

GALA CORAL GROUP



Gala Coral Group Limited

Interim results for the
sixteen week period ended
16 January 2016

Registered Number: 07254686

Gala Coral Group Limited

Management report

HIGHLIGHTS

- Total Coral Group EBITDA^{1/2} of £62.4m was £7.9m or 14% ahead of last year with growth in all divisions
- After adjusting for regulatory impacts^{3} EBITDA was 59% ahead of last year, with improved football results contributing significantly to the underlying gross profit improvement
- Coral Retail EBITDA^{1} of £40.7m was £0.2m ahead of last year, and £9.6m or 31% ahead after adjusting for the impact of regulation^{3}, with OTC margins 1.5pp ahead
- Eurobet Retail EBITDA^{1} of £5.1m was £2.9m or 132% ahead of last year, with strong sports stakes growth and sports margins 5.9pp ahead
- Online EBITDA^{1} of £18.5m was £6.6m or 55% ahead of last year, and 194% ahead after adjusting for regulatory impacts^{3}. Online net revenue was 41% ahead, with coral.co.uk 69% ahead
- Sale of Gala Retail to Caledonia Investments for a headline price of £241m completed on 19th December 2015

{1} EBITDA is stated pre-exceptional items

{2} EBITDA includes all revenue and expenses for the Coral Group and excludes Gala Retail (Q1 FY16: £9.9 million and Q1 FY15: £12.1 million) and Propco rental income (Q1 FY16: £0.0 million and Q1 FY15: £5.7 million)

{3} FY15 Coral Group EBITDA (pre-exceptionals) has been rebased for the estimated impact of Point of Consumption Tax (-£5.8 million, of which Online -£5.6 million) and the increase in rate of MGD to 25% and DCMS FOBT higher staking restrictions (Coral Retail -£9.4 million), calculated as if all changes had been in existence for the corresponding periods in FY15

OVERVIEW OF THE QUARTER BY DIVISION

Net revenue of £333.3m (excluding vending income) was £47.1m or 16% ahead of last year and EBITDA^{1/2} of £62.4m was £7.9m or 14% ahead, with growth in both Retail divisions and Online. Adjusting FY15 for the impact of regulation^{3}, EBITDA^{1/2} increased by £23.1m or 59% versus last year. UK football margins improved significantly from last year, where the comparative period contains the impact of exceptionally adverse football margins on Boxing Day 2014 and the weekend of 17/18th January 2015 (estimated adverse EBITDA impact of £14.1m).

Coral Retail

Coral Retail EBITDA^{1} of £40.7m was £0.2m ahead of last year and £9.6m or 31% ahead after adjusting for the impact of regulation^{3}. OTC stakes were £5.5m or 1% ahead with football stakes 10% ahead. OTC gross win margin of 18.2% was 1.5pp ahead, driven by horse racing margins 0.8pp ahead, and a recovery in football margins which were 7.9pp ahead of the very poor margins experienced in Q1 FY15, but were still around 4pp behind expected levels.

Machines net revenue was £4.1m or 4% ahead of last year with gross-win-per-machine-per-week increasing by 5% to £1,020 primarily due to increased B3 content.

Operating costs were £4.2m or 4% higher than last year due to estate development (+0.5%), payroll annual salary reviews and increased investment in staff training, and a higher number of rent reviews than in the same quarter last year.

The total number of LBOs at the end of the quarter was 1,834, a reduction of 16 since the year-end, with 21 LBOs closing and 5 opening.

Eurobet Retail

Eurobet Retail EBITDA^{1} was £2.9m or 132% ahead of last year (£3.1m or 158% ahead on a constant currency basis).

Sports stakes were 19% ahead of last year driven by the shop optimisation programme whereby 250 shops were relocated to more profitable locations. Sports margin was 5.9pp ahead of FY15, although still behind expectations. Q1 Sports net revenue of £19.6m was £8.6m or 78% ahead of last year.

Retail sports market share continued to grow, up 2.4pp versus last year to 16.1% at the end of the quarter.

{1} EBITDA is stated pre-exceptional items and represents the 16 week periods ending 16 January 2016 and 17 January 2015

{2} EBITDA includes all revenue and expenses for the Coral Group and excludes Gala Retail (Q1 FY16: £9.9 million and Q1 FY15: £12.1 million) and Propco rental income (Q1 FY16: £0.0 million and Q1 FY15: £5.7 million)

{3} FY15 EBITDA (pre-exceptionals) has been rebased for the estimated impact of Point of Consumption Tax (-£5.8 million, of which Online -£5.6 million) and the increase in rate of MGD to 25% and DCMS FOBT higher staking restrictions (Coral Retail -£9.4 million), calculated as if all changes had been in existence for the corresponding periods in FY15

Gala Coral Group Limited

Management report (continued)

Online

Online EBITDA^{1} of £18.5m was £6.6m or 55% ahead of last year and 194% ahead after adjusting FY15 for the full year impact of Point of Consumption tax^{3}.

Coral.co.uk net revenue of £47.6m was £19.5m or 69% ahead of last year. Sports net revenue of £19.4m was £12.3m or 173% ahead, with sports stakes growth of 50% driven by a 39% increase in first-time depositors, improved churn rates and a 28% increase in spend-per-head. Connect customers now contribute over 40% of coral.co.uk total net revenue, of which around half is contributed by customers either new to coral.co.uk or reactivated. In addition to better football margins, improved customer management helped deliver a competitive sports gross win margin (2016: 8.3% 2015 4.9%). Bet-in-Play stakes represented 48.8% of total sports stakes (excluding horse racing) while mobile accounted for 70.4% of sports stakes, an increase of 9.3pp from Q1 FY15.

Coral.co.uk gaming net revenue of £28.2m was £7.2m or 34% ahead of last year with strong growth in actives (+45%). Mobile accounted for 71.3% of gaming stakes, an increase of 10.1pp from Q1 FY15.

Galabingo.com net revenue of £25.8m was £3.9m or 18% ahead of last year. Further improvements to the VIP programme and the continuation of the 'Play Happy' TV campaign during the quarter helped drive volume growth with actives 20% ahead of last year and spend-per-head 4% ahead. Mobile represented 56.4% of stakes, an increase of 11.8pp from Q1 FY15.

Eurobet.it net revenue of £14.5m was £4.3m or 42% ahead of last year. Sports net revenue of £7.4m was £3.6m or 95% ahead, with sports stakes 55% ahead and an improvement in football margins against a poor Q1 in FY15. Gaming net revenue of £7.1m was £0.7m or 11% higher than last year.

- {1} EBITDA is stated pre-exceptional items and represents the 16 week periods ending 16 January 2016 and 17 January 2015
{2} EBITDA includes all revenue and expenses for the Coral Group and excludes Gala Retail (Q1 FY16: £9.9 million and Q1 FY15: £12.1 million) and Propco rental income (Q1 FY16: £0.0 million and Q1 FY15: £5.7 million)
{3} FY15 EBITDA (pre-exceptionals) has been rebased for the estimated impact of Point of Consumption Tax (-£5.8 million, of which Online -£5.6 million) and the increase in rate of MGD to 25% and DCMS FOBT higher staking restrictions (Coral Retail -£9.4 million), calculated as if all changes had been in existence for the corresponding periods in FY15

EXCEPTIONAL COSTS

The exceptional operating cost of £9.3 million primarily relates to the costs associated with corporate restructuring and the proposed merger with Ladbrokes plc. During the prior year operating exceptionals of £5.8 million also included an additional provision against onerous leases and a non-cash IFRS 2 'Share Based Payments' charge.

FINANCING

Net debt for accounting purposes (excluding shareholder loan notes) was £826.9 million as at 16 January 2016 (26 September 2015 £1,031.8 million). The decrease in net debt is as a result of the disposal on the sale of Gala Retail (net of cash disposed with the business), partially offset by loan redemption fees and the amortisation of issue costs.

Unlevered free cashflow was £46.8 million in the quarter, an increase of £15.9 million on the prior year. This represents a 75% conversion from EBITDA (2015: 57%).

On the 9th October 2015, Ladbrokes signed a £1.35 billion facility with a syndicate of relationship banks to provide committed financing for the proposed merger with the Coral Group. As a result of this financing, the Gala Coral debt, comprising £315.0 million Senior Secured Note 2018, £275.0 million Secured Note 2019 and £712.0 million Senior Secured Facilities 2018 will not be transferred into the enlarged Ladbrokes Coral Group at completion of the merger. Accordingly, it is currently expected that Gala Coral's debt will be repaid on or before completion of the merger. During the period the Group used the Gala Retail proceeds to repay £227.0 million of the Senior Secured Notes and excess cash to repay £100.0 million of the Senior Notes, incurring £15.8 million of fees.

IFRS

For years beginning on or after 1 January 2015, companies are no longer able to report under old UK GAAP, the accounting standards under which the Gala Coral Group used to report. Rather than report under FRS 102, the new standards released by the FRC, the Group has elected to transition to and report all future results under IFRS. The preliminary IFRS transition statement is available on the company website.

Gala Coral Group Limited

Interim Consolidated Income Statement

Continuing Operations	Note	Unaudited 16 weeks ended 16 January 2016			Unaudited 16 weeks ended 17 January 2015		
		Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Revenue	2	333.9	-	333.9	286.5	-	286.5
Cost of sales		(108.9)	-	(108.9)	(83.1)	-	(83.1)
Gross profit		225.0	-	225.0	203.4	-	203.4
Operating expenses		(179.7)	(9.3)	(189.0)	(165.1)	72.8	(92.3)
EBITDA		62.4	(9.3)	53.1	54.5	(5.8)	48.7
Depreciation and amortisation		(17.1)	-	(17.1)	(16.2)	-	(16.2)
Profit on sale of non-current assets classified as held for sale		-	-	-	-	78.6	78.6
Group operating profit/(loss)	2	45.3	(9.3)	36.0	38.3	72.8	111.1
Financing costs	4	(72.9)	(22.3)	(95.2)	(78.1)	-	(78.1)
Financing income	4	0.9	-	0.9	0.9	1.3	2.2
Group operating profit/(loss)	2	45.3	(9.3)	36.0	38.3	72.8	111.1
Financing costs - external		(30.3)	(22.3)	(52.6)	(41.0)	-	(41.0)
Financing income - external		0.9	-	0.9	0.9	1.3	2.2
Profit/(loss) before internal finance costs and tax		15.9	(31.6)	(15.7)	(1.8)	74.1	72.3
Finance costs - shareholder loan notes		(42.6)	-	(42.6)	(37.1)	-	(37.1)
(Loss)/profit before tax		(26.7)	(31.6)	(58.3)	(38.9)	74.1	35.2
Income tax	5	14.1	-	14.1	4.4	-	4.4
(Loss)/profit for the period from continuing operations		(12.6)	(31.6)	(44.2)	(34.5)	74.1	39.6
Discontinued Operations:							
Profit for the period from discontinued operations after tax	6	-	8.5	8.5	-	16.5	16.5
Total (loss)/profit for the period		(12.6)	(23.1)	(35.7)	(34.5)	90.6	56.1
(Loss)/profit for the period attributable to the owners of the parent company		(12.6)	(23.1)	(35.7)	(34.5)	90.6	56.1

Details of exceptional items are given in note 3.

Gala Coral Group Limited

Interim Consolidated Statement of Comprehensive income

	Unaudited 16 weeks ended 16 January 2016 £m	Unaudited 16 weeks ended 17 January 2015 £m
(Loss)/profit for the period	(35.7)	56.1
Items of other comprehensive income that may be subsequently reclassified to profit or loss		
Currency translation differences	0.4	(1.2)
Total items that may be reclassified to profit or loss	0.4	(1.2)
Items of other comprehensive income that will not be reclassified to profit or loss:		
Remeasurements of retirement benefits	(15.8)	4.5
Tax on items that will not be reclassified to profit or loss	4.6	(1.5)
Total items that will not be reclassified to profit or loss	(11.2)	3.0
Total items that may be reclassified to profit or loss	0.4	(1.2)
Other comprehensive (expense)/income for the period	(10.8)	1.8
(Loss)/profit for the period	(35.7)	56.1
Total comprehensive (expense)/income for the period	(46.5)	57.9
Total comprehensive (expense)/income for the period attributable to the owners of the parent company	(46.5)	57.9

Items of other comprehensive income that will not be reclassified to profit or loss includes gains or losses on the remeasurement of pension scheme assets and liabilities. These items are permanently recorded within equity and will never be recycled within the income statement.

Gala Coral Group Limited

Interim Consolidated Balance Sheet

	Note	Unaudited 16 January 2016 £m	Unaudited 17 January 2015 £m	Unaudited 26 September 2015 £m
Assets				
Non-current assets				
Goodwill and intangible assets		1,131.9	1,138.0	1,131.6
Property, plant and equipment		82.5	85.3	86.7
Deferred tax assets		16.6	27.4	19.0
Retirement benefit asset		44.3	36.4	53.7
		1,275.3	1,287.1	1,291.0
Current assets				
Inventories		0.5	0.5	0.5
Trade and other receivables		42.7	45.0	26.0
Cash and cash equivalents	9	134.1	165.0	236.9
Derivatives		-	0.1	0.1
		177.3	210.6	263.5
Assets of disposal group held for sale		-	303.0	312.5
		1,452.6	1,800.7	1,867.0
Liabilities				
Current liabilities				
Interest bearing loans and borrowings	8	-	(89.6)	-
Trade and other payables		(187.2)	(162.2)	(181.4)
Current income taxation		-	(2.5)	(0.5)
Other financial liabilities		(7.0)	(6.3)	(5.7)
Provisions		(10.4)	(11.0)	(10.8)
		(204.6)	(271.6)	(198.4)
Non-current liabilities				
Interest bearing loans and borrowings	8	(1,948.8)	(2,134.5)	(2,224.8)
Other payables		(4.7)	(7.0)	(7.2)
Deferred tax liabilities		(191.2)	(203.9)	(212.3)
Provisions		(14.9)	(19.2)	(15.6)
		(2,159.6)	(2,364.6)	(2,459.9)
Liabilities of disposal group held for sale		-	(68.4)	(73.8)
		(2,364.2)	(2,704.6)	(2,732.1)
		(911.6)	(903.9)	(865.1)
Equity attributable to owners of the parent				
Issued share capital		213.3	213.3	213.3
Merger reserve		1.6	1.6	1.6
Capital contribution reserve		1,723.5	1,723.5	1,723.5
Retained earnings		(2,848.9)	(2,841.1)	(2,802.0)
Foreign currency translation reserve		(1.1)	(1.2)	(1.5)
		(911.6)	(903.9)	(865.1)

Interest bearing loans and borrowings include £987.8 million of shareholder loan notes (17 January 2015: £858.8 million, 26 September 2015: £945.1 million)

Gala Coral Group Limited

Interim Consolidated Statement of Changes in Equity

	Issued share capital £m	Merger reserve £m	Capital contribution reserve £m	Revaluation reserve £m	Retained earnings £m	Foreign currency translation reserve £m	Total share- holders equity £m
At 26 September 2015	213.3	1.6	1,723.5	-	(2,802.0)	(1.5)	(865.1)
Loss for the period	-	-	-	-	(35.7)	-	(35.7)
Other comprehensive (expense)/ income	-	-	-	-	(11.2)	0.4	(10.8)
Total comprehensive (expense)/income for the period	-	-	-	-	(46.9)	0.4	(46.5)
At 16 January 2016	213.3	1.6	1,723.5	-	(2,848.9)	(1.1)	(911.6)
At 27 September 2014	213.3	1.6	1,723.5	8.0	(2,908.5)	-	(962.1)
Profit for the period	-	-	-	-	56.1	-	56.1
Other comprehensive income/(expense)	-	-	-	-	3.0	(1.2)	1.8
Total comprehensive (expense)/income for the period	-	-	-	-	59.1	(1.2)	57.9
Share based payments	-	-	-	-	0.3	-	0.3
Reserve transfer	-	-	-	(8.0)	8.0	-	-
At 17 January 2015	213.3	1.6	1,723.5	-	(2,841.1)	(1.2)	(903.9)

Gala Coral Group Limited

Interim Consolidated Statement of Cash Flow

	Note	Unaudited 16 weeks ended 16 January 2016 £m	Unaudited 16 weeks ended 17 January 2015 £m	Unaudited year ended 26 September 2015 £m
Cash generated from operations	9(a)	63.8	54.5	241.5
Income tax paid		(1.0)	-	(5.3)
Net cash inflow from operations		62.8	54.5	236.2
Cash inflow/(outflow) from investing activities				
Purchase of intangible assets		(6.8)	(4.4)	(14.1)
Purchase of property, plant and equipment		(11.9)	(12.2)	(51.8)
Net proceeds on disposal of assets held for sale		226.3	187.8	206.0
Net cash inflow from investing activities		207.6	171.2	140.1
Cash outflow from financing activities				
Repayments of borrowings and associated fees		(342.8)	(215.5)	(236.5)
Net external interest paid		(42.1)	(56.8)	(115.2)
Net cash outflow from financing activities		(384.9)	(272.3)	(351.7)
Net increase/(decrease) in cash and cash equivalents		(114.5)	(46.6)	24.6
Cash and cash equivalents at beginning of period		236.9	204.0	204.0
Net increase/(decrease) in cash and cash equivalents		(114.5)	(46.6)	24.6
Effect of changes in foreign exchange rates		0.7	(0.8)	(1.6)
Net decrease in cash and cash equivalents classified as held for sale		11.0	8.4	9.9
Cash and cash equivalents at end of period		134.1	165.0	236.9

Gala Coral Group Limited

Notes to the financial information

1 Basis of preparation and significant accounting policies

Basis of preparation

The interim condensed consolidated financial information, which is unaudited, is prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information or disclosures required in the annual financial statements as they have been prepared for the provision of interim information, and should be read in conjunction with the Group's preliminary IFRS transition statement which can be found on the Group website: www.galacoral.co.uk.

Accounting Estimates

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

Going Concern

The directors have continued to review the Group's cash flow forecasts and trading budgets and after making appropriate enquiries, have formed the view that the Group is operationally and financially robust and will generate sufficient cash to meet its ongoing requirements for at least the next 12 months from the date of approval of the interim condensed consolidated financial information, despite the net liabilities position.

In the period ended 16 January 2016 the Group has generated cash from operating activities of £63.8 million and a cash inflow of £2.0 million excluding proceeds on disposal of assets held for sale and loan repayments. The Group's cash flow forecasts continue to support that cash generation will be strong in order to meet liabilities as they fall due. The Group's forecasts include modelling covenant compliance which indicates that significant headroom exists in the foreseeable future.

The net liability position has been caused by the roll-up of interest on shareholder loan notes that are not repayable until October 2020. It is anticipated that the loan notes will be settled with the proceeds received from the potential merger with Ladbrokes Plc. Should the merger not proceed the directors are confident that the Group can continue to meet its liabilities as they fall due.

Accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's preliminary IFRS transition statement.

General Information

The condensed consolidated interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Audited statutory accounts prepared under UK GAAP for the year ended 26 September 2015 were approved by the Board of Directors on 30 November 2015 and are available on the Group website: www.galacoral.co.uk. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under either Section 498(2) or 498(3) of the Companies Act 2006.

2 Segmental analysis

The Board has reviewed and confirmed the Group's reportable segments in line with the guidance provided by IFRS 8 – Operating Segments. The segments disclosed are aligned with the reports reviewed by the Executive Board, who have been identified as the 'Chief Operating Decision Maker', to make strategic decisions. Those segments reported reflect the operating segments and not an aggregation of a number of operating segments.

Coral Retail comprises all activity undertaken in LBOs in the UK. In addition this segment includes greyhound stadia operations, including on-course betting.

Eurobet Retail comprises all activity undertaken in LBOs in Italy.

Online comprises all activity undertaken online including online sportsbooks, online bingo, online casinos and other online gaming products.

Telebet comprises activities relating to bets taken on the telephone.

Gala Coral Group Limited

Notes to the financial information

2 Segmental analysis (continued)

Corporate includes costs associated solely with Group functions including Group executive, legal, finance, tax and treasury.

There are no inter-segment transactions which have a material effect on the information set out below.

Segment information is as follows:

Unaudited 16 weeks ended 16 January 2016	Coral Retail £m	Eurobet Retail £m	Online £m	Telebet £m	Corporate £m	Group £m
Amounts staked	3,453.0	165.2	2,292.7	22.9	-	5,933.8
Revenue	213.5	28.4	91.1	0.9	-	333.9
Gross profit	155.6	8.3	60.4	0.7	-	225.0
EBITDA (pre-exceptional items)	40.7	5.1	18.5	0.1	(2.0)	62.4
Depreciation and amortisation	(8.1)	(4.7)	(4.3)	-	-	(17.1)
Operating profit/(loss) before exceptional items	32.6	0.4	14.2	0.1	(2.0)	45.3
Exceptional items						(9.3)
Operating profit after exceptional items						36.0
Net financing costs						(94.3)
Loss before tax						(58.3)
Income tax						14.1
Loss for the period from continuing operations						(44.2)
Discontinued operations Profit for the period from discontinued operations after tax						8.5
Loss for the period after discontinued operations						(35.7)

Gala Coral Group Limited

Notes to the financial information

2

Segmental analysis (continued)

Unaudited 16 weeks ended 17 January 2015	Coral Retail £m	Eurobet Retail £m	Online £m	Telebet £m	Corporate £m	Group £m
Amounts staked	3,489.3	154.4	1,768.7	17.2	-	5,429.6
Revenue	199.9	20.9	64.5	1.2	-	286.5
Gross profit	151.2	5.4	45.6	1.2	-	203.4
EBITDA (pre-exceptional items)	40.5	2.2	11.9	0.5	(0.6)	54.5
Depreciation and amortisation	(8.3)	(3.2)	(4.7)	-	-	(16.2)
Operating profit/(loss) before exceptional items	32.2	(1.0)	7.2	0.5	(0.6)	38.3
Exceptional items						72.8
Operating profit after exceptional items						111.1
Net financing costs						(75.9)
Profit before tax						35.2
Income tax						4.4
Profit for the period from continuing operations						39.6
Discontinued operations Profit for the period from discontinued operations after tax						16.5
Profit for the period after discontinued operations						56.1

Gala Coral Group Limited

Notes to the financial information

3

Operating exceptional items

The analysis of the exceptional items is as follows:

	Unaudited 16 weeks ended 16 January 2016	Unaudited 16 weeks ended 17 January 2015
Exceptional operating items	(9.3)	(5.8)
Profit on disposal of non-current assets classified as held for sale	-	78.6
Total operating exceptional items before tax	(9.3)	72.8
Exceptional tax credit	-	-
Total operating exceptional items after tax	(9.3)	72.8

Exceptional operating items relate primarily to costs associated with corporate restructuring, the proposed merger with Ladbrokes Plc and an onerous lease charge. During the prior year operating exceptionals also included a non-cash IFRS 2 'Share Based Payments' charge.

Gala Coral Group Limited

Notes to the financial information

4 Finance expense and income

	Unaudited 16 weeks ended 16 January 2016 £m	Unaudited 16 weeks ended 17 January 2015 £m
Loan interest and similar charges	(30.2)	(40.6)
Other finance expense	(0.1)	(0.4)
Total external interest	(30.3)	(41.0)
GCGL share holder loan note interest (non-cash)	(42.6)	(37.1)
Total finance expense	(72.9)	(78.1)
Interest on deposits and money market funds	-	0.2
Other finance income	0.9	0.7
Total finance income	0.9	0.9
Net finance expense before exceptional items	(72.0)	(77.2)
Exceptional finance (expense)/income	(22.3)	1.3
Net finance expense after exceptional items	(94.3)	(75.9)

The exceptional interest expense during the current period relates to redemption fees (£15.8 million) and the write off of issue costs (£6.5 million) in connection with the repayment of £227.0 million of Senior Secured Notes and the repayment of £100.0 million of Senior Notes. In the prior year the £1.3 million income relates to interest receivable from HMRC on 'Conde Nast' VAT claims.

5 Taxation

The tax credit for continuing operations for the 16 weeks ended 16 January 2016 was £14.1 million (17 January 2015: credit of £4.4 million).

Legislation to reduce the mainstream rate of UK corporation tax from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020 was included in the Finance (No.2) Act 2015 and both rates had been enacted by the balance sheet date. The UK deferred tax assets and liabilities have therefore been disclosed at 20% where they are expected to reverse before 1 April 2017, at 19% where they are expected to reverse between 1 April 2017 and 31 March 2020 and at 18% where they are expected to reverse after 31 March 2020.

The impact of the future corporation tax rate reductions has been to reduce the deferred tax liabilities relating to continuing operations by approximately £17.7 million and to reduce the deferred tax assets relating to continuing operations by approximately £1.5 million.

UK Corporation tax is calculated at 20% (2015: 20.5%) of the estimated taxable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Gala Coral Group Limited

Notes to the financial information

6

Discontinued activities

The results of discontinued activities comprise the Gala Retail division which was sold on 19 December 2015 :

	Unaudited 16 weeks ended 16 January 2016 £m	Unaudited 16 weeks ended 17 January 2015 £m
Revenue	65.5	87.8
Operating expenses	(55.6)	(70.2)
Operating profit and profit before taxation	9.9	17.6
Income tax	(1.4)	(1.1)
Net profit from discontinued activities	8.5	16.5

	Unaudited 16 weeks ended 16 January 2016 £m	Unaudited 16 weeks ended 17 January 2015 £m
Net cash flows from discontinued operations		
Operating	5.4	(24.5)
Investing	(2.8)	(1.1)
Financing	-	-
Net cash inflow	2.6	(25.6)

The net cash inflows above are before cash sweeping arrangements in place as part of the Group financing structure. The prior year operating cashflow includes a payment of £29.4m from Gala Retail to 'Propco' following a restructure of certain leasing arrangements.

Gala Coral Group Limited

Notes to the financial information

7

Disposal of Gala Retail

The Gala Retail division was sold on 19 December 2015. Details of the disposal are as follows:

	Unaudited 16 weeks ended 17 January 2015 £m
Sale consideration (includes £3.0 million of deferred proceeds)	242.1
Net assets disposed	(240.2)
Costs of disposal	(1.9)
Result on disposal	-
<p>The Gala Retail business has been held for sale since August 2014. As a result of impairment write downs made with effect from that date no gain or loss arises on disposal of this business.</p>	
<p>Analysis of net assets at date of disposal:</p>	
Segmental assets	
Intangible assets	187.7
Property, plant and equipment	99.6
Inventories	1.0
Cash and cash equivalents	10.9
Other current assets	15.1
Total segmental assets	314.3
Segmental liabilities	
Trade and other payables	(38.9)
Deferred taxation	(35.2)
Total segmental liabilities	(74.1)
Net assets disposed	240.2
Net cash flow arising on disposal	
Cash consideration	239.1
Costs of disposal	(1.9)
Net cash flow arising on disposal of operations	237.2
Net cash disposed on disposal of operations	(10.9)

The completion account process is expected to be finalised over the coming months. Cash consideration received to date is £226.3 million.

£227.0 million of net disposal proceeds were used to make a partial redemption of the Senior Secured Notes on which redemption fees of £10.1 million were incurred. These are included in the exceptional finance expense in note 4.

Gala Coral Group Limited

Notes to the financial information

8 Interest bearing loans and borrowings

	Unaudited 16 January 2016 £m	Unaudited 17 January 2015 £m	Unaudited 26 September 2015 £m
Current liabilities			
2005 Propco Three Limited loan	-	89.6	-
Non-current liabilities			
Senior secured credit facilities	705.0	702.4	704.2
Senior secured notes	86.8	309.6	310.4
Senior notes	169.2	263.7	265.1
Non-current liabilities - external	961.0	1,275.7	1,279.7
GCGL shareholder loan note	987.8	858.8	945.1
Total non-current liabilities	1,948.8	2,134.5	2,224.8
	1,948.8	2,224.1	2,224.8

The principal terms of borrowings are as follows:

	Amount £m	Interest rate %	Maturity
Borrowed by Gala Group Finance plc:			
Senior secured credit facilities:			
Term loan	711.9	LIBOR + 5	27 May 2018
Revolving credit facility	100.0	LIBOR + 4	27 May 2017
Senior Secured Notes	88.0	8.875	1 September 2018
Borrowed by Gala Electric Casinos plc:			
Senior Notes	175.0	11.5	1 June 2019

The Senior secured credit facilities and the Senior Secured Notes are secured on the assets of the Group. The difference between these amounts and the table above relates to issue costs and discount to nominal value.

Gala Coral Group Limited

Notes to the financial information

9

Notes to the statement of cashflows

a) Reconciliation of operating profit to cash inflow from operating activities:

	Unaudited 16 weeks ended 16 January 2016 £m	Unaudited 16 weeks ended 17 January 2015 £m	Unaudited year ended 26 September 2015 £m
Operating profit from continuing operations	36.0	111.1	219.6
Operating profit from discontinued activities	9.9	17.6	46.0
<i>Adjusted for:</i>			
Amortisation	6.7	7.8	24.2
Depreciation	10.4	8.4	31.1
Profit on sale of non-current assets classified as held for sale	-	(78.6)	(89.0)
Impairment charges/write off of assets	-	-	10.3
Share based payments charge (non-cash)	-	0.3	1.4
Pension contributions in excess of pension expense	(5.5)	(2.8)	(2.8)
<i>Changes in working capital:</i>			
Decrease in inventories	-	0.2	0.2
(Increase) in trade and other receivables	(11.6)	(10.7)	(1.4)
Increase/(decrease) in trade and other payables	18.0	(1.5)	4.0
(Decrease)/increase in provisions and other financial liabilities	(0.1)	2.7	(2.1)
Cash generated by operations	63.8	54.5	241.5

b) Net Debt

	Unaudited 16 January 2016 £m	Unaudited 17 January 2015 £m	Unaudited year ended 26 September 2015 £m
Current assets			
Cash and cash equivalents	134.1	165.0	236.9
Cash and cash equivalents classified as held for sale	-	12.5	11.0
Current liabilities			
Interest bearing loans and borrowings	-	(89.6)	-
Non-current liabilities			
Interest bearing loans and borrowings	(961.0)	(1,275.7)	(1,279.7)
Net debt excluding shareholder loan notes	(826.9)	(1,187.8)	(1,031.8)
GCGL shareholder loan notes	(987.8)	(858.8)	(945.1)
Net debt	(1,814.7)	(2,046.6)	(1,976.9)

Gala Coral Group Limited

Notes to the financial information

9 Notes to the statement of cashflows (continued)

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

	Unaudited 16 January 2016 £m	Unaudited 17 January 2015 £m	Unaudited 26 September 2015 £m
Included within operating cash flow: Other restructuring and VAT	(6.9)	(6.8)	(25.0)
	(6.9)	(6.8)	(25.0)
Net disposal proceeds of assets held for sale	226.3	187.8	206.0
Exceptional interest received (note 4)	-	1.3	4.0
Exceptional interest paid (note 4)	(15.8)	-	-
Net cash inflow/(outflow)	203.6	182.3	185.0

The net disposal proceeds of assets held for sale in the current year relate to the sale of Gala Retail. The prior year proceeds relate to the sale of 2005 Propco Three Limited properties.

In addition to the above, the Group made a pension contribution of £5.5 million (17 January 2015: £2.8 million, 26 September 2015 £2.8 million) during the period as part of the agreed deficit funding arrangement.

10 Financial instruments

The Group is required to classify its financial assets and liabilities carried at fair value into categories within a hierarchy of valuation principles and methods.

No financial instruments are classified as level 1, for which fair value is based on quoted prices in active markets for identical assets.

The Group had derivatives included in current assets of £nil (17 January 2015: £0.1 million, 26 September 2015: £0.1 million) which are carried at fair value based on a level 2 valuation, for which fair value is determined based on techniques for which all significant inputs are observable, either directly or indirectly.

The Group's ante-post liabilities of £7.0 million (17 January 2015: £6.3 million, 26 September 2015: £5.7 million) are classified as level 3 as their fair value is measured using techniques where significant inputs are not based on observable market data. There are no reasonably probable changes to assumptions or inputs that would lead to material changes in the fair value determined, although the final value will be determined by future sporting results. The principal assumptions relate to anticipated gross win margins on unsettled bets. All fair value movements on ante-post liabilities are recognised in the income statement.