Ladbrokes PLC

PRELIMINARY RESULTS
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PRESENTATION

Sir Ian Robinson ***- Ladbrokes plc - Chairman***

Well we'll get underway shall we. Good morning. My name is Ian Robinson and on behalf of Ladbrokes I'd like to welcome you all here today to our prelims. The agenda, the people are the same as normal. We've got Brian Wallace, the Finance Director, Chris Bell, the Chief Executive.

The agenda today will be as normal. Brian will cover the financials, Chris will do the business review, then we'll take questions. And we'll ask John O'Reilly, Head of our eGaming business, Richard Ames, where's Richard -- down here. Richard joined the Board in January heading our Retail Business. And Alan Ross, Alan steps down at the AGM this year after 37 years at Ladbrokes. That's a truly staggering achievement, well done Alan.

It's also my last prelims. I step down as well at the AGM, which is May, which is just about eight years I've done. And as we announced in December Peter Erskine will succeed me at that time.

If you'll forgive me one minute of my eight years here, it's been an interesting and I think a productive journey during that time with Hilton initially and then Ladbrokes. I started in 2001, 9/11 came very quickly and then we saw the mega impact it had on the hotel business. And that's when I truly appreciated the quality of the Ladbrokes profit and cash flow as we recovered the business then. We also in 2006 sold the hotels back to HHC and returned over GBP4b in a special dividend to shareholders, which at that time was the largest return in five years.

So since then I think Ladbrokes has grown in stature, profitability and cash flow, and we're going to hear about that today. Looking from my view at today's results, they look good to me particularly taking into account the difficult and the challenging economic conditions that we've seen in the last year. So with that I think we'll get on with the results and I'll hand over to Brian to take us through the financial review.

Brian Wallace ***- Ladbrokes plc - Group FD***

Good morning everyone. Just following on from what Ian said probably not a bad time not to be in the hotel business from what I read about. So we're here to talk about betting and gaming.

As you'll see operating profit excluding High Rollers activity increased by 0.9% to GBP243.8m. Profit from High Rollers in the period of GBP80.1m, whilst down on last year, continues to provide a meaningful source of cash flow particularly welcome in the current climate.

The finance costs of GBP65.2m were lower than 2007 and for 2009 we project a blended interest rate of around 6%. And I thought talking of interest, let me just update you straightaway on our current debt positions, an area where we've sought throughout 2008 to keep control of our own destiny.

This slide, which many of you have seen before, shows the maturity profile of our debt facilities. During the period we reached agreement to extend GBP400m of committed bank facilities by two years to 2013. That's part of the gray line out on the right there. And additionally signed GBP185m of new committed facilities following the repayment in July of GBP175m bond and the early repurchase we made at the end of last year of EUR35.5m of outstanding Eurobonds.

As of last week we still have indrawn committed facilities of GBP553m, which exceeds our 2009 Eurobond maturity of GBP351m.

Our net debt to EBITDA target over the medium term remains at 3.5 to 3.75 times. Although it goes without saying that in the current climate this will obviously be kept under review.

And just in this general area some of you might have seen in note 14 of the statement that we have provided additional disclosure of our Hilton Hotels guarantees. I'm pleased to say that the maximum liability associated with these guarantees has fallen during 2008 and is expected to fall further during 2009 as the guarantee arrangements on certain hotels have been novated back to HHC.

Returning to the performance summary you see the effective tax rate is at 15.4%, which is below our already low guidance of 19% primarily due to the favorable resolution of certain historic issues. Going forward I would expect the sustainable underlying rate to remain in the region of 19%, which of course enhances our cash flow.

Earnings per share are 36.4p, a 23.5% reduction principally due to the lower High Rollers profit partially offset by the decreased tax rate and reduced weighted average number of shares.

So let's now turn to the results by division. Excluding High Rollers total gross win increased by 11.1% to GBP1.143b with the growth seen in the Retail Estate and eGaming offset by a small decline in the core Telephone Betting business. The increase in total operating profit of 0.9%

reflects marginally higher profits in UK Retail and eGaming plus reduced corporate cost mainly due to lower generic television advertising spend in 2008 compared to 2007.

Elsewhere in Europe Italy has losses GBP6.9m reflecting the start-up phase as the business completed the roll out of new shops and corners. The focus for Italy in 2009 is firmly to grow revenues and prove the concept. And just to remind you on this slide the line other includes international development cost and the start-up for our joint venture in Spain.

In UK Retail over the counter gross win declined by 0.6% but machine gross win was up by a healthy 15.2% enabling our shops to grow gross win by 4.7%.

Operating cost rose 4.8% to GBP467.3m, well within our original guidance of 8%. We had additional costs of GBP19.3m due to the new Turf TV contract and extended evening opening for the first three months of the year.

Excluding these items, the focus on costs by Richard Ames and his team resulted in growth of just 0.5% of costs. The cost saving initiatives included voluntary single opening of the shops, improved staff scheduling, and reduced Sky coverage amongst other things. And looking into 2009 we'll strive hard to keep these cost increases to less than 4%.

If we have a look now at UK Retail KPIs, during the year we closed 61 shops and adjusting for this like-for-like over the counter gross win fell by 0.3% with the gross win margin also down slightly. OTC amount staked overall was broadly flat with strong football turnover growth offset by lower greyhound activity. You can see that like-for-like total gross win increased by 4.9%.

The average weekly gross win per machine was GBP682, an increase of 16.6% on '07, benefiting from the full year of the new dual screen machines, additional evening opening hours in the first quarter and the addition of new content.

Ireland finished 2008 with a gross win increase of 48.1% and operating profit up by 21.4% reflecting the benefit of a larger shop estate that has increased to 286 shops from 215 at December '07, and also benefiting from favorable exchange rates.

Like-for-like constant currency gross win declined by 6.6%, with the Republic of Ireland declining 8.8%, reflecting both the weak economic conditions and a significant increase in horse meeting cancellation. In fact 44 cancellation in '08, 13 in '07.

In Northern Ireland like-for-like gross win, excluding the acquisitions, grew by a healthy 21% albeit this is on a small base number of 16 shops. And on a like-for-like constant currency, and excluding the additional cost of Turf TV, our Irish costs grew by 3%.

So if we move now across to eGaming you can see that net revenue increased by 20% to GBP172.2m helped by our increased investments in marketing activity and importantly exactly in line with our predictions from about a year ago.

Sportsbook net revenue rose by 18.2% to GBP61.7m with gross win margin of 7.8%, which was 0.6 of a percentage point ahead of last year. Active customers have grown 15.2%, benefiting from the launch of the new Sportsbook in the second half of the year. And the popularity of betting and play continues to increase with amounts staked in that area up by more then 37% year-on-year.

Casino net revenue was 23.2% to GBP53.1m with active customers increasing by 63.8% on the back of continued successful television campaigns. But as anticipated, yield fell due to the impact of a broader customer base and the free chip advertising offers.

Poker net revenue GBP29m was down GBP2m with the competitive environment continuing to affect both player numbers and yield. Active customers fell by 3.3% to 146,000 and yield per unique active player fell 3.4% to GPB198.

Games revenue growth of 65.1% to GBP28.4m was driven by our Bingo TV advertising campaign as well as significant product development in Bingo including new mini games and enhanced virtual lobby and website and linked jackpots.

So the overall eGaming profit of GBP55m, in line with what we said a year ago, pretty much flat year-on-year, slightly up. Operating cost of GBP107.7m increased by 33.6% with net revenue growth driving levy and software costs, increased staff costs for the expanding business and more significantly increased marketing costs to increase investment in player acquisition. And marketing costs now account for 20.9% of net revenue. Inevitably because of all of that net revenue conversion was down from 38.3% to 32% reflecting the period of investment in customer acquisition.

Some KPIs, the unique active players increased by 20.8% to 726,000 with double digit growth on Sportsbook, Casino and Games more than offsetting a 3% decline in Poker. Overall real money sign ups, where new players registered and deposited funds, they were up by 21.5%.

The adjusted cost per acquisition was up 17.4% to GBP101. This was largely owing to the marketing investment in Casino, Games and also in the Nordic region -- spreading out geographically is important here, plus an increasingly competitive environment for Poker recruitment. This was partially offset by the lower cost of recruitment, which we enjoyed during Euro 2008.

Let me just touch on Telephone Betting excluding High Rollers. The net revenue of GBP27.3m was down GBP2.9m due to lower volumes. Operating costs decreased by 4.3% to leave operating profit GP1.5m down from GBP4.6m in the previous year.

Again excluding High Rollers, call volumes decreased by 10.9%. However these volumes were well managed and you can see that the agent cost per call for the period decreased by 6.6% to 57p, favorably impacted by efficiencies. Gross win margins were 7.6% compared to 7.1% reflecting our active customer management throughout the period. The average monthly active player days declined by 8.8%.

So if we move away from the businesses and have a look at CapEx. During the period GBP33.1m was spent on UK Retail, well down on 2007 and again as we'd indicated to you actually two years ago. GBP11.7m funded Irish development activity including GBP4.6m spent on refitting and refurbishing the acquired shops in Northern Ireland. Plus GBP14m was spent on the roll out for our new Italian shops.

As always the GBP5.1m spent on eGaming and telephone is mainly in software and technology.

On top of that you'll recollect that we spent GBP118.1m acquiring Eastwoods in February of last year. And a further GBP26.4m on other acquisitions and license payment including GBP15.3m in Italy and GBP10.5m of acquisitions and new licenses in Ireland.

For the year ahead in 2009 we expect CapEx to fall less then GBP50m across the Group excluding any licenses we might buy.

So finally from me I'd like to move across to cash flow. Cash flow generated by the operations was GBP414.7m. And after paying interest and tax of GBP120.6m and the CapEx just described of GBP213m cash inflow was GBP81.1m. Dividends paid of GBP85m and the share buyback earlier in the year cost GBP34.8m and overall the year-end net debt was GBP987.1m.

The other movements are principally foreign exchange movements on debt due to the strengthening position of the euro.

In closing and particularly in the context of these results the Board has recommended a final dividend for 2008 maintained at the 2007 level of 9.05p per share. With that I'd like to hand across to Chris.

Christopher Bell ***- Ladbrokes plc - Chief Executive***

Well as always a thank you to Brian for that clear and concise delivery. Welcome to you all this morning. As we all know it's a busy day. I think we join another 15 companies putting their results out. So it's good of you to take the time and be with us here today.

As Ian said earlier, John and Alan will join us in a second plus of course Richard. Ian's already given him a eulogy but I'm delighted that he joined the Board in January. He brings all that retail experience so we've now got a retailer running our bookies business.

I guess it's one of the first times as well I've had actually somebody steal their own thunder. So Ian, there's little I can add to your eulogy but Ian has served us very well for eight years. I've been on the Board for nine years now so we've worked actually very closely together. And Ian goes with our very best wishes for whatever he might choose to do. But I think golf in South Africa springs to mind quite a lot. So I hope your handicap reduces and may the vineyards be as enjoyable as always.

And the only thing I've ever had to correct Ian on in our eight years together or nine is Alan Ross has worked for Ladbrokes for 38 year. He advised me yesterday because I said 37, man and boy, and as he did say to me I haven't left yet. So Alan's always said we'll drag him out in a box but we will keep his experience for at least another year.

I'm delighted because you don't replace experience like that and we are like a football team. I'm the young fit one who's innovative and bringing all the creativity. We've got the six foot four stopper in the back here who stops us doing anything that relates to fun or advertising or marketing. No doubt you're all delighted by that. And then we've got the old lag down the end who's finally got transferred to Oldham Athletic. So there we are, or should I say Dundee United.

Anyway, let's get on with it because that's enough of all that. I don't need to tell you how serious the economic climate is that we all face around in this year. But it is within that context that the numbers that we put out for 2008 are good. And obviously I'm very pleased with that and the word is we're showing continued resilience. So that is good news for all of us.

I think that particularly is endorsed by our UK shop business holding their own, if not doing a little bit better than the year before. As Brian's already mentioned our eGaming business, as we stood here last year telling you about our strategy for 2008 and 2009, is on track and we're doing well. So both of our core businesses have had a good 2008.

But you know rest assured we don't stand here and say that's all well and good. We're never complacent. We're very aware it's tough choppy market and that we have to be aware of that and we're always vigilant about everything that we do.

In addition in 2008 I'm pleased to day that we maintained good momentum in our High Roller business you've seen that and in fact you'll hear later that's continued into 2009. We've established ourselves in Italy and Madrid. No mean feat I have to say.

Attained market leadership in Ireland in both the South and the North. And of course as Brian said and very important in today's market we've extended existing and secured additional banking facilities. We use the phrase internally, to stay definitely in control of our own destiny which I think is very important. And of course as you all know we have very strong cash generative qualities which for any company right now is pretty important.

As I say Brian's already done the numbers so it leaves me to describe to you in my way what I see as the points of difference when compared to other betting and gaming companies that you cover and no doubt look at.

So let me start with probably still the most important part of our business, which is the UK shop estate, which is of 2,091 shops, as you know. They are in good condition. We have planned to reduce our capital, as Brian already has mentioned, to GBP25m in 2009 for the UK estate. And this is a position because of the good condition that we're in that is certainly sustainable through 2010 as well.

And that's because we have consistently invested in this estate for the last seven years, in many occasions to embrace positive regulatory change but also as we all know to take into account a rather fast moving change in consumer needs. So all of our shops now are in good nick and they're open each and every day, bar Sunday evenings.

Our machine estate is nearly 8,000 machines, has both B2 and B3 content and continues to grow and perform well. And as you will have seen gross win in 2008 from our machine estate increased by 15.2%. And of course we continue to test new machine technology and game formats.

In addition, our continuous drive to further improve customer satisfaction and loyalty took another stride forwards with the first ever loyalty card seen for a high street bookmaker with our Odds On card. And we launched that in June. I'm pleased to say that in the six months of 2008 we have put 564,000 Odds On cards into issue with a quite remarkable 200,000 being used each and every week. Which means that nearly half of our transactions now each week are being done through the card, which is a good performance in just six weeks.

And during that period we also gave away GBP8.6m worth of free bets. I always think that's quite interesting for those who say bookmakers never give anything away for nothing. But Ladbrokes have had a change of heart after 124 years, not bad.

Undoubtedly, being very serious for a second, a clear benefit of knowing more about your customers, who they are, what they bet on, when, how and of course which shops they use will definitely stand us in good stead over the coming years. Because it is without question that knowing more about your customers and using that information in a dynamic way will provide a competitive edge.

Richard and his team have worked very hard over the last year and they've also been adding a couple of other things to improve our product offering. Some of those being for example improving the quality of our picture streaming via the dedicated Ladbrokes channel. And the coordination of the program, which became particularly important after the introduction of Turf TV alongside SIS.

We've also increased the range of betting offers by putting the entire content of Ladbrokes.com on to each and every one of our 6,673 till points making more markets and odds available to our customers.

Just on a point of detail, where did we spend some of our cash? During 2008 we refurbished 68 shops, relocated and extended a further 53 and opened 19 new licenses. Whilst at the same time we closed 61 unprofitable shops giving 42 net closures, or 2% of the estate.

In this year 2009 we plan to refurbish a further 50 shops, relocate and extend 20 and open a further 25. And I think you'll see from this that you'll realize that our focus upon costs at Ladbrokes always has been but continues to be obsessive.

And further significant progress has been made. Richard's operations team has continued to exert an iron grip. And 2008's performance has been good with costs increasing just on half of a whole percent before you add back the costs of Turf TV and evening opening.

This success has not just been one initiative but it's been a whole catalogue of points that Richard and the team have implemented over the year. For example systemizing now our entire staff scheduling, the closing and opening procedures for tills and equally taking Sky out of shops where we believe it was not commercially beneficial. And that's just a few of a whole range. So without doubt our focus on costs has been good and without question continues into this year 2009.

In addition to our 2,100 UK shops Richard has also taken the 286 Irish shops under his wing where, of course, he's been busy applying the successful initiatives tried and tested in the UK. Which equally include the systemization of our staff scheduling, launch of the Odds On loyalty card and recently we've introduced 35 self-service betting terminals into 16 of our Irish shops. And we'll be putting these betting terminals into all of our Irish shops during the course of this year.

Our 78 shops in Northern Ireland benefit from having the same number of B2 and B3 machines as in the UK, in Great Britain, which of course, as you know, is four. And these do provide us with a very important part of our commercial armor, an insurance if you will particularly when we have abnormal horseracing cancellations. And as Brian said Ireland did suffer last year, 44 cancellations compared to 13 in 2007.

I think it would be good to remind you, if good is the right word, it is appropriate to remind you that from May 1 this year betting tax based on turnover in Southern Ireland doubles to 2%. And this will impact the Irish P&L by around EUR4m. Industry estimates in Ireland believe that one-quarter of Ireland's 1,200 betting shops will close during the course of the year and we're already seeing that manifest itself particularly in the independent sector.

We do of course continue to lobby to gain any relief from this blunt tax imposition which is expected to result in the loss of 1,500 jobs within the betting industry in Ireland. A considerable number of people losing jobs at a time when jobs are very hard to find. We've got a very good estate of shops in Ireland and an excellent operations team but without any shadow of a doubt they do face a tough road ahead.

Let me now turn to Italy and Spain. I'm watching Fools and Horses last night as Del said to Rodney, “bonjour, bonjour Rodney, as they say in Spain”.

Let's start in Italy where we have more than 80 shops and 50 corners and yes, you all know it's later than we expected. But the good news is the market is growing very quickly and 2009 is a year to bed down our operation and move ahead. Our task now under Brian's Italian leadership, you can tell he looks swarthy and Italian, is to make further progress this year now that we're established.

In Spain our joint venture Sportium has started well. We've got 45 outlets open in Madrid and the initial signs relating to customers interest in betting are very encouraging with horses and greyhounds contributing 60% of gross win and football 32%. During the course of this year we intend to double our number of outlets in Spain.

As you know Spain is all about the other provinces regulating, notably Catalonia, Valencia and Andalusia and if they do the prospects for Spain look promising. But the progress of regulation has been slower than expected. Nonetheless a good start and we're pleased.

Further afield in Asia we making good progress in China via our joint venture with AGTech and following much hard work by our team in this the year of the Ox we hope that 2009 will indeed be our lucky year too. After six years of experience we know that regulation and trust are keys to success in this market. If that is indeed correct we're well positioned in China. When our groundwork pays off this is a marketplace where any gaming company worth its salt will want to be.

Now let me turn to eGaming. eGaming has had its eighth year of progress and growth. Last year ahead of the old credit crunch we announced that we would invest more in marketing and growth initiatives specifically designed to grow net gaming revenues by 20%, in order that the business reach an EBIT target of between GBP80m and GBP90m by 2010.

Well what happened? EBIT in 2008 was that of the indicated level of GBP55m and net gaming revenues increased by 20%. And new customer sign ups by 21%. We are and do remain on track.

So let's just have a look at what we did. TV advertising in the UK for both our casino and bingo products worked very well. In the Nordics we launched Ladbrokes brand advertising on TV and improved the localization of our Sportsbook in Sweden, Denmark and Norway.

During the last few months of 2008 we added significant amounts more of live sports streaming pictures onto our Sportsbook, thereby improving the richness of our service with more product offering and betting and play opportunities for our customers to enjoy, bringing their chosen sport literally to life.

The number of markets of unique betting opportunities increased by 30% in 2008 to nearly 1.5m, quite an incredible statistic, which goes a long way to indicating how competitive this market is and how fleet of foot you need to be.

Poker has been difficult to grow in this tough market. And our net gaming revenue fell by 6.5%. In August last year, as you know, we announced that we were to join the microgaming network and so we did, just last week. We've made a good start. And now that our players can enjoy the incremental liquidity of the network at higher staking tables, we are confident about future revenues.

Looking ahead, we're in the process of implementing, or have just launched several new initiatives to continue to push our growth forwards. In December we launched a localized Polish offering to capitalize upon the opportunities in this growing and large marketplace. Poland will be joined by a further six new language sites in the first half of this year.

Here in the UK we'll continue to push our bingo product to an eager audience supported by TV advertising and broadcast sponsorship. This will be joined by further casino advertising.

eGaming had a good year in 2008. And we expect another good year in 2009.

Our High Rollers business had a very good year generating another GBP80m of cash profit, greatly assisting our cash flow and being used to further reduce our debt.

Our core Telephone business did not fare so well, being one of the few operations operating -- offering its services in the UK. This is a tough market particularly if you're operating on an international basis. However we continue to manage a tight ship, provide a first class customer service and generate a good profit, albeit in a difficult market which is sustainable for the time being as long as the tax and levy environment do not worsen.

Now let me turn to regulation and make some commentary on what's happening, and the tax environment. The UK regulatory framework created by the 2005 Gambling Act, as the lager ad says, is probably the best in the world and state of the art. The essential but careful balance between regulation that protects the vulnerable and keeps crime out of the market, whilst generating large tax income streams to the exchequer, has been maintained in the UK, and very much led by the betting industry which employs over 40,000 people, with a further 60,000 people in secondary jobs also being dependent on betting's continued success. The betting industry also generates over GBP1b in taxes and levies.

These positive points are clearly understood and appreciated by the Treasury. As you already know, the Gambling Commission will report in summer of this year, as requested by the Department of Culture, Media and Sport, on its conclusions following research into the usage of high staking and payout machines.

On the domestic front, I'm pleased in my role as Chairman of the Bookmakers Committee that last week we put a three year levy offer to the Levy Board. Making such an offer in February is an unprecedented move not seen before in 48 years worth of levy schemes. I hope UK Horseracing will join us in a partnership to arrest the decline in levy income and re-stimulate the betting customers' interest in horseracing.

I can also confirm that five gaming industry CEOs from Gala, William Hill, Betfair and Rank and, of course, the mighty Ladbrokes wrote to the Sports Minister Gerry Sutcliffe only yesterday to confirm a GBP5m per annum, GBP15m over three years commitment to fund research, education and treatment of problem gambling, and to work hand in hand with the Strategy Board and the Gambling Commission.

Ladbrokes are also working hard with Betfair and Sportech to launch a sports trust funding body obviously in close liaison with the government in the near term. Good progress made by everybody in the industry.

Let me now turn to Europe. Europe continues to review cross border competition, but progress is, as ever, very slow. France is expected to announce regulatory change at some time this year. And there is planned legislative and/or regulatory change in Norway, Finland, Sweden, Czechoslovakia, Spain, Belgium and elsewhere, plus a number of cases on their way to the ECJ, including our constant battle with the Dutch monopoly, De Lotto. Progress of any type and on any front is minimal. But at least there is some movement, however small and however slow.

Asia is changing rapidly and will continue to offer opportunities for Ladbrokes over the coming years as regulation and tax collection become increasingly important to governments. Therefore we will continue our interest in these markets in Asia.

That completes my review of regulation in the operational businesses. But there is one other area we should touch on again. And as we all know in this room, the well known phrase that 'cash is king' has never been more important than in 2008, 2009, 2010 and on I go. It is very important. And at Ladbrokes we always, always manage our cash, debt, bank facilities and tax again with a focus that is absolutely obsessive, and rightly so. Ladbrokes is definitely, as Brian demonstrated and said to you earlier, in control of its own destiny and a company that generates strong cash flows.

Before I conclude, I'd like to comment upon current year trading where gross win for the Group in the first to six weeks increased by 1%, excluding High Rollers who contributed GBP24m in this the first six weeks.

Our Retail and Telephone businesses have been hard hit by record levels of UK and Irish horse racing abandonment due to the abnormal weather conditions. Cancellations are already double that of last year, which was dreadful, and three times the running average. And in this, the first six weeks, we've had more cancellations than we would expect in a whole half year. So it's been tough.

All other businesses are trading in line with expectations.

In closing I'd like to provide you with my view of why Ladbrokes has clear points of difference to other operators. Firstly, two years ago we rejected overtures to increase our gearing to six to seven times EBITDA. Our current position has fallen to around three times EBITDA.

Secondly, we remain focused on organic growth. And of course that is greatly bolstered by the most experienced management team with strength in depth, which has, without question, helped us diversify internationally by exporting our core skills overseas. In addition, we continue to generate significant High Rolling cash flow which, coupled with the best in class cash, debt and tax management, means we have strong cash generative qualities. If you just take and compare apples with apples, and take it that everything else is equal, these qualities are the reasons that Ladbrokes is ahead and indeed will stay ahead.

And now I'd be delighted if my colleagues would join me. We'll take your questions. Thank you.

QUESTION AND ANSWER

Christopher Bell ***- Ladbrokes plc - Chief Executive***

Who's going to take the shine off the ball? Simon.

Simon Larkin ***- RBS - Analyst***

Good morning. It's Simon Larkin from RBS. A couple of questions from me.

Italy, can you explain to me what further progress means with regard to the next year or two? You'd previously put targets out there.

Secondly, Retail estate churn in 2009, is it to run at similar levels to what you saw in 2008? And can you envisage any acquisition opportunities over the course of the next 12 months or is the mantra very much organic and conserve cash?

Christopher Bell ***- Ladbrokes plc - Chief Executive***

Let me go first with acquisitions, it's very much about organic. So that's clearly our focus to be quite frank. I'll then ask Brian to comment on Italy and Richard can comment on churn in the Retail estate.

Brian Wallace *- Ladbrokes plc - Group FD*

On Italy I think we've reached a watershed. I mean the last two years, if not longer, has really been spent by a large number of people getting the licenses, [cleaning] the premises, getting the electricity switched on. And it's a complex thing to do. It might seem very easy. It seemed easy to me before I went there. It's not.

So we're now at the stage where we've got all of our shops open, some of which we acquired, some of which were new licenses. We've got the corners open. And what's very clear in Italy is that the Italian market has grown extremely quickly. And you can all find statistics on that. But in my view, so has the number of outlets.

And therefore the whole focus of 2009 is for our new Italian team -- and we have a very good Italian team, we've strengthened that considerably over the last six to 12 months. They're absolutely obsessive focused on seeing how fast we can drive revenues. So with market growth, outlets growing, it's actually hard to predict how steep that curve will be.

And what we plan to do is come back to you at the end of this year and just share that with you. We obviously have our plans. We're desperate to get to EBITDA positive end of this year, early next year. But honestly in a new business like this, a new environment it's complex. And we will keep you posted. That will be the measure of success for me, the steepness of that revenue curve.

Richard Ames *- Ladbrokes plc - MD UK Retail*

We continued to open shops last year, so we opened 19. But we also shut 61 unprofitable shops. So the net result was 42. And as you've seen from the presentation, we plan to open 25 shops in 2009. We currently have no plans to shut any shops. But as we've continued to do through the last two, three years, we will monitor the performance of every shop and where necessary we will shut shops that we don't believe are going to be profitable.

Christopher Bell *- Ladbrokes plc - Chief Executive*

Next.

Vaughan Lewis *- Morgan Stanley - Analyst*

Hi. It's Vaughan Lewis at Morgan Stanley. What's the cost of debt on the new bank debt that you raised, please?

And then on the machines, are they actually still growing, because they seemed to be stuck at about GBP680 a week, all year.

And then the third one on the Irish machines. Are these sort of FOBTs by the back door? In other words will you be allowed to play casino games on those machines?

Christopher Bell *- Ladbrokes plc - Chief Executive*

Let me start with Brian on debt. And Richard will talk to you about machine performance, and I'll touch on Ireland.

Brian Wallace *- Ladbrokes plc - Group FD*

On debt, some of our banking supporters are in the room. So I think we have to respect the confidentiality of the rates that we have with them. All I would say is that on the GBP185m that we raised, remember it was quite early, we were quite fast on to this last year. And the amounts that we paid extra were very low compared to where the market would now be. And we're very appreciative of that.

Richard Ames *- Ladbrokes plc - MD UK Retail*

On machines, we saw very significant growth in the first quarter of last year, but partly that was to do with the extra hours that the shops were open. We ended the year with a 15% growth number which reflected continued growth right through the year.

Vaughan Lewis *- Morgan Stanley - Analyst*

What I mean is, are they still growing sequentially though, because they have been at about GBP680 per week, all year.

Richard Ames *- Ladbrokes plc - MD UK Retail*

The phasing of growth, I mean the gross win per terminal week shifts through the year depending on the business flow and the business mix. So that number as a year number is not a consistent one anyway. We're still seeing growth.

Christopher Bell *- Ladbrokes plc - Chief Executive*

And the last one, are they properties by the back door? No. They're self-service betting terminals. Yes. Any more for any more?

Simon Champion *- Deutsche Bank - Analyst*

Morning. It's Simon Champion from Deutsche Bank. Three questions.

Firstly, how much of your eGaming revenue comes from outside the UK? I presume you're a fair beneficiary of sterling weakness.

Second question is much of the debate in the market has been about cyclicality of shops. Can you talk about whether you think your eGaming business is cyclical as well?

And the third question is the US hotel market has been so weak recently, can you talk about the likelihood of the Hilton leases reverting back to you and any potential timing on that as well.

Christopher Bell ***- Ladbrokes plc - Chief Executive***

I'll ask John to do the two eGaming ones and then Brian can comment on hotels again.

John O'Reilly ***- Ladbrokes plc - MD Remote Betting & Gaming***

About 28% of our business comes from [outward] the UK. So 72% is in players playing in sterling during 2008, so not significant beneficiaries of exchange change.

Simon Champion ***- Deutsche Bank - Analyst***

Sorry. To follow up on that, and how much of the cost base would be in sterling?

John O'Reilly ***- Ladbrokes plc - MD Remote Betting & Gaming***

The vast bulk.

And on the cyclical nature of eGaming I don't think it is. I think we're still seeing structural growth in the marketplace. And I think we'll continue to see that during this year.

Christopher Bell ***- Ladbrokes plc - Chief Executive***

Brian, guarantees?

Brian Wallace ***- Ladbrokes plc - Group FD***

On the question of guarantees, I would point those of you that are interested in the subject to note 14 where we've given more information than we have in the past.

Upfront I would say, and I mentioned it earlier, that we are actively involved with HHC -- and remember these are friends of ours, I mean they were the same company as us for years -- in trying to get the guarantees back to where they rightfully belong, which is with HHC. It was just a fact that there was a transaction that they finished up with Ladbrokes. And we have had some success there last year. You'll see that the scale of the guarantees has come down. And, as alluded to earlier, we expect to deliver further progress during 2009.

Obviously hotel trading is going through a very difficult time. I've been through that myself, so I'm very familiar with it. I know well the Hilton people, and I know the Blackstone people quite well. And all I'd say to you is I sometimes hear giveaway comments that the business is over, it's finished. It's Blackstone that's highly leveraged. Well it is Blackstone and it is highly leveraged. But they have a lot of (inaudible) in this deal, somewhere around about GBP6b. So I don't think they're going to walk away from that carelessly.

I also happen to know, which is perhaps not fully in the public arena, but I'm able to say to you that they have no financial covenants whatsoever to the best of knowledge. And they were right at the end of that covenant-light period, you might remember, just before the gates came down. And very importantly there is no maturities over the next few years either. So I think we've got to be a bit careful in the way we look at this. And I have every confidence in Blackstone and Hilton coming out of this.

Christopher Bell ***- Ladbrokes plc - Chief Executive***

One over here.

Derren Nathan ***- Blue Oar Securities - Analyst***

Hi Derren Nathan from Blue Oar. Could you give any color to how current trading is going in Ireland?

Christopher Bell ***- Ladbrokes plc - Chief Executive***

No. We're not going to break it down after six weeks to be quite frank, other than the comments I've made, if that's okay.

Any more? One at the back there please.

Nick Edelman ***- Cazenove - Analyst***

Morning. It's Nick Edelman from Cazenove. Could you just give some idea of how much of your machines play relates to Category C content? And therefore how much of a beneficiary you'll be of the stakes and prizes review.

Christopher Bell ***- Ladbrokes plc - Chief Executive***

Well actually, unless Richard corrects me, we're not a beneficiary from that review at all. It's just a small element in Northern Ireland. So basically none. So it doesn't apply to us.

Any more? One over here and then we'll come back to you. I can't see because of the light, it's a bit of a blur.

Mark Reed ***- Teathers - Analyst***

Morning. Mark Reed from Teathers.

Just one question, on your cost control. You talk about just under 4% for this year. If the Retail estate did actually start to turn down, how much scope have you got to actually adjust the cost base accordingly?

Richard Ames ***- Ladbrokes plc - MD UK Retail***

Let me take that. I think we've taken that a few times, but more than happy to answer that again. As a retailer to pull big levers it's very difficult because you do have fixed costs. I think where we do have a comfort zone is that we have been at this for some time. So it's not as though we're turning to think about reducing costs or have a handle on it right now. But in terms of savage change, you do have fixed costs because you're a retailer. And that's the way it is. But we're comfortable with where we are. Sorry --

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Jamie Rollo ***- Morgan Stanley - Analyst***

Thanks. Jamie Rollo from Morgan Stanley. I think your net debt includes [GBP115m] of derivative current asset. I'm wondering just what that is please.

Secondly, on the eGaming outlook, you gave your target for next year's profits. Is there any guidance on this year? Should we expect margins to sort of stabilize this year?

And then finally 30 or so extra abandonments so far this year versus last year. Just roughly speaking, what's that as a percentage of fixtures year-to-date, so we can try and get a feeling of the negative effect. Thanks.

Christopher Bell ***- Ladbrokes plc - Chief Executive***

I can't tell you what the percentage is because I can't work it out in my head. But if you catch me afterwards, I'll get out the sheet and I'll show you. I think it's about 64, but I can't remember out of what population.

But one thing I would say, Jamie, when you're working that out -- or anybody else -- you can't be entirely as blunt as just saying it's X amount of fixtures, because in there you've had a number of Saturdays, which are our biggest days, when you've lost the key meetings on that day. So there is a weighting factor to what those fixtures were as well. Needless to say it's a lot. And that's been a challenge. I'll ask Brian to cover the debt question and John will cover the eGaming.

Brian Wallace ***- Ladbrokes plc - Group FD***

Derivatives, Jamie, I think we have the euros borrowing that are repayable this year. When we took out the euros we swapped them for sterling. So it's obviously turned out to be a very good thing to do. So the way we have to account for our derivative contracts are in the swap.

Jamie Rollo ***- Morgan Stanley - Analyst***

So it's a cash benefit basically.

Brian Wallace ***- Ladbrokes plc - Group FD***

Ultimately it will be when we repay the -- yes.

John O'Reilly ***- Ladbrokes plc - MD Remote Betting & Gaming***

And 80 to 90 is our 2010 target. We've given guidance to the lowish 60s for this year 2009 with marketing staying pretty consistent at about 20%, 21% of net gaming revenue.

Christopher Bell ***- Ladbrokes plc - Chief Executive***

Can we help anybody else or have we done? Well I think that seems to be it.

I'll say thank you very much and see you in August, I think it is. Hopefully it will be a lot warmer. Thank you very much.