Thursday 16 February 2012

Ladbrokes PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

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Retail profit growth and Digital momentum into 2012

<u>Financial highlights</u>

- Group net revenue [(1)] grew by 0.4% to £980.3 million
- Group operating profit [(1)] [(2)] of £193.5 million, down 0.4% after excluding one off VAT credit [(3)] in 2010 with profit before tax and net finance expense down 6.1%
- Net debt reduced by £38.1 million and continued strong cash generation
- Increased dividend per share; final dividend of 3.90 pence up 4.0%; full year of 7.80 pence, up 2.6%

<u>UK Retail highlights</u>

- UK Retail operating profit [(1)] [(2)] of £152.3 million, up 2.1%
- Profit per shop up 6.9% [(3)] year on year
- Resilience of OTC (over the counter) with amounts staked marginally up in 2011
- Machines gross win of £360.9 million, up 19.2%, with gross win per terminal week of £860 for the year and £930 in Q4
- Continued cost discipline with like for like operating costs up only 0.9% [(3)]
- Further growth and cost control initiatives underway for 2012

<u>Digital highlights</u>

- Net revenue decline of 3.5% driven by poker and Q4 sportsbook margin mask underlying improvement in Digital customer acquisition and conversion
- Q4 sportsbook sign ups up 77%, actives up 24% and amounts staked up 22%
- Strong mobile growth with net revenue up 174% to £15.6 million
- 33% of sportsbook customers placing a mobile bet in H2, up from 12% in FY 2010
- Significant expansion of Bet in Play with another 20,000 events to come in 2012
- Beta testing of new website underway; full launch in coming weeks

Richard Glynn, Chief Executive, commented:

“We are continuing to make progress with our plan to reinvigorate Ladbrokes.

The UK Retail business has performed strongly this year. OTC has continued to prove resilient in a weak economy with stakes marginally up on 2010. The contribution from machines has been excellent and we have grown profit per shop for a second consecutive year despite a comparatively poor gross win margin in the second half of 2011 and continued cost pressures. In 2012 we expect to build on this with further growth in machines, robust cost control, a renewed focus on local market competitiveness and the evolution of the retail customer experience.

In Digital, we are pleased to have seen acceleration in the growth of customer numbers. Sportsbook and casino sign ups and actives have increased strongly in H2 following the start of increased marketing investment in August. We are continuing to invest in technology to improve our trading capabilities, expand our range of products and improve our delivery to the customer. Mobile is delivering impressive growth with further product expansion and innovation to come throughout the year.

We have begun investing consistently in brand and Digital marketing and we will continue this investment process in 2012 having begun to see tangible benefits in 2011.

Whilst we remain cautious on the outlook for the economy, we are now starting to see real momentum within the business. We are planning for further growth in UK Retail and in Digital, we expect revenues to grow throughout the year as we build upon the positive growth in customer acquisition achieved to date. We have a number of important milestones in the next few months and are confident of delivering growth in profit during the second half of the year as the benefits from our investments combine.”

Continuing operations (unless stated otherwise)	2011 £m	2010 £m	Year on year change **%**
Revenue (exc. High Rollers)	980.3	976.6	0.4%
Operating profit by Division (exc. High Rollers) (2):			
UK Retail	152.3	149.1	2.1%
European Retail	13.4	13.9	(3.6%)
Digital	55.0	62.7	(12.3%)
Core Telephone Betting	(4.0)	(0.4)	n/a
Corporate costs	(23.2)	(23.0)	(0.9%)
Total operating profit (exc. High Rollers)	**193.5**	**202.3**	**(4.3%)**
High Rollers	(3.2)	5.0	n/a
Group operating profit (2)	**190.3**	**207.3**	**(8.2%)**
Profit before tax and net finance expense	167.9	178.8	(6.1%)
Profit before tax	134.6	147.1	(8.5%)
Profit for the year (on total operations)	118.2	348.3	(66.1%)
Underlying basic earnings per share (4)	**15.3p**	**15.2p**	**0.7%**
Basic earnings per share	13.0p	41.5p	(68.7%)
Total dividend per share	7.80p	7.60p	2.6%
Financial position			
Cash generated by total operations	240.4	272.9	(11.9%)
Net debt	453.9	492.0	(7.7%)

(1) *Continuing operations, excluding High Rollers.*

(2) *Profit before tax, net finance expense, amortisation of customer relationships and non trading items of £19.8 million (2010: £28.5 million).*

(3) *Excludes a one off credit of VAT received in 2010 (£8.1million at total Group level and £6.7million in UK Retail).*

(4) *Adjusted to exclude non-trading items, High Rollers and corporation tax settlement benefit in the comparative year.*

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Notes to editors:
The Company will be hosting an analyst presentation at the DB Auditorium (Winchester House, 75 London Wall, EC2N 2DB) at 9am this morning. This will be available to listen into by dialling +44 (0)203 364 5381 and using passcode 9565548#.

Alternatively a live webcast of the presentation, with slides, will be available at the 'Investor Centre' on www.ladbrokesplc.com. A recording of the webcast will be available, at the same location, from 12pm (UK time) the same day. Similarly a replay phone facility will be available, for 7 days, on + 44 (0)20 7111 1244 using passcode: 9565548# For further information on Ladbrokes plc, please visit our corporate website at www.ladbrokesplc.com. High-resolution images are available to download from the media centre section under the heading 'image library'. Executive images are also available at www.vismedia.co.uk in the Ladbrokes section.

Chief Executive's Review

Summary

Our investments in people, technology and marketing across all parts of the business, are on track and starting to deliver results.

In UK Retail, we have accelerated machine growth after rolling out new terminals in H1. Together with disciplined control of operating costs and the resilience of OTC staking, this has helped us to grow profit per shop despite a challenging economic environment. We plan to continue to grow UK Retail in 2012 with a strong pipeline of new shop openings and initiatives to control costs and improve service already underway.

We have laid the foundations of our new trading systems which from Q3 2011 enabled a material increase in the volume of Bet in Play markets offered to our customers. We will continue to enhance our trading capabilities in 2012 with investment in an improved cross channel fieldbook and further tools to help optimise margin.

Throughout the year we have driven our mobile offer adding new products and improving the customer experience in sportsbook and casino. Mobile is a growing area of the market and one we will continue to drive going forward.

The reinvigoration of our brand began in August 2011 with the launch of a new marketing campaign which has shown positive results since then with accelerating growth in sign ups, actives and amounts staked. This growth in customer acquisition is encouraging and we will continue to invest in Digital marketing throughout 2012.

We will fully launch our new sportsbook website in the next few weeks, with a similar revamping of our gaming website to follow later in the year. This development of our capabilities in e Commerce, together with a new mobile platform in Q2, will significantly enhance our competitiveness and the Digital experience for customers.

Marketing and technology investments will increasingly enable us to grow Digital profits as they begin to converge in the second half of 2012.

UK Retail

OTC stability, machines and cost control drive growth

We significantly improved our competitive position in 2011 through the efficient rollout of the new Global Draw terminals, increased operational focus and enhanced customer service. Machine gross win grew by £58.1 million in 2011, with gross win per terminal week of £860 (2010: £730) up 17.8% on 2010. Machine net revenue has grown 16.6% despite £6.3 million of additional VAT in 2011 following the rate increase at the start of the year.

In 2012 we expect to drive further growth in machines through the introduction of yield management techniques. These will enable us to manage better demand, particularly around peak hours. We will continue to deliver further quality content to our customers and to personalise their machines experience through Odds On, which will be extended to machines in H2 2012.

The performance of OTC has been negatively impacted this year by adverse sporting results, particularly in Q4. Smaller field sizes, a lower over-round per runner and a higher than average proportion of winning favourites affected horse racing, whilst we also saw a comparatively poor period for football results. Gross win margin of 15.6% (2010: 16.7%) for the year was well below the five year average (2007 - 2011: 16.5%). Despite difficult economic conditions and strong machine growth, OTC activity has remained resilient, with stake per slip, slippage and amounts staked all broadly flat in 2011.

We continue to demonstrate a firm control of costs, with total operating costs for UK Retail up 3.7% and a like for like increase of only 0.9%. (1)

Growth in 2012

Our retail business is a key foundation in our reinvigoration strategy, providing a reliable source of regulated revenues and strong cash generation. We have continued to invest profitably in renewing and expanding the estate, with an average payback of three years on new openings since 2007.

In 2011 we opened 50 new shops and closed 21. We are targeting 60 openings in 2012 to include circa 40 new shop formats specifically designed to cater for changing trends in retail betting and gaming.

(1) *Across comparable shops and adjusted to exclude £6.7 million one off VAT credit in 2010*

These designs focus on football, Bet in Play and machines, with a growing emphasis on technology and enhanced customer service at a lower operational cost per shop.

We have also introduced a simplified staff grading structure to help support a more proactive approach to customer service. This reorganisation allows us to increase the average wage paid, whilst at the same time reducing overall people costs, through a decrease in the average number of shop staff per hour. Furthermore we will drive shop performance through increased use of market data and customer insight to drive market share at a local level.

UK Retail operating costs for 2012 are projected to increase by approximately 3% on a like for like basis and 5% including the impact of new openings.

Digital

Profit decline driven by Poker and sporting results in H2
Digital net revenue in 2011 was down 3.5% for the full year, having been up 0.1% in H1. Unfavourable sporting results, particularly in Q4, impacted heavily on the sportsbook margin which was almost two percentage points lower than Q4 2010. This margin weakness masks positive underlying trends in the business, with strong growth indicators in sportsbook and casino in H2, driven primarily by the commencement of our marketing investment in August 2011.

Poker continues to be challenging, although the rate of decline slowed significantly in H2. Whilst poker has to date not been a strategic area of focus, we will be working increasingly to address performance throughout 2012.

Digital profit for the year of £55.0 million was down 12.3%.

Automation in trading enables expansion of Bet in Play
During 2011 we started to develop our pricing, trading and liability management capabilities through the reorganisation of the trading function, investment in a new platform and the increased use of automated algorithms. This allowed us to increase materially the number of Bet in Play opportunities we offer customers. In October for example we offered in excess of 700 football events per week compared to an average of only 200 per week in 2010. Bet in Play amounts staked was up 20% in H2 2011 (2011 H1: 8%).

Further Bet in Play growth and enhanced liability management
In 2012 we plan to add another 20,000 Bet in Play events, growing our offer by over 60% (to circa 50,000 events) through further expansion of football as well as more events in other sports. We will also extend the use of automated techniques to bolster our pre match offer.

Further technology developments are underway. New proprietary tools will allow us to develop the management of trading liabilities, optimise margin and further automate pricing, combining scientific rigour with the art of trading.

New agreements with key suppliers enable product expansion
During the year we renegotiated our contract with key suppliers such as Microgaming. New commercial relationships allow a greater degree of flexibility in adding content from other suppliers and in expanding our offer into markets beyond the UK. In 2011 we added an additional 63 casino style games to our online gaming offer (61 of these in H2) and will continue to expand this further having already added another 14 in 2012.

New sportsbook website to launch this month
After making a number of incremental improvements to our main customer website in 2011, we will go live this month with a new sportsbook. The new site, powered by Hybris technology represents a significant evolution of our current offer, enabling more effective promotion of our increased range of products and a personalised online experience as it learns from customer preferences and behaviour. Automatic market updates, one click bet placement, product recommendations and advanced navigation are just a few of the features which will give us a far more sophisticated website which is, most importantly, easier and more intuitive for our customers.

We will continue to make incremental enhancements to the sportsbook throughout 2012 as well as replicating its functionality across all gaming products, starting with casino in H2.

Further innovation to come in mobile
We continue to see impressive growth rates in mobile net revenue which is up 174% compared to 2010. A third of sportsbook customers placed a mobile bet during the second half of 2011 and mobile sportsbook net revenue accounted for 17% of the Digital sportsbook (2010: 6%).

Product innovation and promotion will increasingly drive mobile growth going forward. We have recently signed agreements with Realistic and Probability which will help drive further expansion of our range of casino games on iPhone and Android, as well as specific content for tablets.

In H1 2012 we will launch bingo and poker apps in addition to an app for Euro 2012. We are on plan in Q2 2012 to launch a new and bespoke mobile platform capturing many of the features of the new sportsbook website, whilst being explicitly designed around an optimised mobile experience.

Improvement in digital marketing
As part of improving our digital marketing, we have completed phase one of our digital optimisation, improving the effectiveness of Pay Per Click (PPC), enhancing our search engine capabilities and introducing a more sophisticated affiliate programme. We have also continued to improve our modelling of customer behaviours, automated communications and cross sell activities.

In 2012 we have a clear plan to augment further our use of data in order to maximise customer lifetime values and are also on track with the development of improved capabilities in campaign management.

Investment in marketing drives strong increase in activity in H2
In August we began a new marketing campaign, supporting the ongoing development of our customer offer. Initial results have been encouraging and show clear progress with good growth in both sportsbook and casino KPIs. Sportsbook sign ups grew 77%, actives 24% and amounts staked 22% in Q4 with casino sign ups and actives up 82% and 72% respectively. In 2012 we will invest further in marketing, at a level ahead of H2 2011, as we look to grow revenue and build upon the benefits delivered by our ongoing investment in technology.

Regulation

Leadership in UK regulatory affairs
Ladbrokes continues to engage with Government and stakeholders to ensure the full impacts of potential changes in tax and regulation are fully understood. We support a fair and stable fiscal and regulatory framework for the betting industry in the UK that will enable it to continue to contribute to economic growth and tax revenues as well as protect jobs.

The forthcoming budget in March 2012 will outline the rate of Machine Games Duty which is set to replace the current machine taxes of Amusement Machine Licence Duty and VAT. Formal consultations are planned by Government with regard to the regulation and taxation of offshore remote gambling operators, and Government is also progressing the modernisation of the Horserace Betting Levy.

We are also actively engaged with MPs in both parties to demonstrate the positive contribution betting shops make on the High Street, with the aim of retaining the current planning and licensing framework regarding betting shops.

Growing our presence in regulating markets overseas
Whilst the primary focus of the business is on ensuring key investments and initiatives enhance our position in our main UK market we remain alert to opportunities in regulated markets overseas.

In Europe we have launched a Danish betting and gaming website ladbrokes.dk under the new regulations and have a local team to help us develop and market our Danish offer. We have also applied for a licence for a Spanish Internet service lbapuesta.es which is expected to launch when the new regulatory system is finalised by the incoming Spanish Government. We continue to accrue for gaming tax in relation to this.

Further afield, Ladbrokes' Joint Venture in China with Asia Gaming Technologies (AGT) has launched a virtual motor racing game in the Chinese province of Hunan. The service which is available in over 1,500 shops means Ladbrokes is one of the few companies to be operating in the regulated Chinese market. Further products are planned and the existing game has the potential to expand within Hunan and other Chinese provinces depending on Sports Lottery Administration Centre approval.

In the US we have recently signed an agreement to acquire a majority stake in Stadium Technology Group, a Las Vegas based supplier of software and In Play betting applications to sportsbook operators. This relatively small investment of $3 million comes at a time when a number of states are exploring the liberalisation of betting and gaming. The potential for regulatory change and the size of the US market make it a sensible time to establish a presence.

Current trading and outlook

In the period from 1 January 2012 to 7 February 2012 Group net revenue (excluding High Rollers) was up 14.7%.

UK Retail net revenue was up 13.0% year on year with strong growth in both OTC and machines. OTC amounts staked were down 2.1%, though this was driven by a high number of horseracing cancellations in the first week of February. OTC amounts staked for January were up 1.0%.

In Digital, net revenue was up 13.1% with continued double digit growth in sign ups and actives in both sportsbook and casino.

High Rollers for the period generated an operating profit of £0.6 million.

Whilst the uncertain consumer outlook in the UK remains a concern the Board is encouraged by the resilience of the UK Retail estate and early signs of growth in Digital. We look forward to completing the second part of our investment programme during 2012 and continuing the reinvigoration of Ladbrokes.

Audited results for the year ended 31 December 2011

Continuing operations	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Net revenue by division:		
UK Retail	683.3	665.2
European Retail	124.1	125.8
Digital	163.4	169.4
Core Telephone Betting	9.5	16.2
Group net revenue (exc. High Rollers)	980.3	976.6
High Rollers	(4.2)	3.5
Group net revenue	976.1	980.1
Operating profit(1)(2) (exc. High Rollers)	193.5	202.3
Operating (loss)/profit(1)(2) from High Rollers	(3.2)	5.0
Amortisation of customer relationships	(2.6)	-
Profit before net finance expense, tax and non-trading items	187.7	207.3
Net finance expense(2)	(32.8)	(34.0)
Interest income on tax settlement	-	20.0
Profit before tax and non-trading items(2)	154.9	193.3
Non-trading items before tax(3)	(20.3)	(46.2)
Profit before tax	134.6	147.1
Income tax expense	(16.8)	(33.6)
Income tax settlement credit	-	261.9
Profit after tax – continuing operations	117.8	375.4
Profit/(loss) after tax – discontinued operations	0.4	(27.1)
Profit for the year	118.2	348.3

EBITDA(2) – continuing	238.5	260.8
Basic earnings per share(2) – continuing	15.0p	46.4p
Basic earnings per share(2) (excluding tax settlement credit in 2010) – continuing	15.0p	15.6p

(1) *Profit before tax, finance expense, non-trading items and amortisation of customer relationships.*

(2) *Before non-trading items and discontinued operations.*

(3) *Non-trading 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 and business restructuring costs.*

Business Review

UK Retail

UK	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	*Year on year change %*
- OTC amounts staked	2,477.3	2,461.6	*0.6*
- Machines amounts staked	10,482.8	9,218.5	*13.7*
Amounts staked	12,960.1	11,680.1	*11.0*
- OTC gross win	392.8	417.0	*(5.8)*
- Machines gross win	360.9	302.8	*19.2*
Gross win	753.7	719.8	*4.7*
Adjustments to GW (1)	(70.4)	(54.6)	*(28.9)*
- OTC net revenue	384.9	409.2	*(5.9)*
- Machines net revenue	298.4	256.0	*16.6*
Net revenue	683.3	665.2	*2.7*
Gross profits tax	(57.5)	(61.2)	*6.0*
Associate income	2.4	3.8	*(36.8)*
Operating costs	(475.9)	(458.7)	*(3.7)*
Operating profit (2)	152.3	149.1	*2.1*

(1) Fair value adjustments, free bets and VAT
(2) Before non-trading items
(3) Greyhound tracks account for £11.0 million of amounts staked and £7.1 million of gross win in 2011 (2010: £10.3 million of amounts staked and £6.5 million of gross win)

OTC activity has been resilient throughout 2011 with stake per slip broadly flat and amounts staked marginally up by 0.6%. Whilst the growth in stakes benefited in the year from fewer race meeting abandonments (68 meetings lost in Q4 2010 versus only two in Q4 2011), this was largely offset by the lack of a major football tournament. Amounts staked adjusting for these factors was down by 0.3%.

OTC gross win declined by 5.8% to £392.8 million driven by a decline in gross win margin and the lack of a major football tournament in the year (the World Cup in 2010 generated gross win of £15.3 million). The gross win margin of 15.6% was 1.1 percentage points lower than 2010 and 0.9 percentage points lower than the five year margin average. This was as a result of comparatively poor football results in Q4 2011 and a low horse margin due to smaller field sizes, a lower over-round per runner and a higher than average proportion of winning favourites.

OTC net revenue decline was 5.9% with OTC free bets increasing by 1.3% or £0.1 million in 2011.

We have significantly improved our machine performance in 2011, building upon the strong operational improvements made in H2 2010. We completed the rollout of the new Global Draw terminals to all shops in the retail estate in May 2011, minimising both the length and impact of any adoption lag. The 2011 gross win of £360.9 million was 19.2% ahead of 2010 with momentum evident in the H2 uplift of 23.2%. Gross win per terminal week grew to £860 in 2011 (2010: £730), an increase of 17.8%.

In 2011 there were on average 8,050 terminals in the estate versus 7,953 in 2010. At 31 December 2011 there were 8,128 machines.

We expect to continue our progress in 2012 through the increasing use of yield management techniques, further improvements to content from additional exclusive games launches and the growing ability to personalise our machines offer, with the planned rollout of Odds On to machines scheduled for H2 2012.

Despite a higher VAT rate, net revenue from machines grew 16.6%.

Operating costs grew £17.2 million in the year to £475.9 million, a rise of 3.7%. Costs were up 2.4% allowing for the impact of new shop openings whilst 2010 benefitted from a one off additional VAT recovery of £6.7 million. Adjusting for this, underlying costs were up only 0.9% or £4.3 million, demonstrating consistent discipline, despite cost headwinds.

This has been achieved despite a 7% increase in total shop opening hours which have been extended across 2011 as part of our overall plan to drive competitiveness and market share.

Operating profit before non-trading items for the year was up 2.1% (7.0% adjusting for 2010 VAT credit) at £152.3 million.

At 31 December 2011 there were 2,127 shops (31 December 2010: 2,098) in Great Britain. During the year we opened 50 new shops and closed 21. In 2012 we are planning for 60 openings.

European Retail

Operating profit [1] within European Retail declined by £0.5 million or 3.6% to £13.4 million. European Retail comprises our operations in Ireland, Belgium and Spain. These are discussed in more detail below.

Ireland

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	*Year on year change %*
- OTC amounts staked	598.3	556.6	*7.5*
- Machines amounts staked	149.2	121.4	*22.9*
Amounts staked	747.5	678.0	*10.3*
- OTC gross win	75.7	75.0	*0.9*
- Machines gross win	5.7	4.9	*16.3*
Gross win	81.4	79.9	*1.9*
Net revenue	79.2	77.7	*1.9*
Betting tax	(7.9)	(7.4)	*(6.8)*
Operating costs	(62.1)	(59.4)	*(4.5)*
Operating profit [1]	9.2	10.9	*(15.6)*

[1] Before non-trading items

OTC amounts staked have continued to grow in Ireland, up 7.5% (H1: 5.3%) despite a tough economy and extremely competitive market in the Republic of Ireland in particular.

Total gross win in Ireland increased by 1.9% to £81.4 million with machines and OTC up 16.3% and 0.9% respectively year on year. The OTC gross win margin of 12.7% was 0.8 percentage points behind 2010 with tough horse margins affected predominantly by the major festivals in H1.

Faced with the current economic downturn we have focused on local competition and a drive to increase market share in the Republic of Ireland, as well as maintaining a tight control on costs across the whole Irish estate. Operating costs of £62.1 million were up 4.5% on 2010 driven primarily by the acquisition of 10 new shops at the start of the year.

At 31 December 2011 there were 213 shops (31 December 2010: 208) in the Republic of Ireland and 79 shops (31 December 2010: 78) in Northern Ireland. During the year, we opened two new shops acquired 10 and closed six.

Belgium

	Year ended 31 December 2011	Year ended 31 December 2010	*Year on year change*
	£m	£m	*%*
Amounts staked	175.5	143.0	*22.7*
Net revenue	44.9	48.1	*(6.7)*
Betting tax	(7.4)	(16.8)	*56.0*
Gross profit	37.5	31.3	*19.8*
Operating costs	(30.9)	(26.5)	*(16.6)*
Operating profit (1)	6.6	4.8	*37.5*

(1) Before non-trading items

The performance of the Belgium business has been predominantly driven by a change in tax regime from a turnover tax to a 15% gross profits tax. This was introduced from 1 January 2011 in Flanders and Wallonia and in Brussels from 1 April 2011. This change was fully passed on to customers and we have seen amounts staked increase steadily throughout the year with an expected decrease in net revenue more than offset by the decline in betting tax. Gross profit in 2011 increased by £6.2 million.

Operating costs were up in the year by £4.4 million. This was driven by an increase in content costs and higher commission based payments to our independent shop managers following the positive impact of the tax change.

Operating profit for 2011 increased 37.5% to £6.6 million.

At 31 December 2011 there were 282 shops versus 288 at 31 December 2010.

Spain

	Year ended 31 December 2011	Year ended 31 December 2010	*Year on year change*
	£m	£m	*%*
Operating loss (1)	(2.4)	(1.8)	*(33.3)*

(1) Before non-trading items

The performance in Spain for 2011 includes start up costs associated with our expansion beyond Madrid into Aragon in the year, where trading commenced at the end of April. We expect to begin trading in both Valencia and Navarra during H1 2012.

The Spanish economy continues to be difficult and performance has also been impacted by the introduction of a national smoking ban which was introduced on 2 January 2011. Despite the challenging market, Sportium remains the market leader in Madrid. Amounts staked in Madrid grew 8.1% in the year and the business generated a gross win margin of 18.4%.

At 31 December 2011 there were 169 corners (105 Madrid, 64 Aragon) (2010: 91 corners) and 18 standalone shops (Madrid Only) (2010: 15 shops).

Digital

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	*Year on year Change %*
Net revenue			
- Sportsbook	61.7	65.1	*(5.2)*
- Casino	56.9	55.3	*2.9*
- Poker	14.2	18.8	*(24.5)*
- Bingo	14.0	13.7	*2.2*
- Games	16.6	16.5	*0.6*
Net revenue	163.4	169.4	*(3.5)*
Betting tax	(0.4)	-	*n/a*
Operating costs	(108.0)	(106.7)	*(1.2)*
Operating profit [(1)]	55.0	62.7	*(12.3)*

[(1)] Before non-trading items and amortisation of £2.6 million (2010:£nil) in respect of customer relationships.

2011 has been a year of transition for the Digital business. Throughout the year we have been working towards developing a more competitive offer through increased investment in technology, Digital marketing and the delivery of broader and better content through new and existing supplier arrangements.

Digital net revenue fell by £6.0 million (3.5%) to £163.4 million (2010 included £6.8 million from the World Cup) with operating profit down 12.3% at £55.0 million. This has been driven by the continued decline of poker and a weak sportsbook margin, particularly in Q4 which was affected by a high proportion of winning favourites in horseracing and generally unfavourable football results.

Active players grew by 9.9% driven by growth in sportsbook and casino being partially offset by a decline in poker and bingo. Sign ups have increased by 11.0% with strong H2 growth supported by increased investment in Digital marketing, including a new TV campaign which started in August.

Costs were up 1.2% for the full year, with H2 costs up 6.2%, reflecting the increase in marketing investment year on year after the start of the new campaign. Digital operating profit overall was £7.7 million (12.3%) below 2010 at £55.0 million.

Sportsbook net revenue of £61.7 million was 5.2% behind 2010 (5.8% ahead adjusting for £6.8 million World Cup revenue in 2010). This decline was largely driven by a lower gross win margin which was down 0.5 percentage points to 6.0% due to weaker horse and football margins, particularly in Q4. Amounts staked grew 6.4% for the year as a whole, with strong progression in H2 after the commencement of increased investment in a new Digital marketing campaign, which included new TV advertising to support the brand. Amounts staked, 0.6% down in H1, grew 6.4% in Q3 and 22.2% in Q4 (41% up for UK only). Growth in sportsbook actives has shown a similar pattern, up 11.2% for the year, but 24.1% in Q4.

Our investment during the year in a new pricing and trading platform enabled us to offer significantly more Bet in Play markets. The number of football events traded per week reached over 700 in October. We will grow our Bet in Play offering further in 2012 supported by the launch of the new online sportsbook in Q1. Bet in Play amounts staked grew 13.4% in the year, 19.8% in H2 and now represent 49% of non racing activity (2010: 42%).

Casino net revenue grew 2.9% with active players growing 14.4% driven primarily by H2 marketing campaigns including a free spins offer. Yield per customer declined 10.2% vs. 2010 due to an increase in lower yielding actives together with volatility in contributions from higher value customers.

Poker net revenue fell by 24.5% to £14.2 million as the market place remains challenging. Active players declined 16.2% with yield falling by 10.5%. We will be reviewing our poker offer in 2012, with a view to improving our competitive position in what is a tough market.

Bingo net revenue grew 2.2% to £14.0 million with active players declining 7.1% offset by a 9.3% increase in yield supported by a new customer loyalty scheme.

Games net revenue increased by 0.6% with active players growing 5.0% driven in H2 by new games content including Rainbow Riches and Monopoly.

Mobile continues to grow strongly with revenue growth up 174% to £15.6 million - sportsbook: £10.5 million (up 144%) and casino: £5.1 million (up 264%). Overall 22% of Digital players transacted through mobile in 2011, with a third of sportsbook customers using mobile in H2 (FY 2010: 12%). Mobile is a key growth area in the overall digital market and we will continue to focus on improving our customer offer, with more apps, more casino games and a new mobile platform all scheduled for H1 2012.

Core Telephone Betting

	Year ended 31 December 2011	Year ended 31 December 2010	*Year on year Change*
	£m	£m	*%*
Amounts staked	276.5	271.1	*2.0*
Net revenue	9.5	16.2	*(41.4)*
Gross profits tax	(1.4)	(2.5)	*44.0*
Operating costs	(12.1)	(14.1)	*14.2*
Operating loss [1]	(4.0)	(0.4)	*n/a*

[1] Before non-trading items

Difficult trading in the year, driven particularly by football results in H1, meant the Core Telephone Betting business has struggled in 2011. Net revenue was down 41.4% or £6.7 million. This shortfall was partially offset by a reduction in operating costs as we continue to rationalise the call centre. The overall loss for the year was £4.0 million.

High Rollers

High Rollers for the year generated an operating loss of £3.2 million (2010: £5.0 million profit).

Financial Review

Trading summary – Continuing operations

Revenue recognition – reconciliation to gross win

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

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Gross win	1,078.5	1,059.3
Adjustments [1]	(41.3)	(33.5)
VAT	(61.1)	(45.7)
Revenue	976.1	980.1

[1] Includes free bets, promotions, bonuses and other fair value adjustments.

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

	Year ended 31 December 2011		Year ended 31 December 2010	
	Gross win £m	Net revenue £m	Gross win £m	Net revenue £m
UK Retail	753.7	683.3	719.8	665.2
European Retail	126.3	124.1	128.0	125.8
Digital	192.7	163.4	192.5	169.4
Core Telephone Betting	9.9	9.5	16.4	16.2
High Rollers	(4.1)	(4.2)	2.6	3.5
Total	1,078.5	976.1	1,059.3	980.1

Revenue

Revenue from continuing operations decreased by £4.0 million (0.4%) to £976.1 million (2010: £980.1 million). Excluding High Rollers activity, revenue increased by £3.7 million (0.4%) to £980.3 million (2010: £976.6 million) mainly as a result of improved machines performance in the UK Retail estate.

Profit before net finance expense, tax and non-trading items

Profit before net finance expense, tax and non-trading items decreased by £19.6 million (9.5%) to £187.7 million (2010: £207.3 million).

Excluding High Rollers activity, profit before net finance expense, tax, non-trading items and amortisation of customer relationships decreased by £8.8 million (4.3%) to £193.5 million (2010: £202.3 million) reflecting the improved machines performance offset by weaker OTC and sportsbook margins and a one-off VAT credit in 2010.

Corporate costs

Before non-trading items, corporate costs rose £0.2 million (0.9%) to £23.2 million (2010: £23.0 million). The increase largely reflects non-cash costs relating to long term share incentive schemes partially offset by lower costs elsewhere.

Amortisation of customer relationships
In 2011 there was a £2.6 million amortisation charge within Digital in respect of customer relationships (2010: £nil) as disclosed at the interims.

Finance expense
The net finance expense before non-trading items of £32.8 million was £1.2 million lower than last year (2010: £34.0 million) mainly reflecting lower average net debt. In 2010, there was also interest income of £20.0 million in respect of an interest rebate following the HMRC tax settlement.

Profit before tax
The decrease in trading profits as well as a higher overall finance expense, due to the one off interest rebate in 2010, has resulted in a 19.9% decrease in profit for continuing operations before tax and non-trading items to £154.9 million (2010: £193.3 million).

Non-trading items before tax
£20.3 million of continuing non-trading items before tax include an impairment charge in European Retail of £10.9 million, £1.9 million loss on the closure of shops and disposal of assets within UK and European Retail and £2.6 million relating to corporate transaction costs. Additionally, £4.4 million of restructuring costs were incurred across the Group. These relate to the re-organisation of the Group to a new cross-channel and customer centric structure.

Following the termination of the Group's interest rate swaps in April 2010, the remaining £0.5 million of losses deferred in equity have been recycled to the income statement as a non-trading finance expense.

Taxation
The Group has made progress in the resolution of historic tax matters and has released tax provisions no longer required. This has led to a taxation charge for continuing operations before non-trading items of £18.4 million, representing an effective tax rate of 11.9% (2010: 18.4%, excluding the 2010 corporation tax settlement described below). There was a tax credit of £1.6 million in relation to non-trading items in 2011 (2010: £2.0 million).

Assuming the corporation tax rate reductions, previously announced are enacted, our P&L guidance is 13% for 2012 and will remain at this level thereafter. The cash tax rate is anticipated to be circa 13%.

In 2010 the Group reached a settlement with HMRC which resulted in the recognition in the 2010 income statement of a £261.9 million tax credit in relation to prior years.

Dividend
The Board today announces a final dividend of 3.90 pence per share taking the full year dividend to 7.80 pence per share, an increase of 2.6% over last year. This dividend is approximately 2.0 times covered by underlying earnings excluding the impact of High Rollers.

The dividend will be payable on 26 April 2012 to shareholders on the register on 16 March 2012.

Earnings per share (EPS) – Continuing operations

Underlying
EPS (before non-trading items, High Rollers and excluding the benefit of the corporation tax settlement in the comparative period) increased by 0.7% to 15.3 pence (2010: 15.2 pence), reflecting a lower net finance expense and an improved rate of corporation tax.

Total
EPS (before non-trading items) decreased 67.7% to 15.0 pence (2010: 46.4 pence), reflecting the benefit of the corporation tax settlement 2010. EPS (including the impact of non-trading items) was 13.0 pence (2010: 41.5 pence). Fully diluted EPS (including the impact of non-trading items) was 12.9 pence (2010: 41.4 pence) after adjustment for outstanding share options.

Earnings per share (EPS) – Group

Underlying
EPS (before non-trading items, High Rollers and excluding the benefit of the corporation tax settlement in the comparative) increased 7.7% to 15.3 pence (2010: 14.2 pence), reflecting the losses from discontinued operations in 2010.

Total
EPS (before non-trading items) decreased 67.0% to 15.0 pence (2010: 45.4 pence), reflecting the benefit of the corporation tax settlement in 2010. EPS (including the impact of non-trading items) was 13.0 pence (2010: 38.5 pence). Fully diluted EPS (including the impact of non-trading items) was 12.9 pence (2010: 38.4 pence) after adjustment for outstanding share options.

Cash flow, capital expenditure, borrowings and banking facilities
Cash generated by operations was £240.4 million. After net finance expense paid of £36.0 million, income taxes paid of £18.1 million and £77.3 million on capital expenditure and intangible additions, cash inflow was £109.0 million. Post dividend payment of £69.0 million and other outflows of £1.9 million, free cash flow of £38.1 million was generated in the year.

At 31 December 2011, gross borrowings of £480.3 million less cash and short term deposits of £26.4 million has resulted in a net debt of £453.9 million (2010: £492.0 million).

During the year the Group signed new five year facilities with its relationship banks totalling £540 million which will mature in 2016. These replace the existing arrangements which total £560 million and had been due to mature in 2013. The Group has a further £225 million bond which matures in 2017.

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.

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 16 to 18 of the Group's Annual Report and Accounts 2011 and are as follows:

Strategy

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

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

Marketplace

Changes in the economic environment and consumer leisure spend.

Financial

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

Operational

The recruitment and retention of key talent and the execution of international expansion.

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

Marketplace

Competition

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

Betting and gaming industry

Taxes, laws, regulations and licensing

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

Increased cost of product

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

Operational and bookmaking

Bookmaking

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.

Sporting schedules and cancellations

There are certain high profile sporting events which attract significant betting activity e.g. the Grand National and the FIFA Football World Cup. Cancellation or curtailment of such events, for example due to adverse weather conditions, or the failure of certain sporting teams to qualify for sporting events, can adversely impact Ladbrokes' results.

High fixed cost base

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

Loss of key locations

Ladbrokes has a number of key sites, in particular Imperial House at Rayners Lane in London, its head office and main operations centre, and its premises in Europort in Gibraltar where the online betting and gaming operations are based.

Information technology and communications

Technology changes

The market for online 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.

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 disclosure

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.

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 our operations.

Statement of Directors' Responsibilities

The following statements are extracted from pages 44 and 101 of the Annual Report and Accounts 2011 and are repeated here for the purposes of compliance with DTR 6.3.5. These statements relate solely to the Annual Report and Accounts 2011 and are not connected to the extracted information set out in this announcement or the Preliminary Announcement.

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

Each of the directors, whose names and functions are listed in pages 22 and 23 of the Annual Report and Accounts 2011, confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

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

Each of the directors, whose names and functions are listed in pages 22 and 23 of the Annual Report and Accounts 2011, confirm that, to the best of each person's knowledge and belief:

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

By order of the Board

R I Glynn I A Bull

16 February 2012

Consolidated income statement

	Year ended 31 December 2011		Year ended 31 December 2010	
	Before non-trading items[1] £m	Total £m	Before non-trading items[1] £m	Total £m
Continuing operations				
Amounts staked[2]	16,466.7	16,466.7	15,011.7	15,011.7
Revenue	976.1	976.1	980.1	980.1
Cost of sales before depreciation and amortisation	(655.7)	(656.7)	(639.7)	(639.7)
Administrative expenses	(82.9)	(89.9)	(82.9)	(92.0)
Share of results from joint venture and associates	1.0	1.0	3.3	3.3
EBITDA	238.5	230.5	260.8	251.7
Depreciation, amortisation and amounts written off non-current assets	(50.8)	(62.6)	(53.5)	(72.9)
Profit before tax and net finance expense	187.7	167.9	207.3	178.8
Finance expense	(33.4)	(34.0)	(34.6)	(53.1)
Finance income[3]	0.6	0.7	20.6	21.4
Profit before tax	154.9	134.6	193.3	147.1
Income tax expense	(18.4)	(16.8)	(35.6)	(33.6)
Income tax settlement credit[3]	-	-	261.9	261.9
Profit for the year – continuing operations	136.5	117.8	419.6	375.4
Discontinued operations				
Profit/(loss) for the year from discontinued operations	-	0.4	(8.7)	(27.1)
Profit for the year	136.5	118.2	410.9	348.3
Attributable to:				
- equity holders of the parent	136.5	118.2	410.9	348.3
- non-controlling interests	-	-	-	-
Earnings per share from continuing operations:				
- basic	15.0p	13.0p	46.4p	41.5p
- diluted	14.9p	12.9p	46.3p	41.4p
Earnings per share on profit for the year:				
- basic	15.0p	13.0p	45.4p	38.5p
- diluted	14.9p	12.9p	45.3p	38.4p
Proposed dividends[4]	3.90p	3.90p	3.75p	3.75p

[1] *Non-trading 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 and business restructuring costs. Details of the non-trading items are given in note 4 and of discontinued operations in note 6 to the financial statements.*

[2] *Amounts staked does not represent the Group's statutory revenue and comprises the total amounts staked by customers on betting and gaming activities.*

[3] *In the prior year the Group reached a settlement with HMRC resulted in the recognition within the tax charge of a £261.9 million tax credit in relation to prior years. Finance income also increased by £20.0 million to reflect the interest income on the settlement.*

[4] *A final dividend of 3.90p (2010: 3.75p) per share, amounting to £35.2 million (2010: £33.8 million) was declared by the directors on 16 February 2012. The 2011 interim dividend of 3.90 pence per share (£35.2 million) was paid on 1 December 2011.*

Consolidated statement of comprehensive income

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Profit for the year	118.2	348.3
Currency translation differences	(2.5)	(7.5)
Recycling of currency translation differences	-	(10.8)
Total foreign currency translation expense	(2.5)	(18.3)
Actuarial (losses)/gains on defined benefit pension scheme	(3.7)	15.6
Tax on actuarial (losses)/gains on defined benefit pension scheme	0.9	(4.2)
Total actuarial (losses)/gains on defined benefit pension scheme, net of tax	(2.8)	11.4
Net losses on cash flow hedges	-	(0.4)
Tax on net losses on cash flow hedges	-	0.1
Total net losses on cash flow hedges, net of tax	-	(0.3)
Recycling of losses on cash flow hedges	0.5	9.1
Tax on recycling of losses on cash flow hedges	(0.1)	(2.5)
Total recycling of losses on cash flow hedges, net of tax	0.4	6.6
Other comprehensive expense for the year, net of tax	(4.9)	(0.6)
Total comprehensive income for the year	113.3	347.7
Attributable to:		
- equity holders of the parent	113.3	347.7
- non-controlling interests	-	-

Consolidated balance sheet

	Notes	31 December 2011 £m	31 December 2010 £m
ASSETS			
Non-current assets			
Goodwill and intangible assets		629.4	610.1
Property, plant and equipment		201.2	207.4
Interest in joint venture		4.3	3.0
Interest in associates and other investments		14.7	14.5
Other financial assets		9.1	5.6
Deferred tax assets		34.9	69.3
Retirement benefit asset		37.4	34.5
		931.0	944.4
Current assets			
Trade and other receivables		80.5	84.6
Cash and short-term deposits	10	26.4	17.9
		106.9	102.5
TOTAL ASSETS		**1,037.9**	**1,046.9**
LIABILITIES			
Current liabilities			
Interest bearing loans and borrowings	10	(131.4)	(108.3)
Derivatives		(0.1)	-
Trade and other payables		(142.7)	(134.4)
Corporation tax liabilities		(0.7)	(26.2)
Other financial liabilities		(1.0)	(1.1)
Provisions		(4.3)	(1.3)
		(280.2)	(271.3)
Non-current liabilities			
Interest-bearing loans and borrowings	10	(348.9)	(401.6)
Other financial liabilities		(10.4)	(10.8)
Deferred tax liabilities		(82.3)	(93.3)
Provisions		(9.4)	(12.9)
		(451.0)	(518.6)
TOTAL LIABILITIES		**(731.2)**	**(789.9)**
NET ASSETS		**306.7**	**257.0**
SHAREHOLDERS' EQUITY			
Issued share capital		266.2	266.1
Share premium		194.6	194.1
Treasury and own shares		(113.3)	(114.4)
Retained earnings		(49.5)	(99.7)
Foreign currency translation reserve		8.0	10.5
Equity shareholders' funds		**306.0**	**256.6**
Non-controlling interests		0.7	0.4
TOTAL SHAREHOLDERS' EQUITY		**306.7**	**257.0**

Consolidated statement of changes in equity

	Issued share capital	Share premium	Treasury and own shares	Retained earnings [1]	Foreign currency translation reserve[2]	Attributable to the equity shareholders of the Company	Non-controlling interest	Total share-holders equity
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2010	264.6	189.5	(112.5)	(430.8)	28.8	(60.4)	-	(60.4)
Profit for the year	-	-	-	348.3	-	348.3	-	348.3
Other comprehensive income/(expense)	-	-	-	17.7	(18.3)	(0.6)	-	(0.6)
Total comprehensive income	-	-	-	366.0	(18.3)	347.7	-	347.7
Issue of shares	1.5	4.6	-	-	-	6.1	-	6.1
Share-based payments charge	-	-	-	3.8	-	3.8	-	3.8
Net movement in shares held in ESOP trusts	-	-	(1.9)	(4.0)	-	(5.9)	-	(5.9)
Equity dividends	-	-	-	(34.7)	-	(34.7)	-	(34.7)
Non-controlling interests	-	-	-	-	-	-	0.4	0.4
At 31 December 2010	266.1	194.1	(114.4)	(99.7)	10.5	256.6	0.4	257.0
At 1 January 2011	266.1	194.1	(114.4)	(99.7)	10.5	256.6	0.4	257.0
Profit for the year	-	-	-	118.2	-	118.2	-	118.2
Other comprehensive expense	-	-	-	(2.4)	(2.5)	(4.9)	-	(4.9)
Total comprehensive income	-	-	-	115.8	(2.5)	113.3	-	113.3
Issue of shares	0.1	0.5	-	-	-	0.6	-	0.6
Share-based payments charge	-	-	-	6.6	-	6.6	-	6.6
Net movement in shares held in ESOP trusts	-	-	1.1	(3.2)	-	(2.1)	-	(2.1)
Equity dividends	-	-	-	(69.0)	-	(69.0)	-	(69.0)
Non-controlling interests	-	-	-	-	-	-	0.3	0.3
At 31 December 2011	**266.2**	**194.6**	**(113.3)**	**(49.5)**	**8.0**	**306.0**	**0.7**	**306.7**

[1] At 31 December 2011, there were no deferred losses on cash flow hedges within retained earnings (2010: £0.5 million).
[2] 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 2011 £m	Year ended 31 December 2010 £m
Net cash generated from operating activities	11	186.0	277.0
Cash flows from investing activities:			
Interest received		0.3	12.2
Dividends received from associates		1.6	-
Payments for intangible assets		(39.9)	(15.9)
Purchase of property, plant and equipment		(37.4)	(32.9)
Proceeds from the sale of property, plant and equipment		1.4	1.4
Proceeds from the sale of intangible assets		-	4.3
Purchase of interest in joint venture		(2.5)	(0.8)
Purchase of interest in associates and other investments		-	(0.2)
Costs of disposal of discontinued operations		-	(2.7)
Cash consideration in respect of sale of discontinued operations		-	(0.9)
Cash disposed with discontinued operations		-	(3.1)
Net cash used in investing activities		(76.5)	(38.6)
Cash flows from financing activities:			
Proceeds from issue of shares		0.4	-
Proceeds from borrowings, net of issue costs		126.9	221.1
Purchase of ESOP shares		(2.1)	-
Repayment of borrowings[(1)]		(157.0)	(435.1)
Dividends paid	7	(69.0)	(34.7)
Net cash used in financing activities		(100.8)	(248.7)
Net increase/(decrease) in cash and cash equivalents		8.7	(10.3)
Cash and cash equivalents at beginning of the year		17.7	28.0
Cash and cash equivalents at end of the year		26.4	17.7
Cash and cash equivalents comprise:			
Cash at bank and in hand		26.4	17.9
Bank overdraft		-	(0.2)
		26.4	17.7

[(1)] *In the prior year, repayment of borrowings comprises a £118.6 million repurchase of the 2012 bond, HKD 200 million private placement (£17.0 million), £289.9 million of bank loans and £9.6 million on early settlement of interest rate swaps.*

Notes to financial information

1. Corporate information

Ladbrokes plc ('the Company') is a limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded. The 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 2011 were authorised for issue in accordance with a resolution of the directors on 16 February 2012.

2. Basis of preparation

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

(b) The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. The consolidated financial statements have been prepared in accordance with the accounting policies followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2011.

The financial information set out in this document does not constitute the Group's statutory accounts for the year ended 31 December 2011 or 31 December 2010. The annual report and financial statements for the year ended 31 December 2011 were approved by the Board of Directors on 16 February 2012 along with this preliminary announcement, but have not yet been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the year ended 31 December 2011 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 2010 have been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the year ended 31 December 2010 was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The 2011 annual report and financial statements, together with details of the Annual General Meeting, will be despatched to shareholders on 7 March 2012. The Annual General Meeting will take place at the QE2 Conference Centre at 11am on 19 April 2012.

(c) To assist in understanding its underlying performance, the Group has defined the following items of income and expense as non-trading 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
- business restructuring costs.

The non-trading items have been included within the appropriate classifications in the consolidated income statement.

(d) Changes in accounting policies

The following standards were effective for the Group's accounting period beginning on 1 January 2011 and where relevant have been adopted in this financial information. They have not had a material impact on the results or financial position of the Group. In addition, the Group commenced amortisation of the customer relationships intangible asset in the year.

Notes to financial information

2. Basis of preparation (continued)

(d) Changes in accounting policies (continued)

The revision of IAS 24 Related party disclosures simplified the disclosure requirements for government-related entities and clarified the definition of a related party. It clarified that non-executive directors should be included in the disclosure of key management personnel compensation and the related party definition now includes parties with joint control over the entity and joint ventures in which the entity is a venture.

The amendment to IAS 32 Financial Instruments: Presentation on classification of rights issue addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments under certain conditions.

The amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement provides guidance on assessing the recoverable amount of a net pension asset and permits an entity to treat the prepayment of a minimum funding requirement as an asset.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss.

The following new standards, interpretations and amendments have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted. The Group is currently assessing their impact on its financial statements:

- Amendment to IAS 12 Income Taxes
- Amendment to IAS 1 Presentation of Financial Statements
- IFRS 9 Financial Instruments – Classification and Measurement
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities
- IFRS 13 Fair Value Measurement
- Amendment to IAS 19 Employee Benefits
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- Amendment to IFRS 7 Financial Instruments

Notes to financial information

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.

In September 2011, the Group reorganised its internal operating structure into three main business units: Product, Customer and Channels. However, 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 following 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 (North and South), Belgium and Spain shop estates.
- Digital: comprises betting and gaming activities from online and mobile operations.
- Core Telephone Betting: comprises activities relating to bets taken on the telephone, excluding High Rollers.
- High Rollers: comprises activities relating to bets taken on the telephone from High Rollers.

Discontinued operations comprise Hotels in both years and Italy Retail in the prior year.

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

The segment results for the year ended 31 December 2011 were as follows:

	Revenue £m	Profit before tax and non-trading items £m	Profit before tax and after non-trading items £m
Continuing operations:			
UK Retail	683.3	152.3	149.7
European Retail	124.1	13.4	1.3
Digital[1]	163.4	52.4	51.0
Core Telephone Betting	9.5	(4.0)	(4.6)
High Rollers	(4.2)	(3.2)	(3.2)
Segment revenue and profit	976.1	210.9	194.2
Corporate costs		(23.2)	(26.3)
Profit before tax and net finance expense		187.7	167.9
Net finance expense		(32.8)	(33.3)
Profit before tax		154.9	134.6
Discontinued operations (note 6):			
Hotels	-	-	0.4
Profit before tax		-	0.4
Group revenue and profit	976.1	154.9	135.0

[1] *Included within the profit before tax and before and after non-trading items in the Digital segment is £2.6 million of amortisation relating to customer relationships which is excluded from the non-statutory operating profit measure.*

Notes to financial information

3. Segment information (continued)

The segment results for the year ended 31 December 2010 were as follows:

	Revenue	Profit before tax and non-trading items	Profit before tax and after non-trading items
	£m	£m	£m
Continuing operations:			
UK Retail	665.2	149.1	135.6
European Retail	125.8	13.9	8.3
Digital	169.4	62.7	58.2
Core Telephone Betting	16.2	(0.4)	(0.4)
High Rollers	3.5	5.0	5.0
Segment revenue and profit	980.1	230.3	206.7
Corporate costs		(23.0)	(27.9)
Profit before tax and net finance expense		207.3	178.8
Interest income on corporation tax settlement		20.0	20.0
Net finance expense		(34.0)	(51.7)
Profit before tax		193.3	147.1
Discontinued operations (note 6):			
Italy Retail	8.3	(9.1)	(27.7)
Hotels	-	-	1.2
Loss before tax		(9.1)	(26.5)
Group revenue and profit	988.4	184.2	120.6

Notes to financial information

4. Non-trading items

Continuing operations:	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Business restructuring costs[(1)]	(4.4)	(7.4)
Corporate transaction costs[(2)]	(2.6)	(0.7)
Impairment loss[(3)]	(10.9)	(9.2)
Loss on closure of UK Retail shops[(4)]	(1.2)	(3.0)
Loss on closure of European Retail shops	(0.7)	(0.1)
Termination of machines contract	-	(8.1)
Bond and interest rate swaps termination costs[(5)]	(0.5)	(17.7)
Total non-trading items before tax	(20.3)	(46.2)
Non-trading tax credit	1.6	2.0
Non-trading items after tax	(18.7)	(44.2)

Non-trading items relating to discontinued operations are shown in note 6.

[(1)] Business restructuring costs in 2011 of £4.4 million related mainly to the reorganisation of the Group to a new cross-channel, centralised structure. Business restructuring costs in 2010 of £7.4 million related to a strategic review resulting in changes to senior executives and operational structures.

[(2)] The Group incurred £2.6 million (2010: £0.7 million) in relation to corporate transaction costs reported within Corporate costs. These costs related to potential acquisition projects that took place throughout the financial year.

[(3)] The impairment loss of £10.9 million during the year related to Ireland shops. In the year ended 31 December 2010, the impairment loss related to Ireland shops of £5.3 million, UK Retail shops of £2.0 million and £1.9 million losses in relation to the withdrawal from the French joint venture with Groupe Canal+.

[(4)] The £1.2 million loss on closure of UK Retail shops and £0.7 million loss on closure of European Retail shops consists of loss on disposal of intangible assets of £0.3 million (2010: £2.6 million), loss on disposal of property, plant and equipment of £0.6 million (2010: £0.5 million) and cost accruals of £1.0 million (2010: £nil).

[(5)] Following the termination of the Group's interest rate swaps in 2010, the remaining £0.5 million of losses deferred in equity have been recycled to the income statement as a non-trading finance expense to match the interest payments on the underlying borrowings. During 2010, the Group repurchased £118.6 million of the £250 million 7.125% bonds due 2012 and issued £225 million 7.625% bonds maturing in 2017. The early repayment premium on the 2012 bonds of £8.6 million and £9.1 million of recycled losses relating to the early termination of interest rate swaps were reported as non-trading items.

5. Taxation

The total tax charge on continuing operations was £16.8 million (2010: £228.3 million credit).

The Group has made progress in the resolution of historic tax matters and as a result reduced the level of the tax creditor required. The Group has also reassessed the availability of suitable profits of its subsidiaries against which agreed losses can be offset in the foreseeable future and reduced the level of deferred tax asset recognised. The impact of these is a net £10.9 million reduction in the income tax charge for the year.

In 2010, the adjustment in respect of prior periods of £262.2 million includes £261.9 million as a result of the HMRC tax settlement. The Group reached a settlement with HMRC which covered substantially all outstanding items in respect of tax years to 31 December 2007. The settlement resulted in the recognition within the tax charge of a £261.9 million tax credit in relation to prior years. The settlement included £46.2 million relating to the recognition of a deferred tax asset. The asset primarily reflected the recognition of tax losses available for offset in future periods. The settlement resulted in a cash repayment of £80.0 million of corporation tax by HMRC, which were offset by payments of £28.1 million. There was also interest income of £20.0 million in respect of an interest rebate following the HMRC tax settlement.

The Chancellor, in the Budget on 23 March 2011, announced an additional 1% reduction in the main rate of corporation tax, over that announced in 2010.

Notes to financial information

5. Taxation (continued)

The standard rate of UK Corporation Tax will be reduced from 26% to 25% from 1 April 2012, and there will be progressive annual reductions of a further 1% until a rate of 23% is reached with effect from 1 April 2014.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 25%. Whilst detailed calculations have not been prepared at this stage, it is estimated that the impact of the remaining annual corporation tax rate reductions would be to reduce the deferred tax liabilities by approximately £6.6 million and to reduce the deferred tax assets by approximately £2.8 million.

6. Discontinued operations

Profit/(loss) for discontinued operations comprises the following:

	Year ended 31 December 2011			Year ended 31 December 2010
	Hotels	Italy Retail	Hotels	Total
	£m	£m		£m
Revenue	-	8.3	-	8.3
Expenses	-	(17.4)	-	(17.4)
Loss before tax and non-trading items	-	(9.1)	-	(9.1)
Gain on financial guarantee contracts	0.4	-	1.2	1.2
Loss on disposal of business/assets	-	(17.3)	-	(17.3)
Litigation and transaction costs	-	(1.3)	-	(1.3)
Profit/(loss) before tax	0.4	(27.7)	1.2	(26.5)
Tax credit on trading items	-	0.4	-	0.4
Tax charge on non-trading	-	(1.0)	-	(1.0)
Profit/(loss) for the year	0.4	(28.3)	1.2	(27.1)
Loss for the year before non-trading items	-	(8.7)	-	(8.7)

7. Dividends

	Year ended 31 December 2011	Year ended 31 December 2010
The total ordinary dividend is made up as follows:		
- interim dividend paid	3.90p	3.85p
- final dividend declared [(1)]	3.90p	3.75p
	7.80p	7.60p

[(1)] The final dividend declared for the year of £35.2 million (2010: £33.8 million), based on the number of shares outstanding as at 31 December 2011 has not been recognised as a liability and was declared by the directors on 16 February 2012. The 2011 interim dividend of 3.90 pence per share (£35.2 million) was paid on 1 December 2011.

Notes to financial information

8. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £118.2 million (2010: £348.3 million) by the weighted average number of shares in issue during the year of 907.7 million (2010: 904.6 million).

The calculation of adjusted earnings per share before non-trading items is included as it provides a better understanding of the underlying performance of the Group. Non-trading items are defined in note 2 and disclosed in notes 4 and 6.

	2011 £m	2010 £m
Continuing operations		
Profit attributable to shareholders	117.8	375.4
Non-trading items, net of tax (note 4)	18.7	44.2
Adjusted profit attributable to shareholders	136.5	419.6
Discontinued operations		
Profit/(loss) attributable to shareholders	0.4	(27.1)
Non-trading items, net of tax (note 6)	(0.4)	18.4
Adjusted loss attributable to shareholders	-	(8.7)
Group		
Profit attributable to shareholders	118.2	348.3
Non-trading items, net of tax	18.3	62.6
Adjusted profit attributable to shareholders	136.5	410.9

Weighted average number of shares (millions):	2011	2010
Shares for basic earnings per share	907.7	904.6
Potentially dilutive share options and contingently issuable shares	9.1	2.5
Shares for diluted earnings per share	916.8	907.1

Earnings per share (pence)	**Before non-trading items** 2011	2010	**After non-trading items** 2011	2010
Continuing operations				
Basic earnings per share	15.0	46.4	13.0	41.5
Diluted earnings per share	14.9	46.3	12.9	41.4
Discontinued operations				
Basic earnings per share	-	(1.0)	-	(3.0)
Diluted earnings per share	-	(1.0)	-	(3.0)
Group				
Basic earnings per share	15.0	45.4	13.0	38.5
Diluted earnings per share	14.9	45.3	12.9	38.4

Notes to financial information

9. Property, plant and equipment

During the year, the Group acquired assets with a cost of £37.9 million (2010: £33.8 million).

Assets with a net book value of £1.8 million were disposed of by the Group during the year (2010: £2.0 million).

At 31 December 2011, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.3 million (2010: £1.2 million).

10. Net debt

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

	31 December 2011 £m	31 December 2010 £m
Current assets		
Cash and short-term deposits	26.4	17.9
Current liabilities		
Bank overdrafts	-	(0.2)
Interest bearing loans and borrowings	(131.4)	(108.1)
Non-current liabilities		
Interest bearing loans and borrowings	(348.9)	(401.6)
Net debt	(453.9)	(492.0)

Notes to financial information

11. Reconciliation of profit to net cash inflow from operating activities

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Profit before tax and net finance expense – continuing[1]	187.7	207.3
Loss before tax and net finance expense - discontinued[1]	-	(9.1)
Profit before tax and net finance expense [1]	187.7	198.2
Adjustments for:		
Depreciation of property, plant and equipment	40.9	47.8
Amortisation of intangible assets	9.9	5.7
Share-based payments charge	6.6	3.8
(Increase)/decrease in other financial assets	(0.4)	1.2
Decrease in trade and other receivables	4.3	21.7
Decrease in other financial liabilities	(0.1)	(7.9)
Increase in trade and other payables	7.1	20.5
Decrease in provisions	(0.7)	(2.3)
Contribution to retirement benefit scheme	(7.9)	(6.7)
Share of results from joint venture	0.8	0.5
Share of results from associate	(1.8)	(3.8)
Other items	(6.0)	(5.8)
Cash generated by total operations	240.4	272.9
Income tax (paid)/received	(18.1)	51.9
Finance expense	(36.3)	(47.8)
Net cash generated from operating activities	186.0	277.0

[1] *Before non-trading items*

12. Related party transactions

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

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Equity investment		
- Joint venture[1]	2.5	0.8
- Associates[2]	-	0.2
Loans		
- Movement in loan balance with joint venture partner	(0.4)	0.8
- Loan provided to joint venture	0.5	-
Dividends received		
- Associates[3]	1.6	-
Sundry expenditures		
- Associates[4]	39.4	35.7

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

Notes to financial information

12. Related party transactions (continued)

The following table provides the related party outstanding balances.

	31 December 2011 £m	31 December 2010 £m
Loan balances outstanding		
- Joint venture partner	4.6	5.0
- Joint venture	0.5	-
Other receivables outstanding		
- Associates	5.0	3.4

13. Financial guarantees

Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £483.3 million (31 December 2010: £513.4 million). In addition, subsidiaries have guaranteed loans of £0.1 million (31 December 2010: £0.1 million) given in the normal course of business to other subsidiary companies.

Bank guarantees have been issued on behalf of subsidiaries and joint ventures with a value of £22.1 million (31 December 2010: £24.0 million).

The Group has given guarantees to third parties in respect of lease liabilities of former subsidiaries within the disposed hotels division. The Group received an indemnity from Hilton Hotels Corporation (HHC), at the time of the hotels disposal, in relation to any loss the Group may subsequently incur under these third party guarantees. The guarantees expire between 2012 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 periods up to 2042 is £860.6 million (31 December 2010: £901.2 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £490.7 million (31 December 2010: £505.9 million) in relation to the turnover based element of the hotel rentals and £369.9 million (31 December 2010: £395.3 million) in relation to the minimum contractual based element. The maximum liability represents the total of all guaranteed rentals under the non-cancellable agreements into which the Group has entered.

The net present value of the maximum exposure at 31 December 2011 is £357.1 million (31 December 2010: £385.9 million). Included in the net present value of the maximum exposure is £183.3 million (31 December 2010: £193.4 million) in relation to the turnover based element of the hotel rentals and £173.8 million (31 December 2010: £192.5 million) 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.

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 2011 the Group has recognised a financial liability of £7.7 million (31 December 2010: £8.1 million) in respect of these guarantees. The reduction is due to time lapse.

The key assumption in the probability model is the hotels default rate. A rate of 2.2% has been used at 31 December 2011 (31 December 2010: 2.2%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.3 million.