GALA CORAL
GROUP



# Condensed Consolidated Interim Financial Information (unaudited)

## Gala Coral Group Limited

### Sixteen week period ended 19 January 2013

Registered Number: 07254686

# Gala Coral Group Limited
## Forward Looking Statements

This report may include forward looking statements. All statements other than statements of historical facts included in this report, including those regarding Gala Coral's financial position, business and acquisition strategy, plans and objectives of management for future operations are forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Gala Coral, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.

The words "believe," "anticipate," "expect," "predict," "intend," "estimate," "plan," "aim," "assume," "forecast," "project," "will," "may," "should," "risk," "probable" and similar expressions, which are predictions or indications of future events and future trends, which do not relate to historical matters, identify forward looking statements. All statements other than statements of historical facts included in this report including, without limitation, in relation to the Group's investment performance, results of operations, financial position, liquidity, prospects, growth potential, strategies and information about the macro-economic, industry and regulatory environment in which the Group operates are forward looking. Readers of this report should not rely on forward looking statements because, by their nature, such forward looking statements involve known and unknown risks and uncertainties that could cause the Group's actual results, performance or achievements and the development of the industry in which it operates to be materially different from those expressed in, or suggested by, the forward looking statements contained in this report.

These forward looking statements are made as of the date of this report and are not intended to give any assurance as to future results. Neither the Group nor any of the Group's Directors or other officers undertake any obligation, except as required by law or by any appropriate regulatory authority, to report publicly any revisions or updates to these forward looking statements to reflect events that occur, circumstances that arise or new information of which they become aware after the date of this report.



# Gala Coral Group Limited
## Use of Non-GAAP Financial Measures

The Group uses the EBITDA based financial measure of EBITDA before exceptional items in this report. The Group defines EBITDA before exceptional items as financial result for the period before income tax expense, net finance costs depreciation and amortisation and exceptional items (including profit/(loss) on disposal of fixed assets). For a discussion of exceptional items, see "Note 3: Exceptional Items" herein. The Group utilises EBITDA before exceptional items for the Group and for all of its divisions.

This EBITDA based measure is a non-U.K. GAAP measure. The Group uses EBITDA based measures as internal measures of performance to benchmark and compare performance, both between its own operations and as against other companies. EBITDA based measures are measures used by the Group, together with measures of performance under U.K. GAAP, to compare the relative performance of operations in planning, budgeting and reviewing the performances of various businesses. The Group believes EBITDA based measures are useful and commonly used measures of financial performance in addition to operating profit and other profitability measures under U.K. GAAP because they facilitate operating performance comparisons from period to period and company to company. By eliminating potential differences in results of operations between periods or companies caused by factors such as depreciation and amortisation methods, financing and capital structures, taxation positions or regimes and exceptional items, the Group believes EBITDA based measures can provide a useful additional basis for comparing the current performance of the underlying operations being evaluated. For these reasons, the Group believes EBITDA based measures and similar measures are regularly used by the investment community as a means of comparison of companies in the Group's industry. Different companies and analysts may calculate EBITDA based measures differently, so making comparisons among companies on this basis should be done very carefully. EBITDA based measures are not measures of performance under U.K. GAAP and should not be considered in isolation or construed as substitutes for operating profit or net profit as an indicator of the Group's operations in accordance with U.K. GAAP.

In addition to this EBITDA based measure, the Group has included other non-U.K. GAAP financial measures in this report, some of which the Group refers to as "key performance indicators". The Group believes that it is useful to include these non-U.K. GAAP measures as they are used by the Group for internal performance analysis and the presentation by its business divisions of these measures facilitates comparability with other companies in the Group's industry, although the Group's measures may not be comparable with similar measurements presented by other companies. These other non-U.K. GAAP measures should not be considered in isolation or construed as a substitute for U.K. GAAP measures in accordance with U.K. GAAP. For a discussion of certain of the Group's key performance indicators, see "Trading highlights".

### NOTICE

These interim accounts have been prepared at the level of Gala Coral Group Limited.

As permitted by the bond indentures, the Group is allowed to prepare interim accounts at the level of either Gala Coral Group Limited or Gala Electric Casinos plc. In order to harmonise external reporting where possible for the Group, Gala Coral Group Limited is the preferred reporting entity.

From a profit and loss account perspective, the difference between accounts consolidated at Gala Coral Group Limited and those at Gala Electric Casinos plc is an immaterial amount of group interest payable. From a balance sheet perspective there is a small difference in net assets relating to the amount due in respect of subordinated group debt (the GCGL loan notes) and there are some classification differences in capital and reserves.

# Gala Coral Group Limited
# Management Report

## OVERVIEW OF THE QUARTER

The key trading highlights for the sixteen weeks ended 19 January 2013 were:

- Turnover and gross profit are ahead of prior year by 2% and 1% respectively.
- EBITDA (pre-exceptionals) decreased by £4.8 million compared to last year, as a result of poor weather conditions during the quarter (£2.2 million) and the phasing of certain costs compared to the prior year (£6.0 million). This phasing impact is expected to unwind over the remainder of the year.
- Coral Retail OTC gross win was 8% ahead of the prior year, with favourable football results driving a strong gross win margin of 18.4%, 2.8pp above that of last year. Machines gross win was 1% ahead year on year.
- Coral Interactive's first quarter of trading following the launch of the new online and mobile sites was encouraging, with a 31% increase in active player numbers, a 43% increase in amounts staked and a 44% increase in gross win.
- Italy retail and online sports stakes increased by 20%, with EBITDA (pre-exceptionals) up 18%. Market share increased by 1.0pp in Retail to 7.0% and 0.6pp in Online to 7.0%.
- Gala Retail gross profit declined by 5%, primarily due to reduced admissions, feeding through to a 17% decline in EBITDA (pre-exceptionals) (13% decline excluding the impact of poor weather).
- Growth in Gala Interactive active player numbers (+28%) and staking levels (+29%) resulted in a 28% increase in EBITDA (pre-exceptionals).
- Covenant net debt of £1,364.8 million has increased by £42.7 million since the year end primarily due to the seasonal cash outflow of £24.2 million for the quarter and the issue of additional letters of credit (€10.0m) in respect of the Italian tender.
- Discussions continue with Rank regarding the sale of 19 Casinos. We expect to make a further announcement shortly.

## OVERVIEW OF THE QUARTER BY DIVISION

### Coral Retail

Turnover in the quarter was £7.4 million or 4% higher than last year at £183.4 million, whilst EBITDA (pre-exceptionals) of £44.4 million was £4.4 million or 9% lower as a result of:

- The impact of the adverse weather experienced during January which is estimated to have reduced EBITDA (pre-exceptionals) by £1.3 million. There were 41 racing fixtures cancelled, which was 23 more than during the same period last year.
- The phasing of certain costs resulting in 6 million of additional cost above gross profit being recognised in Quarter 1 this year compared to the same period last year. This impact is expected to fully reverse within the full financial year.

Excluding the impact of these items, EBITDA (pre-exceptionals) would have been £7.3 million higher at £51.7 million (FY12: £48.8 million).

OTC stakes were £47.8 million or 8% lower than last year as a result of management action to withdraw ineffective concessions (enhanced pricing) that were being offered in Quarter 1 of the prior year. Whilst these offers drove higher stakes, they damaged profitability.

As a result of removing the concessions and the introduction of new products, particularly in football, margin improvements were seen across all sports, although it is fair to say that results were in bookmakers' favour as well. Overall margin performance was up by 2.8pp, leaving OTC gross win up £7.0 million or 8% year on year.

Machines gross win was 1% ahead of the prior year. This was supported by a strong gross win margin due to the introduction of a range of higher margin games in the quarter. Gross win per machine was in line with the prior year. We are now in the process of rolling out new Infinity cabinets which will be installed across the estate by Quarter 2.

Operating costs were £5.1 million or 5% higher than last year, primarily as a result of increased payroll costs and the timing of irrecoverable VAT. The average number of LBOs increased by 29 units compared to the same quarter last year, and this accounted for £1.7 million of the cost increase.



# Gala Coral Group Limited
# Management Report (continued)

## OVERVIEW OF THE QUARTER BY DIVISION (CONTINUED)

### Coral Interactive

Coral Interactive launched its new website and mobile applications on 11 October 2012 after a delay of several months. The first six weeks were difficult with a number of technical issues, but since then the site has started to perform well.

Actives increased by 34.5k or 31%, resulting in an increase in stakes of £72.9 million or 43%. Overall gross win increased by £2.7 million or 44% to £8.9 million. This represents an encouraging first quarter for the newly launched business.

A successful TV campaign was launched in December driving a significant increase in new depositors, up 18.6k or 58% to 50.9k over the quarter. The business also saw strong growth in its mobile offering, with more than 40% of actives now using this channel.

The increased cost base of the growing business has resulted in an EBITDA (pre-exceptionals) loss of £3.0 million. This is in line with expectations and reflects the "bow-wave" of marketing investment, necessary to create the platform for growth into subsequent years.

### Italy

Eurobet Italia has had a strong quarter in both its retail and online channels. Turnover was ahead of last year by £2.3 million or 11%. Combined sports stakes were £13.5 million or 20% ahead of last year at £81.6 million with gross win margin down 0.8pp at 21.2%, leaving sports gross win £2.3 million or 16% up at £17.3 million. Other gross win was in line with last year. Operating costs increased slightly less than gross profit, leaving EBITDA (pre-exceptionals) up by £0.9 million or 18% at £5.8 million.

The business was quick to capitalise on the opportunity to relocate underperforming licences following a change in the regulations around licence portability, and this has resulted in stakes growth of 130% for these licences. The online business has shown another strong quarter of growth, increasing market share to 7% (prior year, 6.4%). Online now accounts for one-third of Eurobet's total sports betting stakes.

A decision on the legal position regarding the tender process for 2,000 new licences was announced on the 20 February 2013 with the judge declaring that the tender process has been correctly administered. Eurobet will be told how many licences it has won by the middle of March 2013.

### Gala Retail

Turnover for the quarter was 7% below last year due to there being, on average, 5 fewer clubs trading and poor LFL admissions which were 9% lower. Whilst poor weather and the planned removal of free bingo contributed materially to the admissions trend, there is no doubt that the market has been softer since the summer of 2012. In response, the core ("Mainstage") bingo product was re-launched in January and the promotional strategy has been comprehensively reviewed. Early indications are promising and this is expected to contribute to a recovery in admission levels over subsequent periods.

Spend per head was flat year on year, however, machines spend per head grew by 12%. This was as a result of the roll out of new machines formats in some clubs. Margins continued to improve for Mainstage Bingo and Party Xtra, resulting in gross profit £3.2 million or 5% behind the prior year.

Operating costs were in line with the prior year, such that EBITDA (pre-exceptionals) was £3.2 million or 17% lower. The adverse weather experienced during January impacted admissions post-Christmas and this is estimated to have reduced EBITDA (pre-exceptionals) by £0.9 million. Adjusting for this, EBITDA (pre-exceptionals) was 13% below that of the prior year.

# Gala Coral Group Limited
# Management Report (continued)

## OVERVIEW OF THE QUARTER BY DIVISION (CONTINUED)

### Gala Interactive

Turnover increased by £4.5 million or 34% to £17.6 million. EBITDA (pre-exceptionals) increased by £1.9 million or 28% to £8.9 million. Having launched in the second half of the last year, this represents strong growth and a very positive start to the financial year.

The number of unique active players increased by 35.2k or 28% to 160.6k. Galabingo.com stakes increased by £40.1 million or 17% to £279.3 million and Galacasino.com stakes more than doubled to £77.3 million. Strong margins resulted in a gross win of £22.3 million, which was a £7.0 million or 46% improvement on the prior year.

Operating costs increased by 30% as a result of the increased investment in marketing to support the growth of the newly launched sites, and the different structural costs of the new business. There has been a strong response to the Christmas marketing campaign, demonstrated by the significant improvements in stakes and gross profit. Further high profile marketing is planned during the next quarter.

### Gala Casino

Turnover decreased by £0.7 million or 2% to £41.4 million. A 3% reduction in operating costs resulted in EBITDA (pre-exceptionals) £0.2 million or 3% lower at £7.0 million.

Admissions were 11% lower at 909k, offset by a 12% increase in gaming drop per head to £197.25, reflecting the continued focus on higher value players. This resulted in gaming cash drop broadly in line with last year which, combined with an improved gaming gross win percentage of 17.0%, left net income broadly flat.

This was a solid performance by the Casino division given the prolonged disruption caused by the Competition Commission review and discussions around the potential disposal of the business.

## OVERVIEW OF THE QUARTER

Group turnover for the first quarter increased by £6.9 million or 2% to £359.7 million (2012: £352.8 million), with statutory gross profit of £273.9 million (2012: £271.5 million) representing growth of 1%.

Group EBITDA (pre-exceptionals) decreased by £4.8 million to £73.6 million (2012: £78.4 million).

Central overheads (before depreciation and amortisation) were £1.5 million lower than in FY12 at £4.8 million (2012: 2012: £6.3 million).

A depreciation charge of £21.3 million (2012: £20.3 million) and an amortisation charge of £5.2 million (2012: £5.8 million) were incurred in the quarter.

The profit on disposal of fixed assets of £2.0 million in the quarter (2012: loss of £0.2 million) includes the profit on disposal of two freehold properties disposed of in Gala Propco Three Limited.

As a result of the above the profit before interest and tax is £43.2 million in the first quarter of 2013 (2012: profit of £1.8 million).

Interest payable has increased from £68.3 million in the first quarter of 2012 to £71.9 million in the first quarter of 2013, primarily reflecting the roll-up of interest on the GCGL loan notes. Key elements of the interest charge include loan interest of £40.6 million (2012: £41.1 million), of which £6.7 million (2012: £6.7 million) relates to the Gala Propco Three Limited loan, and non-cash interest on GCGL loan notes of £28.0 million (2012: £24.2 million). Interest payable also includes £3.0 million of costs (2012: £3.0 million) associated with the amortisation of debt issue costs and amortisation costs of interest rate premia. In addition the quarter included the payment of break fees amounting to £0.3 million on the early repayment of a portion of the Gala Propco Three Limited loan following certain property disposals.



# Gala Coral Group Limited
# Management Report (continued)

## OVERVIEW OF THE QUARTER (CONTINUED)

During the quarter the Group received interest of £6.0 million on VAT refunds from HMRC on 'Condé Nast' claims.

Other finance costs in the quarter were £2.0 million (2012: £1.8 million) associated with the unwinding of discount on provisions and finance costs in relation to the pension scheme.

The overall result after taxation for the first quarter is a loss of £29.0 million, compared to a loss of £69.2 million in the prior year.

## CASH GENERATED FROM OPERATIONS IN THE QUARTER

During the quarter net cash inflow from operations was £43.9 million (2012: £56.5 million). This included cash outflows of £16.0 million associated with restructuring and reorganisations (2012: £13.8 million).

Of the cash inflows, £16.2 million (2012: £27.9 million) was reinvested in the Group to fund capital expenditure.

The Group received £3.4 million in net receipts (2012: made net payments of £0.2 million) from the sale of tangible assets in the quarter of which £3.2 million was received as a result of two freehold property disposals in Gala Propco Three Limited.

In the quarter £50.8 million of cash outflows was utilised to meet interest and other financing costs (2012: £51.7 million) with a further £5.0 million (2012: £1.0 million) repaid on the Gala Propco Three Limited loan, of which an amount was repaid early due to the sale of two freehold properties.

Unlevered free cashflow for the quarter (cash available to pay net cash interest costs and service financing) was £31.1 million (2012: £28.4 million).

Total cash outflow for the quarter was £24.2 million (2012: £24.1 million).

## NET DEBT AND LIQUIDITY

The Group's funding and liquidity position is in line with expectations. Net debt for covenant purposes was £1,364.8 million (net of issue costs) versus £1,322.1 million as at 29 September 2012, mainly as a result of a seasonal net outflow of cash in the quarter and the issuance of additional letters of credit (€10.0 million) associated with the Italian tender process for new licences.

Total net debt of £2,291.0 million (29 September 2012: £2,241.2 million) has increased since the year end due to the roll up of non-cash interest on subordinated loans from the ultimate parent company and the timing of cash movements, which has resulted in a £24.2 million outflow for the year to date. Total net debt includes shareholder loan notes of £646.3 million and the Propco Three Limited loan of £343.8 million.

Cash at bank and in hand of £111.7 million includes cash for covenant purposes of £73.9 million.

## EXCEPTIONAL ITEMS

Exceptional items in the quarter amounted to a charge of £5.9 million (2012: £50.3 million). The primary drivers of this expense were costs associated with corporate simplification projects; current year share based payments charge, the write-down on two Bingo clubs which closed during the period, costs associated with the launch of our new online businesses and casino disposal costs. These costs have been partly offset by VAT refunds associated with successful 'Conde Nast' claims. Exceptional cash outflows in the period were £16.0 million (2012: £13.8 million). This is higher than the P&L charge of £5.9 million due to the VAT refunds only being received after the quarter had ended and because there were two rental payment dates in the quarter.

## PENSIONS

Since 29 September 2012 there have been changes in the assumptions underpinning the calculation of the pension position, in particular an increase of 0.55% in future pension costs.

# Gala Coral Group Limited
# Management Report (continued)

## CURRENT TRADING

Trading in the five weeks since the end of the quarter has been disrupted by poor weather, particularly in Gala Bingo Retail and Gala Casino Retail. However, cost efficiencies in both businesses have helped mitigate the admissions shortfall. OTC margins have remained strong, more than offsetting the impact of a high level of cancelled race meetings. Gala Interactive continues to show positive year on year growth and Italy has traded well with stakes and margin still strong.



# Gala Coral Group Limited
# Group Profit and Loss Account

| | Notes | Unaudited sixteen weeks to 19 January 2013 £m | Unaudited sixteen weeks to 14 January 2012 As restated £m |
|---|---|---|---|
| **Turnover** | 2 | **359.7** | **352.8** |
| Cost of sales | | (85.8) | (81.3) |
| **Gross profit** | | **273.9** | **271.5** |
| Administrative expenses | | (233.6) | (270.8) |
| **Operating profit before other operating income** | | **40.3** | **0.7** |
| Operating profit before other operating income, analysed as: | | | |
| Before exceptional items | | 46.2 | 51.0 |
| Impairments | 3 | (1.9) | (0.1) |
| Casino disposal | 3 | (2.0) | (0.1) |
| FRS 20 'Share Based Payment' charge | 3 | (1.9) | (42.1) |
| Creation of onerous leases | 3 | (0.7) | (2.8) |
| Release of onerous leases | 3 | 0.9 | 0.4 |
| Other restructuring costs and VAT rebates | 3 | (0.3) | (5.6) |
| **Operating profit before other operating income** | | **40.3** | **0.7** |
| Other operating income | | 0.9 | 1.3 |
| **Operating profit** | 2 | **41.2** | **2.0** |
| Profit/(loss) on disposal of fixed assets | 3 | 2.0 | (0.2) |
| **Profit before interest and tax** | | **43.2** | **1.8** |
| Interest receivable and similar income | 4 | 6.5 | 0.2 |
| Interest payable and similar charges | 4 | (71.9) | (68.3) |
| Other finance costs | | (2.0) | (1.8) |
| **Loss on ordinary activities before tax** | | **(24.2)** | **(68.1)** |
| Tax on loss on ordinary activities | 5 | (4.8) | (1.1) |
| **Loss for the financial period** | | **(29.0)** | **(69.2)** |

All operations are continuing.

There are no material differences between the loss on ordinary activities before tax and the loss for the financial periods at their historical cost equivalents.

The prior quarter results have been restated to reflect the FRS 20 'Share Based Payment' charge.

# Gala Coral Group Limited

## Group Statement of Total Recognised Gains and Losses and Reconciliation of Movement in Total Group Shareholders' Funds

### Group Statement of Total Recognised Gains and Losses

| | Unaudited sixteen weeks to 19 January 2013 £m | Unaudited sixteen weeks to 14 January 2012 As restated £m |
|---|---|---|
| Loss for the financial period | (29.0) | (69.2) |
| Net foreign exchange adjustments offset in reserves | 1.0 | (1.7) |
| Actuarial (loss)/gain on pension schemes | (11.0) | 0.2 |
| Deferred tax credit relating to pension scheme | 2.5 | - |
| Current tax credit relating to pension scheme | 0.6 | - |
| **Total recognised gains and losses for the period** | **(35.9)** | **(70.7)** |

### Reconciliation of Movement in Total Group Shareholders' Funds

| | Unaudited sixteen weeks to 19 January 2013 £m | Unaudited sixteen weeks to 14 January 2012 As restated £m |
|---|---|---|
| Total recognised gains and losses for the period | (35.9) | (70.7) |
| FRS 20 'Share Based Payment' charge | 1.9 | 42.1 |
| Opening shareholders' funds | 165.1 | 242.4 |
| **Closing shareholders' funds** | **131.1** | **213.8** |



# Gala Coral Group Limited
## Group Balance Sheet

| | Notes | Unaudited 19 January 2013 £m | Unaudited 14 January 2012 £m | Audited 29 September 2012 £m |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Intangible assets | | 509.1 | 525.0 | 513.8 |
| Tangible assets | | 2,047.4 | 2,024.5 | 2,062.0 |
| | | **2,556.5** | **2,549.5** | **2,575.8** |
| **Current assets** | | | | |
| Stocks | | 4.1 | 3.4 | 3.6 |
| Debtors | | 112.9 | 95.2 | 69.8 |
| Cash at bank and in hand | | 111.7 | 117.6 | 135.9 |
| | | 228.7 | 216.2 | 209.3 |
| **Creditors:** amounts falling due within one year | 6 | (212.8) | (196.7) | (204.7) |
| **Net current assets** | | **15.9** | **19.5** | **4.6** |
| **Total assets less current liabilities** | | **2,572.4** | **2,569.0** | **2,580.4** |
| **Creditors:** amounts falling due after more than one year | 7 | (2,397.4) | (2,312.2) | (2,372.0) |
| Provisions for liabilities | | (67.5) | (75.4) | (73.9) |
| **Net assets excluding net pension asset** | | **107.5** | **181.4** | **134.5** |
| Net pension asset | | 23.6 | 32.4 | 30.6 |
| **Net assets excluding net pension asset** | | **131.1** | **213.8** | **165.1** |
| **Capital and reserves** | | | | |
| Called up share capital | | 213.3 | 213.3 | 213.3 |
| Merger reserve | | 1.6 | 1.6 | 1.6 |
| Capital contribution reserve | | 1,723.5 | 1,723.5 | 1,723.5 |
| Profit and loss account | | (1,807.3) | (1,724.6) | (1,773.3) |
| **Total shareholders' funds** | | **131.1** | **213.8** | **165.1** |

## Gala Coral Group Limited
## Group Cash Flow Statement

| | Notes | Unaudited sixteen weeks to 19 January 2013 £m | Unaudited sixteen weeks to 14 January 2012 £m | Audited year ended 29 September 2012 £m |
|---|---|---|---|---|
| **Net cash inflow from operating activities** | **8(a)** | **43.9** | **56.5** | **244.7** |
| **Returns on investments and servicing of finance** | | | | |
| Interest received | | 0.5 | 0.2 | 0.6 |
| Interest paid and similar charges | | (50.8) | (51.7) | (136.3) |
| Purchase of new interest rate caps | | - | - | (3.3) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(50.3)** | **(51.5)** | **(139.0)** |
| **Taxation** | | | | |
| Corporation tax paid | | - | - | (0.7) |
| **Capital expenditure and financial investment** | | | | |
| Payments to acquire tangible and intangible fixed assets | | (16.2) | (27.9) | (99.5) |
| Net receipts/(payments) from sale of tangible fixed assets | | 3.4 | (0.2) | 1.7 |
| **Net cash outflow for capital expenditure and financial investment** | | **(12.8)** | **(28.1)** | **(97.8)** |
| **Acquisitions** | | | | |
| Purchase of subsidiary undertakings | | - | - | (8.4) |
| Cash acquired with subsidiary undertakings | | - | - | 0.1 |
| **Net cash outflow from acquisitions** | | **-** | **-** | **(8.3)** |
| **Net cash outflow before financing** | | **(19.2)** | **(23.1)** | **(1.1)** |
| **Financing** | | | | |
| Repayment of Gala Propco Three Limited loan | | (5.0) | (1.0) | (4.7) |
| **Net cash outflow from financing** | **8(b)** | **(5.0)** | **(1.0)** | **(4.7)** |
| **Decrease in cash** | **8(b)** | **(24.2)** | **(24.1)** | **(5.8)** |



## Gala Coral Group Limited
## Reconciliation of Group Net Cash Flow to Movement in Group Net Debt

| | Notes | Unaudited sixteen weeks to 19 January 2013 £m | Unaudited sixteen weeks to 14 January 2012 £m | Audited year ended 29 September 2012 £m |
|---|---|---|---|---|
| Decrease in cash | | (24.2) | (24.1) | (5.8) |
| Net repayment of long-term loans | | 5.0 | 1.0 | 4.7 |
| Change in net debt resulting from cash flows | | (19.2) | (23.1) | (1.1) |
| Non-cash movements | 8(b) | (30.6) | (26.8) | (91.1) |
| **Movement in net debt** | | **(49.8)** | **(49.9)** | **(92.2)** |
| Opening net debt | 8(b) | (2,241.2) | (2,149.0) | (2,149.0) |
| **Closing net debt** | **8(b)** | **(2,291.0)** | **(2,198.9)** | **(2,241.2)** |

## 1. BASIS OF PREPARATION

The condensed consolidated interim financial information, which is unaudited, is prepared in accordance with the recognition and measurement requirements of United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and, with the exception of tax (see note 5), in accordance with the accounting policies applied in the financial statements for the year ended 29 September 2012 and therefore should be read in conjunction with those annual financial statements, which can be obtained from Gala Coral Group Limited, New Castle House, Castle Boulevard, Nottingham, NG7 1FT. The condensed consolidated interim financial statements do not include all the information or disclosures required in the annual financial statements as they have been prepared for the provision of interim information.

## ACCOUNTING ESTIMATES

The preparation of the condensed consolidated interim financial information in accordance with UK GAAP requires the Group to make estimates, judgements and assumptions that may affect the reported amounts of assets, liabilities, turnover and expenses and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review of the audited statutory accounts for the year ended 29 September 2012. The key risks and uncertainties facing the Group along with its financial risk management objectives and processes are also set out therein.

The directors have continued to review the Group's cash flow forecasts and trading budgets and after making appropriate enquiries, have formed the view that the Group is operationally and financially robust and will generate sufficient cash to meet its ongoing requirements for at least the next 12 months from the signing of this report. Thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

## GENERAL INFORMATION

The condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Audited statutory accounts for the year ended 29 September 2012 were approved by the Board of Directors on 6 December 2012, have been filed with the Registrar of Companies and are available on the Group website: www.galacoral.co.uk. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under either Section 498(2) or 498(3) of the Companies Act 2006.





## 2. SEGMENTAL ANALYSIS

The Group operates six segments – Coral Retail, Coral Interactive (Coral Int), Italy, Gala Retail, Gala Interactive (Gala Int) and Gala Casino. The Interactive segments operate online sports betting, casinos and other gaming products. The Italy segment comprises betting shops and online sports betting in Italy.

The revenue of Coral Retail and Gala Retail arises solely within the United Kingdom. The Gala Casino revenue arises in the United Kingdom and Gibraltar. The revenue of the Interactive segments arises in Europe. Its customers are primarily located in the United Kingdom and mainland Europe. Due to the nature of the Interactive segment, it is not possible to split the net assets by geographical category. The revenue of the Italy segment arises solely in Italy.

The prior year divisional EBITDA (pre-exceptionals) has been restated to include an element of costs which were previously identified as central costs ("allocated divisional costs"). This restatement has been made to appropriately reflect the cost analysis of the current organisational structure and the way the business is managed. The current and prior year allocation of central costs has been undertaken on a consistent basis.

Turnover, Group operating profit and net assets are analysed as follows:

### Unaudited sixteen weeks to 19 January 2013

| | Coral Retail £m | Coral Int £m | Italy £m | Gala Retail £m | Gala Int £m | Gala Casino £m | Group £m |
|---|---|---|---|---|---|---|---|
| Turnover | 183.4 | 7.9 | 24.4 | 85.0 | 17.6 | 41.4 | 359.7 |
| **Divisional EBITDA** | **43.7** | **(2.6)** | **5.8** | **14.7** | **8.9** | **7.0** | **77.5** |
| Other operating income | 0.7 | - | - | 0.2 | - | - | 0.9 |
| **EBITDA post other operating Income** | **44.4** | **(2.6)** | **5.8** | **14.9** | **8.9** | **7.0** | **78.4** |
| Unallcoated other operating income | | | | | | | - |
| Central costs | | | | | | | (4.8) |
| Bonus | | | | | | | - |
| **Group EBITDA (pre-exceptionals)** | | | | | | | **73.6** |
| Depreciation and amortisation | | | | | | | (26.5) |
| Exceptional items | | | | | | | (5.9) |
| **Group operating profit** | | | | | | | **41.2** |

**Segment operating profit by division for the year was:**

| | Coral Retail £m | Coral Int £m | Italy £m | Gala Retail £m | Gala Int £m | Gala Casino £m |
|---|---|---|---|---|---|---|
| Segment operating profit[1] | 34.9 | (3.5) | 3.9 | 6.8 | 7.9 | 4.7 |

[1] Segment operating profit is stated before bonus, group amortisation and exceptional items.

## 2. SEGMENTAL ANALYSIS (CONTINUED)

### Unaudited sixteen weeks to 14 January 2012

| | Coral Retail £m | Coral Int £m | Italy £m | Gala Retail £m | Gala Int £m | Gala Casino £m | Group £m |
|---|---|---|---|---|---|---|---|
| Turnover | 176.0 | 7.7 | 22.1 | 91.8 | 13.1 | 42.1 | 352.8 |
| **Divisional EBITDA** | **48.1** | **0.8** | **4.9** | **17.7** | **7.0** | **7.1** | **85.6** |
| Other operating income | 0.7 | - | - | 0.4 | - | 0.1 | 1.2 |
| **EBITDA post other operating Income** | **48.8** | **0.8** | **4.9** | **18.1** | **7.0** | **7.2** | **86.8** |
| Unallcoated other operating income | | | | | | | 0.1 |
| Central costs | | | | | | | (6.3) |
| Bonus | | | | | | | (2.2) |
| **Group EBITDA (pre-exceptionals)** | | | | | | | **78.4** |
| Depreciation and amortisation | | | | | | | (26.1) |
| Exceptional items | | | | | | | (50.3) |
| **Group operating profit** | | | | | | | **2.0** |

**Segment operating profit by division for the year was:**

| | Coral Retail £m | Coral Int £m | Italy £m | Gala Retail £m | Gala Int £m | Gala Casino £m |
|---|---|---|---|---|---|---|
| Segment operating profit[1] | 44.4 | (0.1) | 2.6 | 12.7 | 6.0 | 5.3 |

[1] Segment operating profit is stated before bonus, group amortisation and exceptional items.

## 3. EXCEPTIONAL ITEMS

### Exceptional Items Charged/(Credited) to Operating Profit

Exceptional items in the quarter amounted to a charge of £5.9 million (FY12: £50.3 million). The primary drivers of this expense were costs associated with corporate simplification projects; the current year non-cash share based payments charge, the non-cash write-down on two Bingo clubs which closed during the period, costs associated with the launch of our new online businesses and casino disposal costs. These costs have been partly offset by VAT refunds associated with successful 'Conde Nast' claims. Exceptional cash outflows in the period were £16.0 million (FY12: £13.8 million). This is higher than the P&L charge of £5.9 million due to the VAT refunds only being received after the quarter had ended and because there were two rental payment dates in the quarter.





## 3. EXCEPTIONAL ITEMS (CONTINUED)

### Exceptional Items Charged/(Credited) to Operating Profit

### 1) Profit/(loss) on Disposal of Fixed Assets

The profit on disposal of £2.0 million in the quarter (14 January 2012: loss of £0.2 million and year ended 29 September 2012: loss of £2.8 million) includes the profit on disposal of freehold properties (including two disposals in Gala Propco Three Limited).

### 2) Exceptional Interest

Exceptional interest receivable in the period of £6.0 million relates to interest receivable from HMRC on 'Condé Nast' claims.

During the quarter the Group paid £0.3 million of break fees on Gala Propco Three Limited loan repayments following the disposal of certain properties in Gala Propco Three Limited.

## 4. INTEREST

| | Unaudited sixteen weeks to 19 January 2013 £m | Unaudited sixteen weeks to 14 January 2012 £m |
|---|---|---|
| Loan interest and similar charges | (33.9) | (34.4) |
| Gala Propco Three Limited loan interest | (6.7) | (6.7) |
| GCGL loan note interest | (28.0) | (24.2) |
| Amortisation of debt issue costs and senior notes discount | (2.6) | (2.6) |
| Amortisation of interest rate cap premia | (0.4) | (0.4) |
| | (71.6) | (68.3) |
| **Exceptional interest payable (note 3):** | | |
| Break fees on Gala Propco Three Limited loan | (0.3) | - |
| **Interest payable and similar charges** | **(71.9)** | **(68.3)** |
| Interest on deposits and money market funds | 0.5 | 0.2 |
| Exceptional interest receivable (note 3) | 6.0 | - |
| **Interest receivable and similar income** | **6.5** | **0.2** |
| Net interest payable | (65.4) | (68.1) |

Loan interest payable and similar charges include amounts payable on the senior secured credit facilities, senior secured notes and senior notes. Actual amounts paid in the period in relation to the Gala Propco Three Limited loan amounted to £5.7 million (14 January 2012: £5.5 million, year ended 29 September 2012: £21.8 million).

In the quarter interest receivable on the Gala Propco Three Limited cash balance was £nil (14 January 2012: £nil, 29 September £0.1 million).

## 5. TAX ON LOSS ON ORDINARY ACTIVITIES

Taxation is recognised based on management's best estimate of the average annual effective rate expected for the full financial year. Any charges and credits shown relate to deferred tax and overseas corporation tax.

## 6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Unaudited 19 January 2013 £m | Unaudited 14 January 2012 £m | Audited 29 September 2012 £m |
|---|---|---|---|
| Current instalments due on loans | 6.0 | 5.0 | 5.8 |
| Loan, senior secured notes and senior notes interest | 16.0 | 15.5 | 25.5 |
| Trade creditors | 26.3 | 36.1 | 47.3 |
| Corporation tax | 2.8 | 0.8 | 0.7 |
| Other taxation and social security | 38.9 | 31.0 | 29.2 |
| Other creditors | 10.3 | 12.5 | 13.9 |
| Accruals and deferred income | 112.5 | 95.8 | 82.3 |
| | **212.8** | **196.7** | **204.7** |

## 7. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Unaudited 19 January 2013 £m | Unaudited 14 January 2012 £m | Audited 29 September 2012 £m |
|---|---|---|---|
| Gala Propco Three Limited loan | 337.8 | 346.6 | 342.7 |
| Senior secured credit facilities | 809.0 | 806.0 | 808.1 |
| Senior secured notes | 342.2 | 340.8 | 341.8 |
| Senior notes | 261.4 | 259.2 | 260.7 |
| Gala Coral Group Limited ("GCGL") loan note | 646.3 | 558.9 | 618.0 |
| Other creditors | 0.7 | 0.7 | 0.7 |
| | **2,397.4** | **2,312.2** | **2,372.0** |

The Gala Propco Three Limited loan of £343.8 million (14 January 2012: £353.2 million, 29 September 2012: 348.5 million), including amounts of £6.0 million (14 January 2012: £5.0 million, 29 September 2012: £5.8 million) falling due within one year, is presented net of unamortised issue costs of £0.7 million (14 January 2012: £1.6 million, 29 September 2012: £1.0 million). The loan is owed by Gala Propco Three Limited and is ring-fenced from the trading group. The Gala Propco Three Limited loan matures in April 2014, is secured on certain properties which it owns and carries a fixed rate of interest of 6.1672%.





## 7. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (CONTINUED)

The principal terms of the current borrowings are as follows:

| | Amount £m | Interest rate % | Maturity |
|---|---|---|---|
| **Issued by Gala Group Finance plc:** | | | |
| Senior secured credit facilities | | | |
| Term loan | 825.0 | LIBOR + 5 | 27 May 2018 |
| Revolving credit facility | 100.0 | LIBOR + 4 | 27 May 2017 |
| Senior secured notes | 350.0 | 8.875 | 1 Sept 2018 |
| **Issued by Gala Electric Casinos plc:** | | | |
| Senior note | 275.0 | 11.5 | 1 June 2019 |

The senior secured credit facilities and the senior secured notes are secured on the assets of the Group. The Group incurred costs relating to the raising of these borrowings and the senior notes were issued at a discount to their nominal value. The issue costs and discount have been deferred and are being amortised over the term of the borrowings. At 19 January 2013 the senior secured credit facilities, senior secured notes and senior notes are presented net of unamortised issue costs (and in respect of the senior notes, also the discount to nominal value) of £16.0 million (14 January 2012: £19.0 million, 29 September 2012: £16.9 million), £7.8 million (14 January 2012: £9.2 million, 29 September 2012: £8.2 million) and £13.6 million (14 January 2012: £15.8 million, 29 September 2012: £14.3 million) respectively.

In addition to the margin payable on the senior secured credit facilities, the Group pays a 1.5% (2012: 1.5%) facility fee in respect of the unused portion of the revolving credit facility. The revolving credit facility is available to finance working capital requirements and for general corporate purposes. Whilst no amounts have been drawn down on the revolving credit facility, £26.1 million (14 January 2012: £17.6 million, 29 September 2012: £16.8 million) has been utilised through the issuance of letters of credit.

The senior secured credit facilities and the Gala Propco Three Limited loan agreements require the Group to comply with certain financial and non-financial covenants.

The GCGL loan notes have been issued to its parent company, GCG Manager SA Luxco SCA as part of the financial restructuring which completed in June 2010. GCGL loan notes are unsecured, were issued with a duration of 10 years, accruing interest of 15.0625%, only payable on maturity on 27 October 2020. Interest accrued rolls up into the principal amount on 27 October each year until redemption. As at 19 January 2013 issue costs of £2.8 million (14 January 2012: £4.0 million, 29 September 2012: £3.1 million) are netted off against the GCGL loan note.

## 8. NOTES TO THE GROUP CASH FLOW STATEMENT

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

| | Unaudited sixteen weeks to 19 January 2013 £m | Unaudited sixteen weeks to 14 January 2012 As restated £m | Audited year ended 29 September 2012 £m |
|---|---|---|---|
| Operating profit | 41.2 | 2.0 | 118.8 |
| Depreciation, amortisation, impairment and write downs | 28.4 | 26.2 | 89.3 |
| Increase in debtors | (44.8) | (28.6) | (5.0) |
| Increase in stocks | (0.5) | (0.1) | (0.3) |
| Increase in creditors | 28.0 | 19.3 | 0.9 |
| Decrease in provisions | (7.3) | (3.8) | (7.7) |
| Pension contributions in excess of profit and loss charge | (3.0) | (0.6) | (2.9) |
| FRS 20 'Share Based Payment' charge | 1.9 | 42.1 | 51.6 |
| **Net cash inflow from operating activities** | **43.9** | **56.5** | **244.7** |

### b) Analysis of Net Debt

| | At 29 September 2012 £m | Cash Flow £m | Transfers Between Categories £m | Other Non-cash Movements £m | At 19 January 2013 £m |
|---|---|---|---|---|---|
| Cash at bank and in hand | 135.9 | (24.2) | - | - | 111.7 |
| Debt due within one year | (5.8) | 5.0 | (5.2) | - | (6.0) |
| Debt due after one year | (2,371.3) | - | 5.2 | (30.6) | (2,396.7) |
| Total debt | (2,377.1) | 5.0 | - | (30.6) | (2,402.7) |
| **Net debt** | **(2,241.2)** | **(19.2)** | **-** | **(30.6)** | **(2,291.0)** |

Non-cash movements comprise amortisation and write off of debt issue costs and senior notes discount of £2.6 million and an accrual of interest on the GCGL loan notes of £28.0 million.

Cash at bank and in hand as at 19 January 2013 includes the Gala Propco Three Limited balance of £16.3 million (14 January 2012: £16.7 million, 29 September 2012: £9.6 million), the cash in hand balance of £21.5 million (14 January 2012: £18.7 million, 29 September 2012: £20.5 million) and the cash provided as collateral of £nil (14 January 2012: £nil, 29 September 2012: £0.4 million).





## 8. NOTES TO THE GROUP CASH FLOW STATEMENT (CONTINUED)

### c) Cash Flows relating to Exceptional Items (note 3)

| | Unaudited sixteen weeks to 19 January 2013 £m | Unaudited sixteen weeks to 14 January 2012 £m | Audited year ended 29 September 2012 £m |
|---|---|---|---|
| Included within operating cash flow: | | | |
| Restructuring and reorganisation costs | (19.5) | (13.8) | (36.3) |
| VAT refunds net of duty | 3.5 | - | - |
| | (16.0) | (13.8) | (36.3) |
| Net disposal proceeds/(costs) of tangible fixed assets | 3.4 | (0.2) | 1.7 |
| **Net cash outflow** | **(12.6)** | **(14.0)** | **(34.6)** |

VAT refunds net of duty relate to a repayment of input VAT on Coral capital expenditure. Disposal of tangible fixed assets includes £3.3 million in relation to two freehold properties disposed by Gala Propco Three Limited.