgium and Spain shop estates.
- Digital: comprises betting and gaming activities from online and mobile operations which include Ladbrokes Israel, Ladbrokes Australia and Betdaq.
- Core Telephone Betting: comprises activities relating to bets taken on the telephone, excluding High Rollers.
- High Rollers: comprises activities relating to bets taken on the telephone from High Rollers.

The Board continues to assess the performance of operating segments based on a measure of net revenue, profit before tax and net finance expense. This measurement basis excludes the effect of exceptional income and expenditure from the operating segments.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

3. Segment information (continued)

The segment results for the year ended 31 December 2013 were as follows:

| | Revenue £m | Profit before tax and exceptional items £m | Profit before tax and after exceptional items £m |
|---|---|---|---|
| **Continuing and total operations:** | | | |
| UK Retail | 800.9 | 133.9 | 110.7 |
| European Retail | 128.8 | 15.6 | 17.5 |
| Digital | 175.0 | 8.2 | (18.6) |
| Core Telephone Betting | 6.5 | (1.6) | (1.6) |
| High Rollers | 6.5 | 5.9 | 5.9 |
| Segment revenue and profit | 1,117.7 | 162.0 | 113.9 |
| Corporate costs | | (17.8) | (21.3) |
| Profit before tax and net finance expense | | 144.2 | 92.6 |
| Net finance expense | | (25.0) | (25.0) |
| Group revenue and profit | 1,117.7 | 119.2 | 67.6 |

The segment results for the year ended 31 December 2012 were as follows:

| | Revenue £m | Profit before tax and exceptional items £m | Profit before tax and after exceptional items £m |
|---|---|---|---|
| **Continuing and total operations:** | | | |
| UK Retail | 739.5 | 180.7 | 178.9 |
| European Retail | 126.2 | 20.2 | 18.2 |
| Digital | 178.1 | 31.8 | 29.6 |
| Core Telephone Betting | 9.5 | (1.5) | (1.5) |
| High Rollers | 31.1 | 30.0 | 30.0 |
| Segment revenue and profit | 1,084.4 | 261.2 | 255.2 |
| Corporate costs | | (25.1) | (25.1) |
| Profit before tax and net finance expense | | 236.1 | 230.1 |
| Net finance expense | | (29.7) | (29.4) |
| Group revenue and profit | 1,084.4 | 206.4 | 200.7 |

## Notes to financial information

4. Exceptional items

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m |
|---|---|---|
| Business restructuring and integration costs[1] | (18.0) | – |
| Impairment loss[2] | (27.2) | – |
| Loss on closure[3] | (5.4) | (3.8) |
| Corporate transaction costs[4] | (2.9) | – |
| Profit on sale and leaseback[5] | 6.4 | – |
| Contract renewal fee[6] | (6.2) | – |
| Fair value adjustment to contingent consideration[7] | 1.7 | – |
| Spanish retrospective online gaming taxes | – | (2.2) |
| Net unrealised gains on derivatives | – | 0.3 |
| Total before tax | (51.6) | (5.7) |
| Exceptional tax credit | 5.5 | 0.3 |
| Exceptional items after taxation | (46.1) | (5.4) |

(1) *Business restructuring costs of £9.6 million have been incurred as a result of the operational re-organisation of the Group following the Playtech deal. These costs have been incurred as follows: £5.0 million in UK Retail, £4.0 million in Digital, £0.6 million in corporate costs. In addition, the Group has incurred £8.4 million of costs within the Digital segment integrating the businesses, including processes and technology, following the business combinations with Playtech, Betdaq and Gaming Investments Pty Ltd.*

(2) *Impairment loss of £27.2 million comprises a £11.4 million impairment of Retail shop licences and a £15.8 million software asset impairment. The £11.4 million licence impairment has arisen as a result of the annual licence impairment review and includes a £13.7 million charge in UK Retail offset by a £2.3 million reversal of previous impairments within European Retail (Ireland). The £15.8 million software impairment is primarily as a result of changes in the strategy for software development following the Playtech deal and includes £14.7 million within Digital and £1.1 million within UK Retail.*

(3) *The £5.4 million loss on closure includes a £3.6 million loss on closure of UK Retail shops and a £0.4 million loss on closure of European Retail shops. These include a loss on disposal of intangible assets of £0.4 million, a loss on disposal of property, plant and equipment of £0.2 million and cost accruals of £3.4 million. In addition, the Group closed its venture in South Africa, leading to a loss on closure of £1.0 million. The Group also closed its LB Apuestas website in Spain following a deal with Cirsa to operate the online operation as part of the Sportium joint venture, incurring closure costs of £0.4 million. The South Africa and Spain closure costs are included in the Digital segment.*

(4) *The Group incurred corporate transaction costs of £2.9 million in relation to business combinations with Playtech, Betdaq, Gaming Investments Pty Ltd and Chronicle Bet. These costs have been incurred within Corporate costs.*

(5) *The Group realised a profit of £6.4 million on the sale and leaseback of 23 shops within the UK Retail estate.*

(6) *The Group agreed to renew its contract with Scientific Games for the supply of new machines to the entire UK Retail estate, replacing the existing machine supply agreement which was due to expire in 2015. The Group incurred a charge of £6.2 million in respect of this early renewal. This charge was incurred within the UK Retail segment.*

(7) *The fair value of the contingent consideration in respect of the business combinations with Playtech, Betdaq and Gaming Investments Pty Ltd in Australia has been remeasured at 31 December 2013. This resulted in a credit to the income statement of £2.8 million. In addition, the Group incurred costs of £1.1 million, representing consideration for Gaming Investments Pty Ltd payable to certain senior management of that business contingent on their continued employment. These have been incurred within the Digital segment. Refer to note 13 for more details.*

## Notes to financial information

5. Taxation

The total tax charge was £0.6 million (2012: £10.4 million). Excluding the tax credit on exceptional items, the total tax charge was £6.1 million (2012: £10.7 million).

The Chancellor, in the Budget on 20 March 2013, announced a further 1% reduction in the main rate of corporation tax, to 20% with effect from 1 April 2015. The standard rate of corporation tax was reduced from 24% to 23% from 1 April 2013, and will be reduced annually to 21% and 20% with effect from 1 April 2014 and April 2015, respectively.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 20%; this was substantively enacted on 2 July 2013.

6. Dividends

| | Year ended 31 December 2013 | Year ended 31 December 2012 |
|---|---|---|
| The total ordinary dividend is made up as follows: | | |
| - interim dividend paid | 4.30p | 4.30p |
| - final dividend declared [1] | 4.60p | 4.60p |
| | 8.90p | 8.90p |

[1] *A final dividend of 4.60 pence (2012: 4.60 pence) per share, amounting to £42.0 million (2012: £41.8 million) in respect of the year ended 31 December 2013 was declared by the directors on 25 February 2014. The total amount payable in respect of the final dividend is based on the expected number of shares in issue on 28 March 2014. The 2013 interim dividend of 4.30 pence per share (£39.4 million) was paid on 31 October 2013.*

7. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £67.0 million (2012: £190.3 million) by the weighted average number of shares in issue during the year of 917.1 million (2012: 908.3 million).

The calculation of adjusted earnings per share before exceptional items is included as it provides a better understanding of the underlying performance of the Group. Exceptional items are defined in note 2 and disclosed in note 4.

| **Continuing operations and Group** | Year ended 31 December | |
|---|---|---|
| | 2013 | 2012 |
| | £m | £m |
| Profit attributable to shareholders | 67.0 | 190.3 |
| Exceptional items, net of tax (note 4) | 46.1 | 5.4 |
| Adjusted profit attributable to shareholders | 113.1 | 195.7 |
| **Weighted average number of shares (millions):** | | |
| Shares for basic earnings per share | 917.1 | 908.3 |
| Potentially dilutive share options and contingently issuable shares | 8.1 | 13.3 |
| Shares for diluted earnings per share | 925.2 | 921.6 |

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **Before exceptional items** | | **After exceptional items** | |
| *Stated in pence* | 2013 | 2012 | 2013 | 2012 |
| **Continuing and Group operations:** | | | | |
| Basic earnings per share | 12.3 | 21.6 | 7.3 | 21.0 |
| Diluted earnings per share | 12.2 | 21.2 | 7.2 | 20.6 |

## Notes to financial information

### 8. Non-current assets

During the year, the Group acquired intangible assets at a cost of £155.4 million (2012: £57.0 million) including £105.8 million (2012: £nil) from business combinations and property, plant and equipment of £54.1 million (2012: £54.5 million) including £0.3 million (2012: £nil) from business combinations.

At 31 December 2013 the Group had not entered into contractual commitments for the acquisition of property, plant and equipment (2012: £0.2 million).

### 9. Net debt

The components of the Group's net debt are as follows:

| | 31 December 2013 £m | 31 December 2012 £m |
|---|---|---|
| **Current assets** | | |
| Cash and short-term deposits | 24.0 | 19.4 |
| **Current liabilities** | | |
| Bank overdrafts | (0.6) | (0.1) |
| **Non-current liabilities** | | |
| Interest bearing loans and borrowings | (422.0) | (406.2) |
| Net debt | (398.6) | (386.9) |

### 10. Note to the statement of cash flows

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m |
|---|---|---|
| Profit before tax and net finance expense | 92.6 | 230.1 |
| Non cash exceptional items | 33.9 | 6.0 |
| Depreciation of property, plant and equipment | 40.9 | 38.7 |
| Amortisation of intangible assets | 23.9 | 16.3 |
| Share-based payments charge | 2.0 | 9.2 |
| Decrease in other financial assets | 1.4 | 1.6 |
| Decrease in trade and other receivables | 25.0 | 6.9 |
| Decrease in other financial liabilities | (1.0) | (0.1) |
| Increase/(Decrease) in trade and other payables | 8.9 | (5.3) |
| Decrease in provisions | (2.9) | (8.0) |
| Contribution to retirement benefit scheme | (9.5) | (10.1) |
| Share of results from joint venture | 1.4 | 0.9 |
| Share of results from associates | (3.9) | (3.5) |
| Other items | - | 0.5 |
| Cash generated by operations | 212.7 | 283.2 |
| Income taxes paid | (2.9) | (5.2) |
| Finance expense paid | (23.5) | (32.9) |
| **Net cash generated from operating activities** | 186.3 | 245.1 |

## Notes to financial information

11. Related party transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

| | Year ended 31 December 2013 £m | Year ended 31 December 2012 £m |
|---|---|---|
| **Equity investment** | | |
| - Joint venture (1) | 3.1 | 1.5 |
| **Loans** | | |
| - Movement in loan balance with joint venture partner | (1.5) | (1.5) |
| - Movement in loan balance with joint venture | 0.1 | (0.1) |
| **Dividends received** | | |
| - Associates (2) | 2.3 | 2.3 |
| **Sundry expenditures** | | |
| - Associates (3) | 44.3 | 42.0 |

(1) *Equity investment in Sportium Apuestas Deportivas SA.*
(2) *Dividend received from Satellite Information Services (Holdings) Limited.*
(3) *Payments in the normal course of business made to Satellite Information Services (Holdings) Limited.*

The following table provides related party outstanding balances.

| | 31 December 2013 £m | 31 December 2012 £m |
|---|---|---|
| **Loan balances outstanding** | | |
| - Joint venture partner | 1.6 | 3.1 |
| - Joint venture | 0.5 | 0.4 |
| **Other receivables outstanding** | | |
| - Associates | 1.8 | 5.0 |

12. Financial guarantees

Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £424.0 million (2012: £408.8 million). There have been no loan guarantees (2012: £nil) given by subsidiaries in the normal course of business to other subsidiary companies.

Bank guarantees have been issued on behalf of subsidiaries and joint ventures with a value of £13.9 million (2012: £13.7 million)

The Group has given guarantees to third parties in respect of lease liabilities of former subsidiaries within the disposed hotels division. The Group received an indemnity from Hilton Hotels Corporation (HHC), at the time of the hotels disposal, in relation to any loss the Group may subsequently incur under these third party guarantees. The guarantees expire between 2017 and 2042 and the lease liabilities comprise a combination of minimum contractual and turnover based elements.

The undiscounted maximum liability exposure in respect of the guarantees for all years up to 2042 is £707.6 million (2012: £827.9 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £449.5 million (2012: £475.5 million) in relation to the turnover based element of the hotel rentals and £258.1 million (2012: £352.4 million) in relation to the minimum contractual based element. The maximum liability represents the total of all guaranteed rentals under the non-cancellable agreements into which the Group has entered.

The net present value of the maximum exposure at 31 December 2013 is £303.9 million (2012: £351.6 million). Included in the net present value of the maximum exposure is £175.5 million (2012: £182.1 million) in relation to the turnover based element of the hotel rentals and £128.4 million (2012: £169.5 million) in relation to the minimum contractual based element.

12. Financial guarantees (continued)

The Group monitors its exposure under these guarantees on a regular basis and seeks, where appropriate, to novate its obligations. During the year the Group novated its obligations in respect of one of the hotels that has led to the significant reduction in the gross and discounted liabilities at 31 December 2013.

The financial guarantees liability has been valued using a probability based model to estimate the net present value of the liabilities payable in the event of a default by the hotels covered by the guarantees, and the probability of such a default and new tenants being identified.

At 31 December 2013 the Group has recognised a financial liability of £5.0 million (2012: £7.7 million) in respect of these guarantees. In addition to the passage of time, the liability has reduced in 2013 due to a number of factors. The Group has been released from its obligations for one of its hotels, the liability on which was due to expire in 2033. The key assumption in the probability model is the hotels default rate. A rate of 1.7% has been used at 31 December 2013 (2012: 2.2%). The default rate has been reduced as the remaining hotels under guarantee are considered to be in prime locations and furthermore have not suffered financially through the recent UK and European recession. The £2.7 million credit arising as a result of these factors has been included within the Group's corporate costs. The table below provides a breakdown of the movement in the liability since 1 January 2013:

| | Liability £m |
|---|---|
| At 1 January 2013 | 7.7 |
| Reduction due to passage of time, change in default rate and year end discount rate | (1.1) |
| Reduction due to release from one hotel guarantee | (1.6) |
| At 31 December 2013 | 5.0 |

A 0.5 percentage point increase in the default rate would increase the financial liability by £1.3 million. A 1.0 percentage point increase in the discount rate would reduce the financial liability by £0.3 million.

13. Business combinations

a) Playtech

On 10 March 2013, the Group acquired 100% of the share capital of The Nation's Traffic Limited ("TNT"). On the same day, the Group signed a five year agreement with PT Turnkey Services Limited ("Playtech") for the provision of marketing, operational and CRM services ("marketing services agreement") to the Digital division of the Group, which also included a provision for the acquisition of an experienced and skilled digital marketing team with a track record of success with online gaming companies in order to accelerate the growth of Ladbrokes' online and mobile revenues. On 1 May 2013, TNT was renamed Ladbrokes Israel Limited and by this date 40 experienced marketing personnel, the majority from Playtech, had joined Ladbrokes Israel Limited under the agreed terms of the acquisition.

In addition to the business combination described above, the marketing services agreement also provides the use of Playtech products, CRM tools and multiple brand approach, designed to drive customer lifetime values which will ultimately accelerate Ladbrokes' ability to grow online and mobile revenues. The consideration for these other services is excluded from the business combination and will be expensed as incurred. The costs associated with these arrangements are on an arm's length basis.

The fair value of the total consideration for the business combination at the date of the transaction was £35.3 million, including cash of £1.3 million and contingent consideration based on the growth of Ladbrokes' Digital EBITDA between 2012 and 2017. The estimated fair value of this contingent consideration at 10 March 2013 was £34.0 million. This contingent consideration is payable in April 2018 and April 2019, with advance payments due before these dates should performance exceed certain targets.

The fair value of the contingent consideration has been estimated using a discounted cash flow analysis at the acquisition date.

13. Business combinations (continued)

The key assumptions in estimating the fair value are a range of EBITDA projections of the Digital business for 2017, which are based on the projections in place at the time of the acquisition with an estimated uplift for the benefits of the transaction, the predicted Ladbrokes plc EBITDA multiple in 2017 (8.25x); and the discount rate applied (a range of 12.9% to 16.1%, depending on the year). All of these assumptions have been applied on a probability-weighted basis.

The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of £11.0 million and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £3.0 million. An increase of 1x in the EBITDA multiple would increase the contingent consideration by £3.4 million.

The Group has performed an estimate of the fair value of the assets acquired and liabilities assumed as part of the business combination, as follows:

| | £m |
|---|---|
| Net assets acquired: | |
| Payables | (0.1) |
| Cash and cash equivalents | 0.5 |
| Identifiable net assets | 0.4 |
| Goodwill | 34.9 |
| | 35.3 |
| Satisfied by: | |
| Cash consideration | 1.3 |
| Contingent consideration | 34.0 |
| Total consideration | 35.3 |
| Cash consideration | 1.3 |
| Cash and cash equivalent balances acquired | (0.5) |
| Net cash flow on acquisition | 0.8 |

The goodwill of £34.9 million arises from the acquisition of a pool of highly skilled and experienced marketing team which has a proven track record of success in digital marketing, business intelligence and CRM systems, to grow the lifetime values of online customers. None of this goodwill is expected to be deductible for tax purposes.

Ladbrokes Israel Limited has been consolidated in the Ladbrokes plc consolidated financial statements from 1 May 2013. Prior to its acquisition and the transfer of Playtech employees into the company, the company did not trade and therefore had no revenue or profits.

Acquisition-related costs of £1.2 million have been charged to exceptional items in the consolidated income statement for the period ended 31 December 2013.

The Group remeasures the contingent consideration at fair value at each balance sheet date. The estimated fair value of the contingent consideration at 31 December 2013 is £28.9 million, which is classified at Level 3 in the fair value hierarchy. The £5.1 million reduction in the fair value since the acquisition date has been recorded in the income statement within exceptional items.

b) Betdaq

On 28 February 2013, the Group acquired 100% of the issued share capital of Global Betting Exchange Alderney Limited (‘GBEA’), a company registered in Alderney which operates the Betdaq betting exchange business. This acquisition was for total consideration of €42.8 million (£36.8 million), comprising cash consideration of €15.0 million (£12.9 million), the issue of Ladbrokes plc shares with a fair value of €18.6 million (£16.0 million) and contingent consideration with a fair value of €9.2 million (£7.9 million) at the acquisition date. The fair value of the consideration given as Ladbrokes plc shares is based on the number of shares issued (6,952,405 ordinary shares of 28 1/3 pence each) and the market value of the shares on the acquisition date, 28 February 2013.

## Notes to financial information

13. Business combinations (continued)

The contingent consideration is linked to the performance of the business over a four year period and is capped at €535.0 million. The fair value of the contingent consideration has been estimated using a discounted cash flow analysis at the acquisition date. The key assumptions in estimating the fair value are the EBITDA projections of the Betdaq business for 2016, the predicted Ladbrokes plc EBITDA multiple in 2016 (8x) and the discount rate applied (15%). All of these assumptions have been applied on a probability-weighted basis.

The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of £1.7 million and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £0.5 million. A decrease in the EBITDA multiple of 2x would result in a decrease in contingent consideration of £2.0 million.

The Group has performed an estimate of the fair value of the assets acquired and liabilities assumed as part of the business combination, as follows:

| | £m |
|---|---|
| Net assets acquired: | |
| Intangible asset – brand name | 4.9 |
| Intangible asset – customer relationships | 2.2 |
| Trade and other receivables | 0.9 |
| Trade and other payables | (1.9) |
| Cash and cash equivalents | 0.1 |
| Deferred tax liabilities on fair value adjustments | (0.9) |
| Identifiable net assets | 5.3 |
| Goodwill | 31.5 |
| | 36.8 |
| Satisfied by: | |
| Cash consideration | 12.9 |
| Shares | 16.0 |
| Contingent consideration | 7.9 |
| Total consideration | 36.8 |
| Cash consideration | 12.9 |
| Cash and cash equivalent balances acquired | (0.1) |
| Net cash flow on acquisition | 12.8 |

The fair value of the brand name has been estimated based on the present value of the after-tax royalty savings attributable to owning the brand over an estimated useful life of 10 years. The key assumption in estimating the fair value is a royalty rate of 6%. The customer relationships were valued using the income approach method based on a three year average life for the customer base. The key assumptions in estimating the fair value are future revenue and customer churn. Any reasonable change in these assumptions would not result in a material change to the fair value.

The goodwill of £31.5 million, which includes £0.9 million arising as a result of deferred tax on fair value adjustments, arises from the acquisition of the skilled senior management and employees of GBEA, who have significant know-how in the betting exchange sector, as well as the potential to achieve synergies by exposing existing customers of the Group to Betdaq and the potential future access to the Betdaq exchange technology. None of this goodwill is expected to be deductible for tax purposes.

GBEA has been consolidated in the Ladbrokes plc consolidated financial statements from 28 February 2013. Since the date of acquisition, GBEA has contributed £9.7 million of revenue and a net loss of £0.4 million.

In connection with the acquisition described above, on 28 February 2013 the Group also acquired 10% of the issued share capital of TBH Guernsey Limited (‘TBHG’), a company registered in Guernsey, for cash consideration of €4.0 million (£3.4 million). This company owns the technology behind the Betdaq betting exchange business, and licences this technology to GBEA.

13. Business combinations (continued)

The transaction also gives the Group a call option to acquire the remaining shares after four years and a put option to sell its 10% stake and to recover the purchase consideration of €4.0 million in full. The fair value of these options is not considered material. These options are currently not exercisable. The Group has accounted for its investment in TBHG as an available for sale financial asset, initially recognised at fair value of €4.0 million (£3.4 million). There have been no changes in the fair value of the investment at 31 December 2013.

Acquisition-related costs of £1.3 million have been charged to exceptional items in the consolidated income statement for the period ended 31 December 2013.

The Group remeasures the contingent consideration at fair value at each balance sheet date. The estimated fair value of the contingent consideration at 31 December 2013 is £9.5 million, which is classified at Level 3 in the fair value hierarchy. The £1.6 million increase in the fair value since the acquisition date has been recorded in the income statement within exceptional items.

c) Gaming Investments Pty Ltd

On 6 September 2013, the Group acquired 100% of the issued share capital of Gaming Investments Pty Ltd ("GIPL"), a fast growing online sports betting business in Australia, under its newly formed Australian arm 'Ladbrokes Australia'. GIPL's business includes Bookmaker.com.au Pty Ltd, operator of the online bookmaker Bookmaker.com.au and Panda Gaming Pty Ltd, operator of an extensive racing and sports focused affiliate network in Australia.

The fair value of the total consideration for the business combination at the date of the transaction was £28.4 million, including cash of A$23.9 million (£13.9 million) and contingent consideration based on the EBITDA for Ladbrokes Australia for the year ending 30 June 2016, capped at A$125.0 million (£72.7 million). The estimated fair value of this contingent consideration at 6 September was $24.9 million (£14.5 million). This contingent consideration is payable in 2016.

A further earn out payment with an estimated fair value of A$17.1 million (£10.0 million) is linked to the continued service of certain key individuals and has therefore been excluded from the business combination accounting. This additional earn out payment will be recorded within exceptional operating expenses in the income statement over the earn out period (6 September 2013 to 30 June 2016).

The key assumptions in estimating the fair value are the EBITDA projections of the Ladbrokes Australia business for 2016, the predicted Ladbrokes plc EBITDA multiple in 2016 (8.6x) and the discount rate applied of 17.5%. The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of A$2.5 million (£1.5 million) and a decrease of 2% in the discount rate would result in an increase in contingent consideration of A$1.2 million (£0.7 million). An increase of 1x in the EBITDA multiple would increase the contingent consideration by A$4.1 million (£2.4 million).

13. Business combinations (continued)

The Group has performed an estimate of the fair value of the assets acquired and liabilities assumed as part of the business combination, as follows:

| | £m |
|---|---|
| Net assets acquired: | |
| Intangible asset – brand name | 0.6 |
| Intangible asset – customer relationships | 0.5 |
| Intangible asset – domain names | 1.3 |
| Intangible asset – software | 1.7 |
| Property, plant and equipment | 0.3 |
| Trade and other receivables | 1.3 |
| Trade and other payables | (1.8) |
| Cash and cash equivalents | 2.7 |
| Deferred tax liabilities on fair value adjustments | (1.2) |
| Identifiable net assets | 5.4 |
| Goodwill | 23.0 |
| | 28.4 |
| Satisfied by: | |
| Cash consideration | 13.9 |
| Contingent consideration | 14.5 |
| Total consideration | 28.4 |
| Cash consideration | 13.9 |
| Cash and cash equivalent balances acquired | (2.7) |
| Net cash flow on acquisition | 11.2 |

The fair value of the brand name has been estimated based on the present value of the after-tax royalty savings attributable to owning the brand over an estimated useful life of three years. The key assumption in estimating the fair value is a royalty rate of 1%. The customer relationships and domain names were valued using the income approach method based on a one year average life for the customer base and an average life of 10 years for domain names. The key assumptions in estimating the fair value are future revenue and customer churn. Any reasonable change in these assumptions would not result in a material change to the fair value. The fair value of software has been estimated based on the depreciated cost to replace approach and is expected to have a useful life of five years.

The goodwill of £23.0 million, which includes £1.1 million arising as a result of deferred tax on fair value adjustments, arises from the acquisition of the skilled senior management and employees of GIPL, who have significant experience and know-how of the bookmaking business in Australia. None of this goodwill is expected to be deductible for tax purposes.

GIPL has been consolidated in the Ladbrokes plc consolidated financial statements from 6 September 2013. Since the date of acquisition, GIPL has contributed £4.0 million of revenue and £2.9 million net loss. Had GIPL been included for the period from 1 January 2013, revenue for the full year ended 31 December would have been £11.8 million higher and a loss for the Group would have been £5.9 million higher than disclosed in the income statement.

Acquisition-related costs of £0.3 million have been charged to exceptional items in the consolidated income statement for the period ended 31 December 2013.

The Group remeasures the contingent consideration at fair value at each balance sheet date. The estimated fair value of the contingent consideration at 31 December 2013 is £15.2 million, which is classified at Level 3 in the fair value hierarchy. The £0.7 million increase in the fair value since the acquisition date has been recorded in the income statement within exceptional items.

d) Chronicle Bet

On 28 June 2013, the Group acquired the business and assets of Chronicle Bookmakers Limited (‘Chronicle Bet’), an on course bookmaker based in Ireland for a cash consideration of €6.0 million (£5.2 million).

# Notes to financial information

13. Business combinations (continued)

The Group has performed an estimate of the fair value of the assets acquired and liabilities assumed as part of the business combination, as follows:

| | £m |
|---|---|
| Net assets acquired: | |
| Intangible asset – licences | 5.2 |
| Identifiable net assets | 5.2 |

| | |
|---|---|
| Satisfied by: | |
| Cash consideration | 5.2 |
| Total consideration | 5.2 |
| Net cash flow on acquisition | 5.2 |

The licences were valued using the market approach based on market price of comparable assets.

Chronicle Bet has been consolidated in the Ladbrokes plc consolidated financial statements from 28 June 2013. Since the date of acquisition, Chronicle Bet has contributed £3.3 million of revenue and a net loss of £0.2 million.

Acquisition-related costs of £0.1 million have been charged to exceptional items in the consolidated income statement for the period ended 31 December 2013.