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Ladbrokes plc

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

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Digital development on track. Strong Retail growth drives increase in Group profit, cash and dividend

Growth in Group profits, balance sheet further strengthened

- Group net revenue [(1)] grew by 7.4% to £1,053.3 million
- Group operating profit [(1) (2)] of £206.1 million, up 8.0% (up 25.8% including High Rollers)
- Underlying earnings per share [(3)] up 20.3% to 18.4p
- 14.1% increase in full year dividend
- Net debt reduced by a further £67.0 million to £386.9 million, net debt to EBITDA[(3)] now at 1.5x

Strong Retail performance

- Favourable sporting results in final quarter underpin record UK Retail net revenue
- UK Retail operating profit [(1) (2)] of £180.7 million grew by 18.6%. Profit per shop up for the third consecutive year
- Consistent growth in UK Retail OTC net revenue, 3.8% up for the year
- Machines net revenue growth of 13.9%, roll out of next generation terminal starting Q4 2013
- 100 net new UK shop openings planned for 2013
- Operating profit in European Retail up over 50%

Digital development on track

- Digital net revenue growth of 9.0% (H2 2012: 15.6%) driven by sportsbook after a strong Q4
- Enhancements to trading contribute to significant increase in sportsbook margin, up 100 basis points
- Full launch of new sportsbook website to UK customers during Q1 2013
- Mobile platform on track to go live in Q2 2013. Mobile net revenue up 93.6% in 2012
- Betdaq acquisition in 2013 will enable a differentiated offer and one stop shop for customers

Richard Glynn, Chief Executive, commented,

“We are continuing to transform Ladbrokes, with the resilience and reinvigoration of the UK Retail estate driving another year of growth in profit per shop. The development of the Digital business is progressing well and our investment in trading systems is generating improved quality of earnings. Ongoing business momentum has enabled us to deliver a strong Group performance with growth in revenue, operating profit and dividend.

2013 will see us continue to drive investment in areas where we see opportunities to grow the business. We will accelerate our programme of shop openings, focussing on areas of unmet demand. In machines, whilst the market is becoming much more competitive, we expect to generate continued growth through the use of Odds On, more exclusive games and the roll out of the latest new terminal towards the end of the year.

In Digital, after a delay during 2012, we will complete the roll out of our new sportsbook and mobile platforms in Q1 and Q2 2013 respectively and look to improve our capability around customer relationship management. We expect these developments to drive growth in Digital revenues and earnings, particularly during the second half of the year.

Whilst we have benefitted from favourable sporting results, particularly in football, during the latter part of 2012 and early part of 2013, we are encouraged by the underlying growth in sports betting margins and expect to see a sustained improvement, with further trading developments planned throughout the coming year.

Economic conditions remain challenging and we are mindful of cost headwinds, particularly in UK Retail from increased machine taxation and horseracing picture rights. Despite this and although there remains much to do in order to complete our transformation of Digital, our progress to date gives us confidence, that we are focussing on the right areas of the business to drive increasing customer appeal and continued improvements in our operational and financial performance.”

Continuing operations (unless stated otherwise)	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Year on year change %
Revenue [(1)]	**1,053.3**	**980.3**	**7.4**
Revenue incl High Rollers	1,084.4	976.1	11.1
Operating profit by division			
UK Retail	180.7	152.3	18.6
European Retail	20.2	13.4	50.7
Digital [(4)]	31.8	52.4	(39.3)
Core Telephone Betting	(1.5)	(4.0)	62.5
Corporate costs	(25.1)	(23.2)	(8.2)
Total operating profit [(1)] [(2)]	**206.1**	**190.9**	**8.0**
High Rollers	30.0	(3.2)	n/a
Group operating profit [(2)]	**236.1**	**187.7**	**25.8**
Profit before tax	200.7	134.6	49.1
Profit after tax (on total operations)	190.3	118.2	61.0
Underlying basic earnings per share [(3)]	**18.4p**	**15.3p**	**20.3**
Basic earnings per share	21.0p	13.0p	61.5
Total dividend per share	8.90p	7.80p	14.1%
Financial position			
Cash generated by total operations	283.2	240.4	17.8
Net debt	386.9	453.9	(14.8)

(1) *Excluding High Rollers.*
(2) *Profit before tax, net finance expense and exceptional items of £6.0 million (2011: £19.8 million).*
(3) *Adjusted to exclude exceptional items and High Rollers.*
(4) *Before amortisation of customer relationships of £2.6 million (2011: £2.6 million), operating profit for Digital is £34.4 million (2011: £55.0 million).*

Chief Executive's Review

UK Retail

Record net revenue drives strong increase in profit in 2012

The performance of UK Retail in 2012 further demonstrates the continuing customer appeal of betting on the high street. Net revenue growth has come from both OTC and machines.

OTC net revenue grew year on year in every quarter, ending the year up 3.8% despite a materially higher number of UK horseracing cancellations throughout the year (132 versus only 23 in 2011). OTC gross win margin of 16.7% was up by 110 basis points on 2011, driven largely by an increase in horseracing and football, especially during the latter part of the year when results were particularly favourable.

Machines revenue was up 13.9% (£41.5 million) for the year with double digit increases across both categories of games and a margin increase driven by the growth of the higher margin slots (B3) product. Over the year we moved our average number of machines per shop to 3.88 (2011: 3.83) reaching 3.89 in Q4, an increase which generated £5.3 million of additional gross win year over year. Gross win per machine week was £946 (2011: £860) for the year (£958 based on like for like density calculation) with gross win per shop week at £3,670 (2011: £3,291).

We continue to demonstrate a firm control of operating costs, which were up £26.6 million or 5.6% for the year or 3.3% on a like for like basis, ahead of our internal 6% target.

Operating profit per shop was up 15.7% to £82.0k (2011: £70.9k).

Growth agenda for 2013

In addition to favourable Q4 sporting results, particularly in football, OTC net revenue growth has also benefitted from trading led improvements to margin. Better technology, increased automation and the development of monitoring tools and algorithms, have enhanced trading control and improved our liability management. We expect these changes to drive a sustainable margin improvement going forward.

During 2013 we will develop a more interactive sports betting proposition for customers, including a more accessible Bet In Play offer. The addition of sky services to all shops, video walls and the roll out of Self Service Betting Terminals (SSBT) will all be part of this.

We have recently started to see signs that the machines market is becoming more competitive and therefore expect growth rates to slow. Despite this we expect to develop and grow machines further in 2013. Through the use of the unique data and insights that Odds On provides, we are now trialling machine bonusing which will allow greater personalisation for machine customers, building on our focus on local market places. We are also accelerating the introduction of new and exclusive games, particularly 'B3' £2 slots, which are growing at twice the rate of more traditional B2 category games. We will also begin the roll out to all shops of the next generation terminal before the end of the year as well as continuing to grow machine density.

Through our initiatives to develop an increasingly efficient and flexible shop design, together with shortening lease lengths and growing shop profitability, we have reduced payback on new openings to circa 2.5 years on average. This gives us confidence in our ability to grow profitably the estate next year and beyond. Over the course of 2013 we will open 100 net new shops in areas of unmet demand, focusing in H2 on new concept designs to facilitate increased self service and more interaction between staff and customers.

The retail business faces several specific headwinds in 2013, including the introduction of Machine Games Duty and ongoing operational cost pressures, particularly regarding horseracing picture rights. As a consequence we expect costs to grow by circa 5% on a like for like basis in 2013, with circa 4% from more shop openings and refurbishments.

European Retail

Profit up strongly, growth prospects continue
Our retail businesses in Ireland and Belgium contributed in excess of £22 million operating profit during 2012, an increase of 43% despite tough economic conditions. We expect legislation allowing extended shop opening hours in the Republic of Ireland to be introduced during H2 2013. Our business in Belgium grew net revenues, partly driven by the change in tax regime during 2011. We expect further growth in 2013 driven by anticipated legislation allowing the introduction of machines in to shops. In Spain, Sportium is now generating positive cash flow in Madrid and Aragon, regions where the business remains the clear market leader. During 2013 we will roll out new SSBTs, increase our presence in Valencia and expect to pursue opportunities for expansion into further regions.

Digital

Revenue growth driven by investment in sportsbook
Net revenue in the digital business grew by 9.0% to £178.1 million. Excluding jurisdictions exited within the last 12 months (Greece, Cyprus, Poland), net revenue grew by 10.3%.

Product development in 2012 has been focused primarily on our core sportsbook product, with innovation in trading, continued expansion of Bet in Play and the phased roll out of the new Digital website. Sportsbook revenues of £77.8 million were up 26.1% for the year (H2 2012: 44.6%).

Whilst sporting results have undoubtedly been favourable in the second half of the year, the investment in our new trading platform and development of improved tools and algorithms is generating encouraging early returns. We are seeing a material and consistent increase in expected margins (pre impact of results) across both horseracing and football in particular and expect this to continue. The sportsbook margin of 7.0% for the full year was up 100 basis points, with margin in H2 at 8.0%.

Continuing to improve customer offer
We have continued to expand the depth and breadth of our Bet in Play (BIP) product, giving customers coverage of circa 70,000 events in the year. BIP is now over 60% of total sportsbook amounts staked.[1] In 2013 we will further expand our BIP coverage adding more events, more sports and a greater variety of markets to customers.

We have also grown further the depth and variety of our slots offering during the year, with content from a broader range of suppliers, such as Realistic, Mazooma and IGT. The continual update and refresh of gaming content is important to customers, with slots introduced during 2012 generating 3 times the gross win of more established titles.

New sportsbook on track for delivery

The roll out of the new Digital sportsbook is progressing well; it will be launched in full to all UK customers by the end of Q1 as planned. The new site represents a significant step forward in how we present our sports products to customers, enabling more dynamic navigation, faster bet placement, increased personalisation and a more prominent BIP experience. We expect to add further enhancements to the foundation release throughout the year.

New mobile platform on track for delivery

The development of the new mobile platform is also progressing to plan. We expect to launch a new dedicated racing site for all horseracing and greyhound product (circa 45% of mobile sportsbook net revenue) during Q2. We will also use the latest Application Programming Interface (API) technology, integral to the new platform, to accelerate development and enable us to launch a variety of new products simultaneously. We therefore expect to release multiple new apps during the coming year, subsequently integrating these into the main platform.

Key focus on growing revenue per customer

The ongoing development of our new Active Data Warehouse is beginning to enable access to more timely and effective customer data and insight. In parallel, we have begun to increase the focus on our CRM capabilities, refining the way in which customers are segmented, developed and rewarded and although relatively early days this has started to show some early positive outcomes.

We will examine ways of accelerating the use of intelligent software and our increasingly targeted approach to customer development as the year progresses in order to grow net revenue, particularly during the second half and beyond.

Betdaq offers point of difference

The recently announced acquisition of Betdaq will allow us to create a more comprehensive sports betting offer, combining the strength of our brand and strengthening sportsbook, with a high quality and scalable betting exchange. With between 20% and 30% of our customers already using betting exchanges, we expect to be able to grow our share of wallet, providing a better value option for exchange bettors. Our immediate focus is on improving the existing Betdaq exchange, with development wholly provided by a dedicated technology provider. Thereafter we expect to provide an enhanced exchange product as part of the wider Ladbrokes offering. The acquisition is expected to be earnings enhancing in 2013.

Balance sheet

Strong cash generation, ongoing debt reduction and growth of dividend

The business continues to generate strong cash flows from operations. During the year we reduced net debt by a further £67.0 million, to £386.9 million (2011: 453.9 million), equal to 1.5x EBITDA (2) and increased the full year dividend to 8.90p, up 14.1%. The increasing strength of our balance sheet allows us to fund ongoing investment in the business and continued growth of the dividend, which we expect to maintain at a level circa twice covered by underlying earnings. During H1 we recognised a one off tax credit which represented final settlement of all outstanding claims with HMRC to the end of 2007. This credit, as previously disclosed, led to a tax charge of 5.2% for 2012. We expect this rate to rise to circa 10% for the next two years.

Regulation

UK Regulatory update

Current regulatory matters in the UK include the introduction of MGD, the draft bill to regulate offshore gambling operators and the current Triennial Review of Stakes and Prizes consultation which includes an evidence gathering exercise regarding B2 gaming machines.

The recent introduction of MGD at 20% represents a tax increase on the industry and contrasts with the Government's intention for a neutral outcome across the industry. We continue to liaise with HM Treasury over the latest data. The draft bill to regulate offshore operators will pave the way for the introduction of a Place of Consumption tax in December 2014.

In January 2013 the Department for Culture, Media and Sport released its recommendations on the Triennial Review of Stakes and Prizes. While the recommendation on B2 machines reflects the industry's submission for the status quo, the Government has called for more evidence with regard to B2 machines and any correlation with problem gambling. While we are disappointed that B2 machines alone have been singled out for this treatment, we welcome independent examination and genuine evidence regarding both machines and the industry's commitment to harm prevention. We continue to promote responsible gambling and trust that fact based debate will remove the uncertainty that has surrounded this key part of our product offering.

Current trading and outlook
The Group has had a promising start to 2013, with Group net revenue (excluding High Rollers) in the 6 week period from 1 January 2013 to 12 February 2013 up 7.2 %[(3)]

Net revenue was up 4.9% in UK Retail and 13.0% in Digital, with both benefiting from a continuation of very favourable football results. We are seeing clear indications of an increasingly competitive marketplace for machines, which has impacted the rate of growth as expected. Machine activity in the period was also impacted by a very strong OTC margin, significantly above the upper end of our expected range, reducing customer recycling.

Whilst the economic climate is still challenging the Board is encouraged by the growth of UK Retail and continuing momentum in Digital, particularly in the core area of sportsbook; they remain confident that the business is focussed on the key drivers of future growth.

Notes

(1) *Excluding all racing product (horseracing and greyhounds).*
(2) *Excluding exceptional items and High Rollers.*
(3) *2012 net revenue is on a pro forma basis to be comparable to net revenue in 2013 following the change from VAT to MGD from 1 February 2013.*

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Notes to editors:

The Company will be hosting an analyst presentation at the Nomura Auditorium (One Angel Lane, London, EC4R 3AB) at 9:30am this morning. This will be available to listen into by dialling +44 (0)20 7784 1036 – pass code: 8482913

Alternatively a live webcast of the presentation, with slides, will be available at the 'Investor Centre' on www.ladbrokesplc.com. A recording of the webcast will be available, at the same location, from 12pm (UK time) the same day. Similarly a replay phone facility will be available, for 7 days, on +44 (0)20 3427 0598 – pass code: 8482913

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

Audited results for the year ended 31 December 2012

Continuing operations	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Year on year change %
Net revenue by division:			
UK Retail	739.5	683.3	8.2
European Retail	126.2	124.1	1.7
Digital	178.1	163.4	9.0
Core Telephone Betting	9.5	9.5	-
Group net revenue (exc. High Rollers)	1,053.3	980.3	7.4
High Rollers	31.1	(4.2)	n/a
Group net revenue	1,084.4	976.1	11.1
Operating profit (1) (exc. High Rollers)	206.1	190.9	8.0
Operating profit/(loss) (1) from High Rollers	30.0	(3.2)	n/a
Profit before net finance expense, tax and exceptional items	236.1	187.7	25.8
Net finance expense (2)	(29.7)	(32.8)	9.5
Profit before tax and exceptional items	206.4	154.9	33.2
Exceptional items before tax	(5.7)	(20.3)	71.9
Profit before tax	200.7	134.6	49.1
Income tax expense	(10.4)	(16.8)	38.1
Profit after tax – continuing operations	190.3	117.8	61.5
Profit after tax – discontinued operations	-	0.4	n/a
Profit for the year	190.3	118.2	61.0

EBITDA(2) – continuing	291.1	238.5	22.1
Basic earnings per share (2) – continuing	21.6p	15.0p	44.0

(1) Profit before tax, net finance expense and exceptional items.
(2) Before exceptional items.
(3) Exceptional items are profits or losses on disposal or impairment of non-current assets or businesses, unrealised gains and losses on derivative financial instruments, corporate transaction costs and any other non-recurring items considered exceptional by virtue of their nature and size.

Business Review

UK Retail

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Year on year change %
- OTC amounts staked	2,409.8	2,477.3	(2.7)
- Machines amounts staked	11,846.7	10,482.8	13.0
Amounts staked	14,256.5	12,960.1	10.0
- OTC gross win	407.8	392.8	3.8
- Machines gross win	412.7	360.9	14.4
Gross win	820.5	753.7	8.9
Adjustments to GW (1)	(81.0)	(70.4)	(15.1)
- OTC net revenue	399.6	384.9	3.8
- Machines net revenue	339.9	298.4	13.9
Net revenue	739.5	683.3	8.2
Gross profits tax	(59.7)	(57.5)	(3.8)
Associate income	3.4	2.4	41.7
Operating costs	(502.5)	(475.9)	(5.6)
Operating profit (2)	180.7	152.3	18.6

(1) Fair value adjustments, free bets and VAT.
(2) Before exceptional items.
(3) Greyhound tracks account for £11.5 million of amounts staked and £7.4 million of gross win in 2012 (2011: £11.0 million of amounts staked and £7.1 million of gross win).

The UK Retail business achieved a record level of net revenue in 2012, even after excluding £5.8 million from Euro 2012 and despite a significant increase in the number of cancelled horserace meetings. Total net revenue of £739.5 million for 2012 was up 8.2% for the year.

The OTC business continues to demonstrate strong customer appeal with net revenue growing in every quarter, ending the year up 3.8%. Although we saw a decline in OTC amounts staked, this was not unexpected given the particularly high level of horseracing meetings lost to bad weather (132 in 2012 versus only 23 in 2011). Amounts staked for 2012 were down 2.7% on an absolute basis (down 1.7% adjusted for lost horseracing and Euro 2012).

Gross win margin of 16.7% (2011: 15.6%) was up by 110 basis points, with an increase in the key products of horseracing and football, which whilst partly results driven, also reflects strongly the improvements which we have made in our pricing, trading and liability management capabilities, particularly during H2. We expect these improvements, together with ongoing enhancements during 2013, to benefit us further going forward.

Machines net revenue of £339.9 million was up by 13.9%, with strong growth across all games categories. Despite annualising the roll out of our Global Draw terminals during H1, net revenue in H2 grew by 8.5%. During the course of the year we increased our average number of machines per shop from 3.83 to 3.88 (Q4 3.89), a move which generated an additional £5.3 million annualised of gross win. At this new density, gross win per machine week was £946 (£958 at 2011 density level).

We expect to continue to drive machines growth in 2013 through the annualisation of higher density, the ongoing introduction of new and exclusive games, increasing use of yield management techniques and the planned roll out of the next generation of cabinet towards the end of 2013.

In 2012 there were on average 8,345 machines in the estate compared to 8,050 in 2011. At 31 December 2012 there were 8,583 machines (2011: 8,128).

Operating costs for the year increased, by slightly lower than previous guidance, at a rate of 5.6% or 3.3% on a like for like basis (includes costs of machine revenue share). In 2013 we expect a higher increase in like for like costs driven largely by the growing cost of picture rights.

Operating profit of £180.7 million was up 18.6% or £28.4 million for the year.

At 31 December 2012 there were 2,196 shops (2011: 2,127) in Great Britain. During the year we opened 76 new shops, acquired a further 12 and closed 19. In 2013 we expect to open circa 100 shops net of closures.

European Retail

Operating profit within European Retail increased by £6.8 million or 50.7% to £20.2 million. European Retail comprises our operations in Ireland, Belgium and Spain. These are discussed in more detail below.

Ireland

	Year ended 31 December 2012	Year ended 31 December 2011	Year on year change
	£m	£m	%
- OTC amounts staked	535.7	598.3	(10.5)
- Machines amounts staked	158.6	149.2	6.3
Amounts staked	694.3	747.5	(7.1)
- OTC gross win	76.3	75.7	0.8
- Machines gross win	6.0	5.7	5.3
Gross win	82.3	81.4	1.1
Net revenue	80.0	79.2	1.0
Betting tax	(7.4)	(7.9)	6.3
Operating costs	(58.4)	(62.1)	6.0
Operating profit (1)	14.2	9.2	54.3

(1) Before exceptional items.

The Irish retail business has again performed well despite difficult economic conditions, tough austerity measures and the significant impact on OTC of lost horseracing meetings.

Although OTC amounts staked declined by 10.5%, gross win was marginally up by 0.8% following an increase in gross win margin, which was 14.2% for the year (2011: 12.7%). Whilst partly driven by an improvement in results, particularly across the Cheltenham and Aintree festivals, the increase also reflects a broader product offering across the estate and the enhancements made in trading technology and processes.

Total gross win increased by 1.1% to £82.3 million with machines up 5.3%.

Within the context of the continuing economic downturn and highly competitive trading environment, particularly in the Republic of Ireland, we have continued to focus our efforts on reducing our operational cost base. Costs of £58.4 million were down 6.0% on 2011 and down 1.3% on a constant currency basis.

At 31 December 2012 there were 213 shops (31 December 2011: 213) in the Republic of Ireland and 79 shops (31 December 2011: 79) in Northern Ireland.

Looking forward we expect tough trading conditions to prevail, though we do expect legislation allowing extended trading hours to be introduced in the Republic of Ireland.

Belgium

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Year on year change %
Amounts staked	181.6	175.5	3.5
Net revenue	46.2	44.9	2.9
Betting tax	(6.9)	(7.4)	6.8
Gross profit	39.3	37.5	4.8
Operating costs	(30.9)	(30.9)	-
Operating profit [1]	8.4	6.6	27.3

[1] *Before exceptional items.*

Amounts staked in Belgium grew by 3.5% reflecting the first full year effect of the change to a gross profits tax in the first quarter of 2011 and a particularly strong football performance with amounts staked up in excess of 50% in local currency following a strong Euro 2012 performance. Net revenue for the year increased by 2.9% (local currency up 10.1%).

Operating costs were flat and up 7.0% in local currency, largely due to increased commissions based payments to independent shop managers driven by the increase in gross win.

Operating profit for the year at £8.4 million was up by 27.3% (local currency up 35.5%).

As at 31 December 2012 there were 277 shops versus 282 at 31 December 2011.

Looking forward to 2013 we anticipate the introduction of new legislation, allowing us to introduce a machine offering in shops. We also hope to open new points of sale in newsagents within the Wallonia region, a process which began towards the end of 2012.

Spain

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Year on year Change %
Operating loss [1]	(2.4)	(2.4)	-

[1] *Before exceptional items.*

The Sportium business continues to grow and expand against the backdrop of an increasingly difficult economic climate and an unemployment rate in excess of 25%.

In the mature Madrid region we continued to see consistent growth in activity, with growth of 2.4% in like for like amounts staked. The first full year of trading in Aragon has also been pleasing with like for like amounts staked up 35.8%. Sportium is now generating positive cash flow in Madrid and Aragon, regions where the business remains the clear market leader. The business incurred start up costs in the Valencia and Navarra regions during 2012.

During the year the business commenced the roll out of standalone Self Service Betting Terminals (SSBT) in the Valencia region and this channel will be the primary operational focus in 2013. We also expect to roll out this latest version of our SSBT, which offers an enhanced customer experience and live event streaming, into the Madrid and Aragon regions.

Expansion into the new regions of Valencia and Navarra continued during 2012 and we expect to expand further in 2013.

At 31 December 2012 there were a total of 342 Sportium locations compared to 187 at 31 December 2011. This comprised of 247 corners – 113 in Madrid, 63 in Aragon, 69 in Valencia and two in Navarra (31 December 2011: Total 169), 19 standalone shops (31 December 2011: 18) and 94 standalone SSBTs in bars in Valencia.

Digital

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Year on year change %
Net revenue			
- Sportsbook	77.8	61.7	26.1
- Casino and Games	75.8	73.5	3.1
- Poker	10.9	14.2	(23.2)
- Bingo	13.6	14.0	(2.9)
Net revenue	178.1	163.4	9.0
Betting tax	(1.5)	(0.4)	(275.0)
Operating costs (1)	(144.8)	(110.6)	(30.9)
Operating profit (2)	31.8	52.4	(39.3)

(1) *Includes amortisation of customer relationships of £2.6 million (2011: £2.6 million).*
(2) *Before exceptional items.*

Net revenue growth of 9.0% for the year (10.3% excluding territories exited during the year) has been predominantly driven by the development of our sportsbook offer in tandem with investment in a new trading platform. Sportsbook net revenue of £77.8 million grew by 26.1% for the year, following growth in both amounts staked and gross win margin, which was up 100 basis points to 7.0% (2011: 6.0%).

Whilst sporting results were favourable, particularly during the latter part of the year (H2 gross win margin 8.0%), the development and introduction of new trading tools and algorithms, as well as better liability management has driven an improvement in the quality of sportsbook earnings, a trend we expect to continue during 2013. Sportsbook amounts staked grew by 11.3% in the year, with a marginal decline during H2 driven by a 58% reduction in unprofitable staking.

The growth of Bet in Play (BIP) remains a key driver of market growth in sportsbook volumes with the latest In Play Betting survey compiled by the industry monitor Gambling Data indicating an increase of events offered of 23% across the industry. Our BIP coverage grew by over 150% in 2012, with circa 70,000 different events/matches offered to our customers. BIP volumes grew by 37.8% and represented over 60% of all non racing sportsbook stakes in the year. The full launch of our new sportsbook website during Q1 2013 will increase the prominence of BIP whilst also enabling customers to; navigate the site more easily, make quicker bet selections and personalise content.

Casino and Games net revenue was up 3.1% (5.6% adjusted for exited territories) driven by encouraging growth in activity from our core customer base. We have continued to expand our customer offer with additional games content from suppliers such as IGT, Openbet, Cryptologic and Realistic on mobile and tablet. This has helped us grow Games net revenue by 21.1% (25.7% adjusted for exited territories). Casino and Games actives increased by 11.8% driven by marketing campaigns including free spins and free bet promotions. Following the most significant marketing campaigns in Q1 2012, there has been an increased focus on improving customer yield, which grew by 10.0% for Casino and 24.1% for Games during H2.

Poker net revenue fell 23.2% during the year to £10.9 million. Strong competition amongst poker operators, with increasing activity on recruitment of players continues to characterise a tough marketplace. We are starting to see initial signs of our run rate settling with stable revenue from Q2 onwards.

Bingo net revenue was £0.4 million or 2.9% down for the year at £13.6 million. Bingo actives were broadly flat.

Mobile net revenue was up 93.6%. Mobile sportsbook revenues were 26.5% of the total sportsbook with over 40% of sportsbook customers using mobile during the second half. Mobile gaming net revenue grew 96.1%, with new tablet specific games and casino content including live dealer table games and slots. Our new mobile platform, on track to launch in Q2 2013 has been developed in parallel with new API technology, which will enable us to develop and launch multiple new mobile apps from H1 onwards.

An increase in total operating costs of 30.9% was in line with our plan, driven by uplift in marketing investment, additional IT, investment in people and an increase in depreciation, all of which are part of the overall improvement in the infrastructure of the Digital business. As anticipated, we also incurred start up costs in our regulated international businesses of £5.7 million following a successful application for licenses in the Spanish and Danish markets which regulated during the year. Excluding these territories, operating costs were up 26.8% to £134.9 million. Marketing costs for the year were equal to 23.7% of net revenue (also adjusted for newly regulated markets).

Overall operating profit of £31.8 million (£34.4 million pre amortisation of customer relationships) for the division was down 39.3%.

Looking ahead to 2013 we expect to benefit from the H1 launches of our new sportsbook and mobile platforms, whilst seeing continued margin improvements driven by our focus on enhancements to trading and liability management. We are now better positioned to develop customer yield, with more timely data enabling us to target conversion and development in order to grow customer value. This is expected to drive growth in Digital net revenue and earnings particularly during the second half of the year.

Core Telephone Betting

	Year ended 31 December 2012	Year ended 31 December 2011	Year on year change
	£m	£m	%
Amounts staked	266.6	276.5	(3.6)
Net revenue	9.5	9.5	-
Gross profits tax	(1.3)	(1.4)	7.1
Operating costs	(9.7)	(12.1)	19.8
Operating loss [1]	(1.5)	(4.0)	62.5

[1] Before exceptional items.

Net revenue for 2012 was flat, whilst continued efficiencies, particularly within staff costs, helped to minimise an operating loss which showed a year on year improvement of £2.5 million.

High Rollers

High Rollers generated an operating profit of £30.0 million in the year (2011: £3.2 million loss).

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 2012 £m	Year ended 31 December 2011 £m
Gross win	1,203.6	1,078.5
Adjustments [(1)]	(49.5)	(41.3)
VAT	(69.7)	(61.1)
Revenue	1,084.4	976.1

[(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 2012		Year ended 31 December 2011	
	Gross win £m	Net revenue £m	Gross win £m	Net revenue £m
UK Retail	820.5	739.5	753.7	683.3
European Retail	128.5	126.2	126.3	124.1
Digital	213.1	178.1	192.7	163.4
Core Telephone Betting	10.3	9.5	9.9	9.5
High Rollers	31.2	31.1	(4.1)	(4.2)
Total	1,203.6	1,084.4	1,078.5	976.1

Revenue

Revenue from continuing operations increased by £108.3 million (11.1%) to £1,084.4 million (2011: £976.1 million). Excluding High Rollers, revenue increased by £73.0 million (7.4%) to £1,053.3 million (2011: £980.3 million). The increase is mainly attributable to improved machines and OTC performance in UK Retail, improved European Retail performance and growth in Digital sportsbook partially offset by a decline in Poker and Bingo in Digital.

Profit before net finance expense, tax and exceptional items

Profit before net finance expense, tax and exceptional items increased by £48.4 million or 25.8% to £236.1 million (2011: £187.7 million).

Excluding High Rollers, profit before net finance expense, tax and exceptional items increased by £15.2 million or 8.0% to £206.1 million (2011: £190.9 million) reflecting increased profit in UK Retail and European Retail, decreased losses in Telephones, partially offset by decreased profit in Digital and higher Corporate costs.

Corporate costs

Before exceptional items, total Corporate costs increased by £1.9 million to £25.1 million (2011: £23.2 million) including an increase in share-based payments charge.

Finance expense

Before exceptional items, net finance expense of £29.7 million was £3.1 million lower than last year (2011: £32.8 million) mainly due to a lower average net debt.

Profit before tax

The increase in trading profits as well as a lower finance expense has resulted in a 33.2% increase in profit from continuing operations before taxation and exceptional items to £206.4 million (2011: £154.9 million).

Exceptional items before tax

£5.7 million of exceptional losses before tax include a £3.8 million loss on the closure of shops and disposal of assets within UK and European Retail, £2.2 million in respect of Spanish retrospective online gaming taxes and £0.3 million net gain on derivatives financial instruments not in a hedging relationship.

Taxation

The Group has made further progress in the resolution of historic tax matters and has reached settlement with HMRC on all outstanding items in respect of tax years through to 31 December 2007. As a result, tax provisions no longer required have been released leading to a Group taxation charge for continuing operations before exceptional items of £10.7 million, representing an effective tax charge of 5.2% (2011: 11.9%). There was a tax credit of £0.3 million in relation to exceptional items in 2012 (2011: £1.6 million).

Dividend

The Board today announces a final dividend of 4.60 pence per share taking the full year dividend to 8.90 pence per share, an increase of 14.1% over last year.

The dividend will be payable on 9 May 2013 to shareholders on the register on 22 March 2013.

Earnings per share (EPS) – Group

Underlying
EPS (before exceptional items and High Rollers) increased by 20.3% to 18.4 pence (2011: 15.3 pence), reflecting the increased profit before tax and lower effective tax rate.

Total
EPS (before exceptional items) increased 40.0% to 21.6 pence (2011: 15.0 pence), reflecting the increased profit before tax and lower effective tax charge. EPS (including the impact of exceptional items) was 21.0 pence (2011: 13.0 pence). Fully diluted EPS (including the impact of exceptional items) was 20.6 pence (2011: 12.9 pence) after adjustment for outstanding share options and other potentially issuable shares.

Cash flow, capital expenditure, borrowings and banking facilities

Cash generated by operations was £283.2 million. After net finance expense paid of £32.7 million, income taxes paid of £5.2 million and £102.3 million on capital expenditure and intangible additions, cash inflow was £143.0 million. Post dividend payment of £74.0 million and other outflows of £2.0 million, free cash flow of £67.0 million was generated in the year.

At 31 December 2012, gross borrowings of £406.2 million less cash and cash equivalents of £19.3 million resulted in a net debt of £386.9 million (31 December 2011: £453.9 million).

On 11 July 2012, the Group repaid the remaining balance on the 7.125% bond of £131.4 million using existing facilities. The Group has a £225 million 7.625% sterling bond due 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 22 to 24 of the Group's Annual Report and Accounts 2012 and are as follows:

Strategy

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

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

Marketplace

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

Financial

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

Operational

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

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

Marketplace

Competition

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

Betting and gaming industry

Taxes, laws, regulations and licensing

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

Increased cost of product

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

Operational and bookmaking

Trading, liability management and pricing

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

High fixed cost base

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

Loss of key locations

Ladbrokes has a number of key sites, in particular Imperial House at Rayners Lane in London, its head office and main operations centre, and its premises in Europort in Gibraltar from where 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 management

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

Failure in the supply chain

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

Statement of Directors' Responsibilities

The following statements are extracted from pages 60 to 116 of the Annual Report and Accounts 2012 and are repeated here for the purposes of compliance with DTR 6.3.5. These statements relate solely to the Annual Report and Accounts 2012 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 28 and 29 of the Annual Report and Accounts 2012, 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 28 and 29 of the Annual Report and Accounts 2012, 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

21 February 2013

Consolidated income statement

	Year ended 31 December 2012		Year ended 31 December 2011	
	Before exceptional items[1] £m	Total £m	Before exceptional items[1] £m	Total £m
Continuing operations				
Amounts staked [2]	17,859.5	17,859.5	16,466.7	16,466.7
Revenue	1,084.4	1,084.4	976.1	976.1
Cost of sales before depreciation and amortisation	(709.0)	(712.7)	(655.7)	(656.7)
Administrative expenses	(86.9)	(86.9)	(82.9)	(89.9)
Share of results from joint venture and associates	2.6	2.6	1.0	1.0
EBITDA	291.1	287.4	238.5	230.5
Depreciation, amortisation and amounts written off non-current assets	(55.0)	(57.3)	(50.8)	(62.6)
Profit before tax and net finance expense	236.1	230.1	187.7	167.9
Finance expense	(29.9)	(30.0)	(33.4)	(34.0)
Finance income	0.2	0.6	0.6	0.7
Profit before tax	206.4	200.7	154.9	134.6
Income tax expense	(10.7)	(10.4)	(18.4)	(16.8)
Profit for the year – continuing operations	195.7	190.3	136.5	117.8
Discontinued operations				
Profit for the year from discontinued operations	-	-	-	0.4
Profit for the year	195.7	190.3	136.5	118.2
Attributable to:				
- equity holders of the parent	195.7	190.3	136.5	118.2
- non-controlling interests	-	-	-	-
Earnings per share from continuing operations:				
- basic	21.6p	21.0p	15.0p	13.0p
- diluted	21.2p	20.6p	14.9p	12.9p
Earnings per share on profit for the year:				
- basic	21.6p	21.0p	15.0p	13.0p
- diluted	21.2p	20.6p	14.9p	12.9p
Proposed dividends (note 6)	4.60p	4.60p	3.90p	3.90p

[1] *Exceptional items are profits or losses on disposal or impairment of non-current assets or businesses, unrealised gains and losses on derivative financial instruments, corporate transaction costs and any other non-recurring items considered exceptional by virtue of their nature and size. Details of the exceptional items are given in note 4.*
[2] *Amounts staked does not represent the Group's statutory revenue and comprises the total amounts staked by customers on betting and gaming activities.*

Consolidated statement of comprehensive income

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Profit for the year	190.3	118.2
Currency translation differences	(2.2)	(2.5)
Actuarial losses on defined benefit pension scheme	(9.6)	(3.7)
Tax on actuarial losses on defined benefit pension scheme	2.2	0.9
Total actuarial losses on defined benefit pension scheme, net of tax	(7.4)	(2.8)
Recycling of losses on cash flow hedges	-	0.5
Tax on recycling of losses on cash flow hedges	-	(0.1)
Total recycling of losses on cash flow hedges, net of tax	-	0.4
Other comprehensive expense for the year, net of tax	(9.6)	(4.9)
Total comprehensive income for the year	180.7	113.3
Attributable to:		
- equity holders of the parent	180.7	113.3
- non-controlling interests	-	-

Consolidated balance sheet

	Notes	31 December 2012 £m	31 December 2011 £m
ASSETS			
Non-current assets			
Goodwill and intangible assets		666.6	629.4
Property, plant and equipment		214.8	201.2
Interest in joint venture		4.8	4.3
Interests in associates and other investments		15.9	14.7
Other financial assets		6.5	9.1
Deferred tax assets		24.6	34.9
Retirement benefit asset		36.5	37.4
		969.7	931.0
Current assets			
Trade and other receivables		73.7	80.5
Cash and short-term deposits	9	19.4	26.4
		93.1	106.9
TOTAL ASSETS		**1,062.8**	**1,037.9**
LIABILITIES			
Current liabilities			
Bank overdraft		(0.1)	-
Interest bearing loans and borrowings		-	(131.4)
Derivatives		-	(0.1)
Trade and other payables		(140.1)	(142.7)
Corporation tax liabilities		(0.7)	(0.7)
Other financial liabilities		(1.3)	(1.0)
Provisions		(2.5)	(4.3)
		(144.7)	(280.2)
Non-current liabilities			
Interest bearing loans and borrowings	9	(406.2)	(348.9)
Other financial liabilities		(10.5)	(10.4)
Deferred tax liabilities		(75.0)	(82.3)
Provisions		(4.1)	(9.4)
		(495.8)	(451.0)
TOTAL LIABILITIES		**(640.5)**	**(731.2)**
NET ASSETS		**422.3**	**306.7**
EQUITY			
Issued share capital		266.4	266.2
Share premium		195.5	194.6
Treasury and own shares		(114.9)	(113.3)
Retained earnings		68.2	(49.5)
Foreign currency translation reserve		5.8	8.0
Equity shareholders' funds		**421.0**	**306.0**
Non-controlling interests		1.3	0.7
TOTAL SHAREHOLDERS' EQUITY		**422.3**	**306.7**

Consolidated statement of changes in equity

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

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

Consolidated statement of cash flows

	Notes	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Net cash generated from operating activities	10	245.1	186.0
Cash flows from investing activities:			
Interest received		0.2	0.3
Dividends received from associates		2.3	1.6
Payments for intangible assets		(51.8)	(39.9)
Purchase of property, plant and equipment		(50.5)	(37.4)
Proceeds from the sale of property, plant and equipment		0.8	1.4
Purchase of subsidiaries [(1)]		(2.0)	-
Purchase of interest in joint venture		(1.5)	(2.5)
Net cash used in investing activities		(102.5)	(76.5)
Cash flows from financing activities:			
Proceeds from issue of shares		1.1	0.4
Purchase of ESOP shares		(2.0)	(2.1)
Proceeds from borrowings, net of issue costs		56.9	126.9
Repayment of borrowings		(131.4)	(157.0)
Dividends paid	6	(74.0)	(69.0)
Net cash used in financing activities		(149.4)	(100.8)
Net (decrease)/increase in cash and cash equivalents		(6.8)	8.7
Effect of changes in foreign exchange rates		(0.3)	-
Cash and cash equivalents at beginning of the year		26.4	17.7
Cash and cash equivalents at end of the year		19.3	26.4
Cash and cash equivalents comprise:			
Cash at bank and in hand		19.4	26.4
Bank overdraft		(0.1)	-
		19.3	26.4

[(1)] During the year, the Group acquired 79% of the issued share capital of Stadium Technology Group LLC, a Las Vegas based supplier of software and in play betting applications to sportsbook operators, for $3.2 million (£2.0 million).

Notes to financial information

1. Corporate information

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

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 21 February 2013.

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 2012.

The financial information set out in this document does not constitute the Group's statutory accounts for the year ended 31 December 2012 or 31 December 2011. The annual report and financial statements for the year ended 31 December 2012 were approved by the Board of Directors on 21 February 2013 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 2012 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 2011 have 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.

The 2012 annual report and financial statements, together with details of the Annual General Meeting, will be despatched to shareholders on 12 March 2013. The Annual General Meeting will take place at Deutsche Bank AG, London at 11am on 1 May 2013.

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

- profits or losses on disposal or impairment of non-current assets or businesses;
- unrealised gains and losses on derivative financial instruments;
- corporate transaction costs.

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

The exceptional items have been included within the appropriate classifications in the consolidated income statement. The Group previously classified the above items of income and expense, as well as business restructuring costs, as non-trading items.

(d) Changes in accounting policies

There has been a voluntary change in accounting policy under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors as noted below.

Interest or penalties payable and receivable in relation to income tax are recognised as an income tax expense or credit in the consolidated income statement. This represents a voluntary change in accounting policy under IAS 8 Accounting Policies, changes in Accounting Estimates and Errors, as these items were previously presented as finance expenses or income. As interest and penalties on income tax are inextricably linked to the underlying income tax charge or credit, the Group considers that their presentation within the income tax line in the consolidated income statement provides reliable and more relevant information. The retrospective application of this change in accounting policy had no impact on the results or financial position of the Group in prior years. The impact of the change in the current year is described in note 5.

Notes to financial information

2. Basis of preparation (continued)

(d) Changes in accounting policies (continued)

The amendments to IAS 12 Income Taxes provide an exception that the measurement of deferred tax assets and tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. The amendments to IFRS 7 Financial Instruments increase the disclosure requirements for transactions involving transfers of financial assets. Neither of these amendments had a significant impact on the results or financial position of the Group.

The following new standards, interpretations and amendments have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted. They should not have a material impact on the results or financial position of the Group:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- Revision to IAS 19 Employee Benefits
- Amendment to IAS 1 Presentation of Financial Statements
- Amendment to IFRS 7 Financial Instruments
- Amendment to IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities
- IFRS 9 Financial Instruments – Classification and Measurement
- IASB's Annual Improvements Project 2012

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.

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

- UK Retail: comprises betting activities in the shop estate in Great Britain.
- European Retail: comprises all activities connected with the Ireland (Northern and Republic of), Belgium and Spain shop estates.
- Digital: comprises betting and gaming activities from online and mobile operations.
- 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 in 2011 comprise Hotels.

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

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

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

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

Notes to financial information

3. Segment information (continued)

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

	Revenue	Profit before tax and exceptional items	Profit before tax and after exceptional items
	£m	£m	£m
Continuing operations:			
UK Retail	683.3	152.3	149.7
European Retail	124.1	13.4	1.3
Digital	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:			
Hotels		-	0.4
Profit before tax		-	0.4
Group revenue and profit	976.1	154.9	135.0

4. Exceptional items

Continuing operations:	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Loss on closure of shops [(1)]	(3.8)	(1.9)
Spanish retrospective online gaming taxes [(2)]	(2.2)	-
Net unrealised gains on derivatives	0.3	-
Impairment loss	-	(10.9)
Business restructuring costs	-	(4.4)
Corporate transaction costs	-	(2.6)
Interest rate swaps termination costs	-	(0.5)
Total before tax	(5.7)	(20.3)
Exceptional tax credit	0.3	1.6
Total after tax	(5.4)	(18.7)
Discontinued operations:		
Gain on financial guarantee contracts	-	0.4
Total before and after tax	-	0.4

[(1)] The £3.8 million loss on closure of shops is made up of a £1.8 million loss on closure of UK Retail shops (2011: £1.2 million) and a £2.0 million loss on closure of European Retail shops (2011: £0.7 million). These include a loss on disposal of intangible assets of £1.8 million (2011: £0.3 million), a loss on disposal of property, plant and equipment of £0.5 million (2011: £0.6 million) and cost accruals of £1.5 million (2011: £1.0 million).

[(2)] Spain issued online gaming licences for all products (except slots) effective from 1 June 2012. The Spanish tax authority has required that online operators with customers in Spain pay taxes retrospectively under two historic laws that previously were not applied to offshore online gaming. Having completed a self-assessment in accordance with the Spanish tax authority's requirements, the Group has incurred costs of £2.2 million (including surcharges, interest and related professional fees) in relation to these retrospective taxes. These costs have been recorded in the Digital segment.

Notes to financial information

5. Taxation

The total tax charge on continuing operations was £10.4 million (2011: £16.8 million).

The Group has now reached a settlement with HMRC on all outstanding items in respect of tax years through to 31 December 2007. This, together with other adjustments to tax due in respect of prior years, resulted in a tax credit in respect of prior periods of £22.2 million.

This tax credit in respect of prior periods includes a credit £21.7 million and an associated interest credit of £8.1 million in respect of the settlement. The presentation of the interest credit within income tax expense represents a change in accounting policy, as described in note 3.

The Chancellor, in the Autumn Statement on 5 December 2012, announced a further 1% reduction in the main rate of corporation tax, with effect from 1 April 2014. This is in addition to the 2% reduction announced in the Budget on 21 March 2012. The standard rate of Corporation Tax was reduced from 26% to 24% from 1 April 2012, and there will be progressive annual reductions to 23% and 21% with effect from 1 April 2013 and April 2014, respectively.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 23%. The reduction to 23%, effective 1 April 2013, was substantively enacted on 3 July 2012. 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 £6.5 million and to reduce the deferred tax assets by approximately £2.1 million.

6. Dividends

	Year ended 31 December 2012	Year ended 31 December 2011
The total ordinary dividend is made up as follows:		
- interim dividend paid	4.30p	3.90p
- final dividend declared [1]	4.60p	3.90p
	8.90p	7.80p

[1] A final dividend of 4.60 pence (2011: 3.90 pence) per share, amounting to £41.8 million (2011: £35.2 million) in respect of the year ended 31 December 2012 was declared by the directors on 21 February 2013. The total amount payable in respect of the final dividend is based on the expected number of shares in issue on 22 March 2013 and includes the shares issued in respect of the Betdaq acquisition (note 13). The 2012 interim dividend of 4.30 pence per share (£38.8 million) was paid on 25 October 2012.

Notes to financial information

7. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £190.3 million (2011: £118.2 million) by the weighted average number of shares in issue during the year of 908.3 million (2011: 907.7 million).

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

Continuing operations	Year ended 31 December	
	2012	2011
	£m	£m
Profit attributable to shareholders	190.3	117.8
Exceptional items, net of tax (note 4)	5.4	18.7
Adjusted profit attributable to shareholders	195.7	136.5
Discontinued operations		
Profit attributable to shareholders	-	0.4
Exceptional items, net of tax (note 4)	-	(0.4)
Adjusted profit attributable to shareholders	-	-
Group		
Profit attributable to shareholders	190.3	118.2
Exceptional items, net of tax (note 4)	5.4	18.3
Adjusted profit attributable to shareholders	195.7	136.5
Weighted average number of shares (millions):		
Shares for basic earnings per share	908.3	907.7
Potentially dilutive share options and contingently issuable shares	13.3	9.1
Shares for diluted earnings per share	921.6	916.8

	Year ended 31 December			
	Before exceptional items		**After exceptional items**	
Stated in pence	2012	2011	2012	2011
Continuing and Group operations:				
Basic earnings per share	21.6	15.0	21.0	13.0
Diluted earnings per share	21.2	14.9	20.6	12.9

8. Non-current assets

During the year, the Group acquired intangible assets at a cost of £57.0 million (2011: £41.3 million) and property, plant and equipment of £54.5 million (2011: £37.9 million).

At 31 December 2012 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £0.2 million (2011: £1.3 million).

Notes to financial information

9. Net debt

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

	31 December 2012 £m	31 December 2011 £m
Current assets		
Cash and short-term deposits	19.4	26.4
Current liabilities		
Bank overdrafts	(0.1)	-
Interest bearing loans and borrowings	-	(131.4)
Non-current liabilities		
Interest bearing loans and borrowings	(406.2)	(348.9)
Net debt	(386.9)	(453.9)

On 11 July 2012, the Group repaid the remaining balance of the 7.125% bond of £131.4 million using existing facilities. The Group has a £225 million 7.625% sterling bond due in 2017.

10. Note to the statement of cash flows

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Profit before tax and net finance expense	230.1	167.9
Operating exceptional items [(1)]	6.0	19.8
Depreciation of property, plant and equipment	38.7	40.9
Amortisation of intangible assets	16.3	9.9
Share-based payments charge	9.2	6.6
Decrease/(increase) in other financial assets	1.6	(0.4)
Decrease in trade and other receivables	6.9	4.3
Decrease in other financial liabilities	(0.1)	(0.1)
(Decrease)/increase in trade and other payables	(5.3)	7.1
Decrease in provisions	(8.0)	(0.7)
Contribution to retirement benefit scheme	(10.1)	(7.9)
Share of results from joint venture	0.9	0.8
Share of results from associates	(3.5)	(1.8)
Other items	0.5	(6.0)
Cash generated by operations	283.2	240.4
Income taxes paid	(5.2)	(18.1)
Finance expense paid	(32.9)	(36.3)
Net cash generated from operating activities	245.1	186.0

[(1)] Excludes exceptional net finance credit of £0.3 million (2011: £0.5 million expense).

Notes to financial information

11. Related party transactions

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

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Equity investment		
- Joint venture [1]	1.5	2.5
Loans		
- Movement in loan balance with joint venture partner	(1.5)	(0.4)
- Movement in loan balance with joint venture	(0.1)	0.5
Dividends received		
- Associates [2]	2.3	1.6
Sundry expenditures		
- Associates [3]	42.0	39.4

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

The following table provides related party outstanding balances.

	31 December 2012 £m	31 December 2011 £m
Loan balances outstanding		
- Joint venture partner	3.1	4.6
- Joint venture	0.4	0.5
Other receivables outstanding		
- Associates	5.0	5.0

12. Financial guarantees

Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £408.8 million (2011: £483.3 million). There have been no loan guarantees (2011: £0.1 million) given by subsidiaries in the normal course of business to other subsidiary companies.

Bank guarantees have been issued on behalf of subsidiaries and joint ventures with a value of £13.7 million (2011: £22.1 million)

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

The undiscounted maximum liability exposure in respect of the guarantees for all years up to 2042 is £827.9 million (2011: £860.6 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £475.5 million (2011: £490.7 million) in relation to the turnover based element of the hotel rentals and £352.4 million (2011: £369.9 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.

Notes to financial information

12. Financial guarantees (continued)

The net present value of the maximum exposure at 31 December 2012 is £351.6 million (2011: £357.1 million). Included in the net present value of the maximum exposure is £182.1 million (2011: £183.3 million) in relation to the turnover based element of the hotel rentals and £169.5 million (2011: £173.8 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 2012 the Group has recognised a financial liability of £7.7 million (2011: £7.7 million) in respect of these guarantees.

The key assumption in the probability model is the hotels default rate. A rate of 2.2% has been used at 31 December 2012 (2011: 2.2%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.3 million.

13. Events after the balance sheet date

On 24 January 2013, the Group agreed to acquire 100% of the issued share capital of Global Betting Exchange Alderney Limited, a company registered in Alderney which operates the Betdaq exchange business, for an initial consideration of €30.0 million (£25.6 million: 50% in cash and 50% in the Company's shares). The transaction is subject to certain conditions, including regulatory approvals. The transaction also includes the payment of contingent consideration, linked to the performance of the business over a four year period and capped at €535.0 million. Management's current expectation is that the contingent consideration is likely to be significantly less than this. The Group is in the process of finalising the fair value of the consideration, the assets acquired and liabilities assumed, and expect to provide the full disclosures required under IFRS 3 Business Combinations with the interim results for the six months ending 30 June 2013.

In connection with the acquisition described above, on 24 January 2013 the Group also agreed to acquire 10% of the issued share capital of TBH Guernsey Limited, a company registered in Guernsey, for cash consideration of €4.0 million (£3.2 million) with a call option to acquire the remaining shares after four years at a discount to the fair value at that point. The transaction also includes a put option to recover the purchase consideration of €4.0 million in full. Management is in the process of ascertaining the fair value of the consideration (including the call option) as well as other contractual terms. This will determine the classification and accounting for the 10% investment. Management expects to provide the required disclosures with the interim results for the six months ending 30 June 2013.