26 February 2015

Ladbrokes plc

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

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LADBROKES PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014

H2 OPERATING PROFIT GROWTH OBJECTIVE DELIVERED FOLLOWING OPERATIONAL DELIVERY

	Headline[(1)(2)]			**Statutory**	
	2014 £m	2013 £m	Growth	**2014 £m**	2013 £m
Revenue	**1,158.9**	1,116.6	3.8%	**1,174.6**	1,117.7
Group operating profit [(3)]	**125.4**	138.3	(9.3)%	**66.2**	92.6
Profit before tax	**98.0**	113.3	(13.5)%	**37.7**	67.6
Profit after tax	**93.1**	107.5	(13.4)%	**41.0**	67.0
Basic EPS	**10.1p**	11.7p	(13.7)%	**4.4p**	7.3p
Total dividend per share	**8.9p**	8.9p	-	**8.9p**	8.9p

- All operational objectives delivered to plan and on time
- Ladbrokes' competitive position improved and platform for growth established
- FY14 Group operating profit[(1)(3)] -9.3%. H2 growth objective delivered +30.4% (H1: -33.7%)
- Strong World Cup performance across all divisions
- H2 customer metrics improve in key focus areas (Sportsbook, Gaming, Australia, SSBTs, Machines)
- Exceptional items: £74.5m (£20.4m cash); shop closure costs and impairment driven by regulation and tax; desktop sportsbook transition
- Clear operational objectives established for 2015 to maintain momentum during CEO transition
- Social responsibility: leadership in embedding higher standards at Ladbrokes and the industry
- Board currently intends to maintain 8.9p dividend per share for 2015

Richard Glynn, Chief Executive, commented:

"Ladbrokes entered 2014 clear on what needed to be done to deliver a successful World Cup and to move from operational delivery in H1 to financial growth in H2. We delivered against all our operational targets, enjoyed a successful World Cup and saw clear growth in key areas of the business. The changes put in place have made us competitive and our customers are responding.

"Strong operational delivery delivered a second half of growth as envisaged but the £8m hit on Boxing Day did take some of the shine off our performance. However, this is the business we are in and does not overshadow the positive customer reaction. Ladbrokes exited 2014 with pleasing operational metrics and is in good shape to compete even more effectively with a clear view on what more needs to be done.

"2015 will see new management but the focus on satisfying customer demands, improving the resilience of our retail estate, growing internationally and further improving our Digital offer remains. Whilst recognising there are regulatory headwinds, Ladbrokes is confident in its plans for 2015."

Divisional highlights

	Headline revenue[1][2]			Headline operating profit[1][3]		
	2014 £m	2013 £m	Growth	**2014 £m**	2013 £m	Growth
UK Retail	**811.5**	806.2	0.7%	**119.3**	133.9	(10.9)%
Digital	**215.1**	175.0	22.9%	**14.0**	8.2	70.7%
European Retail	**122.1**	128.9	(5.3)%	**13.0**	15.6	(16.7)%
Core Telephone Betting	**10.2**	6.5	56.9%	**2.0**	(1.6)	225.0%
Corporate costs	**-**	-		**(22.9)**	(17.8)	(28.7)%
Total before High Rollers	**1,158.9**	1,116.6	3.8%	**125.4**	138.3	(9.3)%
Total incl. High Rollers	**1,174.6**	1,123.1	4.6%	**139.6**	144.2	(3.2)%

Digital: operational trends improve again in Q4, Australia strong and profitable

- Mobile Sportsbook growth strong: staking +110% (Q4:+114%); actives +62% (Q4:+45%)
- Overall Sportsbook growth strong: staking +32% (Q4:+30%); actives +25% (Q4:+14%)
- Tablet Sportsbook launched in December 2014. Desktop Sportsbook transition to Mobenga in H2 2015
- Ladbrokes.com Sportsbook net revenue £84.8m +21.0%; gross win margin 7.8% (2013: 8.1%)
- Ladbrokes.com Gaming net revenue £80.5m -6.7%. Returned to growth in Q4: net revenue +9.3%; actives +23%
- Australia operating profit £2.6m (FY 2013: £2.9m loss). Strong pro forma growth[4] net revenue +151%; actives +88%
- Exchanges: net revenue +36.1% (Q4:+25.9%)

UK Retail – good football staking trends, machines and cost control

- OTC staking -1.4% with football staking +29.4% (+12.4% ex World Cup)
- OTC net revenue £379.5m down 3.3% reflecting lower gross win margins of 16.4% (2013: 16.9%)
- Clarity investment delivering growth: Machines net revenue[2] +4.4% (Q4: +7.0%) without reducing our high social responsibility standards
- SSBTs engaging customers (Q4 staking growth +155.2%)
- Costs increase 2.7% lower than FY 2014 guidance of +5%
- Retail optimisation continues: 89 shops closed in 2014; further 60 shops expected to close in 2015

European Retail[5] organic growth in Spain and Belgium offset by Ireland

- Belgium Retail: staking +14.5%; net revenue +10.3%. Customers responding to SSBTs
- Sportium JV: staking +47%; net revenue +55%. Roll out in Catalunya complete
- Ireland Retail: continued challenging conditions. OTC Staking -5.6%; OTC net revenue -8.1%

(1) *Excludes exceptional items and High Rollers*

(2) *In order to provide relevant comparative trends in UK Retail and European Retail, 2013 headline net revenue has been adjusted to reflect the change from VAT to MGD on 1 February 2013*

(3) *Headline operating profit is defined as profit before tax, net finance expense and exceptional items. Headline operating profit excludes High Rollers so as to provide information on underlying performance of the Group as results from High Rollers can vary significantly year on year*

(4) *Pro forma data for 2013 includes Ladbrokes Australia; results for Bookmaker.com.au as if owned for all of 2013 and Betstar.com.au for the comparable period under Ladbrokes ownership in 2014. Constant currency basis. Data includes some unaudited financial information*

(5) *Constant currency basis*

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Notes to editors:

The Company will be hosting an analyst presentation at the Nomura International plc, Ground Floor conference centre, 1 Angel Lane, London EC4R 3AB at 9:30am this morning. This will be available to listen into by dialling +44 (0)203 427 1913 – pass code: 3068733.

Alternatively a live webcast of the presentation, with slides, will be available at the 'Investor' section 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) 203 427 0598 – pass code: 3068733.

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' section under the heading 'Image Gallery'.

This document contains certain statements that are forward-looking statements. They appear in a number of places throughout this document and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this document and, unless otherwise required by applicable law, the Company undertakes no obligation to update or revise these forward-looking statements. Nothing in this document should be construed as a profit forecast. The Company and its directors accept no liability to third parties in respect of this document save as would arise under English law.

Chief Executive's Review

In H2 2013 we committed to undertake and complete a major operational restructuring in time for the 2014 World Cup in order to ensure Ladbrokes was competitive and could return to growth in H2 2014. Although operating profit[(1)] was down on FY 2013 with weak, industry-wide football results in January and December a key factor, our results for 2014 are beginning to show the financial benefits of this restructuring. Despite an exceptionally high loss of £8.1m on Boxing Day football we achieved our target of delivering headline operating profit growth[(1)] in H2, with H2 operating profit up 30.4%, a considerable improvement on H1 2014 which was down 33.7% year on year. We are confident that Ladbrokes is competitive with clear plans to improve further our business and positioned to deliver a good result in 2015.

Delivering on our Digital potential

2014 was a pivotal year for our Digital business during which we completed the key operational steps envisaged in the Playtech agreement of May 2013. In December 2013, we launched mobile sports betting onto the Mobenga platform and completed the launch of Playtech Casino products followed by the transfer of all our Digital products on the Playtech IMS system by the end of April 2014. The integration of our products, prices and data into IMS allowed our marketing and data teams in Ladbrokes Israel to begin in H2 2014 to market effectively to our Digital customers. More importantly, it gives our customers the benefits associated with single wallet capability across all our Digital products.

In addition, we maintained our drive to offer the best betting and gaming experience on mobile devices, the key market battleground. Our partnership with the Chelsea Apps Factory has produced a highly competitive offering throughout 2014, delivering a wide range of application upgrades, tournament modules and unique functions. Customers responded positively to our improved offer with c. 80-160% growth in mobile sportsbook staking in every month of 2014 and 110% for the year. Overall Sportsbook trends were also strong with staking increasing by 32% for the year. We had a good World Cup with Sportsbook staking increasing by 30% on a comparable market basis. Building on the success of our mobile product in 2014, we launched new tablet based products in December and in H2 2015 we intend to launch an improved desktop product also on Mobenga. As a result Ladbrokes will offer customers a competitive and innovative sports-betting product on a stable and standardised platform across all digital channels.

The marketing intelligence provided by Ladbrokes Israel is key to maximising the return we get from our marketing expenditure. In the second half of 2014 following expiry of our previous on-line casino supplier arrangements and the launch of IMS, Ladbrokes Israel was able to apply its full marketing expertise to Casino. In Q3 we returned the Gaming business to growth, the first time for six quarters. In Q4, trends improved further with our cross-selling rates growing by around 30% during 2014 and casino actives growing by 57%.

Overall in 2014, despite weaker margins driven by industry-wide customer friendly results, Digital net revenue increased by 22.9% to £215.1m and operating profit[(1)] by 70.7% to £14.0m with strong performances in mobile Sportsbook, our Australian operation and the return to growth in Gaming the key drivers.

The good growth in customer numbers and Sportsbook stakes already delivered in 2014 and the return to Gaming growth should translate into continued Digital revenue growth during 2015.

A sustainable UK Retail business

In 2014 we demonstrated, once again, that retail betting continues to be an attractive entertainment proposition for customers and a major source of cash flow to support dividends and investment across the Group.

In UK Retail, we enhanced our product offering and made progress in growing our football business. This is central to delivering better margins in the medium-term as well as off-setting the decline in traditional over the counter horse race and greyhound betting which is less relevant to younger customers.

We deployed more Self Service Betting Terminals ("SSBTs") across the estate bringing the total to 1,730. SSBTs are popular with football customers allowing them to build customised coupons and bet across a range of other sports and events. Around 80% of SSBT staking is on football, supporting this important area of growth. SSBT staking grew throughout 2014 with weekly staking levels at the end of the year above the peaks we saw during the World Cup. We also improved our coupon offer for traditional football customers and increased in-store and in-window visibility of the latest football offers, pricing and results. As a result, combined with a strong World Cup, OTC football staking increased by 29.4% and gross win by 9.5%. Building on the strong customer response, we will deploy more than 2,000 additional SSBTs in 2015 across the estate with at least one SSBT per shop.

In H1 we rolled out over 9,000 new Clarity gaming machines in time for the World Cup. Clarity gives our customers an enhanced gaming experience in both roulette (B2) and the faster growing £2 stake slots (B3). In parallel with this roll-out, we introduced the changes required to comply with the ABB Code and our internal responsible gambling standards. Customers have responded well to the new machines and revenues grew by 6.4% in H2, ahead of our expectations. In Q2 2015, new regulations on £50+ staking are being introduced. We are already preparing our shop teams to meet the new requirements whilst continuing to deliver a good customer experience.

The UK Retail team also kept cost increases to a level well below our initial cost guidance for 2014 and generated free cash flow before exceptional items of £138.0m during the year.

Retail net revenue increased by 0.7% to £811.5m whilst operating profit before exceptional items declined by 10.9% to £119.3m. A strong performance in the World Cup and growth from improved machines performances was offset primarily by the impact of well reported customer friendly football results in January and in December, and continued weaker staking trends, particularly for racing, across the year.

We stated in April that regulatory changes and our continued drive to optimise the estate would inevitably lead to shop closures and we closed 89 loss or near loss making shops this year. I am pleased to say that we achieved these closures without making compulsory redundancies, although this is becoming increasingly difficult to achieve.

The increase in Machine Gaming Duty from 1 March 2015 and the anticipated impact of the new UK regulations in 2015 means that further shop closures will be inevitable. We continue to optimise the performance of our estate and expect to close a further 60 shops during 2015. We will again try to limit the impact of these closures on our shop teams.

In 2015, we will continue our focus on improving retail performance and on targeted growth, driven in particular by football staking, wider deployment of SSBTs and our 2014 investment in the Clarity machine estate. We also remain focused on cost efficiency across the division.

Diversifying our profits into Europe and Australia

We continued to expand and grow our international operations in regulated jurisdictions in a capital efficient manner. In 2014, across the whole Group net revenue derived from non UK customers has increased to c.14% of net revenue up 1 percentage point on 2013.

We firmly established our exciting digital challenger brand in Australia and further developed our European Retail businesses in 2014.

After acquiring Bookmaker Pty Ltd in 2013, we acquired Betstar Pty Ltd for £12.1m (AUD 21.4m) in April. Betstar was integrated in only six weeks and we have delivered our cost synergy targets on plan. On a pro forma basis, including the relevant results of both businesses in each period, 2014 staking increased by 25%, actives by 88% and net revenue by 151%. Our Australian business is well positioned for continued growth in 2015.

In Belgium we made further investment in our retail estate and established a Ladbrokes branded digital presence. In Belgium retail, where we remain the market leader, we introduced virtual products and SSBTs. Belgium customers have responded well to these new products and retail net revenue increased by 10.3% and operating profit by 21.4% in 2014 on a constant currency basis.

Our Spanish joint venture, Sportium, expanded into Catalunya, Castilla La Mancha, Rioja and Extremadura. Spanish retail gross win grew by 54%[(2)]. We also pushed ahead with Sportium.es, our digital sportsbetting joint venture with Cirsa, launched in December 2013. Overall the Spanish business, united under one brand, is growing steadily, with a target of reaching break-even profit point during 2015 and becoming profitable thereafter.

In 2015, we expect to benefit further from growth in Australia and from even further geographical expansion in Spain. In Belgium we will continue to generate benefits from our investment in new products and SSBTs.

In Ireland, trading in Northern Ireland which was profitable, showed similar top-line trends and cost performance to UK Retail. However, our business in the Republic of Ireland was loss-making and did not deliver on its plan. Overall revenue in Ireland declined as a consequence by 10.9% and operating profit by 56.9%. We have tasked our International team to undertake a fundamental review of our Republic of Ireland business during Q1 2015 to establish options to take this business forward.

2014 World Cup – a competitive Ladbrokes

We set ourselves the objective of being truly competitive in time for the 2014 World Cup across all channels, with enhanced products, stronger marketing capability, targeted campaigns, all supported by a newly launched marketing campaign “The Ladbrokes Life”. Our customers responded well. In particular our enhanced mobile offer saw the strongest response in what became labelled the “Mobile World Cup”.

Mobile actives increased by nearly 700% over the 2010 tournament and mobile staking by over 1100%, albeit from a small base, resulting in overall growth in Digital sports staking of over 40% and actives increasing by 28% on a comparable market basis.

In UK Retail, we outperformed the market with staking up 7.9% and recorded significant increase in slippage as customers took advantage of a wider range of multiples and coupon offers.

In Spain and Belgium we generated over 100% increases in staking and good online activity.

Overall margins were strong at 24.3%(3) and we generated an overall gross win of £28m(3) for the tournament well ahead of 2010.

The 2014 World Cup showed what we can achieve by offering customers attractive opportunities to bet alongside competitive products across all channels supported by effective and efficient marketing of the Ladbrokes brand. It provided the best evidence that Ladbrokes was back on track.

Social responsibility, taxation and self-regulation

The Betting Industry has been subject to a number of publicly announced taxation and regulatory changes – many of which will impact during 2015. These include taxation of remote revenues, extension of UK licensing and regulation to remote operations, changes to regulations around gaming machine staking above £50 and a review of the voluntary codes relating to gambling advertising. While the industry entered 2015 with many of the substantive issues surrounding it having been addressed, significant challenges remain in terms of public and stakeholder perception.

Ladbrokes has over the last couple of years played a lead role in driving social responsibility across the industry. We demonstrated our commitment to social responsibility by establishing a committee of the PLC board to set targets in social responsibility and to link these targets to executive remuneration. Key to this has been the appointment of a Head of Responsible Gambling who has reviewed our approach and policies on responsible gambling and will ensure these are applied across all our channels and evolved over time.

Ladbrokes played a leading role in establishing the first gambling industry responsible gambling standards body – The Senet Group – with other leading betting operators. The Group, which has already developed the first multi-operator responsible gambling advertising campaign, will continue to evolve in the years to come and is an important commitment by the industry to submit to independent oversight of its approach to responsible gambling. Other sectors of the wider industry must now endorse similar approaches.

Informing both Ladbrokes and the industry’s approach has been the extensive research carried out by The Responsible Gambling Trust. This ground breaking work has identified that incremental, targeted interventions are key to helping individuals exhibiting problematic behaviour to help themselves. Customer data provided by our unique ‘Odds On’ card has enabled Ladbrokes to develop an algorithm to identify players exhibiting at risk behaviour. We are currently testing the algorithm in one region and we plan to roll it out more widely before the end of the year.

Q4 Results

Operating profit(1) for the Group in Q4 at £35.6m was flat on Q4 2013 (£35.6m), driven largely by the poor football results on Boxing Day. Across all of our platforms we recorded a loss on Boxing Day of c.£8.1m, Ladbrokes’ worst ever football daily loss on record.

Notwithstanding this loss, Ladbrokes showed signs of further improved operational strength, notably in machines, mobile Sportsbook, Digital Gaming and Australia, providing evidence that operational investment of the past 18 months is now delivering financial returns.

In UK Retail, Q4 OTC amounts staked were down 6.8% with gross win margins at 15.6% down by 1.5 percentage points on Q4 2013 driven by customer friendly football and horse results. Football staking improved by 1.1% as we benefitted from our focus on coupon products and our investment in SSBTs where staking per terminal increased. Staking on traditional products declined by c.8.5% improving on the trends seen in Q3 benefitting from new products introduced during Q4.

Machine revenue increased by 7.0%, gross win per shop per week was up 9.8% and on a per terminal per week basis was £996. Overall net revenue declined by 2.4%.

Digital net revenue increased by 20.1%. In Ladbrokes.com, we saw another strong quarter of growth with Sportsbook actives up 14%, staking up 30% and mobile staking up again over 114%, the highest rate of growth in 2014. Weaker results at the end on the quarter however meant that the Ladbrokes.com Sportsbook margin was down 1.7 percentage points to 6.5% and, although staking and customer metrics were strong, Sportsbook net revenue declined by 7.0%.

Ladbrokes.com Gaming net revenue grew by 9.3% reflecting strong increases in actives with Games up 31% and Casino up 57% and the impact on revenues of losses to some higher value customers in Casino.

Australia performed well and, with normalised results across the Spring Carnival, delivered a Q4 gross win margin of 9.6% (Q4 2013: 5.2%). Net revenue increased by 239% with strong growth in actives and staking increased by 32.8% strongly benefitting from the Betstar acquisition.

In Belgium, staking increased in Q4 by 35.9%(2) but, with margins impacted significantly by poor European football results net revenue only increased by 8.4%(2). In Ireland, trends in the Republic remain poor and with Boxing Day impacting margins, overall Irish revenue declined by 18.4%(1).

Outlook and Current Trading

For the period 1 January to 24 February 2015, net revenue for the Group (excluding High Rollers) increased by 1.5% despite the impact of losses to a small number of larger customers in the period and the adverse industry-wide football results in weeks 3 and 8.

In UK Retail we have seen similar OTC staking trends to Q4 and continued strong machine revenue growth. OTC gross win margins were slightly ahead of last year and, overall, net revenue in UK Retail is ahead. In Digital, Ladbrokes.com Sportsbook and Gaming customer KPIs remain good and Australia is generating strong growth both organic and from Betstar. Trading elsewhere is in line with our expectations.

In H2 2014, our financial results saw the benefits from the major operational restructuring undertaken over the past 18 months. In 2015, Ladbrokes faces significant headwinds from the increases in Machine Gaming Duty in March and the Point of Consumption Tax. However, we have clear plans to improve further our business. Barring the imposition of material unforeseen adverse regulation and/or taxation and assuming normalised sporting results, we are confident in our plans for 2015 and in generating continued underlying growth.

Dividend

As the Group implemented its operational turnaround, the Board committed to pay dividends of 8.9p per share for 2013 and 2014, outside our historic dividend policy which is based on earnings cover whilst remaining within our target leverage policy of net debt being in the range of 1.5/2.0x EBITDA (before exceptional items).

The Board currently intends to pay a dividend of 8.9p per share for the 2015 financial year.

(1) Excludes exceptional items and High Rollers
(2) Constant currency basis
(3) Including Sportium Joint Venture on a 50% basis

Audited results for the year ended 31 December 2014

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Net revenue by segment:		
UK Retail [1]	811.5	800.9
Digital	215.1	175.0
European Retail [1]	122.1	128.8
Core Telephone Betting	10.2	6.5
Group net revenue (exc. High Rollers) [1]	1,158.9	1,111.2
High Rollers	15.7	6.5
Group net revenue [1]	1,174.6	1,117.7
Operating profit [2] (exc. High Rollers)	125.4	138.3
Operating profit [2] from High Rollers	14.2	5.9
Profit before net finance expense, tax and exceptional items	139.6	144.2
Operating exceptional items[3]	(73.4)	(51.6)
Profit before net finance expense and tax	66.2	92.6
Net finance expense[4]	(28.5)	(25.0)
Profit before tax	37.7	67.6
Income tax credit/(expense)[5]	3.3	(0.6)
Profit after tax	41.0	67.0

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

(2) Operating profit is defined as profit before tax, net finance expense and exceptional items. Exceptional items before finance expense and taxation were £73.4m (2013: £51.6m).

(3) 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. The separate disclosure of these items allows a clearer understanding of the trading performance on a consistent and comparable basis, together with an understanding of the effect of non-recurring or large individual transactions upon the overall profitability of the Group.

(4) Includes £1.1m (2013: nil) of exceptional finance expense.

(5) Income tax includes a credit of £8.9m on exceptional items (2013: £5.5m).

Business Review

1. UK Retail

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year on year change %	Pro forma Year ended 31 December 2013 £m	Year on year change %
- OTC amounts staked	2,327.9	2,360.0	(1.4)	2,360.0	(1.4)
- Machines amounts staked	11,838.6	11,671.9	1.4	11,671.9	1.4
Amounts staked	14,166.5	14,031.9	1.0	14,031.9	1.0
- OTC gross win	386.3	403.6	(4.3)	403.6	(4.3)
- Machines gross win	437.9	422.6	3.6	422.6	3.6
Gross win	824.2	826.2	(0.2)	826.2	(0.2)
Adjustments to GW (1)	(12.7)	(25.3)	49.8	(20.0)	36.5
- OTC net revenue	379.5	392.5	(3.3)	392.5	(3.3)
- Machines net revenue	432.0	408.4	5.8	413.7	4.4
Net revenue	811.5	800.9	1.3	806.2	0.7
Gross profits tax	(56.9)	(59.0)	3.6	(59.0)	3.6
Machine Games Duty	(86.3)	(76.4)	(13.0)	(81.7)	(5.6)
	668.3	665.5	0.4	665.5	0.4
Associate income	1.2	4.0	(70.0)	4.0	(70.0)
Operating costs	(550.2)	(535.6)	(2.7)	(535.6)	(2.7)
Operating profit (2)	119.3	133.9	(10.9)	133.9	(10.9)

(1) Fair value adjustments, free bets and VAT.
(2) Before exceptional items.
(3) Greyhound tracks account for £11.7m of amounts staked and £7.6m of gross win in 2014 (2013: £11.5m amounts staked and £7.4m gross win).
(4) Pro forma 2013 reflects the change from VAT on machines to Machine Games Duty which took effect from 1 February 2013.

2014 saw a year of intense activity in UK Retail. We introduced the ABB Code on Responsible Gaming in April, made major improvements in product for the World Cup including a new football coupon product supported by 1,730 SSBTs and rolled out over 9,000 new Clarity Gaming Machines. All this was delivered in an estate where costs were kept under tight control.

Retail investment delivering revenue growth in machines and football

We had a good World Cup performance where we generated staking growth of 7.9% on the 2010 tournament. Overall OTC staking was broadly stable at -1.4%. Within staking we generated good growth in football, with stakes up 29.4% on 2013 (12.4% excluding the World Cup). This has helped off-set the ongoing decline in traditional products, in particular horse racing where we saw a continued reduction in customer interest throughout the year.

Gross win margin was 16.4% (2013:16.9%) reflecting the large industry-wide football losses recorded in January and on Boxing Day and weaker horse-racing margins driven by the higher incidence of winning favourites.

SSBTs generated stakes of £48.1m, included in OTC, with around 80% coming from football and we have seen a growing staking per terminal throughout the year.

Machine revenue growth was 4.4%[4] during the year. In the first half, machine revenue growth was held back by our implementation of the ABB Code and by the short-term effect of the roll-out of over 9,000 new Clarity gaming cabinets across the UK Retail estate between February and June. In H2, machine revenue growth accelerated to 6.4% reflecting the success of the new cabinet which is driving growth notably in lower stakes slots and other games. In Q4, roulette only accounted for 62% of gross win (Q4 2013: 66%). In 2014 there were an average of 8,966 gaming machines in the estate (2013: 8,874). At 31 December 2014 there were 8,789 machines (2013: 9,091).

On 1 March 2015 the rate of Machines Gaming Duty will rise from 20% to 25%. Using machines revenue generated in 2014 as a base, this change would result in an additional cost of c.£17m in 2015 after adjusting for revenue related contract payments.

Strong cost performance

Operating costs increased by 2.7% in 2014 or 2.3% on a like-for-like basis. This was significantly lower than the cost guidance for 2014 of +c.5.0% issued in February as we have benefitted from a sustained focus on cost efficiency notably delivering lower cost rent renewals, further improvements in staff scheduling and higher central procurement savings than we planned.

Estate optimisation

In the past five years we have steadily increased the size of the UK Retail estate improving the size and quality of our shop portfolio whilst delivering attractive returns on our investment. In 2014, we continued our focus on improving the quality of the estate and we closed 89 shops.

The annualised loss for the closed shops was approximately £1.5m and the closures have generated an exceptional charge of £26.9m (cash cost £12.1m).

We plan to make a further 60 closures in 2015 as we continue to optimise the portfolio and prepare for the impact of regulatory and tax changes. At December 2014 there were 2,209 shops in Great Britain (2013: 2,297).

Focus in 2015

In 2015 we have four key areas of focus to move UK Retail forward and to keep our product competitive.

We will continue to drive growth in football betting in our shops building on the 2014 World Cup. We will do this by continuing to promote OTC football offers and by increasing the visibility of football products within our shops and in advertising. We will deploy at least a further 2,000 SSBTs across our estate during 2015 to build on their customer appeal. Generating growth in higher margin football staking is key to reducing the impact of the industry-wide decline in traditional betting products.

We also expect revenue growth from our enhanced Clarity machine estate, driven in particular from lower stake B3 products to be around 5% for FY 2015 excluding any impact from the new DCMS regulations in relation to £50 and above machine staking. We will implement the changes required by these regulations in a manner consistent with our stance on delivering social responsibility while continuing to provide our customers with an enjoyable experience. We expect these measures to have some impact on machine revenue growth as customers adapt to the new environment.

Finally we will maintain our disciplined approach to cost. We expect UK Retail costs to decline by c.1-2% in 2015 reflecting the impact of shop closures and the benefit of cost efficiency programmes particularly around rental renewals, energy costs and UK Retail central costs.

2. Digital

The Digital segment comprises all of our Digital operations including Ladbrokes.com and digital Exchanges; Ladbrokes Australia; and Other Regulated Operations including our operations in Belgium and Denmark and our digital joint venture Sportium.es.

Overall in 2014, Digital net revenue increased by 22.9% to £215.1m (2013: £175.0m) and operating profit before exceptional items, including our share of Sportium.es, increased 70.7% to £14.0m (2013: £8.2m).

A. Ladbrokes.com and Exchanges

	Year ended 31 December 2014	Year ended 31 December 2013	Year on year change
	£m	£m	%
Net revenue			
- Sportsbook	84.8	70.1	21.0
- Casino and Games	66.4	67.5	(1.6)
- Poker	3.0	6.9	(56.5)
- Bingo	11.1	11.9	(6.7)
- Exchanges	13.2	9.7	36.1
Net revenue	178.5	166.1	7.5
Betting tax	(1.1)	(0.9)	(22.2)
POC tax	(2.1)	-	
Operating costs	(158.0)	(150.5)	(5.0)
Operating profit (1)	17.3	14.7	17.7

(1) *Before exceptional items*

Operational progress

During 2014 we have made major operational changes to increase the competitiveness of our products in the market place.

In Gaming, we migrated casino products to Playtech Casino in March, completing our portfolio of Playtech products across our Gaming segment.

In April, we completed our last major platform transition by moving all Digital products to the Playtech IMS digital marketing system. This provides customers with single-wallet capability across all of our Digital products and enables our Digital marketing team in Ladbrokes Israel to optimise marketing and retention strategies. It also ensures that our customers can be properly rewarded for their activity across all of our Digital products. Ladbrokes Israel delivered significant improvements to our Gaming performance in H2.

In Sportsbetting we have improved our mobile product continuously throughout the year improving ease of use features by adding functions like PayPal to enable quick deposit and launching high quality tournament modules for the 2014 World Cup and Ryder Cup.

In December we launched our enhanced tablet product and apps across the Mobenga platform which have met with good customer response.

We have also continued to invest in ensuring our underlying IT systems are robust and that down time is minimised. Digital cash capital expenditure was £29.4m (2013: £35.8m).

We also undertook a review of the markets from which we take business and, based on our assessment of relevant local legal requirements and commercial considerations, we ceased taking bets from a number of locations. This resulted in us withdrawing from countries which generated £6m annualised net revenue and £3m of operating profit.

Looking at Q4 2014, UK based revenue now accounts for around 90-95% of revenue in Ladbrokes.com with Ireland, Sweden and Germany, where we were recently awarded a digital sportsbetting licence being the next largest jurisdictions. Ladbrokes' Digital business is now derived very substantially from customers based in regulated jurisdictions which should be more sustainable for the long-term.

Sportsbook

Sportsbook net revenue increased by 21.0% driven by an increase in amounts staked of 31.7%. Mobile sportsbetting has been particularly strong since the launch of our new platform in December 2013 on the Mobenga platform which we have continually enhanced through the introduction of new product features throughout 2014. This intense product focus has enabled us to deliver increases in Mobile sports staking of 110% over 2013 with increases in staking of c.80-160% recorded in each month of 2014.

Our new products enabled us to compete well in the World Cup and we delivered a good performance with staking up almost 30% on the 2010 tournament and gross win by 19% on a comparable markets basis.

By the end of 2014, Mobile Sportsbetting represented over 60% of customer staking. Our Desktop staking declined reflecting rapid customer migration to Mobile products. Customer acquisition has also been strong with an increase of actives in the year of around 25% in sports betting and 62% on our Mobile platform.

Sportsbook gross win margin was 7.8%, 0.3 percentage points down on last year, reflecting the impact of exceptional industry-wide football results in January and on Boxing Day.

Gaming

In 2014, Gaming net revenue decreased 6.7% to £80.5m reflecting the transitional nature of the year as we completed our transition to Playtech casino products and the IMS platform in H1. This transition was completed in April 2014 in time for the World Cup.

In H1, when we could not benefit from a fully enabled product and marketing capability, revenues declined significantly and it was pleasing to see that with competitive products and Ladbrokes Israel's marketing skills fully engaged, we stabilised Gaming revenue in Q3 and, in Q4, returned to growth. Looking at our two largest Gaming products in Q4, net revenue from Casino was up 7.1% on actives growth of 57% and Games was up 43.5% on a 31% increase in actives. Casino net revenue growth in Q4 was lower than active growth due to the impact of losses to some larger customers.

Exchanges

Betting via an exchange remains an attractive product to customers not only as a substitute activity but also as a complementary product. Revenue from Betdaq and the Ladbrokes Exchange has increased by 36.1% and operating profit(1) by 275% and our exchange business is profitable.

Revenue growth and cost efficiency delivers operating profit(1) growth

Operating costs increased by 5.0% driven by increases in depreciation arising from our investment in new products and platforms. Other costs were broadly stable despite much higher underlying activity. Marketing expense for 2014 was 27% (Ladbrokes.com) of net revenue (2013: 26%) in line with our guidance target of 25-30% for 2014. Depreciation and amortisation increased to £27.2m (2013: £17.7m) reflecting the investment in our new systems and product enhancements during the year.

As a result of this strong cost performance, operating profit for Ladbrokes.com and Exchanges increased by 17.7% to £17.3m (2013: £14.7m).

B. Australia

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year on year change %	Pro forma Year ended 31 December 2013[2] £m	Pro forma Year on year change
Net revenue	34.6	4.0	765.0	13.8	150.8%
Operating profit/(loss) [1]	2.6	(2.9)	189.7	(9.1)	

[1] Before exceptional items.
[2] Pro forma data for 2013 includes Ladbrokes Australia; results for bookmaker.com as if owned for all of 2013 and Betstar in 2013 for the comparable period under Ladbrokes ownership in 2014. Pro forma financial data includes data from unaudited management accounts and pro forma year on year change is stated in constant currency.

Our Australian business operates under the Ladbrokes, Bookmaker and Betstar brands. Following our entry in Q3 2013 with the acquisition of bookmaker.com.au we increased further our presence with the acquisition of Betstar in April 2014 for £12.1m (AUD21.4m). Ladbrokes Australia has continued to successfully pursue its challenger strategy building market share through effective use of affiliates and product innovation.

In 2014, on a pro forma basis[2] staking increased by 24.5% driven by an 88% increase in active customers and with normalised results at the Spring Carnival when compared with 2013, net revenue increased by 150.8% on an 9.0% gross win margin (2013: 4.8%).

C. Other Regulated Operations

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year on year change %
Net revenue	2.0	4.9	(59.2)
Operating loss[1][2]	(5.9)	(3.6)	(63.9)

[1] Before exceptional items.
[2] Includes £1.7m share of loss from Sportium.es joint venture.

Other Regulated Operations includes our digital activities in Denmark, Belgium and Spain. In May 2014 following the award of a licence we launched Ladbrokes.be, which now allows us to offer multi-channel services in Belgium. Following the launch, we have invested heavily in marketing and incurred start up losses of £2.8m.

We also transferred our independent Spanish operation LBapuestas.es to our Sportium.es joint venture (which was itself launched in December 2013) during the first quarter and after further investment to drive revenue growth in Spain, Ladbrokes recorded a start-up loss of £1.7m. In 2015 we expect to record further digital start-up losses in Belgium and Spain but we expect such losses to be materially lower than in 2014 as we build market share in both territories and drive towards profit in 2016.

The overall revenue decline reflects the impact of our agreement with Cirsa to combine all of our Spanish digital businesses into the Sportium.es joint venture which was completed during Q1 2014 and which are not consolidated in Ladbrokes' statutory results.

Digital Focus in 2015

In 2015 we will build on the momentum we have developed in 2014 across all our Digital businesses to drive revenue growth in particular in Mobile sportsbetting and in Gaming where we still have the opportunity to achieve higher rates of growth.

We will evolve our Digital platform in 2015 by transitioning to a new desktop sportsbook platform, harmonised with our mobile and tablet offer in H2. There will be further improvements to IMS and continued product innovation.

We expect marketing expense to be a lower percentage of net revenue in Ladbokes.com than in 2014 as we expect to benefit from more rational marketing behaviour following the introduction of the Point of Consumption tax in the UK from 1 December 2014 which has created a sizeable headwind for the industry in 2015. We are focused on mitigating some of the impact of this tax through cost measures but it is not possible to offset a substantial proportion of this tax. Therefore, although we expect to deliver continued strong organic revenue growth in 2015, it is unlikely we will deliver a result ahead of 2014 for this division.

3. European Retail

European Retail comprises our operations in Belgium, Spain and Ireland which are discussed in detail, below. Operating profit before exceptional items for European Retail was £13.0m down 16.7% on FY 2013 with growth in Belgium and Spain being offset by Ireland.

Belgium Retail

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year on year change (reported) %	Year on year change (constant currency) %
Amounts staked	202.0	186.9	8.1	14.5
Net revenue	49.9	47.9	4.2	10.3
Betting tax	(7.7)	(7.3)	(5.5)	(10.5)
Gross profit	42.2	40.6	3.9	10.2
Operating costs	(32.6)	(32.2)	(1.2)	(7.3)
Operating profit (1)	9.6	8.4	14.3	21.4

(1) Before exceptional items.

In Belgium, where we are the largest retail betting operator, 2014 was a year of investment in enhancing the quality of offer in our retail estate for customers with the introduction of virtual betting product and SSBTs. Shortly before the World Cup, we launched a new digital service, Ladbrokes.be positioning us to establish Belgium's leading multi-channel operator.

A strong performance in the World Cup and good growth in sports betting, notably in football, delivered an increase in retail amounts staked of 14.5% on a constant currency basis. Looking at performance on a constant currency basis, net revenue increased by 10.3%. Amounts staked on the World Cup increased by 157% and net revenue by 83% against 2010. Operating costs were up 7.3% and operating profit was up 21.4% to £9.6m. Results for Ladbrokes.be which incurred a start up loss of £2.8m on net revenue of £1.6m are recorded within the "(Other Regulated Operations") Digital segment. We remain on track to deliver an operating profit for Ladbrokes.be in 2016 and expect investment led losses to be lower in 2015 as we build scale.

As at 31 December 2014 there were a total of 361 outlets including both Ladbrokes shops and newsagent outlets compared with 359 at 31 December 2013.

In 2015, we will continue to improve the quality of our retail estate both in terms of service and product. Our digital growth will focus heavily on the further development of our mobile and tablet offering. Overall we will continue to focus on maintaining our leadership in multi-channel retailing in Belgium.

Spain Retail

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year on year change %
Operating loss (1)	(1.0)	(3.0)	66.7

(1) Before exceptional items.

In 2014 our Sportium joint venture with Cirsa was awarded retail betting licences in a further four regions – Catalunya, Castilla La Mancha, La Rioja and Extremadura and we have moved rapidly to establish a strong retail presence in these regions. We now operate in ten regions in Spain and are hopeful that further regions will formally approve the provision of retail betting services in 2015 enabling us to expand our retail network and increase operational scale as we drive towards generating a meaningful profit from our Spanish operation.

Although the Spanish economic environment remains challenging, our retail joint venture recorded another record year. On a constant currency basis, amounts staked increased by 47% to €223m and net revenue by 54% to €42.6m. We also produced a strong World Cup performance with stakes up 160% and retail net revenue up 183% on the 2010 tournament.

We have also pushed ahead with our jointly owned digital brand Sportium.es which we launched in December last year on Playtech technology creating the largest multi-channel betting offering in Spain, (results of which are recorded in our "Other Regulated Operations" Digital segment). Our ongoing investment and necessary start up costs in both the retail and digital business means we expect to generate a further start up loss in 2015 but we remain on track to deliver profitability in 2016.

As at 31 December 2014 there were a total of 1,192 outlets where Sportium services are available up from 753 on 31 December 2013.

In 2015, Sportium will continue to expand its Spanish retail presence within new and existing regions during 2014. Digital channels in Spain also expect to continue to see good growth in 2015 with the regulatory approval for online slots helping performance from H2 2015 onwards. In Latin America we will build on our recent launch in Mexico and look at other potential retail/digital opportunities in that region.

Ireland

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year on year change %	Pro forma Year ended 31 December 2013 £m	Year on year change (pro forma) %	Year on year change (constant currency) %
- OTC amounts staked	467.6	516.7	(9.5)	516.7	(9.5)	(5.6)
- Machines amounts staked	141.0	142.2	(0.8)	142.2	(0.8)	(0.8)
Amounts staked	608.6	658.9	(7.6)	658.9	(7.6)	(4.5)
- OTC gross win	67.4	77.4	(12.9)	77.4	(12.9)	(9.5)
- Machines gross win	5.6	5.6	-	5.6	-	-
Gross win	73.0	83.0	(12.0)	83.0	(12.0)	(8.7)
Net revenue	72.2	80.9	(10.8)	81.0	(10.9)	(7.4)
Betting tax	(6.6)	(7.4)	10.8	(7.4)	10.8	8.3
Machine Games Duty	(1.1)	(1.0)	(10.0)	(1.1)	-	-
Gross profit	64.5	72.5	(11.0)	72.5	(11.0)	(7.6)
Operating costs	(60.1)	(62.3)	3.5	(62.3)	3.5	(0.7)
Operating profit (1)	4.4	10.2	(56.9)	10.2	(56.9)	(56.8)

(1) Before exceptional items.
(2) Pro forma 2013 reflects the change from VAT on machines to Machine Games Duty which took effect from 1 February 2013.

Although Ireland's economy continues to improve we have seen a decline in profitability reflecting continuing highly competitive conditions in the Republic of Ireland. Northern Ireland showed similar revenue trends to the UK Retail business and performed somewhat better on costs.

On a constant currency basis, amounts staked declined 5.6% reflecting challenging market conditions in the Republic of Ireland and the continuing decline in traditional products we have seen in the UK. Football staking however, was up over 16%. Overall net revenue decreased by 7.4%.

We have continued to invest in the customer offer within our Irish business and have increased the number of SSBTs and range of virtual product. A further drive for efficiency, principally from shop scheduling improvements and a reduction in head office and property costs, meant that operating costs were broadly flat on 2013.

Operating profit[(1)] in Ireland at £4.4m was 56.8% lower than in 2014 on a constant currency basis.

At 31 December 2014 there were 79 shops in Northern Ireland (31 December 2013: 79) and 196 shops (31 December 2013: 216) in the Republic of Ireland.

We have tasked our International team to undertake a fundamental review of our Republic of Ireland business during Q1 2015 to establish options to take this business forward.

4. Core Telephone Betting

	Year ended 31 December 2014	Year ended 31 December 2013	Year on year change
	£m	£m	%
Amounts staked	160.9	186.4	(13.7)
Net revenue	10.2	6.5	56.9
Gross profits tax	(0.2)	(0.4)	50.0
Operating costs	(8.0)	(7.7)	(3.9)
Operating profit [(1)]	2.0	(1.6)	225.0

[(1)] Before exceptional items

Traditional telephone betting continues to decline as part of the bookmaking sector as the migration to digital products and platforms continues. Amounts staked declined by 13.7% on 2013 but higher gross win margins at 7.2% (2013: 3.9%) and a £0.5m gross win from the World Cup meant that net revenue increased by 56.9% moving this segment into profit.

We expect a return to a small operating loss in 2015.

5. High Rollers

High Rollers generated an operating profit for the year of £14.2m (2013: £5.9m).

6. Quarterly Trends Table

YoY (except where stated)	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014
Group EBIT[(1)(2)]	£17.0m	£35.6m	£18.4m	£38.4m	£33.0m	£35.6m
UK Retail						
OTC Stakes	+5.1%	+4.6%	+8.5%	+1.8%	(7.9)%	(6.8)%
OTC Gross Win Margin	14.9% (2.0)pp	17.1% (0.4)pp	16.2% (2.7)pp	16.5% (0.4)pp	17.0% +2.1pp	15.6% (1.5)pp
Machine Gross Win growth	+0.7%	+2.5%	+2.2%	+1.5%	+4.9%	+5.9%
Machine Gross Win per shop per week	(5.0)%	(2.4)%	(1.1)%	+0.4%	+6.5%	+9.8%
Total Net Revenue[(3)] growth	(3.9)%	+1.6%	(2.3)%	+1.5%	+6.0%	(2.4)%
Ladbrokes.com						
Sportsbook amounts staked	(4.7)%	(12.5)%	+33.7%	+41.9%	+20.9%	+29.5%
Mobile Sportsbook amounts staked	+29.9%	+23.2%	+94.5%	+114.2%	+113.2%	+114.1%
Sportsbook actives	(12.1)%	(10.7)%	(0.5)%	+38.6%	+33.7%	+14.3%
Sportsbook Net Revenue	(25.3)%	(15.7)%	(15.4)%	+63.1%	+58.3%	(7.0)%
Sportsbook Gross Win Margin	6.7% (1.0)pp	8.2% (0.1)pp	6.5% (3.5)pp	9.1% +1.4pp	8.9% +2.2pp	6.5% (1.7)pp
Gaming Net Revenue	(13.3)%	(16.3)%	(15.5)%	(18.6)%	-	+9.3%
Gaming Actives	(9.4)%	(30.5)%	(26.2)%	(6.9)%	(2.3)%	+23.3%

(1) Excluding high rollers. Year on year performance except where stated
(2) Profit before tax, net finance expense and exceptional items. Stated after amortisation of customer relationships and other acquisition related intangible assets
(3) In order to provide comparative trends, 2013 net revenue has been adjusted to reflect the change from VAT to MGD on 1 February 2013

7. 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 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 2014 £m	Year ended 31 December 2013 £m
Gross win	1,262.7	1,194.8
Adjustments [(1)]	(88.1)	(71.4)
VAT [(2)]	-	(5.7)
Revenue	1,174.6	1,117.7

[(1)] *Includes free bets, promotions, bonuses, gross sales tax and fair value adjustments as ante-post liabilities.*
[(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 2014		Year ended 31 December 2013	
	Gross win £m	Net revenue £m	Gross win £m	Net revenue £m
UK Retail	824.2	811.5	826.2	800.9
Digital	288.3	215.1	224.0	175.0
European Retail	122.9	122.1	130.9	128.8
Core Telephone Betting	11.6	10.2	7.2	6.5
High Rollers	15.7	15.7	6.5	6.5
Total	1,262.7	1,174.6	1,194.8	1,117.7

Group net revenue

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m	Year on year change %
Excluding High Rollers	1,158.9	1,111.1	4.3
Including High Rollers	1,174.6	1,117.7	5.1

Group revenue increased by £56.9m (5.1%) to £1,174.6m (2013: £1,117.7m). Excluding High Rollers, revenue increased by £47.7m (4.3%) to £1,158.9m (2013: £1,111.2m). The increase is attributable to the World Cup which contributed additional £23.7m, full year effect of Bookmaker and the Betstar acquisition during the year in Australia added £30.6m and continued strength of machines within the UK Retail estate with net revenue increasing £23.6m. This was partially offset by customer friendly results across all divisions, weakness in the horse product in UK Retail and a decline in gaming within Digital.

Operating profit [1]

Operating profit decreased by £4.6m or 3.2% to £139.6m (2013: £144.2m).

Excluding High Rollers, operating profit decreased by £12.9m or 9.3% to £125.4m (2013: £138.3m) with reduced profits from UK Retail and European Retail, partially offset by increased profits in Digital and Core Telephone Betting. There was also an increase in corporate costs.

Corporate costs

Before exceptional items, total corporate costs increased by £5.1m to £22.9m (2013: £17.8m). The increase is primarily due to a higher share based payments charge and the 2013 comparative benefitting from a £2.7m credit from Hilton hotel guarantees.

Finance expense

Before exceptional items, net finance expense of £27.4m was £2.4m higher than last year (2013: £25.0m) mainly due to an increase in the net debt.

Profit before tax

The reduction in trading profits has resulted in a 5.9% decrease in profit from continuing operations before taxation and exceptional items to £112.2m (2013: £119.2m).

Exceptional items before tax

Total exceptional items before tax of £74.5m (2013: £51.6m) comprises the following:
- £44.5m of asset impairments comprises £20.8m of shop assets impairment and £23.7m impairment of IT assets principally arising as a result of the decision to decommission a platform for desktop sportsbook;
- £30.7m loss on closure of shops in UK and European Retail;
- £3.8m relating to early termination of contractual commitments within jurisdictions where we have closed our Digital operations in the year;
- £0.5m of corporate transaction costs associated with the acquisition of Betstar Pty;
- A credit of £(4.8)m in relation to the net curtailment gain on closure of the defined benefit pension plan to future accrual;
- A credit of £(3.1)m relating to the re-measurement of the contingent considerations in relation to business combinations from 2013;
- A profit on the sale and leaseback of freehold shops in the UK Retail estate of £(3.9)m;
- A provision for potential European indirect tax liabilities of £5.7m; and
- £1.1m within exceptional finance expense including £0.6m relating to the write off of arrangement fees asset following the re-financing of the Group's committed facilities and £0.5m interest on the repayment of output VAT on amusement machines to the HMRC.

Taxation

The Group taxation charge before exceptional items was £5.6m. This represents an effective tax charge of 5.0% (2013: 5.1%). There was a tax credit of £8.9m in relation to exceptional items in 2014 (2013: £5.5m credit).

Dividend

The Board announces a final dividend of 4.60 pence per share (2013: 4.60 pence per share) taking the full year dividend to 8.90 pence per share (2013: 8.90 pence per share).

The dividend will be payable on 14 May 2015 to shareholders on the register on 27 March 2015.

Earnings per share (EPS) – Group

Underlying
EPS (before exceptional items and High Rollers) decreased by 13.7% to 10.1 pence (2013: 11.7 pence), reflecting the decreased profit before tax.

Total
EPS (before exceptional items) decreased by 5.7% to 11.6 pence (2013: 12.3 pence), reflecting the decreased profit before tax. EPS (including the impact of exceptional items) was 4.4 pence (2013: 7.3 pence). Fully diluted EPS (including the impact of exceptional items) was 4.4 pence (2013: 7.2 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 £159.0m. After net finance expense paid of £26.4m, income taxes paid of £2.1m, £59.9m on capital expenditure and intangible additions, £10.4m spent on business combinations and £5.2m cash inflow from sale and leaseback of freehold properties; cash inflow was £65.4m. After dividend payment of £81.4m and other net cash outflow of £4.6m, net debt at the end of the period increased by £20.6m. The Group expects to invest c£60m in capital expenditures in 2015 and for depreciation and amortisation to be between £80m and £82m.

At 31 December 2014, gross borrowings of £439.3m less the net of cash and short-term deposits of £21.1m and bank overdraft of £(1.0)m resulted in a net debt of £419.2m (31 December 2013: £398.6m).

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) *Profit before tax, net finance expense and exceptional items.*

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 34 to 37 of the Group's Annual Report and Accounts 2014 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.

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

Marketplace and Operational

Changes in the economic environment, changes in consumer leisure spend and international expansion.

Financial

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

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

Betting and gaming industry

Taxes, laws, regulations, licensing and regulatory compliance

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.

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.

Recruitment and retention of key employees and succession planning

Our people are our greatest asset. We aim to be an employer of choice for talented and passionate people and we need a high level of competence across the business to meet our objectives and respond to changing market needs.

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.

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).

Consolidated income statement

	Year ended 31 December 2014			Year ended 31 December 2013		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Continuing operations						
Revenue	1,174.6	-	1,174.6	1,117.7	-	1,117.7
Operating expenses before depreciation and amortisation	(957.1)	(16.2)	(973.3)	(911.2)	(23.8)	(935.0)
Share of results from joint venture and associates	(0.2)	-	(0.2)	2.5	-	2.5
Depreciation, amortisation and amounts written off non-current assets	(77.7)	(57.2)	(134.9)	(64.8)	(27.8)	(92.6)
Profit before tax and net finance expense	139.6	(73.4)	66.2	144.2	(51.6)	92.6
Finance expense	(27.5)	(1.1)	(28.6)	(25.0)	-	(25.0)
Finance income	0.1	-	0.1	-	-	-
Profit before tax	112.2	(74.5)	37.7	119.2	(51.6)	67.6
Income tax (expense) / credit	(5.6)	8.9	3.3	(6.1)	5.5	(0.6)
Profit for the year	106.6	(65.6)	41.0	113.1	(46.1)	67.0
Attributable to:						
- equity holders of the parent	106.6	(65.6)	41.0	113.1	(46.1)	67.0
- non-controlling interests	-	-	-	-	-	-
Earnings per share on profit for the year:						
- basic	11.6p		4.4p	12.3p		7.3p
- diluted	11.5p		4.4p	12.2p		7.2p
Proposed dividends (note 6)	4.60p		4.60p	4.60p		4.60p

Consolidated statement of comprehensive income

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Profit for the year	41.0	67.0
Other comprehensive income/(expense):		
Items that may be reclassified to profit or loss:		
Currency translation differences	(3.6)	-
Total items that will be reclassified to profit or loss:	(3.6)	-
Items that will not be reclassified to profit or loss:		
Re-measurement of defined benefit pension scheme	1.6	9.1
Tax on re-measurement of defined benefit pension scheme	2.7	(4.8)
Total items that will not be reclassified to profit or loss	4.3	4.3
Other comprehensive income for the year, net of tax	0.7	4.3
Total comprehensive income for the year	41.7	71.3
Attributable to:		
- equity holders of the parent	41.7	71.3
- non-controlling interests	-	-

Consolidated balance sheet

	Notes	31 December 2014 £m	31 December 2013 £m
ASSETS			
Non-current assets			
Goodwill and intangible assets		742.0	770.7
Property, plant and equipment		187.4	224.5
Interest in joint venture		9.1	6.5
Interests in associates and other investments		18.0	17.5
Other financial assets		7.2	5.5
Retirement benefit asset		69.5	53.1
		1,033.2	1,077.8
Current assets			
Trade and other receivables		57.2	53.0
Corporation tax recoverable		12.0	5.8
Cash and short-term deposits	9	62.0	63.3
		131.2	122.1
TOTAL ASSETS		**1,164.4**	**1,199.9**
LIABILITIES			
Current liabilities			
Bank overdraft		(1.0)	(0.6)
Trade and other payables		(205.9)	(220.6)
Corporation tax liabilities		(7.4)	(5.9)
Other financial liabilities		(1.1)	(1.5)
Provisions		(6.4)	(1.3)
		(221.8)	(229.9)
Non-current liabilities			
Interest bearing loans and borrowings	9	(439.3)	(422.0)
Other financial liabilities		(42.5)	(61.9)
Deferred tax liabilities		(64.1)	(55.3)
Provisions		(5.0)	(2.5)
		(550.9)	(541.7)
TOTAL LIABILITIES		**(772.7)**	**(771.6)**
NET ASSETS		**391.7**	**428.3**
EQUITY			
Issued share capital		270.5	269.5
Share premium		214.9	212.9
Treasury and own shares		(116.1)	(116.7)
Retained earnings		20.1	55.5
Foreign currency translation reserve		2.2	5.8
Equity shareholders' funds		**391.6**	**427.0**
Non-controlling interests		0.1	1.3
TOTAL SHAREHOLDERS' EQUITY		**391.7**	**428.3**

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 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**
At 1 January 2014	**269.5**	**212.9**	**(116.7)**	**55.5**	**5.8**	**427.0**	**1.3**	**428.3**
Profit for the year	-	-	-	41.0	-	41.0	-	41.0
Other comprehensive income/(expense)	-	-	-	4.3	(3.6)	0.7	-	0.7
Total comprehensive income	-	-	-	45.3	(3.6)	41.7	-	41.7
Issue of shares	1.0	2.0	-	-	-	3.0	-	3.0
Share-based payments charge	-	-	-	2.8	-	2.8	-	2.8
Net movement in shares held in ESOP trusts	-	-	0.6	(3.3)	-	(2.7)	-	(2.7)
Equity dividends	-	-	-	(81.4)	-	(81.4)	-	(81.4)
Non-controlling interests	-	-	-	1.2	-	1.2	(1.2)	-
At 31 December 2014	**270.5**	**214.9**	**(116.1)**	**20.1**	**2.2**	**391.6**	**0.1**	**391.7**

[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 2014 £m	Year ended 31 December 2013 £m
Net cash generated from operating activities	10	130.5	197.4
Cash flows from investing activities:			
Interest received		0.1	-
Dividends received from associates		1.2	2.3
Payments for intangible assets		(39.8)	(45.3)
Purchase of property, plant and equipment		(20.1)	(44.3)
Proceeds from the sale of property, plant and equipment		5.2	9.5
Acquisition of businesses, net of cash acquired	13	(10.4)	(33.4)
Purchase of interest in joint venture		(4.1)	(3.1)
Net cash used in investing activities		(67.9)	(114.3)
Cash flows from financing activities:			
Proceeds from issue of shares		0.8	1.1
Purchase of ESOP shares		(0.6)	(3.2)
Proceeds from borrowings, net of issue costs		98.7	15.2
Repayment of borrowings		(82.0)	-
Dividends paid	6	(81.4)	(81.2)
Net cash used in financing activities		(64.5)	(68.1)
Net (decrease)/increase in cash and cash equivalents		(1.9)	15.0
Effect of changes in foreign exchange rates		0.2	0.2
Cash and cash equivalents at beginning of the year		62.7	47.5
Cash and cash equivalents at end of the year		61.0	62.7
Cash and cash equivalents comprise:			
Cash and short-term deposits		21.1	24.0
Customer funds		40.9	39.3
Bank overdraft		(1.0)	(0.6)
		61.0	62.7

Notes to financial information

1. Corporate information

Ladbrokes plc (the Company) is a public limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded. The principal 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 2014 were authorised for issue in accordance with a resolution of the directors on 25 February 2015.

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) and International Financial Reporting Interpretations Committee pronouncements (IFRIC's) 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 2014.

The financial information set out in this document does not constitute the Group's statutory accounts for the year ended 31 December 2014 or 31 December 2013. The annual report and financial statements for the year ended 31 December 2014 were approved by the Board of Directors on 25 February 2015 along with this preliminary announcement, but have not yet been delivered to the Registrar of Companies. The auditors' report (from PricewaterhouseCoopers LLP) on the statutory accounts for the year ended 31 December 2014 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 2013 have been delivered to the Registrar of Companies. The auditors' report (from Ernst & Young LLP) 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.

The 2014 Annual Report and Accounts, together with details of the Annual General Meeting, will be despatched to shareholders on 2 April 2015. The Annual General Meeting will take place at Deutsche Bank AG, London at 11am on 7 May 2015.

(c) To assist in understanding the underlying performance, the Group has defined the following items of pre-tax 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.
- the related tax effect of these items

Any other non-recurring items are considered individually for classification as exceptional by virtue of their nature and size. The separate disclosure of these items allows a clearer understanding of the trading performance on a consistent and comparable basis, together with an understanding of the effect of non-recurring or large individual transactions upon the overall profitability of the Group.

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

(d) Changes in accounting policies

Cash and short term deposits include customer funds of £40.9m (2013: £39.3m). Trade and other payables due within one year include amounts due to customers of £40.9m (2013: £39.3m), representing funds received. This is a change in the presentation on the balance sheet where previously the customer funds were off-set against customer liabilities. The comparative balances have been re-presented to reflect this change in presentation.

There has also been a representation of the comparative of deferred and corporation tax. Deferred tax and corporation tax are now shown net by jurisdiction, as there is no right of offset between jurisdictions.

Notes to financial information

2. Basis of preparation (continued)

There is no impact on the financial position or the cash flows of the Group at 31 December 2014 and 2013 due to either of the changes change in presentation.

From 1 January 2014 the Group has applied, for the first time, certain standards, interpretations and amendments. These include IFRS 10 Consolidated financial statement, IFRS11 Joint arrangements and IFRS12 Disclosures and interests in other entities.

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 2014 (as not yet EU endorsed) and have not been early adopted. They should not have a material impact on the results or financial position of the Group:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from contracts with customers'

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 primarily 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.

Notes to financial information

3. Segment information (continued)

The segment results for the year ended 31 December 2014 were as follows:

	Revenue £m	Profit before tax and exceptional items £m	Profit before tax and after exceptional items £m
UK Retail	811.5	119.3	77.9
Digital	215.1	14.0	(15.4)
European Retail	122.1	13.0	6.1
Core Telephone Betting	10.2	2.0	2.0
High Rollers	15.7	14.2	14.2
Segment revenue and profit	1,174.6	162.5	84.8
Corporate costs		(22.9)	(18.6)
Profit before tax and net finance expense		139.6	66.2
Net finance expense		(27.4)	(28.5)
Group revenue and profit	1,174.6	112.2	37.7

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
UK Retail	800.9	133.9	110.7
Digital	175.0	8.2	(18.6)
European Retail	128.8	15.6	17.5
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

Notes to financial information

4. Exceptional items

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Impairment loss[(1)]	(44.5)	(27.2)
Loss on closure[(2)]	(30.7)	(5.4)
Corporate transaction costs[(3)]	(0.5)	(2.9)
Fair value adjustment to contingent consideration[(4)]	3.1	1.7
Grey markets exit [(5)]	(3.8)	-
Net pension curtailment gain [(6)]	4.8	-
Profit on sale and leaseback[(7)]	3.9	6.4
European indirect tax liability[(8)]	(5.7)	-
Contract renewal fee	-	(6.2)
Business restructuring costs	-	(18.0)
Exceptional interest[(9)]	(1.1)	-
Total before tax	(74.5)	(51.6)
Exceptional tax credit	8.9	5.5
Exceptional items after taxation	(65.6)	(46.1)

(1) *Impairment loss of £44.5m comprises a £18.7m impairment of Retail shop licences, impairment of £2.1m of shop assets and a £23.7m asset impairment of which £23.1m relates to software. The total £20.8m shop impairment has arisen as a result of the annual licence impairment review and includes a £17.7 m charge in UK Retail and a £3.1m charge in European Retail (Ireland). The £23.7m asset impairment is primarily as a result of a decision to decommission a platform for desktop sportsbook (£23.0m) and other IT assets impaired within UK Retail (£0.7m) as no longer in use.*

(2) *The £30.7m loss on closure includes a £26.9m loss on closure of UK Retail shops and a £3.8m loss on closure of European Retail shops. These include a loss on disposal of intangible assets of £12.8m, a loss on disposal of property, plant and equipment of £3.8m and cost accruals of £14.1m.*

(3) *The Group incurred corporate transaction costs of £0.5m in relation to the acquisition of Betstar Pty Ltd.*

(4) *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 re-measured at 31 December 2014. This resulted in a credit to the income statement of £3.1m. The net credit includes £3.1m charge in respect of the contingent consideration for Gaming Investments Pty Ltd which was settled in the year for A$33.4m (£18.4m).*

(5) *The Group closed its online operations in a number of jurisdictions following a review of regulatory requirements of operating in those jurisdictions, incurring costs of £3.8m. These represent termination of contractual commitments in these jurisdictions.*

(6) *The Group announced the closure of the defined benefit pension plan to future accruals from 31 August 2015. This resulted in a one-off non cash curtailment gain of £7.1m partly offset by £2.3m of associated costs.*

(7) *The Group realised a profit of £3.9m on the sale and leaseback of shops within the UK Retail estate. These assets had a net book value of £1.4m.*

(8) *The Group made a provision for a indirect tax liability arising from European market indirect tax changes.*

(9) *During the period, the Group cancelled £135.0m of committed loan facilities. The arrangement fees associated with these facilities of £0.6m have been charged to exceptional finance expense in the period. In addition, the Group paid £0.5m of interest to the HMRC in respect of the repayment of VAT in amusement machines.*

Operating expenses include corporate transaction costs, the fair value adjustment to contingent consideration, the net pension curtailment gain, the provision for European indirect tax liability and £14.1m of costs relating to the shop closures.

In addition to the defined exceptional items set out in note 2 the Group considered the credits arsing on the pension curtailment, profit on sale and leaseback, the charges in relation to grey markets exit, provision for European indirect tax liability and exceptional interest to be of sufficient materiality to be separately identified and of a nature unrelated to the underlying trading performance of the Group in the year. The cash flow effect of the exceptional items was an outflow of £4.9m in the year.

Notes to financial information

5. Taxation

The total tax credit was £3.3m (2013: £0.6m expense). Excluding the tax credit on exceptional items, the total tax charge was £5.6m (2013: £6.1m).

The standard rate of UK Corporation tax was reduced from 23% to 21% from 1 April 2014. This will be further reduced to 20% from April 2015.

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. The net deferred tax liability of £64.1m (2013: £55.3m) consists of £20.3m (2013: £17.0m) of deferred tax asset which has been offset against a deferred tax liability of £84.4m (2013: £72.3m) due to the availability of the right to offset.

6. Dividends

	Year ended 31 December 2014	Year ended 31 December 2013
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 (2013: 4.60 pence) per share, amounting to £42.1m (2013: £42.0m) in respect of the year ended 31 December 2014 was declared by the directors on 25 February 2015. The total amount payable in respect of the final dividend is based on the expected number of shares in issue on 27 March 2015. The 2014 interim dividend of 4.30 pence per share (£39.4m) was paid on 13 November 2014.*

7. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £41.0m (2013: £67.0m) by the weighted average number of shares in issue during the year of 921.4m (2013: 917.1m).

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.

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Profit attributable to shareholders	41.0	67.0
Exceptional items, net of tax (note 4)	65.6	46.1
Adjusted profit attributable to shareholders	106.6	113.1
Weighted average number of shares (ms):		
Shares for basic earnings per share	921.4	917.1
Potentially dilutive share options and contingently issuable shares	2.5	8.1
Shares for diluted earnings per share	923.9	925.2

Stated in pence	Year ended 31 December Before exceptional items 2014	2013	After exceptional items 2014	2013
Basic earnings per share	11.6	12.3	4.4	7.3
Diluted earnings per share	11.5	12.2	4.4	7.2

Notes to financial information

8. Non-current assets

During the year, there were additions in intangible assets of £67.2m (2013: £155.4m) including £12.6m (2013: £105.8m) from business combinations and property, plant and equipment of £16.4m (2013: £54.1m).

At 31 December 2014 the Group had not entered into contractual commitments for the acquisition of property, plant and equipment (2013: £nil).

9. Net debt

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

	31 December 2014 £m	31 December 2013 £m
Current assets		
Cash and short-term deposits	21.1	24.0
Current liabilities		
Bank overdrafts	(1.0)	(0.6)
Non-current liabilities		
Interest bearing loans and borrowings	(439.3)	(422.0)
Net debt	(419.2)	(398.6)

Cash and short term deposits presented on the balance sheet of £62.0m (2013: £63.3m) include customer funds of £40.9m (2013: £39.3m).

10. Note to the statement of cash flows

	Year ended 31 December 2014 £m	Year ended 31 December 2013 £m
Profit before tax and net finance expense	66.2	92.6
Non cash exceptional items	65.4	33.9
Depreciation of property, plant and equipment	43.9	40.9
Amortisation of intangible assets	33.8	23.9
Share-based payments charge	2.8	2.0
(Increase) / decrease in other financial assets	(1.3)	1.4
(Increase) / decrease in trade and other receivables	(3.7)	25.0
Decrease in other financial liabilities	(11.3)	(1.0)
(Decrease) / increase in trade and other payables	(27.9)	20.0
Decrease in provisions	-	(2.9)
Contribution to retirement benefit scheme	(8.9)	(9.5)
Share of results from joint venture	1.6	1.4
Share of results from associates	(1.4)	(3.9)
Other items	(0.2)	-
Cash generated by operations	159.0	223.8
Income taxes paid	(2.1)	(2.9)
Finance expense paid	(26.4)	(23.5)
Net cash generated from operating activities	130.5	197.4

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 2014 £m	Year ended 31 December 2013 £m
Equity investment		
- Joint venture [(1)]	4.1	3.1
Loans		
- Movement in loan balance with joint venture partner	(1.6)	(1.5)
- Movement in loan balance with joint venture	-	0.1
Dividends received		
- Associates [(2)]	1.2	2.3
Sundry expenditures		
- Associates [(3)]	51.0	44.3

[(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 2014 £m	31 December 2013 £m
Loan balances outstanding		
- Joint venture partner	-	1.6
- Joint venture	0.5	0.5
Other receivables outstanding		
- Associates	1.4	1.8
- Joint venture	1.2	-

12. Financial guarantees

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 £679.6m (2013: £707.6m), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £434.8m (2013: £449.5m) in relation to the turnover based element of the hotel rentals and £244.8m (2013: £258.1m) 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 2014 is £258.7m (2013: £303.9m). Included in the net present value of the maximum exposure is £149.1m (2013: £175.5m) in relation to the turnover based element of the hotel rentals and £109.6m (2013: £128.4m) in relation to the minimum contractual based element.

The Group monitors its exposure under these guarantees on a regular basis and seeks, where appropriate, to novate its obligations.

12. Financial guarantees (continued)

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 2014 the Group has recognised a financial liability of £4.8m (2013: £5.0m) in respect of these guarantees. The key assumption in the probability model is the hotels default rate. A rate of 1.5% has been used at 31 December 2014 (2013: 1.7%). 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 £0.2m 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 2014:

	Liability £m
At 1 January 2014	5.0
Reduction due to passage of time and change in discount rate	(0.2)
At 31 December 2014	4.8

A 0.5 percentage point increase in the default rate would increase the financial liability by £1.4m. A 1.0 percentage point increase in the discount rate would reduce the financial liability by £0.4m.

13. Business combinations

On 14 April 2014, the Group acquired the business and assets of Betstar Pty Ltd, an on-line sports betting business based in Australia with a view to build the Group's presence in Australia. This acquisition was for total consideration of AUD21.4m (£12.1m).

The Group has performed an assessment 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	1.4
Intangible asset - customer relationships	3.2
Tangible assets - hardware	0.1
Trade and other receivables	0.8
Trade and other payables	(1.7)
Cash and cash equivalents	1.7
Deferred tax liabilities on fair value adjustments	(1.4)
Identifiable net assets	4.1
Goodwill	8.0
	12.1
Satisfied by:	
Cash consideration	12.1
Total consideration	12.1
Cash consideration	12.1
Cash and cash equivalent balances acquired	(1.7)
Net cash flow on acquisition	10.4

Notes to financial information

13. Business combinations (continued)

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 ten years. The key assumption in estimating the fair value is a royalty rate of 1%. 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 £8.0m, which includes £1.4m arising as a result of deferred tax on fair value adjustments, arises primarily from the synergies resulting from the business combination. None of this goodwill is expected to be deductible for tax purposes.

Since the date of acquisition, the Betstar business has contributed £3.5m of revenue and an operating profit of £0.9m. Had Betstar been included for the period from 1 January 2014, the impact would not have been material to these financial statements.

Transaction related costs of £0.5m have been charged to exceptional items in the consolidated income statement for the year ended 31 December 2014.

14 Contingent considerations for business combinations

Betdaq

The estimated fair value of the contingent consideration at 31 December 2014 is £2.5m (31 December 2013: £9.5m), which is classified at Level 3 in the fair value hierarchy. The £7.0m decrease in the fair value since the acquisition date has been recorded in the income statement within exceptional items.

Betdaq contingent consideration is linked to the performance of the business over a four year period and is capped at €535.0m. 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 (7.6x) 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 £1.4m and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £0.1m. A decrease in the EBITDA multiple of 2x would result in a decrease in contingent consideration of £0.7m.

Playtech

The estimated fair value of the contingent consideration at 31 December 2014 is £29.6m (31 December 2013: £28.9m), which is classified at Level 3 in the fair value hierarchy. The £0.7m increase in the fair value since the acquisition date has been recorded in the income statement within exceptional items

The fair value of the contingent consideration in relation to Playtech has been estimated using a discounted cash flow analysis at the acquisition date. 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 (7.6x); and the discount rate applied (a range of 13.6% to 26.6%, depending on the year). All of these assumptions have been applied on a probability-weighted basis.

14 Contingent considerations for business combinations (continued)

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 £10.4m and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £1.7m. An increase of 1x in the EBITDA multiple would increase the contingent consideration by £4.2m.

Gaming Investments Pty

On 28 October 2014, Ladbrokes agreed an early settlement of the Gaming Investments Pty Ltd total contingent consideration including any consideration linked to the continued service of certain key individuals for AUD33.4m (£18.4m) in cash. This compares to total potential contingent consideration of AUD28.3m (£15.2m) at 31 December 2013. The difference has been reported as an exceptional cost in 2014. Ladbrokes had acquired Gaming Investments Pty Ltd in September 2013 for AUD23.9m (£13.9m) plus the contingent consideration, now settled, of up to a cap of AUD125.0m (undiscounted estimate at date of acquisition).

Other

Also included within other non-current financial liabilities are financial guarantee contracts of £4.8m (2013: £5.0m), classified as level 3 financial instruments as their fair value is measured using techniques where the significant inputs are not based on observable market data (see note 12).