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Ladbrokes PLC

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

Richard Glynn
Chief Executive

Brian Wallace
Group Finance Director

Matt Sharff
Head of Investor Relations

Ciaran O'Brien
Head of Public Relations

Tel: +44 (0) 20 8515 5726

Ladbrokes

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Ladbrokes plc (“the Group”) today announces its results for the year ended 31 December 2010.

Highlights

- Group net revenue[1] up 1.3% to £976.6 million (2009: £963.7 million)
- Group operating profit[1][2] up 20.1% to £202.3 million (2009: £168.5 million)
- Operating profit from High Rollers of £5.0 million (2009: £66.9 million)
- UK Retail operating profit[2] up 10.9% with overall UK Retail costs down 0.8%
- Machine performance benefits from management actions with annual growth in gross win of 7.2% (increase of 12.7% in Q4)
- Rollout of new Global Draw “Vision” machines has begun – due to complete during the first half of 2011
- Digital[3] operating profit[2] up by 36.0% benefiting from a strong football margin, the World Cup and cost saving initiatives
- Strong balance sheet with group net debt reduced by £202.2 million to £492.0 million
- Cash generated by operations was £272.9 million, up £46.9 million or 20.8%
- Final dividend of 3.75 pence per share; full year of 7.60 pence per share (2009: 2.98 pence per share)
- New management structure and strengthened team

(1) Continuing operations excluding High Rollers
(2) Profit before tax, finance costs and non-trading items
(3) Formerly ‘eGaming’

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	*Year on year change %*
Revenue (excl High Rollers) [1]	976.6	963.7	*1.3*
Profit by division [1][2]			
UK Retail	149.1	134.5	*10.9*
Other European Retail	13.9	8.3	*67.5*
Digital	62.7	46.1	*36.0*
Core Telephone Betting	(0.4)	(3.3)	*87.9*
Corporate costs[3]	(23.0)	(17.1)	*(34.5)*
Total profit excluding High Rollers [1][2]	202.3	168.5	*20.1*
High Rollers	5.0	66.9	*(92.5)*
Total profit [1][2]	207.3	235.4	*(11.9)*
Earnings per share[1] (before non trading items)	46.4p	21.7p	*113.8*
Earnings per share [1][4]	15.2p	14.1p	*7.8*
Total dividend [5]	7.60p	2.98p	*155.0*
Cash generated by operations	272.9	226.0	*20.8*
Net debt	492.0	694.2	*29.1*

(1) Continuing operations
(2) Profit before tax, finance costs and non-trading items
(3) Includes International development costs
(4) Excluding the impact of High Rollers and the HMRC tax settlement and before non-trading items
(5) Interim dividend plus Final proposed dividend

Richard Glynn, Chief Executive, commented:

"Our business is going through a process of significant change. We have made good progress to date and our improved performance reflects the decisive management action taken in 2010.

Group operating profit(1)(2) is up 20.1%, with double digit profit growth across all trading segments of the business. Our machine performance continues to improve with gross win per terminal per week up 10.2% in the second half of 2010 versus 2.8% in the first half. This reflects our increased operational focus and provides a strong platform for the rollout of the new Global Draw machines, which we expect to complete during the first half of 2011.

Within Digital, Sportsbook turnover grew by 17%. The number of Bet In Play events offered in 2010 reached 23,000, an increase of 27%, with amounts staked from Bet In Play events now representing 42% of our total Sportsbook(3). Our innovative range of new apps for mobile devices has helped drive a fivefold increase in the proportion of Digital customers accessing the Mobile service, currently 15%.

The fundamentals of the Group business remain strong. We have laid solid foundations in 2010 upon which to build. We have set out our strategic goals and we have a clear set of priorities on which to focus. We expect to invest an additional £50 million of capital expenditure, during 2011 and 2012, in order to enhance our technology platforms."

(1) Continuing operations excluding High Rollers.
(2) Profit before tax, finance costs and non-trading items.
(3) Excluding horseracing where Bet In Play is not significant

Operating and strategic review

Ladbrokes is a retail led business with a developing digital operation. Both businesses are highly profitable in their own right and benefit from a strong brand.

2010 has seen us set a clear strategic agenda and put in place the team to enable Ladbrokes to fulfill its potential to become a fully e-enabled international betting and gaming business. Digital technology has changed the competitive landscape and we realise the imperative to strengthen our capabilities in areas such as Sportsbook, technology, customer management and online marketing.

Whilst we have already made some tactical progress in 2010 with an extended Bet In Play offering and new mobile apps, the full transformation will involve investment in improved technology and further development of operational excellence.

Management structure

As part of the changes made in 2010 we have enhanced our existing senior team by making a number of new appointments, bringing in people with the right skills to deliver our strategy and respond to the needs of our customers.

Andrew Harley, Group Human Resources Director, joined us in February, Gary McIlraith, Director of Digital, International Development and Strategy in August; Stephen Vowles

began as Director of Customer Experience in December; and Nick Rust joined us this month as Managing Director of Retail.

Separately, after 16 years association with the Group, Brian Wallace, Group Finance Director, has advised the board of his intention to stand down as a Director. Brian has agreed to remain in his role until late summer to help the change go as smoothly as possible. We thank Brian for his considerable contribution to the Group over many years and wish him every success in the future.

Critical success factors

As part of the strategic review last August we defined six drivers of success;

(i) Building upon our Retail strength

(ii) Establishing a strong Digital capability

(iii) Focusing on brand and consumer

(iv) Maintaining regulatory leadership

(v) Developing our pricing, trading and liability management

(vi) Delivering technological excellence

Building upon our Retail strength

In a fast changing market place, Retail provides a stable source of regulated market revenue with growth potential and delivers brand benefits across all channels.

We have become a highly cost efficient operator which has contributed to us delivering a 10.9% increase in UK Retail operating profit in 2010. In 2011 UK Retail costs are projected to increase by 3.5% on a like for like basis (5.1% including new openings) mainly reflecting higher VAT and the impact of the Global Draw revenue share arrangement.

Machine performance has improved through greater operational focus and, with the roll out of the new Global Draw machines now underway, significantly growing machine profitability over the next two years is a key objective.

In 2010 we further optimised our estate by opening 40 new shops, closing 30 and relocating 25. Shop openings are financially compelling, on average paying back within three years. We are planning to open another 50 in 2011 with 20 scheduled closures. We will look to offer our customers innovative products and promotions, utilising the data we have from the OddsOn! programme.

The arrival of Nick Rust, from Gala Coral, to lead the division will provide renewed energy and experience to this vital part of our business.

Establishing a strong Digital capability

The Digital division has been reorganised under Gary McIlraith. The division is intent on strengthening its technology, trading and product capabilities which are expected to lead to future revenue growth. As a result operating costs in 2011 are scheduled to increase by an expected £13 million.

Signs of early progress are encouraging with good growth in customer yields in the fourth quarter of 2010. Sportsbook will remain a key focus for Ladbrokes and is an efficient recruitment vehicle for other products, particularly Casino. We have enhanced our Bet In Play offer with a 27% increase in the number of events with further expansion to come in 2011 when we launch our new trading platform.

The launch of a new and exciting range of smartphone apps during 2010 has significantly increased the number of active customers and revenue in Mobile. Our innovation in this area was rewarded with the Mobile Gambling Award for Mobile Entertainment at the recent Future Mobile Awards. We see Mobile as a strong growth opportunity and therefore an area for further investment going forward.

Focusing on brand and consumer

The Ladbrokes brand is well recognised and continues to be a significant asset. Our online marketing cost as a percentage of net revenue is one of the lowest in the industry and our rate of PBIT conversion one of the highest. Of our online customers, 26% join at zero direct cost to us by typing ladbrokes.com into their browser and approximately 30% at minimal cost through the use of a search engine. This is only made possible by the awareness of our brand, which results from our presence on the UK High Street.

Stephen Vowles has been appointed to revitalise the brand and drive product development and customer loyalty based upon customer insight.

We have made good progress in 2010 in defining key customer segments and will shape marketing activity around them, using the valuable information on our customers that OddsOn! is providing. Trials adopting this approach are already beginning to show encouraging results. We have also introduced a dedicated service team aligned across all products, to manage high value customers.

Maintaining regulatory leadership

Ladbrokes continues to work closely with trade bodies and industry representatives in order to ensure that the regulatory environment balances appropriate protection and fair taxation with customer demand and responsible growth.

In the UK a number of tax and regulation matters are pending including the findings from the Government's consultation on the regulation of remote gambling operators and the planned transition to Machine Gaming Duty in 2012 at a rate yet to be determined.

On Tuesday 15th February the results of the 2010 Prevalence Study were announced. The study found that the low level of problem gambling rates in Britain remain on a par with or below those of many other developed Western nations. Ladbrokes will continue to work with the Government, the regulator and key bodies to fund and support treatment for those with problem gambling and further research into this important area.

The Secretary of State for Culture, Olympics, Media and Sport has determined the 50th Levy Scheme. The Scheme, which runs from April 2011 to March 2012, will apply at an increased rate of 10.75% on gross profits on British horseracing. The threshold below which licensed betting offices pay abated charges was reduced to £50,000 per shop.

Beyond the UK, where it is increasingly apparent that the approach to regulation lacks uniformity, we will adopt a pragmatic approach to each market which reflects the regulatory and competitive environment as well as the scale of the opportunity.

Developing our pricing, trading and liability management

We are improving our pricing, trading and liability management capabilities which will enable us to extend our range of products, including more Bet In Play markets, maximise our gross win margins and better manage our liabilities. We have made good progress in 2010 with an expanded Bet In Play offer, new head of trading and a strengthened team running our algorithmic trading function. The first stage of a new trading platform is expected to launch in the summer of 2011.

Richard Ames, who moves over from Retail, will oversee this development as our new Director of Consumer Operations.

Delivering technological excellence

To achieve our strategic ambition we need to enhance our technology through investment and flexible partnerships.

In 2011, we will continue to develop our pricing, trading and liability management platform, building on the progress we made in 2010. We will also implement a new eCommerce platform that has all of the features you would expect from a leading e-enabled business. This includes improved site search capabilities, a single customer wallet for all products and our own front end platform that lets us seamlessly and easily integrate the best Sportsbook and gaming products available in the market.The eCommerce project will take approximately 18 months to complete, but we have already begun and the improvements to our platform will start to come through in 2011.

Overall we believe that the additional capital expenditure necessary to develop our technological capabilities will be circa £50 million, which will be invested over the course of 2011 and 2012.

Strong fundamentals support investment programme

Ladbrokes is a highly cash generative company with a strong balance sheet. The Group continues to enjoy a low corporate tax rate, benefiting from the HMRC settlement during 2010. This strong financial position will enable us to complete the necessary investment we require to deliver on our priorities and our ambitions.

Outlook

The Group entered 2011 on the back of much improved results in 2010, a significantly strengthened balance sheet and a revitalised management team. A clear strategy to become an e-enabled, international betting and gaming business has been developed. This includes a particular focus on improving our technology capabilities across all distribution channels, re-energising our brand with the customer as the focus and drawing on the energy and passion of our people.

In the period from 1 January to 15 February, Group amounts staked (excluding High Rollers) were up by 14.1%. Net revenue (excluding High Rollers) was up 0.1% driven by lower gross win margin percentages, notably in horses and football. In UK Retail, average

gross win per machine per week was up 17.6%. The rollout of the new Global Draw machines is underway and will be completed during the first half of 2011.

Since the start of the year, business from High Rollers has contributed a further £4.6 million of operating profit.

Whilst we remain very mindful of the uncertain consumer outlook in the UK and the absence of a major football tournament in 2011, the Board looks forward with confidence to executing its new strategy.

Enquiries to:

Richard Glynn, Chief Executive
Brian Wallace, Group Finance Director
Matt Sharff, Head of Investor Relations
Ciaran O'Brien, Head of Public Relations
Telephone +44 (0) 208 515 5726

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 dialing +44 (0)20 7138 0816 and using passcode 2335495#.

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: 2335495#

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.

Audited results for the year ended 31 December 2010

Continuing operations	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Net revenue (excl. High Rollers)	**976.6**	**963.7**
Net revenue from High Rollers	**3.5**	**68.5**
Net revenue	**980.1**	**1,032.2**
Operating profit[1] [2] (excl. High Rollers)	**202.3**	**168.5**
Operating profit[1] [2] from High Rollers	**5.0**	**66.9**
Operating profit[1][2]	**207.3**	**235.4**
Net finance costs[2]	(14.0)	(44.1)
Profit before tax and non-trading items[2]	**193.3**	**191.3**
Non-trading items before tax[3]	(46.2)	(17.2)
Profit before tax	**147.1**	**174.1**
Tax	228.3	(27.7)
Profit after tax – continuing operations	**375.4**	**146.4**

EBITDA[2] – continuing	260.8	288.9
Basic earnings per share[2] – continuing	46.4p	21.7p
Proposed dividend per share[4]	3.75p	-

(1) Profit before tax, finance costs and non-trading items.

(2) Before non-trading items and discontinued operations. 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, business restructuring costs and litigation and transaction costs.

(3) For the year ended 31 December 2010 non-trading losses before tax of £46.2 million include a £7.3 million impairment charge in the UK Retail estate, a £3.1 million loss on closure of shops and disposal of assets in the UK and Other European Retail estates as well as a £8.1 million in relation to accelerated depreciation of machines within UK Retail and related contract termination costs. £1.9 million impairment and related closure costs were incurred following the exit from a French joint venture and £0.7 million related to litigation and transaction costs. Additionally £7.4 million of restructuring costs were incurred across the Group which includes costs associated with changes in executive management and the operational structure as a result of a full strategic review of the Group. Finance non-trading costs of £17.7 million include £8.6 million in relation to bond termination costs and £9.1 million in relation to the unwinding of interest rate swaps.

(4) A final dividend of 3.75 pence (2009:nil) per share, amounting to £33.8 million was declared by the directors on 17 February 2011. These financial statements do not reflect this dividend payable. The 2010 interim dividend of 3.85 pence per share (£34.7 million) was paid in 2010.

Business Review

UK Retail

UK	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	*Year on year change* %
- OTC amounts staked	2,461.6	2,654.7	*(7.3)*
- Machines amounts staked	9,218.5	8,787.4	*4.9*
Amounts staked	11,680.1	11,442.1	*2.1*
- OTC gross win	417.0	427.4	*(2.4)*
- Machines gross win	302.8	282.5	*7.2*
Gross win	719.8	709.9	*1.4*
Adjustments to gross win (1)	(54.6)	(53.2)	*(2.6)*
- OTC net revenue	409.2	412.5	*(0.8)*
- Machines net revenue	256.0	244.2	*4.8*
Net revenue	665.2	656.7	*1.3*
Gross profits tax	(61.2)	(63.0)	*2.9*
Associate income	3.8	3.2	*18.8*
Operating costs	(458.7)	(462.4)	*0.8*
Operating profit (2)	149.1	134.5	*10.9*

(1) Fair value adjustments, free bets and VAT
(2) Before non-trading items
(3) Greyhound tracks account for £10.3 million of amounts staked and £6.5 million of gross win in 2010 (2009: £10.2 million of amounts staked and £6.5 million of gross win)

OTC amounts staked were down 7.3% year on year driven by the challenging economic environment and the loss of a significant number of horseracing fixtures due to adverse weather. The first and last quarters of the year saw the most horseracing abandonments and these quarters were 11.1% and 10.6% down respectively. Quarters two and three, with minimal abandonments and the benefit of the World Cup, were 3.3% and 4.7% down respectively.

OTC gross win for the year declined by 2.4% to £417.0 million. The overall OTC gross win margin of 16.7% was 0.8 percentage points higher than 2009 with the improvement due to a strong performance from football. Our football margin of 25.1% was 8.7 percentage points higher year on year reflecting both the unexpectedly low return in 2009 and the better than normal results during 2010.

OTC net revenue decline was 0.8%, as the 7.3% OTC stake decline was offset by the improved margin and a £7.1 million reduction in OTC free bets (to £7.8 million in 2010), following the change to the OddsOn! loyalty scheme in July 2009.

Despite the disruption caused by the machine supplier trials, ongoing throughout the year, total machine gross win grew 7.2% during the year to £302.8 million with average gross win per gaming machine per week rising 6.6% to £730 in 2010. The performance in the fourth quarter was particularly encouraging with gross win per gaming machine per week up 11.6% reflecting strong management focus and the end of the disruption period on Barcrest

machines (92% of the estate). During the year 24 regional managers have been deployed to focus solely on machines and we have carried out a machine re-siting initiative. In 2010 there were on average 7,953 terminals versus 7,892 in 2009. At 31 December 2010 there were 8,020 machines.

After conducting extensive machine trials with multiple suppliers during the year, in August we announced our intention to switch 95% of our machine estate to Global Draw machines. The new “Vision” cabinet, on the “Video-bet” platform is already in 139 of our shops and we expect to complete this rollout during the first half of 2011. We believe, that over time, this significant step will have a material impact on closing the machine performance gap between ourselves and our competitors.

After adjusting for the effects of higher VAT, net revenue for machines grew 4.8%.

Operating costs fell £3.7 million in the year to £458.7 million reflecting continued strong cost control. The benefit of additional VAT recovery (£4.7 million) and the buyout of premium pay (2010 benefit of £3.0 million; £12.0 million annualised) was partially offset by incremental advertising around the World Cup and accrued bonuses during the year.

Operating profit before non-trading items for the year was up 10.9% at £149.1 million.

At 31 December 2010 there were 2,098 shops (31 December 2009: 2,088) in Great Britain. During the period, there were 40 openings, 30 shop closures, 25 relocations and 102 shop refurbishments.

Other European Retail – Ireland

Ireland	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m	*Year on year Change %*
- OTC amounts staked	556.6	632.5	*(12.0)*
- Machines amounts staked	121.4	100.9	*20.3*
Amounts staked	678.0	733.4	*(7.6)*
- OTC gross win	75.0	82.1	*(8.6)*
- Machines gross win	4.9	4.2	*16.7*
Gross win	79.9	86.3	*(7.4)*
Net revenue	77.7	81.2	*(4.3)*
Betting tax	(7.4)	(8.2)	*9.8*
Operating costs	(59.4)	(64.2)	*7.5*
Operating profit [(1)]	10.9	8.8	*23.9*
Constant currency performance			
- OTC amounts staked	556.6	612.3	*(9.1)*
- Machines amounts staked	121.4	100.9	*20.3*
Amounts staked	678.0	713.2	*(4.9)*
- OTC gross win	75.0	79.5	*(5.7)*
- Machines gross win	4.9	4.2	*16.7*
Gross win	79.9	83.7	*(4.5)*
Net revenue	77.7	78.8	*(1.4)*
Betting tax	(7.4)	(8.0)	*7.5*
Operating costs	(59.4)	(62.0)	*4.2*
Operating profit [(1)]	10.9	8.8	*23.9*

(1) Before non-trading items

The economic and trading environment in Ireland remains challenging. OTC amounts staked fell 12.0% year on year or 9.1% on a constant currency basis.

Overall gross win in Ireland was down 7.4% at £79.9 million with a positive machine performance (in Northern Ireland) more than offset by the decline in OTC amounts staked. The OTC gross win margin was 0.5% higher than in 2009 with a strong football margin slightly offset by a weaker horse margin.

Net revenue fell by 4.3% including lower free bets (down £3.1 million).

In response to the challenging environment, the business has continued to maintain a tight focus on cost control. Operating costs for Ireland fell by 7.5% to £59.4 million (2009: £64.2 million), driven largely by staff scheduling efficiencies and a review of all head office costs. On a constant currency basis, costs were down 4.2%.

At 31 December 2010 there were 208 shops (31 December 2009: 207) in the Republic of Ireland and 78 shops (31 December 2009: 78) in Northern Ireland. During the year, two shops were closed, three opened, 20 refurbished and three relocated.

Other European Retail – Belgium

Belgium	Year ended 31 December 2010	Year ended 31 December 2009	*Year on year change*
	£m	£m	*%*
Gross win	48.1	49.4	*(2.6)*
Net revenue	48.1	49.4	*(2.6)*
Betting tax	(16.8)	(18.5)	*9.2*
Operating costs	(26.5)	(27.9)	*5.0*
Operating profit [1]	4.8	3.0	*60.0*

(1) Before non-trading items

Gross win in Belgium was down £1.3 million at £48.1 million with lower levels of amounts staked offset by a slightly better margin performance. Operating profit increased by 60.0% largely reflecting lower betting tax combined with continuing tight cost control. At 31 December 2010 there were 288 shops versus 298 at 31 December 2009.

Other European Retail – Spain

Spain	Year ended 31 December 2010	Year ended 31 December 2009	*Year on year change*
	£m	£m	*%*
Operating loss [1]	(1.8)	(3.5)	*48.6*

(1) Before non-trading items

Bet volumes and amounts staked in the Sportium joint venture continue to exceed expectations. Notwithstanding Spain's success at World Cup 2010 the overall gross win margin was 18.3%. The joint venture has improved efficiencies in its corner-focused business model and the estate has continued to grow. The corner-focused model has been designed to capitalise on any regulatory change and the Group continues to monitor regulatory progress closely. Helped by encouraging net revenue trends and increasing scale, operating losses were significantly reduced to £1.8 million (2009: £3.5 million). Sportium remains the market leader in Madrid and generated positive cash flows in the final quarter of 2010.

At 31 December 2010 there were 91 corners (31 December 2009: 78) and 15 standalone shops (31 December 2009: five). Sportium intends to open a further 22 corners and two shops in 2011.

Digital

Digital	Year ended 31 December 2010	Year ended 31 December 2009	*Year on year change*
	£m	£m	*%*
Net revenue			
- Sportsbook	65.1	55.7	*16.9*
- Casino	55.3	52.0	*6.3*
- Poker	18.8	23.7	*(20.7)*
- Bingo	13.7	12.3	*11.4*
- Games	16.5	17.0	*(2.9)*
Net revenue	169.4	160.7	*5.4*
Gross profits tax	-	(7.6)	*100.0*
Operating costs	(106.7)	(107.0)	*0.3*
Operating profit [1]	62.7	46.1	*36.0*

(1) Before non-trading items

Digital net revenue increased by 5.4% to £169.4 million. This increase and a 4.2% growth in active customers as well as 4.5% growth in new sign-ups, reflects the benefit of investments made in our online mobile products and the development of our online marketing capabilities. Revenue growth in Sportsbook, Casino and Bingo was partially offset by continued weakness in Poker where the market remains challenging.

Higher net revenue, lower costs and lower taxes resulted in operating profit before non-trading items rising 36.0% to £62.7 million.

Sportsbook net revenue grew 16.9% to £65.1 million driven by 18.9% growth in pre-event turnover and 11.2% growth in Bet In Play with the overall gross win margin in line with 2009 at 6.5%. As stated at the half year, the World Cup boosted player numbers and revenues and delivered very good gross win margins. This trend continued into the second half of the year with a strong football performance delivering a margin of 8.5%, 2.7 percentage points higher than 2009. Conversely, horseracing margins softened due to the introduction of Best Odds Guaranteed in August 2009, together with relatively poor results in some of the significant racing festivals over the year, particularly the Grand National, Royal Ascot and Glorious Goodwood. Overall horse margin for the year of 5.6% was 2.7 percentage points lower than 2009. Active customer growth of 11.3% was driven by the World Cup as well as continued improvements in the functionality and content of our Sportsbook site, with average monthly active player days growing by 13.0% and yield per customer showing 5.6% growth against 2009.

Casino net revenue was up 6.3% to £55.3 million, following an exceptionally strong second half of the year with net revenue growth of 14.3%. Active player growth of 5.6% was achieved while maintaining average yield per customer at 2009 levels. This was achieved by focusing on both improving the retention of new player signups and building up one to one relationships with our VIP customers through better customer service and stand out promotions to our most valuable players.

Poker net revenue fell 20.7% during the period to £18.8 million with the European Poker market remaining challenging. While the number of active customers in the year fell by 27.7%, this is against a comparative period which saw significant customer reactivation and incentivisation accompanying the migration of our Poker customer base to the Microgaming network. Customer yield growth of 9.8% was a result of lower customer acquisition numbers aided by an increased focus on VIP retention.

Bingo net revenue grew 11.4% to £13.7 million. While the number of customers declined 3.0% with a lower level of player recruitment activity and marketing spend in 2010, this was more than offset by 14.8% growth in customer yield driven through continued product improvements and proactive customer management to deliver greater customer lifetime value.

With only one major new game launched in the year, net revenue for Games was down 2.9% at £16.5 million, with active customers down 0.7% and yield showing a 3.3% decline.

Included within the Digital division is the Mobile channel that has seen year-on-year revenue growth of 78.4% (to £5.7 million) and active customer growth of 205.9% delivered through continued product enhancement and effective player recruitment. With our range of innovative smartphone applications launched in 2010 and in the pipeline for 2011, and through our high profile Masters Snooker sponsorship, Ladbrokes Mobile is developing a strong position within the UK Mobile gaming market.

Operating costs of £106.7 million fell 0.3% compared to 2009. This is as a result of more effective marketing spend and reduced levy costs from the relocation of our Sportsbook operation to Gibraltar in 2009, which were partially offset by technology and people costs resulting from the move. Marketing investment was 18.8% of net revenue in the period compared to 20.6% of net revenue in 2009. Nevertheless, new player signups grew 4.5% bolstered by the World Cup customer recruitment campaign. The adjusted cost per acquisition was flat compared to 2009 at £91.

Telephone Betting

Core Telephone Betting (excluding High Rollers)	Year ended 31 December 2010	Year ended 31 December 2009	*Year on year change*
	£m	£m	*%*
Net revenue	16.2	15.7	*3.2*
Gross profits tax	(2.5)	(2.4)	*(4.2)*
Operating costs	(14.1)	(16.6)	*15.1*
Operating loss [(1)]	(0.4)	(3.3)	*87.9*

(1) Before non-trading items

The profit from High Rollers for the period was £5.0 million (2009: £66.9 million).

The Core Telephone Betting business continues to struggle to compete with offshore low tax operators and the shift of customers to the internet. Excluding High Rollers, net revenue was up 3.2% to £16.2 million with the 11.6% decline in amounts staked offset by a better gross win margin of 6.0% (2009: 5.4%) and lower free bets. Unique active customers fell 10.8% to 85,900 (2009: 96,300), with average monthly active player days down by 12.3% and call volumes down by 12.8%.

The majority of telephone calls are now handled by staff in the UK Retail estate and this initiative, combined with the closure of the Liverpool call centre in 2010 has resulted in telephone operating costs (excluding High Rollers) falling 15.1% to £14.1 million.

Corporate costs

International development costs are now included within Corporate costs. Before non-trading items, total Corporate costs rose £5.9 million to £23.0 million (2009: £17.1 million). The increase largely reflects bonus accruals and the non-cash costs relating to a new executive long term incentive scheme.

Capital structure

Following the repayment of £118.6 million of 7.125% bonds due in 2012, and the subsequent issue of £225.0 million 7.625% bonds due in 2017, the Board took the decision to unwind interest rate swaps (relating to £199.0 million of debt) which are no longer required.

The termination costs in relation to the bond of £8.6 million and £9.1 million unwinding of interest rate swaps have been recognised as a non-trading finance charge.

At 31 December 2010 net debt was £492.0 million, down £202.2 million since 31 December 2009.

Taxation

On 21 April 2010 the Group announced that it had reached a settlement with HMRC which covered substantially all outstanding items in respect of tax years through to 31 December 2007. The settlement has resulted in the recognition in the 2010 income statement, within the tax charge, of a £261.9 million tax credit in relation to prior years. Finance income has also increased by £20.0 million to reflect the interest consequences of the settlement.

Following the revised corporation tax rates announced in this year's emergency Budget our P&L guidance is 17% in 2011 reducing by circa 1% per annum thereafter to 15%, assuming that each year the appropriate finance bill is enacted which will enable the yearly staged reduction in the headline corporation tax rate. It is anticipated that the cash tax rate will be circa 14%.

Dividend

In line with its stated intention to resume a progressive dividend policy from the 2010 interim onwards, the Board today announces a final dividend of 3.75 pence per share taking the full year dividend to 7.60 pence per share. This dividend is approximately 2.0 times covered by underlying earnings excluding the impact of High Rollers and the effect of the HRMC settlement.

The dividend will be payable on 1 June 2011 to shareholders on the register on 25 February 2011.

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.

Financial Review

Revenue and profit before tax		Year ended 31 December 2010		Year ended 31 December 2009
	Revenue	Profit[1]	Revenue	Profit[1]
Continuing operations:	£m	£m	£m	£m
UK Retail	665.2	149.1	656.7	134.5
Other European Retail	125.8	13.9	130.6	8.3
Digital	169.4	62.7	160.7	46.1
Core Telephone Betting	16.2	(0.4)	15.7	(3.3)
High Rollers	3.5	5.0	68.5	66.9
	980.1	230.3	1,032.2	252.5
Corporate costs[2]	-	(23.0)	-	(17.1)
	980.1	207.3	1,032.2	235.4
Net finance costs	-	(34.0)	-	(44.1)
Interest income on corporation tax settlement	-	20.0	-	-
Revenue and profit before tax	980.1	193.3	1,032.2	191.3
Discontinued operations:				
Italy Retail	8.3	(9.1)	26.9	(9.9)
Casino	-	-	4.6	(0.9)
	8.3	(9.1)	31.5	(10.8)
Net finance costs	-	-	-	0.1
Revenue and loss before tax	8.3	(9.1)	31.5	(10.7)
Group revenue and profit before tax	988.4	184.2	1,063.7	180.6

(1) Profit is before non-trading items
(2) In 2009 Corporate costs and International development costs were disclosed separately

Trading summary – Continuing operations

Revenue

Revenue from continuing operations decreased by £52.1 million (5.0%) to £980.1 million (2009: £1,032.2 million). Excluding High Rollers activity, revenue increased by £12.9 million (1.3%) to £976.6 million (2009: £963.7 million) mainly as a result of improved machines performance in the UK Retail estate and improved Sportsbook performance in Digital.

Profit before finance costs, tax and non-trading items

Profit before finance costs, tax and non-trading items decreased by £28.1 million (11.9%) to £207.3 million (2009: £235.4 million). Excluding High Rollers activity, profit before finance costs, tax and non-trading items increased by £33.8 million (20.1%) to £202.3 million (2009: £168.5 million) reflecting increased profits across all channels partially offset by higher corporate costs.

Finance costs
The net finance costs of £34.0 million were £10.1 million lower than last year (2009: £44.1 million) mainly reflecting lower average net debt. 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 offset by favourable net interest in the period has resulted in a 1.0% increase in profit for continuing operations before taxation and non-trading items to £193.3 million (2009: £191.3 million).

Non-trading items before tax
£28.5 million of non-trading losses before tax include a £7.3 million impairment charge in the UK and Irish Retail estate, a £3.1 million loss on closure of shops and disposal of assets in the UK and Other European Retail estates as well as a £8.1 million charge in relation to accelerated depreciation of machines and related contract termination costs. £1.9 million of impairment and related closure costs were incurred following the exit from a French joint venture and £0.7 million related to litigation and transaction costs. Additionally, £7.4 million of restructuring costs were incurred across the Group. These include costs associated with changes in executive management and operational structure as a result of a full strategic review of the Group.

Finance non-trading costs of £17.7 million include £8.6 million in relation to bond termination costs and £9.1 million in relation to the unwinding of interest rate swaps.

Taxation
In April 2010 the Group reached a settlement with HMRC which covered substantially all outstanding items in respect of tax years through to 31 December 2007. The settlement resulted in the recognition in the 2010 income statement, within the tax charge, of a £261.9 million tax credit in relation to prior years. Additionally the Group received cash of £80.0 million in respect of corporation tax repayable from HMRC.

Excluding the corporation tax settlement, the Group taxation charge for continuing operations before non-trading items of £35.6 million represents an effective tax rate of 18.4% (2009: 15.0%).

Discontinued operations
The £9.1 million trading loss in discontinued operations is the loss before interest, tax and non-trading items from Italy. The Italy Retail business was sold on 31 May 2010 and the total loss on disposal of the Italy business was £17.3 million.

The Paddington Casino licence was sold for £4.3 million on 22 January 2010.

Earnings per share (EPS) – Continuing operations
EPS (before non-trading items) increased 113.8% to 46.4 pence (2009: 21.7 pence), reflecting the benefit of the corporation tax settlement. EPS (including the impact of non-trading items) was 41.5 pence (2009: 19.5 pence). Fully diluted EPS (including the impact of non-trading items) was 41.4 pence (2009: 19.4 pence) after adjustment for outstanding share options.

EPS (before non-trading items and excluding the benefit of the corporation tax settlement) decreased 28.1% to 15.6 pence (2009: 21.7 pence), reflecting the increased underlying corporation tax rate and higher weighted average number of shares.

Earnings per share (EPS) – Group
EPS (before non-trading items) increased 123.6% to 45.4 pence (2009: 20.3 pence), reflecting the benefit of the corporation tax settlement. EPS (including the impact of non-trading items) was 38.5 pence (2009: 9.9 pence). Fully diluted EPS (including the impact of non-trading items) was 38.4 pence (2009: 9.9 pence) after adjustment for outstanding share options.

EPS (before non-trading items and excluding the benefit of the corporation tax settlement) decreased 27.6% to 14.7 pence (2009: 20.3 pence), reflecting the increased underlying corporation tax rate and higher weighted average number of shares.

Cash flow, capital expenditure and borrowings
Cash generated by operations was £272.9 million. After net finance costs of £35.6 million, income taxes received of £51.9 million and £48.8 million on capital expenditure and intangible asset additions, cash inflow was £240.4 million.

At 31 December 2010, gross borrowings of £509.9 million less cash and short term deposits of £17.9 million have resulted in a net debt of £492.0 million.

Reconciliation of gross win to revenue

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 2010 £m	Year ended 31 December 2009 £m
Gross win	1,059.3	1,118.9
Free bets, promotions, bonuses and other fair value adjustments	(33.5)	(49.3)
VAT	(45.7)	(37.4)
Revenue	980.1	1,032.2

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

Gross win	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
UK Retail	719.8	709.9
Other European Retail	128.0	135.7
Digital	192.5	184.3
Core Telephone Betting	16.4	16.6
High Rollers	2.6	72.4
Total	1,059.3	1,118.9

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

Net revenue	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
UK Retail	665.2	656.7
Other European Retail	125.8	130.6
Digital	169.4	160.7
Core Telephone Betting	16.2	15.7
High Rollers	3.5	68.5
Total	980.1	1,032.2

Consolidated income statement

	Year ended 31 December 2010		Year ended 31 December 2009	
	Before non-trading items[1] £m	Total £m	Before non-trading items[1] £m	Total £m
Continuing operations				
Amounts staked[2]	15,011.7	15,011.7	15,027.7	15,027.7
Revenue	980.1	980.1	1,032.2	1,032.2
Cost of sales before depreciation and amortisation	(639.7)	(639.7)	(668.9)	(670.2)
Administrative expenses	(82.9)	(92.0)	(75.5)	(79.4)
Share of results from joint venture and associates	3.3	3.3	1.1	1.1
EBITDA	260.8	251.7	288.9	283.7
Depreciation and amounts written off non-current assets	(53.5)	(72.9)	(53.5)	(64.5)
Profit before tax and finance costs	207.3	178.8	235.4	219.2
Finance costs	(34.6)	(53.1)	(46.7)	(103.5)
Finance income[3]	20.6	21.4	2.6	58.4
Profit before taxation	193.3	147.1	191.3	174.1
Income tax expense	(35.6)	(33.6)	(28.6)	(27.7)
Income tax settlement credit[3]	261.9	261.9	-	-
Profit for the year – continuing operations	419.6	375.4	162.7	146.4
Discontinued operations				
Loss for the year from discontinued operations	(8.7)	(27.1)	(10.5)	(72.0)
Profit for the year	410.9	348.3	152.2	74.4
Attributable to:				
Equity holders of the parent	410.9	348.3	152.2	74.4
Earnings per share from continuing operations:				
- basic	46.4p	41.5p	21.7p	19.5p
- diluted	46.3p	41.4p	21.6p	19.4p
Earnings per share on profit for the year:				
- basic	45.4p	38.5p	20.3p	9.9p
- diluted	45.3p	38.4p	20.2p	9.9p
Proposed dividends[4]	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; business restructuring costs and litigation and transaction 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 do not represent the Group's statutory revenue and comprises the total amounts staked by customers on betting and gaming activities.
[3] In April 2010 the Group announced that it had reached a settlement with HMRC which covered substantially all outstanding items in respect of the tax years to 31 December 2007. The settlement has resulted in the recognition within the tax charge of a £261.9 million tax credit in relation to prior years. Finance income has also increased by £20.0 million to reflect the interest consequences of the settlement.
[4] A final dividend of 3.75 p (2009: nil) per share, amounting to £33.8 million (2009: nil) was declared by the directors on 17 February 2011. The 2010 interim dividend of 3.85 pence per share (£34.7 million) was paid in 2010.

Consolidated statement of comprehensive income

For the year ended 31 December		2010		2009
	£m	£m	£m	£m
Profit for the year		348.3		74.4
Currency translation differences	(7.5)		(14.3)	
Recycling of currency translation differences	(10.8)		-	
Net investment hedges	-		10.4	
Tax on net investment hedges	-		(2.9)	
Total foreign currency translation expense, net of tax		(18.3)		(6.8)
Actuarial gains/(losses) on defined benefit pension scheme	15.6		(9.4)	
Tax on actuarial gains/(losses) on defined benefit pension scheme	(4.2)		2.6	
Total actuarial gains/(losses) on defined benefit pension scheme, net of tax		11.4		(6.8)
Net (losses)/gains on cash flow hedges	(0.4)		2.0	
Tax on net (losses)/gains on cash flow hedges	0.1		(0.5)	
Total net (losses)/gains on cash flow hedges net of tax		(0.3)		1.5
Recycling of losses on cash flow hedges	9.1		-	
Tax on recycling of losses on cash flow hedges	(2.5)		-	
Total recycling of losses on cash flow hedges, net of tax		6.6		-
Total other comprehensive loss for the year		(0.6)		(12.1)
Total comprehensive income for the year		347.7		62.3
Attributable to:				
Equity holders of the parent		347.7		62.3

Consolidated balance sheet

	31 December 2010 £m	31 December 2009 £m
ASSETS		
Non-current assets		
Goodwill and intangible assets	610.1	614.2
Property, plant and equipment	207.4	230.3
Interest in joint venture	3.0	2.6
Interest in associates and other investments	14.5	10.5
Other financial assets	5.6	6.9
Deferred tax assets	69.3	28.7
Retirement benefit asset	34.5	15.0
	944.4	908.2
Current assets		
Trade and other receivables	84.6	104.5
Derivatives	-	0.4
Cash and short-term deposits	17.9	24.8
	102.5	129.7
Assets of disposal group classified as held for sale	-	44.9
Total assets	**1,046.9**	**1,082.8**
LIABILITIES		
Current liabilities		
Interest bearing loans and borrowings	(108.3)	(26.1)
Derivatives	-	(0.1)
Trade and other payables	(134.4)	(126.9)
Corporation tax liabilities	(26.2)	(147.0)
Other financial liabilities	(1.1)	(1.7)
Provisions	(1.3)	(2.8)
	(271.3)	(304.6)
Non-current liabilities		
Interest-bearing loans and borrowings	(401.6)	(689.3)
Derivatives	-	(9.2)
Other financial liabilities	(10.8)	(12.0)
Deferred tax liabilities	(93.3)	(100.5)
Provisions	(12.9)	(13.7)
	(518.6)	(824.7)
Liabilities of disposal group classified as held for sale	-	(13.9)
Total liabilities	**(789.9)**	**(1,143.2)**
Net assets/(liabilities)	**257.0**	**(60.4)**
EQUITY		
Issued share capital	266.1	264.6
Share premium account	194.1	189.5
Treasury and own shares	(114.4)	(112.5)
Retained earnings	(99.7)	(430.8)
Foreign currency translation reserve	10.5	28.8
Equity shareholders' funds/(deficit)	256.6	(60.4)
Non-controlling interests	0.4	-
Total equity	**257.0**	**(60.4)**

Consolidated statement of changes in equity

	Issued share capital	Share premium account	Treasury and own shares	Retained earnings [1]	Foreign currency translation reserve[2]	Total	Non-controlling Interest	Total
	£m	£m	£m	£m	£m	£m	£m	£m
At 1 January 2009	**179.2**	**2,135.8**	**(114.3)**	**(2,564.3)**	**35.6**	**(328.0)**	**-**	**(328.0)**
Profit for the year	-	-	-	74.4	-	74.4	-	74.4
Other comprehensive loss	-	-	-	(5.3)	(6.8)	(12.1)	-	(12.1)
Total comprehensive income	-	-	-	69.1	(6.8)	62.3	-	62.3
Issue of shares	0.1	0.3	-	-	-	0.4	-	0.4
Share-based payment awards	0.1	1.4	-	(1.5)	-	-	-	-
Cost of share-based payments	-	-	-	3.9	-	3.9	-	3.9
Rights issue[3]	85.2	200.4	-	-	-	285.6	-	285.6
Rights issue costs	-	(11.0)	-	-	-	(11.0)	-	(11.0)
Share premium cancellation[4]	-	(2,137.4)	-	2,137.4	-	-	-	-
Net decrease in shares held in ESOP trusts	-	-	1.8	-	-	1.8	-	1.8
Equity dividends	-	-	-	(75.4)	-	(75.4)	-	(75.4)
At 31 December 2009	**264.6**	**189.5**	**(112.5)**	**(430.8)**	**28.8**	**(60.4)**	**-**	**(60.4)**
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 gain/(loss)	-	-	-	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
Cost of share-based payments	-	-	-	3.8	-	3.8	-	3.8
Net increase 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**

(1) *At 31 December 2010, there were £0.5 million (2009: £9.2 million) of deferred losses on cash flow hedges within retained earnings.*
(2) *The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and the Group's net investment hedges.*
(3) *In October 2009, the Company raised £274.6 million, net of issue costs of £11.0 million, through a fully underwritten 1 for 2 rights issue at a price of 95.0 pence, with a nominal value of 28 1/3 pence each.*
(4) *Following shareholder approval at the Annual General Meeting on 15 May 2009 and court approval on 31 July 2009, the Company cancelled its share premium account, transferring £2,137.4 million to retained earnings.*

Consolidated statement of cash flows

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Net cash flows from operating activities[1]	277.0	132.5
Cash flows from investing activities		
Interest received	12.2	3.2
Dividends received from associates	-	3.3
Payments for intangible assets	(15.9)	(13.0)
Purchase of property, plant and equipment	(32.9)	(38.3)
Proceeds from the sale of property, plant and equipment	1.4	1.4
Proceeds from sale of intangible assets	4.3	-
Costs of disposal of discontinued operations	(2.7)	(1.3)
Cash consideration in respect of sale of discontinued operations	(0.9)	-
Cash disposed with discontinued operations	(3.1)	-
Purchase of interest in joint venture	(0.8)	(4.1)
Purchase of interest in associates and other investments	(0.2)	(0.4)
	(38.6)	(49.2)
Cash flows from financing activities		
Proceeds from issue of shares	-	0.3
Proceeds from rights issue	-	274.6
Proceeds from borrowings, net of issue costs[2]	221.1	73.7
Purchase of ESOP shares	-	(1.2)
Repayment of borrowings[3]	(435.1)	(351.6)
Dividends paid	(34.7)	(75.4)
	(248.7)	(79.6)
Net (decrease)/increase in cash and cash equivalents	(10.3)	3.7
Net foreign exchange difference	-	(0.7)
Cash and cash equivalents at beginning of the year	28.0	25.0
Cash and cash equivalents at end of the year	17.7	28.0
Cash and cash equivalents comprise:		
Cash at bank and in hand	17.9	30.1
Bank overdraft	(0.2)	(2.1)
	17.7	28.0
Analysed as:		
Continuing operations	17.7	22.7
Discontinued operations	-	5.3
	17.7	28.0

(1) See note 11 for a reconciliation between profit before tax and finance costs and net cash flows from operating activities.

(2) Proceeds of £225.0 million from issue of 7.625% bond maturing in 2017, net of issue costs.

(3) 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 the financial statements

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 2010 were authorised for issue in accordance with a resolution of the directors on 17 February 2011.

2. Basis of preparation

(a) The director's 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 2010.

The consolidated financial statements are presented in sterling. All values are in millions (£m) rounded to one decimal place except where otherwise indicated.

The financial information set out in this document does not constitute the Group's statutory accounts for the year ended 31 December 2010 or 31 December 2009. The annual report and financial statements for the year ended 31 December 2010 were approved by the Board of Directors on 17 February 2011 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 2010 was unqualified and did not contain a statement under section 498 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2009 have been delivered to the Registrar of Companies. The auditor's report on the statutory accounts for the year ended 31 December 2009 was unqualified and did not contain a statement under section 498 of the Companies Act 2006.

The 2010 annual report and financial statements, together with details of the Annual General Meeting, will be despatched to shareholders on 9 March 2011. The Annual General Meeting will take place at the QE2 Conference Centre at 11am on 13 May 2011.

(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;
- business restructuring costs; and
- litigation and transaction costs.

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

(d) Changes in accounting policies

The Group has adopted the following new standards and interpretations for the year ended 31 December 2010:

IFRS 3 (Revised) has introduced a number of changes in the accounting for non-controlling interests, business combinations achieved in stages, contingent consideration and transaction costs.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such changes will have no impact on goodwill, nor will it give rise to a gain or a loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

There were no significant acquisitions or changes in the ownership interest of subsidiaries during the period to which these standards would have been relevant.

IFRIC 12 Service Concession Agreements, IFRIC 17 Distribution of Non-Cash Assets to Owners and IFRIC 18 Transfers of Assets from Customers were all adopted for the year, but have not had an impact on the Group.

The International Accounting Standards Board's Second Annual Improvements Project was published in May 2009, with the majority of changes being applicable from 1 January 2010. The project made minor amendments to a number of standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments to these standards did not have any impact on the accounting policies, financial position or performance of the Group.

The Group is currently assessing the impact of other new and amended standards and interpretations that are not yet effective, including IAS 32 Financial Instruments: Presentation (amendment), IAS 24 Related Party Disclosures (Revised), IFRS 9 Financial Instruments, IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) and IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

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 Group's continuing businesses are organised and managed according to the nature of services provided, which permits aggregation of the Group's operating segments into five reportable segments. The Group's reportable segments are:

- UK Retail: comprises betting activities in the shop estate in Great Britain.
- Other European Retail: comprises all activities connected with the Ireland (North and South), Belgium and Spain shop estates.
- Digital (formerly eGaming): 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.

The discontinued operations comprise Italy Retail and Hotels in 2010. Discontinued operations in 2009 also included Casino.

The Board assesses the performance of operating segments based on a measure of profit before interest and tax. This measurement basis excludes the effect of non-trading income and expenditure from the operating segments.

3. Segment information (continued)

Year ended 31 December 2010	Revenue £m	Profit before taxation and non-trading items £m	Profit before taxation and after non-trading items £m
Continuing operations:			
UK Retail	665.2	149.1	135.6
Other 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 costs		207.3	178.8
Interest income on corporation tax settlement		20.0	20.0
Net finance costs		(34.0)	(51.7)
Profit before taxation (continuing operations)		193.3	147.1
Discontinued operations:			
Italy Retail	8.3	(9.1)	(27.7)
Hotels	-	-	1.2
	8.3	(9.1)	(26.5)
Net finance costs		-	-
Loss before taxation (discontinued operations)		(9.1)	(26.5)
Group revenue and profit	988.4	184.2	120.6

Year ended 31 December 2009	Revenue £m	Profit before taxation and non-trading items £m	Profit before taxation and after non-trading items £m
Continuing operations:			
UK Retail	656.7	134.5	124.1
Other European Retail	130.6	8.3	4.5
Digital	160.7	46.1	46.1
Core Telephone Betting	15.7	(3.3)	(4.3)
High Rollers	68.5	66.9	66.9
Segment revenue and profit	1,032.2	252.5	237.3
Corporate costs[1]		(17.1)	(18.1)
Profit before tax and net finance costs		235.4	219.2
Net finance costs		(44.1)	(45.1)
Profit before taxation (continuing operations)		191.3	174.1
Discontinued operations:			
Italy Retail	26.9	(9.9)	(74.6)
Casino	4.6	(0.9)	(6.9)
Hotels	-	-	(0.3)
	31.5	(10.8)	(81.8)
Net finance costs		0.1	0.1
Loss before taxation (discontinued operations)		(10.7)	(81.7)
Group revenue and profit	1,063.7	180.6	92.4

[1] *In 2009 Corporate costs were shown separately as International Development costs and Corporate costs.*

4. Non-trading items

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Business restructuring costs[1]	(7.4)	(3.9)
Impairment loss[2]	(9.2)	(6.1)
Termination of machines contract[3]	(8.1)	-
Loss on closure of UK Retail shops[4]	(3.0)	(4.1)
Loss on closure of Other European Retail shops	(0.1)	(2.1)
Litigation and transaction costs	(0.7)	-
Bond termination costs and termination of interest rate swaps[5]	(17.7)	-
Net unrealised losses on derivative financial instruments	-	(1.0)
Total non-trading items	(46.2)	(17.2)
Non-trading tax credit	2.0	0.9
Non-trading items after taxation	(44.2)	(16.3)

[1] Business restructuring costs in 2010 relate to costs associated with a strategic review resulting in changes to senior executives and operational structures within Corporate costs of £4.8 million, UK Retail of £0.5 million, Digital of £1.9 million and Other European Retail of £0.2 million. Business restructuring costs in 2009 relate to the closure of the Liverpool call centre within the Core Telephone Betting segment (£1.0 million) and changes to the management structure within UK Retail (£1.9 million) and Corporate costs (£1.0 million).
[2] The impairment loss relates to UK Retail shops £2.0 million (2009: £4.4 million), Ireland shops £5.3 million (2009: £1.7 million) and £1.9 million losses in relation to the withdrawal from a French joint venture with Groupe Canal+.
[3] The £8.1 million termination of machines contract cost includes accelerated depreciation of £7.1 million and related contract costs of £1.0 million.
[4] The £3.0 million (2009: £4.1 million) loss on closure of UK Retail shops consists of loss on disposal of intangible assets of £2.6 million (2009: £0.9 million), loss on disposal of property, plant and equipment of £0.4 million (2009: £1.9 million) and cost accruals of £nil (2009: £1.3 million).
[5] During the year 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 are reported as non-trading items.

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

5. Taxation

The total tax credit on continuing operations was £228.3 million (2009: £27.7 million charge). The taxation credit relates to £229.7 million of UK tax credit and £1.4 million of overseas tax expense.

In April 2010, the Group announced that it had reached a settlement with HMRC which covered substantially all outstanding items in respect of tax years to 31 December 2007. The settlement has 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 is offset by current year tax 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 22 June 2010, announced reductions in the main rate of corporation tax and rates of capital allowances. The standard rate of UK Corporation Tax will be reduced from 28% to 27% from 1 April 2011, and there will be progressive annual reductions of a further 1% until a rate of 24% is reached with effect from 1 April 2014. The Finance Act (No 2) 2010

received Royal Assent on 27 July 2010, with the first of the rate reductions being substantively enacted from 21 July 2010.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 27%. 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 value of the group's deferred tax liabilities at the balance sheet date by approximately £13.0 million, and to reduce the value of the group's deferred tax assets at the balance sheet date by approximately £12.0 million.

6. Discontinued operations

On 31 May 2010, the Group completed the sale of its Italy Retail operation. The effect of the disposal is as follows:

	31 December 2010 £m
Initial cash consideration	4.4
Working capital adjustment	(5.3)
Final cash consideration	(0.9)
Net assets sold	(24.5)
Cost of disposal	(2.7)
Recycled foreign exchange	10.8
Loss on disposal	(17.3)

The Group's Casino operation was closed on 12 November 2009 and the licence was sold for £4.3 million on 22 January 2010.

Loss for discontinued operations comprises the following:

	Year ended 31 December 2010			Year ended 31 December 2009			
	Italy Retail £m	Hotels £m	**Total £m**	Italy Retail £m	Casino £m	Hotels £m	**Total £m**
Revenue	8.3	-	**8.3**	26.9	4.6	-	**31.5**
Expenses	(17.4)	-	**(17.4)**	(36.8)	(5.5)	-	**(42.3)**
Loss before tax, finance costs and non-trading items	(9.1)	-	**(9.1)**	(9.9)	(0.9)	-	**(10.8)**
Net finance income	-	-	**-**	0.1	-	-	**0.1**
Loss before tax and non-trading items	(9.1)	-	**(9.1)**	(9.8)	(0.9)	-	**(10.7)**
Loss on disposal of assets	(17.3)	-	**(17.3)**	(0.6)	-	-	**(0.6)**
Litigation and transaction costs	(1.3)	-	**(1.3)**	-	-	-	**-**
Profit/(loss) on financial guarantee contracts	-	1.2	**1.2**	-	-	(0.3)	**(0.3)**
Impairment loss	-	-	**-**	(64.1)	-	-	**(64.1)**
Loss on closure of Casino	-	-	**-**	-	(6.0)	-	**(6.0)**
Loss before tax	(27.7)	1.2	**(26.5)**	(74.5)	(6.9)	(0.3)	**(81.7)**
Tax credit on trading items	0.4	-	**0.4**	-	0.2	-	**0.2**
Tax (charge)/credit on non-trading	(1.0)	-	**(1.0)**	9.1	0.4	-	**9.5**
Loss for the year	(28.3)	1.2	**(27.1)**	(65.4)	(6.3)	(0.3)	**(72.0)**
Loss for the year before non-trading items	(8.7)	-	**(8.7)**	(9.8)	(0.7)	-	**(10.5)**

6. Discontinued operations (continued)

Following the sale of Italy Retail and the closure of the Casino, the Group has no assets or liabilities classified as held for sale at 31 December 2010. The major classes of assets and liabilities of Italy Retail held for sale as at 31 December 2009, and those that were sold on 31 May 2010, are shown as follows:

	31 May 2010 £m	31 December 2009 £m
Assets		
Non-current assets		
Goodwill and intangible assets	6.8	11.5
Property, plant and equipment	21.2	21.4
Other financial assets	-	1.1
	28.0	34.0
Current assets		
Trade and other receivables	2.4	5.6
Cash and short term deposits	3.1	5.3
	5.5	10.9
Total assets disposed/held for sale	**33.5**	**44.9**
Liabilities		
Current liabilities		
Trade and other payables	(9.0)	(8.6)
Corporation tax liabilities	-	(0.4)
	(9.0)	(9.0)
Non-current liabilities		
Other financial liabilities	-	(4.9)
Total liabilities disposed/held for sale	**(9.0)**	**(13.9)**
Net assets disposed/held for sale	**24.5**	**31.0**

7. Dividends paid and proposed

Pence per share	2010 Pence	2009 Pence
Interim	3.85	2.98
Final	3.75	-
	7.60	2.98

A final dividend of 3.75 pence (2009: nil) per share, amounting to £33.8 million (2009: nil) was declared by the directors on 17 February 2011. The 2010 interim dividend of 3.85 pence per share (£34.7 million) was paid in 2010.

8. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £348.3 million (2009: £74.4 million) by the weighted average number of shares in issue during the year of 904.6 million (2009: 751.4 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.

	2010	2009
	£m	£m
Continuing operations		
Profit attributable to shareholders	375.4	146.4
Non-trading items net of tax	44.2	16.3
Adjusted profit attributable to shareholders	419.6	162.7
Discontinued operations		
Loss attributable to shareholders	(27.1)	(72.0)
Non-trading items net of tax	18.4	61.5
Adjusted loss attributable to shareholders	(8.7)	(10.5)
Group		
Profit attributable to shareholders	348.3	74.4
Non-trading items net of tax	62.6	77.8
Adjusted profit attributable to shareholders	410.9	152.2

Weighted average number of shares (millions):	2010	2009
Shares for basic earnings per share	904.6	751.4
Potentially dilutive share options and contingently issuable shares	2.5	1.9
Shares for diluted earnings per share	907.1	753.3

Earnings per share (pence)	**Before non-trading items**		**After non-trading items**	
	2010	2009	2010	2009
Continuing operations				
Basic earnings per share	46.4	21.7	41.5	19.5
Diluted earnings per share	46.3	21.6	41.4	19.4
Discontinued operations				
Basic earnings per share	(1.0)	(1.4)	(3.0)	(9.6)
Diluted earnings per share	(1.0)	(1.4)	(3.0)	(9.5)
Group				
Basic earnings per share	45.4	20.3	38.5	9.9
Diluted earnings per share	45.3	20.2	38.4	9.9

9. Property, plant and equipment

During the year, the Group acquired assets with a cost of £33.8 million (2009: £37.4 million).

Assets with a net book value of £2.0 million were disposed of by the Group during the year (2009: £5.7 million).

At 31 December 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.2 million (2009: £1.3 million).

10. Net debt

The Group's net debt is as follows:

	31 December 2010	**31 December 2009**		
	Total **£m**	Continuing £m	Discontinued £m	**Total** **£m**
Current assets				
Derivatives	**-**	0.4	-	**0.4**
Cash and short-term deposits	**17.9**	24.8	5.3	**30.1**
Current liabilities				
Bank overdrafts	**(0.2)**	(2.1)	-	**(2.1)**
Interest bearing loans and borrowings	**(108.1)**	(24.0)	-	**(24.0)**
Derivatives	**-**	(0.1)	-	**(0.1)**
Non-current liabilities				
Interest bearing loans and borrowings	**(401.6)**	(689.3)	-	**(689.3)**
Derivatives	**-**	(9.2)	-	**(9.2)**
Net debt	**(492.0)**	(699.5)	5.3	**(694.2)**

At 31 December 2010, all of the Group's net debt is within continuing operations.

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

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Profit before tax and finance costs – continuing[1]	207.3	235.4
Loss before tax and finance costs - discontinued[1]	(9.1)	(10.8)
Profit before tax and finance costs [1]	198.2	224.6
Depreciation - continuing	47.8	46.8
Depreciation - discontinued	-	1.3
Amortisation of intangible assets	5.7	6.7
Cost of share-based payments	3.8	3.9
Decrease/(increase) in other financial assets	1.2	(3.2)
Decrease/(increase) in trade and other receivables	21.7	(17.2)
(Decrease)/increase in other financial liabilities	(7.9)	3.5
Increase/(decrease) in trade and other payables	20.5	(36.4)
(Decrease)/increase in provisions	(2.3)	1.1
Contribution to retirement benefit scheme	(6.7)	(7.0)
Share of results from joint venture	0.5	2.1
Share of results from associate	(3.8)	(3.2)
Other items	(5.8)	3.0
Cash generated by operations	272.9	226.0
Income taxes received/(paid)	51.9	(37.1)
Finance costs paid	(47.8)	(56.4)
Net cash inflow from operating activities	**277.0**	**132.5**

(1) Before non-trading items

Cash and short-term deposits in the balance sheet comprises:

	31 December 2010 £m	31 December 2009 £m
Continuing operations		
Cash at bank and in hand	17.9	24.8
Discontinued operations		
Cash at bank and in hand	-	5.3
Total Group	**17.9**	**30.1**

Cash and cash equivalents in the statement of cash flows comprises cash at bank and other short-term highly liquid investments with a maturity of three months or less and overdrafts:

	31 December 2010 £m	31 December 2009 £m
Continuing operations		
Cash at bank and in hand	17.9	24.8
Bank overdrafts (included in current liabilities)	(0.2)	(2.1)
	17.7	22.7
Discontinued operations		
Cash at bank and in hand	-	5.3
Total Group	**17.7**	**28.0**

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 2010 £m	Year ended 31 December 2009 £m
Equity investment		
- Joint venture[1]	0.8	4.1
- Associates	0.2	0.4
Additional loans provided		
- Joint venture partner	0.8	2.9
Dividends received		
- Associates	-	3.3
Sundry expenditures		
- Associates	35.7	35.7

[1] Equity investment in Sportium Apuertas Deportivas SA.

The following table provides the related party outstanding balances.

	Year ended 31 December 2010 £m	Year ended 31 December 2009 £m
Loan balances outstanding		
- Joint venture partner	5.0	5.5
Other receivables outstanding		
- Associates	3.4	2.3

13. Financial guarantee contracts

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 2011 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 £901.2 million (31 December 2009: £933.0 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £505.9 million (31 December 2009: £517.2 million) in relation to the turnover based element of the hotel rentals and £395.3 million (31 December 2009: £415.8 million) in relation to the minimum contractual based element. The undiscounted 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 2010 is £385.9 million (31 December 2009: £407.7 million). Included in the net present value of the maximum exposure is £193.4 million (31 December 2009: £201.0 million) in relation to the turnover based element of the hotel rentals and £192.5 million (31 December 2009: £206.7 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 2010 the Group has recognised a financial liability of £8.1 million (31 December 2009: £9.3 million) in respect of these guarantees.

	2010	2009
	£m	£m
At 1 January	9.3	9.0
Change in fair value attributable to hotels default risk	-	0.6
Change in fair value attributable to time lapse	(1.2)	(0.3)
At 31 December	8.1	9.3

No asset has been recognised in respect of the indemnity at 31 December 2010 (2009: £nil).

The key assumption in the probability model is the hotels default rate. A rate of 2.2% has been used at 31 December 2010 (31 December 2009: 2.2%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.5 million.