GALA CORAL
GROUP

Annual Report and Accounts

Gala Coral Group Limited

For the year ended 24 September 2011

Registered Number: 07254686

Gala Coral Group Limited
Directors and Advisors

DIRECTORS

R W Templeman (Non Executive Chairman)
C A Leaver (Chief Executive Officer)
P Bowtell
A Hornby
C Attwood (Non Executive Director)
D R Kornstein (Non Executive Director)
G B C Hardy (Non Executive Director)
W T Walsh (Non Executive Director)

SECRETARY

H A Willits

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

REGISTERED OFFICE

71 Queensway
London
W2 4QH

Gala Coral Group Limited
Directors' Report
For the year ended 24 September 2011

The directors present their report and the audited financial statements of Gala Coral Group Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 24 September 2011. The Group prepares its financial statements to the last Saturday in September.

BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The prior year Group reconstruction (see note 29) has been accounted for using merger accounting principles as outlined in FRS 6. For the consolidated accounts the adoption of merger accounting presents Gala Coral Group Limited as if it had always been the parent undertaking of the Group. As Gala Coral Group Limited did not trade prior to 21 June 2010, the comparative results shown for the year ended 25 September 2010 include those results of Gala Electric Casinos plc (its direct subsidiary) and its subsidiaries.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 24 September 2011 are set out on page 20 and show an operating profit for the year before other operating income and exceptional items, of £156.9 million (2010: £204.0 million). No dividends have been paid or proposed (2010: £nil). The loss for the year after taxation was £643.4 million (2010: £166.1 million) including £579.9 million of exceptional costs (2010: £99.2 million) (see note 5).

PRINCIPAL ACTIVITIES

The principal activities of the Group are the operation of licensed betting offices (LBOs), bingo clubs, casinos and an online betting and gaming business. More information on the activities of the Group is provided in the Business Review below. The principal activity of the Company is that of a holding company.

OVERVIEW OF THE FINAL QUARTER

The key financial highlights in the 12 weeks ended 24 September 2011 were:

- Turnover of £249.0 million, a reduction of £18.8 million (7%) from the prior year. Excluding the impact of the removal of prize bingo, turnover was 3% below prior year levels.
- Group EBITDA (pre-exceptionals) of £55.0 million was £14.7 million (21%) lower than the prior year, mainly due to high sportsbook margins being achieved in 2010 and unavoidable cost increases in 2011.
- The cash inflow for the quarter was £5.3 million, including the payment of £5.9 million in refinancing costs (total refinancing fees for the year were £41.0 million), £31.4 million to acquire fixed assets, which included the acquisition of two bingo clubs and a chain of thirty-one LBOs in the north-west of England, and receipt of £10.7 million from the sale of fixed assets.

The key trading highlights in the 12 weeks ended 24 September 2011 were:

- Coral OTC amounts staked were 3% ahead of the prior year in total, and 1% ahead on a like-for-like basis.
- Coral gross win per machine was 2% ahead of the prior year at £870.
- Gala Bingo spend per head was 2% ahead of the prior year on admissions that were level year on year.
- Gala Casinos drop per head was 14% up on the prior year, with a strong gaming margin driving year on year turnover growth of 6% in the quarter.
- Remote Gambling EBITDA (pre-exceptionals) was 16% ahead of the same period in 2010 due to profit protection measures.
- Eurobet Italia sports betting amounts staked were 10% ahead of the prior year.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 24 September 2011

OVERVIEW OF THE FINAL QUARTER (continued)

Turnover in the fourth quarter reduced by £18.8 million (7%) from £267.8 million to £249.0 million. Of this, approximately £9.7 million is attributable to a change in the prize mix in interval bingo within Gala Bingo which results in a higher proportion of prize costs being netted off income as opposed to being recognised through cost of sales. This has a neutral impact overall in terms of gross profit. Less favourable sports results compared to the same period in 2010 were the main driver behind the remaining turnover shortfall.

Group EBITDA (pre-exceptionals) reduced from £69.7 million in the fourth quarter of 2010 to £55.0 million over the same period in 2011. Adjusting for the c£3.0 million impact on profitability relating to the VAT increase to 20% in January 2011, underlying EBITDA (pre-exceptionals) was £11.8 million (17%) below prior year levels.

Coral's turnover in the quarter was 6% lower than the prior year at £123.7 million (2010: £131.3 million). OTC amounts staked for the quarter were 3% ahead of the prior year, primarily due to a strong start to the football season which has seen a 27% increase in amounts staked compared to the prior year. However, adverse football results resulted in a lower than normal OTC gross win margin of 14.9% for the quarter, which was 2.3% below the margin achieved in 2010. This lower margin had an adverse impact of c£9.8 million on turnover when compared to the prior year, and resulted in OTC turnover being 11% below the prior year level. Machines turnover for the final quarter was 4% ahead of the equivalent quarter in 2010, but the impact of the VAT increase in January 2011 resulted in gross profit only being ahead by 1% year on year. Costs were £6.0 million (8%) ahead of the prior year, driven mainly by an increase in wages, property and content costs. EBITDA (pre-exceptionals) of £34.4 million was £11.6 million (25%) below the prior year.

Gala Bingo's turnover for the quarter reduced from £74.5 million in 2010 to £69.4 million in 2011. This is due to a shift in the prize mix in mechanised cash bingo, which is estimated to have reduced income by approximately £9.7m in the quarter. This does not have an adverse impact on gross profit as there is a corresponding decrease in cost of sales. Excluding this, underlying turnover was 6% ahead of the same period in the prior year, with gross profit 4% ahead. Admissions were in line with prior year levels, whilst spend per head continues to show solid growth, and was 2% above the same quarter in 2010. Margins across all products remained consistently strong and in line with prior year levels. Higher year on year costs, predominantly relating to a £1.0 million full year bonus provision and the timing of irrecoverable VAT resulted in an EBITDA (pre-exceptionals) of £15.6 million, £1.9 million below that achieved in the prior year.

Gala Casinos' turnover increased by 6% from £29.1 million in the fourth quarter of 2010 to £30.9 million in the final quarter of 2011. In the second half of the year the business moved away from an admissions led strategy to refocus the operations around our core and higher value customers. As a result of this change in strategy admissions levels were 9% lower year on year in the fourth quarter, which was more than compensated for by a 14% increase in drop per head. This resulted in overall growth in cash drop of 3.5%. A strong gaming win margin of 17.1% was achieved in the quarter, which was 0.9% ahead of the prior year. Costs increased by £2.2 million over the prior year, primarily due to personnel and promotions costs, but also as a result of one-off credits in the prior year. EBITDA (pre-exceptionals) was £0.4 million lower than the prior year at £6.3 million.

Remote Gambling's turnover decreased by 29% in the quarter from £20.9 million in 2010 to £14.9 million in 2011. This shortfall was primarily driven by lower active customer and staking levels on galabingo.com, although there were more positive trends on customer acquisitions and new depositors within the quarter. Coral.co.uk had a strong quarter, with gross win growth of 15% supported by new marketing initiatives, growth in use of the mobile application and solid margins. Tight control of margins and costs mitigated the impact of the reduced turnover and EBITDA (pre-exceptionals) was 16% ahead of the prior year at £7.3 million.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 24 September 2011

OVERVIEW OF THE FINAL QUARTER (continued)

Eurobet Italia's turnover reduced by £1.9 million from £12.0 million in the final quarter of 2010 to £10.1 million. The business in Italy continued to benefit from strong growth in sports betting stakes, which were 10% ahead year on year for the quarter. Sports results were less favourable than the abnormally strong results achieved in the final quarter of the 2010 financial year, and sports betting turnover was £2.3m lower on a year on year basis as a result, with gross profit £1.5 million lower. Abruzzo online gaming was finally launched in late July. The online business has gained good initial share of the new market although the overall size of the market is currently below industry expectations. Abruzzo gaming delivered £0.6 million in gross profit in the quarter. EBITDA (pre-exceptionals) was £1.5 million below the prior year at £2.4 million.

General administrative expenses include central function costs and amortisation of goodwill regarding the Remote Gambling Division. These have increased from £17.7 million in the prior year to £18.1 million in 2011. This year on year increase is primarily due to an ongoing reinvestment in key business support functions such as IT, Marketing, E-Gaming and HR following significant reductions in previous years.

A depreciation charge of £12.4 million (2010: £12.3 million) and an amortisation charge of £11.5 million (2010: £11.2 million) is included in general administrative expenses for the quarter.

Exceptional items included in operating profit for the fourth quarter amount to a charge of £18.8 million (2010: £18.8 million), being costs associated with onerous lease provisions, redundancies and costs with respect to restructuring. The fourth quarter also included exceptional items for an impairment of goodwill in the Coral and Remote Gambling segments of £550.0 million (2010: £121.5 million impairment of fixed assets in the Gala Bingo segment and net gains on VAT refunds of £43.8 million) as shown in note 5.

The profit on the disposal of fixed assets of £5.7 million in the quarter (2010: loss of £4.3 million) includes the profit and loss on disposal of freehold properties which were subsequently leased back.

As a result of the above, loss before interest and tax increased to £532.1 million in the quarter (2010: £54.6 million).

Interest payable has increased from £48.9 million in 2010 to £51.5 million in 2011, primarily reflecting the increased coupon rate on the senior notes following the refinancing and the higher GCGL loan notes balance in 2011. Key elements of the interest charge include loan interest of £32.6 million (2010: £31.1 million) and non-cash interest on GCGL loan notes of £16.5 million (2010: £15.6 million). The GCGL loan notes were issued as part of the 2010 financial restructuring. These notes are subordinated to the Group's senior secured debt and its senior notes. Interest is non-cash and rolls up annually. The notes mature in June 2019. Interest payable also includes £2.0 million of costs (2010: £2.2 million) associated with the write off of debt issue costs and costs of certain hedging arrangements. Exceptional interest of £0.4 million was incurred in the period associated with break fees on repayment of part of the Gala Propco Three Limited loan following the sale of a Propco property.

Interest receivable in the period was £0.2 million (2010: £7.4 million), representing bank interest on cash. Interest receivable in the prior period included the receipt of exceptional interest associated with the gaming machines VAT claim.

Other finance costs in the quarter were £2.6 million (2010: £0.4 million) associated with the unwinding of discount on provisions and finance costs in relation to the pension scheme.

The overall result after taxation for the 2011 fourth quarter is a loss of £581.5 million, compared to a loss of £73.4 million in 2010.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 24 September 2011

OVERVIEW OF THE FINAL QUARTER (continued)

Cash generated from operations in the quarter

During the quarter to 24 September 2011 net cash inflow from operations was £45.6 million (2010: £117.7 million). This included cash outflows of £6.9 million associated with restructuring and reorganisations (2010: £8.7 million) and £nil associated with VAT refunds (2010: £30.1 million).

Of the cash inflows, £31.4 million (2010: £18.5 million) was reinvested in the Group to fund capital expenditure and the acquisitions of Chas Kendall, 2 bingo clubs and other stand alone LBO businesses.

The Group received £10.7 million (2010: £nil) in receipts from the sale of tangible fixed assets in the period, primarily relating to the further sale and leaseback of freehold Coral properties.

A further £23.3 million of cash inflows was utilised to meet interest and other financing costs (2010: £27.5 million).

During the quarter a further £4.5 million (2010: £0.9 million) was repaid on the Gala Propco Three Limited loan, £1.1 million (2010: £0.9 million) in the form of scheduled loan repayments and £3.4 million (2010: £nil) following the disposal of a freehold property.

Total cash inflow for the quarter was £5.3 million (2010: £70.6 million).

OVERVIEW OF THE YEAR

The key financial highlights over the financial year ending 24 September 2011 are as follows:

- Turnover of £1,117.0 million, a reduction of £60.7 million (5%) over the prior year. Excluding the impact of the shift in prize mix in mechanised cash bingo, which has no gross profit impact, and the 2010 World Cup, turnover is approximately £27.4 million lower, a 2% reduction.
- Group EBITDA (pre-exceptionals) of £261.0 million, a reduction of £46.1 million (15%) over the prior year. Adjusting for one-off impacts in financial years 2010 and 2011, underlying EBITDA is 8% lower year on year.
- On 27 May 2011 the Gala Coral Group completed a refinancing of its former senior secured credit facilities. The borrowings raised £1,550.0 million (gross), comprising new senior secured credit facilities of £925.0 million (£825.0 million term loan and £100.0 million undrawn revolving credit facility), senior secured notes of £350.0 million and senior notes of £275.0 million. The senior notes were issued at a discount of £7.0 million to their par value. The refinancing extends the maturity date of the Group's borrowings (see note 17).
- A year-to-date cash outflow of £118.7 million, including the net repayment of £190.1 million in relation to scheduled repayments of the Gala Propco Three Limited loan and the former senior secured credit facilities, early repayment of the former senior secured credit facilities associated with the refinancing and required repayments of the Gala Propco Three Limited loan following the disposal of certain fixed assets. £41.0 million in issue costs was incurred associated with the refinancing, plus a further £1.9 million of fees for the early termination of certain hedging arrangements.
- Year to date the Group has generated unlevered cashflow of £230.1 million, an 88.2% cash conversion. Excluding the £47.7 million in receipts from the disposal of fixed assets, cash conversion remains strong at 69.9%.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 24 September 2011

OVERVIEW OF THE YEAR (continued)

- £1,323.0 million of net debt for covenant purposes (net of issue costs) and total net debt of £2,148.9 million, including £825.9 million of other net debt consisting of the non-recourse Gala Propco Three Limited loan and GCGL loan notes from the ultimate parent company, offset by non-covenant cash and issue costs. Net debt for covenant purposes includes £24.5 million of letters of credit not supported by cash collateral issued in favour of the Group and £1.8 million of deferred consideration associated with the acquisition of Chas Kendall.
- Cash at bank and in hand of £141.7 million, including unrestricted cash balances for covenant purposes of £107.7 million.

Turnover of £1,117.0 million, a decline of £60.7 million (5%) over the prior year. Of this reduction, £11.5 million is accounted for by the World Cup in 2010 and approximately £21.8 million by the shift in mix in interval games in Gala Bingo, which does not adversely impact gross profit. Excluding these, turnover was 2% below the prior year level.

Group EBITDA (pre-exceptionals) reduced from £307.1 million in the year to 25 September 2010, to £261.0 million in the 2011 financial year.

Coral's turnover reduced from £577.1 million in the year to 25 September 2010 to £559.7 million in the current year, a reduction of 3% (2% excluding 2010 World Cup). The decline in turnover is due to lower OTC revenues: OTC amounts staked were 4% down year on year (2% excluding the 2010 World Cup). After a poor start to the year, year on year staking levels improved in each successive quarter, with OTC stakes back in year on year growth in the final two quarters. The overall OTC gross win margin achieved in the year ending 24 September 2011 was 16.4%. This was 0.4% below that achieved in the prior year which, when combined with lower amounts staked, explains the reduction in revenue. Machines turnover was 3% ahead of the prior year, despite the increase in VAT in January 2011 adversely impacting revenues. Anticipated developments to the new Videobet platform were not delivered until late in the financial year, and these are now largely in place and performance in the early part of the 2012 financial year is significantly ahead of 2011 levels. Total operating costs have increased by 3% over the prior year, driven primarily by property and broadcast content costs. EBITDA (pre-exceptionals) has reduced from £197.9 million in the prior year to £172.7 million in the current year.

Gala Bingo's turnover reduced from £318.2 million in the prior year to £303.0 million in the current year, a reduction of £15.2 million (5%). The change in product mix in mechanised bingo, as highlighted earlier, is the primary reason for this reduction, and has a neutral impact on gross profit - which was 2% ahead of the prior year. Admissions were level year on year, with spend per head showing solid growth over the course of the year to be 1% ahead over the full year. Costs were well controlled resulting in overall costs being level year on year. EBITDA (pre-exceptionals) improved from £61.9 million in 2010 to £64.8 million in 2011, representing year on year growth of 5%.

Gala Casinos' turnover increased by 1% from £133.5 million in 2010 to £134.4 million in 2011. Following the shift in focus away from admissions towards core and higher value players', admissions have decreased in the second half of the year and are level with 2010 on a full year basis. Average cash drop per head improved significantly over the second half of the year and was 2% ahead on a full year basis, with growth in spend per head across machines and food and beverage also. Gaming win margin was adversely impacted by losses of £2.0 million to high rollers in the first half of the year, and was 16.5% for the full year (2010: 16.7%). Additional costs have been incurred in 2011 associated with a new divisional management structure and marketing to support revenue growth. EBITDA (pre-exceptionals) has reduced from £30.4 million in the prior year to £26.7 million in the year to 24 September 2011.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 24 September 2011

OVERVIEW OF THE YEAR (continued)

Remote Gambling's turnover reduced from £90.7 million in 2010 to £68.7 million in the current year, a reduction of £22.0 million (24%). All sites have seen declines in active customer and staking levels compared to the prior year due to constrained technology compared with the competitive set, although trends over the final two quarters have improved due to more focused marketing activity and work to stabilise the platform. The project to re-platform all of the sites with Playtech and design new market leading websites continues to progress well, with spring launches targeted for the gala branded sites, and a late summer launch for the new sportsbook site. Cost savings, primarily in marketing, have helped to mitigate the impact of the turnover reduction at an EBITDA (pre-exceptionals) level, which has reduced from £36.8 million in the year ended 2010 to £32.2 million over the same period in 2011.

Eurobet Italia's turnover has reduced from £58.2 million in the year ended September 2010 to £51.2 million in the year ended September 2011, a reduction of £7.0 million (12%). Excluding the World Cup, turnover was £3.1 million (6%) lower year on year. Total sports betting stakes were 7% ahead of the prior year (16% ahead excluding the 2010 World Cup), with market share growth in sports betting increasing from 4.9% in 2010 to 5.6% in 2011. Adverse results, particularly in the first quarter, have had a significant impact on revenues in the year, resulting in an overall sports betting margin across both LBOs and online of 18.8% (2010, 23.1%). This turnover shortfall resulted in sports betting gross profit being £3.6 million below the prior year level, and was the main driver behind the reduction in EBITDA from £13.9 million in the year ended September 2010 to £9.2 million in the current year.

General administrative expenses include central function costs and amortisation of goodwill regarding the Remote Gambling Division. These have increased from £64.3 million in the prior year to £75.0 million in 2011. This year on year increase is primarily due to an ongoing reinvestment in key business support functions following significant reductions in previous years.

A depreciation charge of £68.5 million (2010: £67.7 million) and an amortisation charge of £27.2 million (2010: £27.2 million) is included in general administrative expenses for the year.

Exceptional items included in operating profit amount to a charge of £579.9 million (2010: £99.2 million), being costs associated with onerous lease provisions, redundancies and costs associated with the refinancing as well as impairment (see note 5).

The profit on the disposal of fixed assets of £21.9 million for the year (2010: £3.2 million) includes the profit and loss on disposal of freehold properties which were subsequently leased back.

As a result of the above, loss before interest and tax increased to £397.9 million (2010: profit of £111.3 million).

Interest payable has reduced from £306.1 million in 2010 to £226.2 million in 2011, primarily reflecting the financial restructuring and the refinancing which have taken place over the last two years. Key elements of the interest charge include loan interest of £124.1 million (2010: £116.1 million), of which £22.1 million relates to the Gala Propco Three Limited loan (2010: £22.9 million) and non-cash interest on GCGL loan notes of £70.9 million (2010: £17.8 million). In 2010 additional interest costs associated with the former mezzanine debt (£39.3 million) and the balances owed to former group companies (£96.3 million) were incurred. Interest payable also includes £30.6 million of costs (2010: £12.4 million) associated with the amortisation and write off of debt issue costs as well as costs associated with certain hedging arrangements. Additional exceptional interest of £0.6 million (2010: £0.4 million) was incurred in the year associated with break fees on the repayment of the Gala Propco Three Limited loan following the sale of two properties.

OVERVIEW OF THE YEAR (continued)

Interest receivable in the year was £4.3 million (2010: £11.4 million), representing bank interest on cash and exceptional interest associated with the gaming machines VAT claim.

Other finance costs in the year were £5.9 million (2010: £4.2 million) associated with the unwinding of discount on provisions and finance costs in relation to the pension scheme.

The overall result for the 2011 financial year after taxation is a loss of £643.4 million, compared to a loss of £166.1 million in 2010.

Cash generated from operations - year to date

Net cash inflow from operations was £238.0 million (2010: £284.2 million). This included cash outflows of £24.9 million associated with restructuring and reorganisations (2010: £53.1 million) and £0.3 million associated with VAT refunds (2010: inflow of £59.6 million).

Of the cash inflows, £55.2 million (2010: £45.5 million) was reinvested in the Group to fund capital expenditure. Key areas of investment are the acquisition of Chas Kendall and 2 new bingo clubs, estate development, shop upgrades and investment in the central betting engine in Coral; capital maintenance, investment in digital touchpads and the development of a new CRM solution in Bingo; product development and refurbishment in Casinos; new product development and service stabilisation in Remote; new licence acquisition and fit outs in Italy; and investment in infrastructure replacement at a Group level.

The Group received £47.7 million (2010: £10.2 million) in receipts from the sale of tangible fixed assets in the period, primarily relating to the sale and leaseback of freehold Coral properties which has generated net receipts of £35.7 million. Other disposals include the sale of two bingo clubs with net receipts of £7.4 million, the sale of an old casino site in Gibraltar for £1.9 million and the sale of sundry other Coral properties and assets as well as the sale of two Gala Propco Three Limited properties.

In the year to 24 September 2011, £158.7 million (2010: £157.7 million) of cash inflows was utilised to meet interest and other financing costs, including £120.1 million in interest payments (2010: £169.3 million), £41.0 million paid in issue costs for the refinancing, plus a further £1.9 million in costs associated with the early termination of certain hedging arrangements.

Total loan repayments of £1,623.4 million (2010: £279.9 million) have been made in the year, including £1,537.2 million in relation to the refinancing which completed on 27 May 2011 and £86.2 million in early repayment of a scheduled loan repayment and mandatory repayments following property disposals. In addition to this, £9.7 million (2010: £7.1 million) of the Gala Propco Three Limited loan was repaid in the year, of which £3.9 million (2010: £3.2 million) related to scheduled repayments and £5.8 million (2010: 3.9 million) to repayments following disposals of two properties.

On 27 May 2011, the Group completed a refinancing of its former senior secured credit facilities. Facilities of £1,550.0 million (gross) were raised comprising senior secured credit facilities of £925.0 million (£825.0 million term loan and £100.0 million undrawn revolving credit facility), senior secured notes of £350.0 million and senior notes of £275.0 million. The senior notes were issued at a discount of £7.0 million to their par value. The Group incurred costs relating to the refinancing of £41.0 million. The net proceeds from these borrowings, together with group cash of £138.4 million, were used to repay all of the Group's existing senior secured credit facilities, totalling £1,537.2 million, plus accrued interest of £3.6 million. These new facilities are repayable between 2017 and 2019.

In June 2010, new equity of £210.0 million was injected into the business, which was used to repay £200.0 million of the former senior credit facilities and £10.0 million in intercompany loans.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 24 September 2011

OVERVIEW OF THE YEAR (continued)

Cash generated from operations - year to date (continued)

Total cash outflow for the period was £118.7 million (2010: outflow of £2.2 million).

Unlevered cashflow for the period (cash available to pay net cash interest costs and service financing) was £230.1 million, representing a cash conversion (unlevered cashflow as a proportion of EBITDA (pre-exceptionals)) of 88.2%. Unlevered cashflow benefited from the £47.7 million in receipts from disposal of fixed assets in the year. Excluding such receipts, cash conversion remains high at 69.9%.

Net Debt and Liquidity

At 24 September 2011 total net debt (including GCGL loan notes and the Gala Propco Three Limited loan, net of cash balances and issue costs) was £2,148.9 million, compared with £2,162.9 million at 25 September 2010. £1,323.0 million of this relates to net debt for covenant purposes (net of issue costs), with £825.9 million of other net debt consisting of the non-recourse Gala Propco Three Limited loan and GCGL loan notes from the ultimate holding company, offset by non-covenant cash and issue costs.

CURRENT TRADING

Trading to date in FY12 has been positive. OTC amounts staked after two periods are 9% ahead of prior year levels, although poor results continue to impact gross win margin and turnover is below the prior year level as a result. Machines have shown strong growth on the back of increased new content and improved margins, with gross win per machine per week currently averaging £945. Gala Bingo has delivered strong growth in spend per head and gross profit, and EBITDA continues to outperform the prior year. Gala Casinos cash drop is 2% ahead of the prior year, with continued strong margins. Remote Gambling turnover is below prior year levels, with EBITDA also impacted by increased costs associated with putting the new trading structures in place to support the platform and site re-launches in 2012. Italy EBITDA is over 500% ahead of prior year levels, following disastrous sports results affecting the start of the 2010 financial year. Overall gross profit is in line with prior year levels. EBITDA is currently in line with management forecasts, but behind prior year levels as a result of increased year on year costs. Management remains confident of a return to growth in the second half of the financial year.

FUTURE STRATEGY

The Group is expecting to return to year on year growth in 2012. This follows improved underlying trading levels in the second half of the 2011 financial year, and is supported by key initiatives in each of our trading divisions. Each division has developed growth strategies relative to their particular markets, underpinned by the key strategic themes of increasing customer focus, greater operational intensity, new product development, portfolio management, multi-channel development and developing a performance culture.

Coral

The Coral business will continue to deliver innovative new over the counter products, supported by market leading customer offers. The range of bet-in-play opportunities will be expanded during the year, supported by the introduction of self-service betting terminals in the top 1,000 shops, which will also improve the range of other betting products and markets available. These enhanced product offers will be underpinned by the recent introduction of a new liability management system, which will facilitate improved pricing and improved gross win margin management.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 24 September 2011

FUTURE STRATEGY (continued)

Coral (continued)

After a steady year of machines growth in the 2011 financial year, improved growth is anticipated in 2012. The key driver for growth is expected to be improved yield management, following the rollout of the Videobet platform which was completed in the final quarter of the 2011 financial year. This will allow greater management of minimum staking levels on a per machine and per shop basis according to the time of day, and improved profiling of valuable players. Growth is also anticipated from the introduction of at least 50% more content in 2012 compared to 2011, particularly in 'slots' type products which benefit from higher win margins. A programme is also underway to improve the machines environment in our top performing shops, including improved customer comforts and promotional offers.

In order to drive a greater operational focus on delivery of these initiatives, the number of shops per Regional Manager will be reduced, supported by a programme to improve the underlying quality and skills of our shop management teams

The overall LBO estate is targeted to grow by 66 units in 2012, through a combination of new licences and acquisitions. The underlying quality of the estate will also be improved by the upgrade of 180 units in the year, which is over 10% of the estate.

Gala Bingo

After a successful year in stabilising the bingo business in 2011, Gala Bingo is expected to deliver improved growth in 2012. This will be underpinned by a significant increase in capital investment, focused on product and systems development, integration of acquisitions made at the end of the 2011 financial year and improvements to the underlying fabric of the retail estate.

Each of the core gaming products will benefit from improvements in 2012. The start of the new financial year has already seen the introduction of a new mainstage bingo offering, designed to deliver greater 'winnability' of jackpots. This will be supported by the introduction of increased handheld terminals to improve the flexibility and volume of play. The rollout of 'Party Xtra' as a new interval bingo offering is now complete, with improved product and prize offers supported by the development of handheld technology. The rollout of server based gaming machines across the core estate will complete in the first quarter of the financial year, with strong returns already being delivered from this improved product offer. This will be supplemented by the addition of over 1,000 new machines early in the financial year to replace older machines stock. The introduction of these new machines will also support the development of a new 'arcade' machines area format in over 60% of the estate, which will include better presentation of the machines environment, upgraded machines and improved customer service. The customer experience will be further enhanced by improved service and standards in food and beverage delivery.

The business continues to reinvest in the estate in order to bring the quality of all clubs up to expected standards, including the addition of smoking shelters at an additional 20 clubs. 2012 will also see the development of a new concept club in order to trial the next generation of offering, which will feature improved zoning, new technology, a higher quality food and beverage offering and revised external and internal presentation.

The Gala Bingo business is currently integrating the two new clubs acquired at the end of the 2011 financial year, and these are expected to be in the top ten percent in terms of club performance in 2012, delivering approximately £2.0 million in EBITDA.

FUTURE STRATEGY (continued)

Gala Casinos

Financial year 2012 will be the first full year of the new brand proposition in Gala Casinos, where the focus of effort has moved away from low revenue admissions to higher value customers, following successful trials during 2011 which saw average drop per head improve by 9.5% over the second half of the year, and gross profit increase by 9.7%. This will be supported by a revised loyalty scheme for higher value customers and new customer and marketing initiatives using the 'Fortune' loyalty system.

Following excellent returns from recent projects, the programme of club refurbishments across the estate will continue in 2012, with at least six casinos targeted for upgrade and improvement within the year.

As with other businesses, machines will play an important part in the growth in Casinos in 2012, supported by the renegotiation of key contracts and the installation of 500 new electronic roulette terminals to improve the customer offer at the end of the first quarter, supported by improved customer service in this area.

Remote Gambling

The 2012 financial year represents a major transition year for the Remote Gambling business. The project to re-platform all of the business' websites commenced in the second half of the 2011 financial year, with the long form agreement with Playtech, the preferred supplier, signed in July 2011. This will deliver a class leading platform with greatly improved customer relationship management (CRM) and business intelligence (BI) opportunities, along with a compelling suite of gaming products. As part of the project, the websites are also being redesigned to be class leading in terms of functionality and ease of use. The detailed specification work is currently nearing completion, with an aggressive timetable targeting spring for the launch of the new gala branded sites, and late summer for the revised sportsbook site.

Pending the re-launch of the sites, the business will continue to drive to maximise the number of customers transitioned across to the improved sites, with new CRM and affiliates management partnerships put in place at the end of financial year 2011, improved digital marketing and pay-per-click page optimisation, a revised account opening process planned, the introduction of PayPal, ongoing development of the mobile product and a steady pipeline of new product introduced via Playtech's GTS games platform.

Eurobet Italia

After prolonged regulatory delays, the online market in Italy benefited from the launch of an enhanced range of online gaming opportunities in late July 2011. This included the introduction of cash poker, casino games and limited other games. Eurobet Italia was one of the first in the market to successfully launch their product offering, taking an early 4.5% share, which was above preliminary expectations. The gaming offer will be further improved in 2012 through the introduction of 'flash' casino, more games titles and, subject to regulatory approval, slots type content that would significantly increase the size of the online gaming market.

In sportsbetting, the business has continued to win market share throughout the 2011 financial year, and will look to grow this further through the development of compelling online and offline products and enhanced bet-in-play opportunities, supported by increased marketing investment including the ongoing sponsorship of the Serie A team Palermo.

DIVISIONALISATION

In 2011, the Group undertook a process to divisionalise certain key business supporting functions that had previously been provided on a central basis, such as Marketing, HR, IT and operational Finance. The divisionalisation of this team was designed to promote a greater focus on the customer, improve morale across the teams, give divisional management greater control over resources and ultimately align resources more closely behind the delivery of 2012 business plans. The new divisionalised structures were in place for the start of the 2012 financial year, and alongside the divisional plans outlined above are expected to return the Group to year on year EBITDA growth in 2012.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Group's strategy are subject to a number of risks. The occurrence of any one of which may adversely impact the management of the Group and the execution of its growth strategies.

The following are the principal risks and uncertainties facing the Group. The risks shown are not necessarily all those associated with the Group and are not listed in priority order.

AREA	RISK	MITIGATION
Legal/Compliance	A serious breach of gaming regulations and legislation may result in the loss of the Group's operator's licenses.	- Appropriate policies, processes and controls are in place in order to minimise the risk of any legal/compliance failure or breach; - staff are made aware of requirements and given appropriate training; - legislative and regulatory developments in the main markets in which the Group operates are monitored and assessed so that the Group can adapt to any changes and minimise any impact.
Information Security	Data loss, unauthorised intrusion or theft of data could damage the Group's reputation and customer confidence.	- policies have been introduced including mandatory security awareness training; - the Group has invested in industry-leading data monitoring tools and a Group-wide data backup solution; - Information Asset Owners (IAOs) are being appointed in FY11; - regular PCI audits and system penetration tests are undertaken.
Fraud	Significant loss from staff or customer fraud.	- experienced audit and security staff monitor trading outlets for any unusual payments or betting/gaming activity; - controls and processes are in place to assist in preventing loss and theft.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 24 September 2011

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

AREA	RISK	MITIGATION
Employee Safety	Serious injury or death of an employee as a result of robbery or other violent incident.	- the Group has undertaken the Exposure to Violence, Aggression and Conflict risk assessments and has implemented a programme of action in order to reduce the risk of violence to staff as far as possible.
Fire/Disaster	The Group could experience loss arising from fire or other major disaster.	- fire and health and safety risk assessments are undertaken and any necessary resulting action is implemented to reduce the risk of a fire/incident; - property and business interruption insurance is purchased annually.
Business Continuity/ Disaster Recovery	Risk of serious systems failure impairing the operation and efficiency of one or more areas of the business	- an enhanced business continuity plan is being developed around the Group's new data centre which opened in March 2010. Key production services are being migrated to the data centre over the next 18-24 months. This will reduce vulnerability and further increase resilience.
Gaming Risk	With the exception of bingo, due to its pari-mutuel nature, the Group's products are exposed to a varying degree of risk whereby betting outcomes can go against the Group's interests.	- there are clear pricing policies across the casino and LBO estates which limit the maximum amounts which can be staked on individual casino table games or sporting events respectively; - the trading risk within the LBO estate is pro-actively monitored and managed by a dedicated and experienced trading team.
Contingencies	HMRC are currently appealing certain VAT rulings and, if successful, will require the Group to repay monies received to date on these claims totalling £51.5 million including related interest. Such an outcome would have a significant impact on the Group's cash resources and profit and loss reserves.	- the Group continues to actively monitor the case and takes external legal advice where necessary. - the Group takes this exposure into account in forecasting its future cash and liquidity requirements.

FINANCIAL RISK MANAGEMENT

The Group's financial risk management programme recognises the endemic unpredictability and volatility of financial markets and therefore seeks to appropriately minimise the potential risks and exposures to the Group. The Group's funding, liquidity and financial exposures with respect to interest rate and foreign exchange risk are managed by the Group's treasury team and are subject to rigorous internal control procedures. All significant financing and hedging transactions are authorised by the Board of Directors of the parent company. The most important components of financial risk impacting the Group are interest rate risk, credit risk, liquidity risk and, to a lesser extent, foreign currency risk.

Interest Rate Risk

The Group's trading income and operating cash flows are not directly linked to changes in interest rates. The Group primarily finances its operations through a variety of borrowing instruments, including senior secured notes, senior notes and senior secured credit facilities; a ring-fenced property backed loan facility (Gala Propco Three Limited loan) and subordinated preferred equity certificates at the ultimate parent company which are on-lent to the Group in the form of loan notes (GCGL loan notes). The Group's borrowings are denominated in sterling. The senior secured notes, the senior notes and the Gala Propco Three Limited loan bear a fixed rate of interest and the senior secured credit facilities a floating rate of interest. The Group utilises interest rate caps to manage its exposure to interest rate fluctuations and a proportion of its floating rate borrowings. At the year end approximately 85% of the Group's floating rate borrowings were hedged (2010: 45%).

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full, when due. Surplus cash is invested in bank deposit accounts, money market deposits and 'AAA' rated money market funds. Counterparty risk exposures are minimised by dealing with only a limited range of financial institutions and in instruments which meet minimum credit rating criteria. Counterparty credit ratings are regularly monitored. Given the increased level of uncertainty within the financial system at the current time, counterparty exposure and analysis are a key priority within the Group's treasury management processes.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when they fall due. Cash forecasts identifying the liquidity requirements of the Group are produced regularly and are reviewed in detail to ensure that sufficient headroom exists for at least the forthcoming twelve month period. The Group maintains adequate borrowings which are long term with a range of maturity dates to mitigate the liquidity risk it may face.

Foreign Currency Risk

The Group has minimal exposure to foreign currency risk. The Group's functional reporting currency is sterling. All assets and liabilities are maintained in sterling, with the exception of our operations in Italy and a number of foreign currency denominated bank accounts to facilitate the international operations of the Group's Remote Gambling division.

The functional currency of the Italian business is the euro. The Group has reviewed the net exposure to foreign currency risk and has concluded that no hedging is considered necessary at the current time due to the low level of actual exposure. This policy remains subject to periodic review.

See note 19 for further information on financial instruments.

CAPITAL STRUCTURE

The Group is owned by a number of private equity funds, the following parties hold shareholdings of greater than 5% of the ordinary share capital:

- Apollo Global Management, LLC.
- Cerberus Capital Management, L.P.
- Goldman Sachs International Bank.
- Park Square Capital, LLP.
- Anchorage Capital Partners.
- York Capital Management Global Advisors, LLC.
- Third Point Loan, LLC.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above in the business review. The key risks and uncertainties facing the Group along with its financial risk management objectives and processes are also set out above.

Following the Group's restructuring on 21 June 2010 and refinancing on 27 May 2011, the directors have continued to review the Group's cash flow forecasts and trading budgets and after making appropriate enquiries, have formed the view that the Group is operationally and financially robust and will generate sufficient cash to meet its ongoing requirements for at least the next 12 months from the signing of this report. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

SUPPLIER PAYMENT POLICY

The Group's standard supplier payment terms are 56 days from receipt of invoice. At 24 September 2011, trade creditors outstanding represented approximately 39 days purchases from suppliers (2010: 27 days purchases).

DISABLED EMPLOYEES

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that all employees be given equal opportunities in respect of training, career development and promotion.

EMPLOYEE INVOLVEMENT

The Group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. There are widely established arrangements involving briefings, staff consultancy committees and the publication of newsletters. In 2010 the Group undertook an employee engagement survey rather than focusing solely on employee opinion, as has been the case in previous years. The new survey has enabled the Group to understand the key issues driving engagement within the organisation and helped the Group to formulate a targeted approach to improving the working experience. The survey is carried out by a third party and responses from staff are received anonymously.

It is Group policy that there shall be no discrimination in respect of age, sex, colour, religion, race, nationality or ethnic origin and that equal opportunity shall be given to all employees.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 24 September 2011

POLITICAL AND CHARITABLE CONTRIBUTIONS

Charitable contributions in the year amounted to £0.8 million (2010: £0.9 million), of which £0.7 million was donated to the Responsibility in Gambling Trust (now replaced by The GREaT Foundation) (2010: £0.7 million), and the remaining donations were mainly to national charities and other industry-related charities. No political contributions were made (2010: £nil).

DIRECTORS

The following served as directors during the year and up to the date of signing the financial statements were:

R W Templeman (appointed 8 November 2010)
C A Leaver (appointed 8 November 2010)
G W Hughes (resigned 30 September 2011)
P Bowtell (appointed 3 October 2011)
A Hornby (appointed 1 September 2011)
D S Harrison (resigned 30 September 2010)
N G Goulden (resigned 8 November 2010)
C Attwood
D R Kornstein
G B C Hardy
W T Walsh

Further information on the biographies and other appointments of the directors are available on the Group website: www.galacoral.co.uk

DIRECTORS' INDEMNITIES AND INSURANCE

The Group maintains directors' and officers' liability insurance. All of the above named directors have received an indemnity to the extent permitted by law from the Company. Neither the indemnity nor the insurance will not provide cover in situations where a director has acted fraudulently or dishonestly.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

For each of the directors at the time this report was approved, the following applies:

a) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

b) each director has taken all the steps that they ought to have taken as a director in order to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

H A Willits
Company Secretary
15 December 2011

Gala Coral Group Limited
Statement of Directors' Responsibilities
For the year ended 24 September 2011

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements: and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

H A Willits
Company Secretary
15 December 2011

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GALA CORAL GROUP LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Gala Coral Group Limited for the year ended 24 September 2011 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Total Group Shareholders' Funds, the Reconciliation of Group Net Cash Flow to Movement in Group Net Debt and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 17 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 24 September 2011 and of the group's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GALA CORAL GROUP LIMITED (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ranjan Sriskandan (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

15 December 2011

Gala Coral Group Limited
Group Profit and Loss Account
For the year ended 24 September 2011

	Notes	2011 £m	2010 As restated £m
Turnover	**2**	**1,117.0**	**1,177.7**
Cost of sales		(262.3)	(288.9)
Gross profit		**854.7**	**888.8**
Administrative expenses		(1,277.7)	(784.0)
Operating (loss)/profit before other operating income		(423.0)	104.8
Operating (loss)/profit before other operating income, analysed as:			
Before exceptional items		156.9	204.0
Impairments	5	(552.4)	(122.6)
Restructuring and reorganisation costs	5	(39.6)	(54.3)
VAT refunds	5	2.9	70.2
Release of property provisions	5	9.2	7.0
Release of other onerous contracts	5	-	0.5
Operating (loss)/profit before other operating income		(423.0)	104.8
Other operating income	3	3.2	3.3
Operating (loss)/profit	**2, 3**	**(419.8)**	**108.1**
Profit on disposal of fixed assets	5	21.9	3.2
(Loss)/profit before interest and tax		(397.9)	111.3
Interest receivable and similar income	7(a)	4.3	11.4
Interest payable and similar charges	7(a)	(226.2)	(306.1)
Other finance costs	7(b)	(5.9)	(4.2)
Loss on ordinary activities before tax		**(625.7)**	**(187.6)**
Tax (charge)/credit on loss on ordinary activities	8	(17.7)	21.5
Loss for the financial year	**23**	**(643.4)**	**(166.1)**

All operations are continuing.

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

Gala Coral Group Limited
Group Statement of Total Recognised Gains and Losses and Reconciliation of Movement in Total Group Shareholders' Funds

For the year ended 24 September 2011

Group Statement of Total Recognised Gains and Losses

	Notes	2011 £m	2010 £m
Loss for the financial year		(643.4)	(166.1)
Net foreign exchange adjustments offset in reserves	23	1.5	(0.3)
Actuarial gain/(loss) on pension schemes	27	31.3	(7.3)
Deferred tax (charge)/credit relating to pension scheme	21	(7.6)	1.6
Current tax credit relating to pension scheme		-	0.5
Total recognised losses for the year		**(618.2)**	**(171.6)**

Reconciliation of Movement in Total Group Shareholders' Funds

	Notes	2011 £m	2010 £m
Total recognised losses for the year		(618.2)	(171.6)
Issue of share capital	29	-	213.3
Capital contributions:			
Forgiveness of intercompany debt	29	-	1,605.4
Release of unsustainable mezzanine debt	29	-	118.1
Net movement in shareholders' funds		(618.2)	1,765.2
Opening shareholders' funds/(deficit)		860.6	(904.6)
Closing shareholders' funds		**242.4**	**860.6**

Gala Coral Group Limited
Group Balance Sheet
As at 24 September 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Intangible assets	9	531.8	1,105.5
Tangible assets	10	2,023.3	2,056.8
		2,555.1	**3,162.3**
Current assets			
Stocks	13	3.3	4.2
Debtors	14	67.4	84.0
Cash at bank and in hand		141.7	260.4
		212.4	**348.6**
Creditors: amounts falling due within one year	15	(192.5)	(222.3)
Net current assets		**19.9**	**126.3**
Total assets less current liabilities		**2,575.0**	**3,288.6**
Creditors: amounts falling due after more than one year	16	(2,286.8)	(2,360.7)
Provisions for liabilities and charges	21	(78.1)	(74.9)
Net assets excluding net pension asset		**210.1**	**853.0**
Net pension asset	27	32.3	7.6
Net assets including net pension asset		**242.4**	**860.6**
Capital and reserves			
Called up share capital	22	213.3	213.3
Merger reserve	23	1.6	1.6
Capital contribution reserve	23	1,723.5	1,723.5
Profit and loss account	23	(1,696.0)	(1,077.8)
Total shareholders' funds		**242.4**	**860.6**

The financial statements on pages 20 to 59 were approved by the Board of directors on 15 December 2011 and are signed on its behalf by:

P Bowtell
Director

Gala Coral Group Limited
Company Balance Sheet
As at 24 September 2011

	Notes	2011 £m	2010 £m
Fixed assets			
Investments	11	210.0	210.0
Current assets			
Debtors: amounts due after more than one year	14	542.7	471.3
Creditors: amounts falling due within one year	15	-	(0.1)
Net current assets		**542.7**	**471.2**
Total assets less current liabilities		**752.7**	**681.2**
Creditors: amounts falling due after more than one year	16	(538.7)	(467.8)
Net assets		**214.0**	**213.4**
Capital and reserves			
Called up share capital	22	213.3	213.3
Profit and loss account	23	0.7	0.1
Total shareholders' funds		**214.0**	**213.4**

The financial statements on pages 20 to 59 were approved by the Board of Directors on 15 December 2011 and are signed on its behalf by:

P Bowtell
Director

Gala Coral Group Limited
Group Cash Flow Statement
For the year ended 24 September 2011

	Notes	2011 £m	2010 £m
Net cash inflow from operating activities	**24(a)**	**238.0**	**284.2**
Returns on investments and servicing of finance			
Interest received		4.3	11.6
Interest paid		(120.1)	(169.3)
Issue costs on new long-term borrowings		(41.0)	-
Early termination of interest caps and swaps		(1.9)	-
Net cash outflow from returns on investments and servicing of finance		**(158.7)**	**(157.7)**
Taxation			
Corporation tax paid		(1.3)	(6.4)
Capital expenditure and financial investment			
Payments to acquire tangible and intangible fixed assets		(38.9)	(45.5)
Receipts from sales of tangible fixed assets		47.7	10.2
Net cash inflow/(outflow) for capital expenditure and financial investment		**8.8**	**(35.3)**
Acquisitions			
Purchase of subsidiary undertakings		(16.3)	-
Cash acquired with subsidiary undertakings		0.9	-
Net cash inflow before financing		**71.4**	**84.8**
Financing			
Issue of share capital		-	210.0
Issue of senior notes		268.0	-
Issue of senior secured notes		350.0	-
New senior secured credit facilities		825.0	-
Repayment of intercompany loan		-	(10.0)
Repayment of former senior credit facilities		(1,623.4)	(279.9)
Repayment of the Gala Propco Three Limited loan		(9.7)	(7.1)
Net cash outflow from financing		**(190.1)**	**(87.0)**
Decrease in cash	**24(b)**	**(118.7)**	**(2.2)**

Gala Coral Group Limited
Reconciliation of Group Net Cash Flow to Movement in Group Net Debt
For the year ended 24 September 2011

	Notes	2011 £m	2010 £m
Decrease in cash	24(b)	(118.7)	(2.2)
Net repayment of long-term loans	24(b)	190.1	287.0
Issue costs on new long-term loans	24(b)	41.0	-
Change in net debt resulting from cash flows		**112.4**	**284.8**
Other non-cash movements	24(b)	(98.4)	63.3
Movement in net debt		**14.0**	**348.1**
Opening net debt	24(b)	(2,162.9)	(2,511.0)
Closing net debt	**24(b)**	**(2,148.9)**	**(2,162.9)**

Gala Coral Group Limited
Notes to the Accounts
For the year ended 24 September 2011

1. Accounting Policies

Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, the accounting policies set out below, and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006, except as regards the specific provisions of the Act relating to the amortisation of goodwill as explained below. The accounting policies have been consistently applied to both of the years presented in these financial statements.

The Group reconstruction in 2010 was accounted for using merger accounting principles as outlined in FRS 6. For the consolidated accounts the adoption of merger accounting presents Gala Coral Group Limited as if it had always been the parent undertaking of the Group. As Gala Coral Group Limited did not trade prior to 21 June 2010, the comparative results shown for the year ended 25 September 2010 therefore include the results of Gala Electric Casinos plc (its direct subsidiary) and its subsidiaries, for the whole of the financial year.

The consolidated profit and loss comparatives have been restated to fully reflect revenue and cost of sales of £9.7 million in relation to the Telebet operations which are included in the Remote Gambling segment. This restatement does not affect the operating profit of the Group or the Remote Gambling segment.

The Group has utilised the exemption from disclosing intra-Group transactions which is offered by FRS 8 “Related Party Transactions”.

Basis of Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries. Inter-company balances, transactions and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

No profit and loss account is presented for Gala Coral Group Limited as permitted by section 408 of the Companies Act 2006. The result dealt with in the accounts of the Company was £0.6 million profit for the year (2010: £0.1 million).

Turnover

Turnover results from the operation of bookmakers, bingo clubs, online gaming and casinos and is stated as net win, which is calculated as bets placed less amounts won by customers. Gala Bingo turnover is stated net of customer contribution to prizes but gross of company contributed prizes which are disclosed within cost of sales. Turnover is stated net of any VAT, but before the deduction of gaming duty. Turnover from the sale of food and beverages is recorded net of VAT.

The Group operates betting establishments in Italy via franchise partners. Under the terms of the franchise agreements, the Group bears the risks and rewards of the operations and therefore the Group acts as principal. As a result, the Group recognises the full net win generated from these operations in turnover.

Turnover is shown net of the cost of loyalty scheme points issued and redeemed. In respect of the Fortune loyalty scheme, as points are issued to customers, the retail value of those points expected to be redeemed is deferred. When the points are used by customers they are recorded as turnover.

Income from open betting positions is held in deferred income in creditors until the event has occurred.

Cost of Sales

Cost of sales primarily comprises the costs of gaming duties and any company contribution to prizes offered within Gala Bingo. Cost of sales also includes the revenue share payments to franchisees and machine rentals.

Exceptional Items

Exceptional items are those items which, by their size or nature, are separately disclosed in order to give a full understanding of the Group’s financial performance and to aid comparability of the Group’s results between periods.

1. Accounting Policies (continued)

Goodwill

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. Except as noted below, goodwill is capitalised and amortised over its estimated useful life of up to 20 years. Where a business is sold, the net book value of goodwill allocated to the business is charged through the profit and loss account as part of the profit or loss on disposal.

However, the directors have concluded that goodwill arising on the acquisition of its "bricks and mortar" gaming and LBO (Licensed Betting Office) businesses should not be amortised as it has an indefinite useful economic life. The goodwill is considered to have indefinite durability that can be demonstrated and its value can be readily measured.

The acquired businesses operate in longstanding and profitable market sectors. The directors do not consider that the industry is threatened by new entrants or competing products. The Group has a strong position in the market and there are barriers to entry due to the requirement to demonstrate that the applicant is a fit and proper person with the "know-how" required to run such operations. The regulation of the industry also restricts the games that can be offered and consequently reduces the risk of product obsolescence.

Annual impairment reviews of this goodwill are carried out and any resulting write down is charged to the profit and loss account.

The non-amortisation of this goodwill constitutes a departure from the Companies Act 2006 404(5), for the purpose of giving a true and fair view of the Group's results for the reasons outlined above. If goodwill arising on these acquisitions had been amortised over a 20-year period, the operating profit would have increased by £154.7 million for the year ended 24 September 2011 (2010: decrease of £28.5 million). Cumulatively, goodwill would have been amortised by £875.5 million (2010: £480.2 million).

Trademarks

The Group capitalises trademarks at their fair value on acquisition. The Coral trademarks are not amortised as their useful life has been assessed as indefinite. An indefinite useful life has been chosen for the same reasons as detailed in the accounting policy for goodwill. If the Coral trademarks had been amortised over a 20-year period, the operating profit would have decreased by £8.3 million for the year ended 24 September 2011 (2010: £8.3 million). Cumulatively, trademarks would have been amortised by £49.8 million (2010: £41.5 million).

Licences

The Group capitalises licences at cost. The Italian licences are amortised over their initial term which is up to nine years.

Gala Coral Group Limited
Notes to the Accounts
For the year ended 24 September 2011

1. Accounting Policies (continued)

Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation.

For buildings that have been purchased as part of a business acquisition, the initial carrying value includes the trading potential of the properties, which reflects the benefit of the gaming licences attached to trading properties. Subsequent additions to tangible fixed assets are stated at cost. Depreciation is provided on all tangible fixed assets, with the exception of freehold land and trading potential, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	–	50 years
Leasehold land and buildings	–	shorter of 50 years and term of lease
Fixtures, fittings and office equipment	–	over three to ten years
Computer hardware and software	–	over three to ten years
Vehicles	–	over three to five years

The residual values of buildings are estimated on the following basis, having regard to the construction type and salvage values:

Listed buildings	–	80%
Buildings of traditional construction	–	50%
Steel framed buildings	–	0%

Impairment Reviews

Tangible assets: The need for any fixed-asset impairment provision is assessed by comparison of the carrying value of an income-generating unit, which normally comprises bingo clubs, casinos or LBOs which operate as a team within a market place, against the higher of the net realisable value or value in use. In addition, sites or groups of sites are considered separately where there have been exceptional circumstances impacting on their profitability that may indicate a material incremental impairment at that level.

The value in use is determined from the estimated discounted future cash flows of the income-generating unit.

Intangible assets: The need for any intangible asset impairment provision is assessed by comparison of the carrying value of the intangible assets with their value in use. The value in use is determined from the estimated discounted future cash flows.

For both tangible and intangible assets the future cash flows are based on the forecasts and budgets of the income-generating unit or business. The key assumptions within the budgets for the Gala Bingo and Gala Casino segments are the admissions levels, spend or drop per head, win percentage, wage increases and the fixed costs of the bingo club or casino. The key assumptions within the budgets for the Coral and Italy segments are the average number of machines per shop, gross win per shop per week, wage increases and the fixed costs of the licensed betting offices. The key assumptions within the budgets for the Remote Gambling segment are the number of active customers, turnover per head, win percentage, revenue shares and operating costs.

Where goodwill has historically been allocated to a segment on acquisition, impairments are made firstly against goodwill, then to any capitalised intangible asset and then to tangible fixed assets on a pro rata or more appropriate basis (which typically involves impairing any trading potential value included within properties).

Where more than one segment was acquired through a single investment and goodwill arising was not allocated between the businesses, the value in use is first compared with the carrying value of the net assets (excluding goodwill) of each segment, with any impairment made firstly against capitalised intangible fixed assets and then tangible fixed assets of the segment.

A secondary assessment is then made to compare the carrying values of all the segments acquired through a single investment against the value in use with any additional impairment then made against goodwill.

1. Accounting Policies (continued)

Investments

Investments are stated at cost less any necessary provision against their carrying value for diminution in value.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date which will result in an obligation to pay more tax, or a right to pay less tax with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing and Hire Purchase Commitments

Rentals paid under operating leases are charged to income on a straight line basis up to the date of the next rental review. There are no assets held under finance leases. Rentals receivable under operating leases are recognised in the profit and loss account within other operating income when earned.

Lease incentives are spread over the period up to the first rent review where market rate rents are applied.

Property Provisions

Provision has been made for vacant, partly sub-let leasehold properties and onerous leases. Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

Any creation or release of these provisions is included within operating exceptionals. For the vacant and sub-let properties, provision has been made for the shorter of the remaining period of the lease, which at 24 September 2011 is an average of 16 years (2010: 17 years), and the period until, in the directors' opinion, the Group will be able to exit the lease commitment. The amount provided is based on the future rental obligations, together with other outgoings, net of any sub-lease income.

Provision has been made on a discounted cash flow basis for onerous leases based on the element of the rental payments which are considered to be onerous. In determining the provision for the properties, the cash flows have been discounted using a risk-free discount rate. Provision has been made for the cost of carrying out remedial works in respect of the Group's freehold or leasehold properties when the Group is legally obliged to rectify the matter.

Gala Coral Group Limited
Notes to the Accounts
For the year ended 24 September 2011

1. Accounting Policies (continued)

Pensions

The Group operates the Gala Coral Pension Plan. The scheme has a defined benefit section and a defined contribution section. The assets of the scheme are managed separately from those of the Group. The defined benefit section of the scheme is closed to new entrants.

For the defined benefit pension scheme, the Group has adopted the provisions of FRS 17 amended "Retirement Benefits" in that the amounts charged to operating profit are the current service costs. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount within interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. The net pension scheme surplus recognised is restricted to the present value of the future expected pension contributions.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. Actuarial valuations are obtained every three years and are updated at each balance sheet date.

For the defined contribution pension scheme, the amounts charged to the profit and loss account in respect of pension costs and other post-retirement benefits, represents the contributions payable in the period as per the payment certificates. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments.

Financial Instruments

The Group uses financial instruments to hedge the risk associated with interest rates. Interest differentials on financial instruments including swaps are recognised by adjusting net interest payable in the period on an accruals basis. Realised gains or losses on the hedges are recognised in the period to which they relate.

Borrowings are carried at their issue proceeds net of finance costs (and in respect of the senior notes, also the discount to nominal value) less amounts repaid. Finance costs and discount are amortised over the life of the related borrowing.

Interest rate cap premia are carried at cost and are amortised over the life of the cap.

Foreign Currencies

Transactions denominated in foreign currencies are translated into sterling at the prevailing rate of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at period end rates of exchange. Exchange differences are taken to the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves.

Where the Group hedges net investments in foreign operations through currency borrowings the gains or losses on the translation of the borrowings are recognised in reserves.

2. Segmental Analysis

The Group operates five segments – Coral, Gala Bingo, Gala Casino, Remote Gambling and Italy. The Remote Gambling segment operates online sports betting, casinos and other gaming products. The Italy segment comprises betting shops and online sports betting in Italy. The consolidated profit and loss comparatives have been restated to fully disclose the revenue of £9.7 million associated with Telebet within the Remote Gambling segment from cost of sales to revenue. This restatement does not affect the operating profit of the group or the Remote Gambling segment.

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

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

Area of Activity

	2011 £m	2010 As restated £m
Turnover		
Coral	559.7	577.1
Gala Bingo	303.0	318.2
Gala Casino	134.4	133.5
Remote Gambling	68.7	90.7
Italy	51.2	58.2
	1,117.0	**1,177.7**
Operating profit		
Coral	142.9	169.5
Gala Bingo	41.4	39.4
Gala Casino	16.9	19.7
Remote Gambling	28.2	32.0
Italy	2.5	7.7
Segment operating profit [1]	**231.9**	**268.3**
Group administrative expenses	(75.0)	(64.3)
Other operating income	3.2	3.3
Exceptional items (note 5)	(579.9)	(99.2)
Operating (loss)/profit	**(419.8)**	**108.1**
EBITDA before exceptional items [2]	**261.0**	**307.1**

[1] Segment operating profit is stated before goodwill amortisation, which relates to the Remote Gambling division.

[2] Operating profit before depreciation, amortisation and the exceptional items shown in note 5.

2. Segmental Analysis (continued)

EBITDA before Exceptional Items by Segment

	2011	2010
	£m	£m
EBITDA before exceptional items:		
Coral	172.7	197.9
Gala Bingo	64.8	61.9
Gala Casino	26.7	30.4
Remote Gambling	32.2	36.8
Italy	9.2	13.9
	305.6	**340.9**

Segmental EBITDA before exceptional items does not include any allocation of Group administrative expenses or other operating income. Group administrative expenses (above) include goodwill amortisation for the year of £27.2 million (2010: £27.2 million).

Geographical Area

	2011	2010 As restated
	£m	£m
Turnover by origin		
United Kingdom	1,053.8	1,105.2
Europe	63.2	72.5
	1,117.0	**1,177.7**
Operating profit		
United Kingdom	226.4	255.6
Europe	5.5	12.7
Segment operating profit	231.9	268.3
Group administrative expenses	(75.0)	(64.3)
Other operating income	3.2	3.3
Exceptional items	(579.9)	(99.2)
Operating (loss)/profit	**(419.8)**	**108.1**

2. Segmental Analysis (continued)

Net Assets by Segment

	2011 £m	2010 £m
Coral	1,455.1	1,491.2
Gala Bingo	461.6	460.5
Gala Casino	162.8	163.2
Remote Gambling	27.3	30.6
Italy	19.1	22.5
	2,125.9	2,168.0
Non-operational net liabilities	(1,883.5)	(1,307.4)
Total net assets	**242.4**	**860.6**

Net Assets by Geographical Area

	2011 £m	2010 £m
UK	2,097.1	2,132.9
Europe	28.8	35.1
	2,125.9	2,168.0
Non-operational net liabilities	(1,883.5)	(1,307.4)
Total net assets	**242.4**	**860.6**

Non-operational net liabilities comprise goodwill, certain accruals and prepayments, net debt and taxation.

3. Operating (Loss)/Profit

This is stated after charging:

	2011 £m	2010 restated £m
Depreciation of owned assets:		
Coral	29.8	28.4
Gala Bingo	23.4	22.5
Gala Casino	9.8	10.7
Remote Gambling	4.0	4.8
Italy	1.5	1.3
	68.5	67.7
Amortisation	32.4	32.1
Impairment:		
Intangible fixed assets	550.0	-
Tangible fixed assets	2.4	122.6
Operating lease rentals:		
Land and buildings	59.7	52.9
Plant and machinery	36.9	36.0

Other operating income comprises property rents receivable.

During the year the Gala Bingo and Gala Casino businesses incurred costs relating to operating lease rentals from Gala Propco Three Limited of £26.9 million (2010: £26.5 million). However, these amounts eliminate on consolidation within the Group accounts.

Services Provided by the Group's Auditors

During the year the Group obtained the following services from the Group's auditors PricewaterhouseCoopers LLP and network firms as detailed below:

	2011 £m	2010 £m
Audit services		
Fees payable for the audit of the Company and Group accounts	0.1	0.1
Other services		
The audit of the Company's subsidiaries pursuant to legislation	0.3	0.3
Services relating to corporate finance transactions	0.5	0.5
Other assurance services	0.4	-
	1.3	**0.9**

Gala Coral Group Limited
Notes to the Accounts
For the year ended 24 September 2011

4. Directors' Remuneration

	2011 £m	2010 £m
Aggregate emoluments	1.8	1.5
Compensation for loss of office	-	0.5
Company contributions to private pension schemes	0.1	0.2
	1.9	**2.2**

No directors (2010: none) accrue benefits under the Group's defined benefit pension scheme.

Emoluments of highest paid director are as follows:

	2011 £m	2010 £m
Aggregate emoluments (excluding pension contributions)	0.5	0.6
Compensation of loss of office	-	0.5
Company contributions to private pension schemes	0.1	0.1
	0.6	**1.2**

No director exercised any share options during the year (2010: none).

Retirement benefits are accruing to one director under the Group's money purchase scheme (2010: one).

No emoluments were paid to directors for services to the Company (2010: £nil).

5. Exceptional Items

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

	Notes	2011 £m	2010 £m
Impairments	a)	552.4	122.6
Restructuring and reorganisation costs	b)	39.6	54.3
VAT refunds net of duty	c)	(2.9)	(70.2)
Release of property provisions	21	(9.2)	(7.0)
Release of other onerous contracts	21	-	(0.5)
Total charged to administrative expenses within operating profit		**579.9**	**99.2**

No tax credit (2010: £nil) has been claimed in relation to the exceptional charge as the Group is loss making.

5. Exceptional Items (continued)

Exceptional Items Charged/(Credited) to Operating (Loss)/Profit (continued)

a) Following a review of the Group's underlying business an impairment charge of £550.0 million has been recognised against the historic goodwill which arises on the consolidation of the Coral (£350.0 million) and Remote Gambling (£200.0 million) businesses. The impairment represents a non-cash charge at the consolidated group level and therefore does not affect the standalone statutory entities nor have an impact on banking covenants.

   The impairment review has been performed in accordance with FRS 11 assessing the value in use through a discounted cash flow model. The cash flows are based on approved budgets for the underlying business, however they do not incorporate any increases in EBITDA or capital expenditure anticipated from expansionary or development related projects taking place throughout FY12 and beyond as prescribed by FRS 11.

   2010 included the impairment of fixed assets in the Gala Bingo business of £121.5 million due to the continued impact of the smoking ban, economic downturn and changes in taxation.

   In addition, impairments also reflect the write down of tangible fixed assets on the closure of bingo clubs and casinos of £2.4 million (2010: £1.1 million).

b) Relates to the costs associated with redundancies, vacant lease provisions on closed bingo clubs and casinos as well as onerous contact provisions and the group restructure.

c) Net refunds in relation to Main Stage Bingo VAT refunds, Bingo Participation fee VAT refunds and gaming machine VAT refunds, netted off against duty assessments in relation to VAT refunds.

Exceptional Items Charged/(Credited) after Operating (Loss)/Profit

1) Profit on Disposal of Fixed Assets

The profit on disposal of £21.9 million (2010: £3.2 million profit) includes the profit and loss on disposal of freehold properties.

2) Exceptional Interest

During the year the Group received £2.2 million (2010: £2.5 million) of interest from HM Revenue and Customs in relation to the Main Stage VAT refund and recognised £0.7 million (2010: £0.6 million) of interest receivable from HMRC in respect of the Bingo Participation Fee VAT claim which was settled in March 2010. In the year ended 25 September 2010 the Group also received £7.3 million interest for the gaming machines VAT claim. See note 7.

On 27 May 2011 the Group wrote off £18.2 million issue costs on the repayment of the former senior secured credit facilities on completion of the refinancing. In addition, the Group terminated an interest rate swap and two interest rate caps to avoid being over-hedged following completion of the refinancing. This resulted in an exceptional interest expense of £2.7 million.

During the year the Group paid £0.6 million (2010: £0.4 million) of break fees on Gala Propco Three Limited loan repayments following the disposal of certain properties in Gala Propco Three Limited.

In the year ended 25 September 2010 the Group paid £23.8 million of waiver and consent fees during the financial restructuring process in relation to its borrowings and incurred additional debt issue cost amortisation of £3.3 million.

6. Staff Costs (including Directors)

	2011 £m	2010 £m
Wages and salaries (including redundancies)	248.5	245.5
Social security costs	20.6	20.6
Other pension costs	7.4	6.9
	276.5	**273.0**

The monthly average number of employees during the year was made up as follows:

	2011 Number	2010 Number
Coral	10,020	9,444
Gala Bingo	4,609	3,935
Gala Casino	2,583	2,414
Remote Gambling	202	165
Italy	84	83
Support staff	627	519
	18,125	**16,560**

All Coral employees are based solely in the United Kingdom. The employees of Gala Bingo, Gala Casino, Remote Gambling and support staff are principally based in the United Kingdom. The employees of the Italy division are primarily based in Italy. A number of Casino and Remote Gambling employees and associated support staff are based elsewhere in Europe.

The Company did not have any employees during the year (2010: none) and incurred £nil (2010: £nil) employee costs.

Gala Coral Group Limited
Notes to the Accounts
For the year ended 24 September 2011

7. Interest

a) Interest

	2011 £m	2010 £m
Loan interest	(124.1)	(116.1)
Mezzanine interest	-	(39.3)
GCGL loan notes interest (note 18)	(70.9)	(17.8)
Interest payable on loans with other Group companies	-	(96.3)
Amortisation of debt issue costs and senior notes discount	(8.6)	(9.1)
Amortisation of interest rate caps	(1.1)	-
	(204.7)	**(278.6)**
Exceptional interest payable:		
Senior loan waiver fees due to restructuring (note 5)	-	(23.8)
Break fees on the Gala Propco Three Limited loan (note 5)	(0.6)	(0.4)
Write off of debt issue costs on repayment of loans (note 5)	(18.2)	(3.3)
Early termination of interest rate caps and swaps (note 5)	(2.7)	-
	(21.5)	**(27.5)**
Interest payable and similar charges	**(226.2)**	**(306.1)**
Interest on deposits and money market funds	1.4	1.0
Exceptional interest receivable (note 5)	2.9	10.4
Interest receivable and similar income	**4.3**	**11.4**
Net interest payable	**(221.9)**	**(294.7)**

Interest payable on loans includes loan interest payable on the Gala Propco Three Limited loan of £22.1 million (2010: £22.9 million), of this £9.7 million (2010: £7.1 million) was paid in the year. The remainder is interest payable on the senior secured credit facilities, senior secured notes and senior notes.

Interest receivable includes interest receivable on the Gala Propco Three Limited cash balance of £0.1 million (2010: £nil). The Gala Propco Three Limited cash balance as at 24 September 2011 was £9.4 million (2010: £9.2 million).

b) Other Finance Costs

	2011 £m	2010 £m
Unwinding of discount in provisions (note 21)	(4.2)	(2.5)
Other finance costs in relation to the pension scheme (note 27)	(1.7)	(1.7)
Other finance costs	**(5.9)**	**(4.2)**

8. Tax on Loss on Ordinary Activities

a) The Taxation (Credit)/Charge is made up as follows:

	2011 £m	2010 £m
Current tax		
UK Corporation tax at 27% (2010: 28%):		
Current year	-	0.5
Adjustments in respect of prior years	-	(1.0)
	-	(0.5)
Overseas corporation tax	0.8	0.6
Total current tax	**0.8**	**0.1**
Deferred taxation: origination and reversal of timing differences		
Current year	16.9	(21.6)
Tax charge/(credit) on loss on ordinary activities	**17.7**	**(21.5)**

b) Factors affecting Current Tax Charge/(Credit)

The effective tax rate for the year is higher (2010: higher) than the average standard rate of UK corporation tax for the year. The differences are reconciled below:

	2011 £m	2010 £m
Loss on ordinary activities before tax	(625.7)	(187.6)
Loss on ordinary activities at average standard rate of UK corporation tax for the period of 27% (2010: 28%)	(168.9)	(52.5)
Adjustments in respect of prior periods	-	(1.0)
Expenses not deductible for tax purposes	159.7	52.5
Difference in depreciation and capital allowances	9.9	(4.2)
Other timing differences	(0.3)	3.4
Tax losses available to carry forward	-	2.3
Difference in overseas tax rate	0.4	(0.4)
Current tax charge for the year	0.8	0.1
Deferred tax movement in year	16.9	(21.6)
Tax charge/(credit) on loss on ordinary activities	**17.7**	**(21.5)**

8. Tax on Loss on Ordinary Activities (continued)

c) Tax on Recognised Gains and Losses not included in the Profit and Loss Account

	2011 £m	2010 £m
Tax charge/(credit) relating to pension scheme recognised in the Group Statement of Total Recognised Gains and Losses	**7.6**	**(2.1)**

d) Factors that may affect future Taxation

A deferred tax asset has been recognised for losses in the Italian subsidiaries. This can be utilised against future taxable profits. A deferred tax asset in respect of the UK losses has also been recognised to the extent that it offsets the deferred tax liability relating to the pension scheme. As at 24 September 2011, the Group has an unrecognised deferred tax asset of £97.5 million (2010: £75.3 million) (see note 21).

Legislation to reduce the main stream rate of corporation tax from 26% to 25% from 1 April 2012 was included in the Finance Act 2011. Both the recognised and unrecognised element of the deferred tax asset has therefore been disclosed at 25%. Further reductions to the main stream rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The proposed reductions of the main stream rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 25% to 23%, if these applied to the deferred tax balance at the balance sheet date, would be to reduce the unrecognised deferred tax asset by £7.8 million to £89.7 million.

No provision has been made for deferred tax on gains recognised on revaluing properties to fair values on acquisition or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the properties were sold without it being possible to claim rollover relief. The total amount unprovided for is £193.0 million (2010: £203.0 million). At present it is not envisaged that any such tax will become payable in the foreseeable future.

9. Intangible Assets

Group

	Italian Licences £m	Goodwill £m	Trademarks £m	Total £m
Cost:				
At 25 September 2010	36.3	1,370.8	166.0	1,573.1
Additions	0.3	-	-	0.3
Acquisitions	-	7.6	-	7.6
Exchange differences	1.1	0.1	-	1.2
At 24 September 2011	**37.7**	**1,378.5**	**166.0**	**1,582.2**
Amortisation:				
At 25 September 2010	15.9	451.7	-	467.6
Provided during the year	5.2	27.2	-	32.4
Exchange differences	0.4	-	-	0.4
Impairment	-	550.0	-	550.0
At 24 September 2011	**21.5**	**1,028.9**	**-**	**1,050.4**
Net book value at 24 September 2011	**16.2**	**349.6**	**166.0**	**531.8**
Net book value at 25 September 2010	20.4	919.1	166.0	1,105.5

An impairment charge of £550.0 million was charged to exceptional administrative expenses during the year (2010: £nil). This related to the Coral and Remote Gambling segments as explained in note 5.

The impairment assessment was determined using cash flow projections that were taken from financial budgets approved by management covering a three year period. A key assumption within the cash flow projection is the future growth rate used to extrapolate cash flows after this three year period. The growth rate applied ranged from 2.0% to 2.5% per annum (2010: 0% to 2.5%) and is consistent with historic long term average growth rates for the UK. The pre-tax discount rate applied ranged from 11% to 11.5% for years beyond the three year period (2010: 11% to 11.5%).

10. Tangible Fixed Assets

Group

	Freehold Land and Buildings £m	Leasehold Land and Buildings £m	Fixtures, Fittings, Tools and Equipment £m	Total £m
Cost:				
At 25 September 2010	585.5	1,617.1	364.8	2,567.4
Additions	-	3.9	43.1	47.0
Acquisitions	2.4	13.5	0.2	16.1
Exchange differences	-	-	0.3	0.3
Disposals	(18.0)	(11.9)	(5.0)	(34.9)
At 24 September 2011	**569.9**	**1,622.6**	**403.4**	**2,595.9**
Depreciation:				
At 25 September 2010	55.6	220.0	235.0	510.6
Provided during the year	5.7	11.0	51.8	68.5
Exchange differences	-	-	0.2	0.2
Closed club write down	-	2.4	-	2.4
Disposals	(2.0)	(3.6)	(3.5)	(9.1)
At 24 September 2011	59.3	229.8	283.5	572.6
Net book value at 24 September 2011	**510.6**	**1,392.8**	**119.9**	**2,023.3**
Net book value at 25 September 2010	529.9	1,397.1	129.8	2,056.8

A write down of tangible fixed assets on the closure of bingo clubs and casinos of £2.4 million (2010: £1.1 million) was charged to exceptional administrative expenses during the year (see note 5).

The net book value of leasehold land and buildings comprises:

	2011 £m	2010 £m
Long leasehold	216.6	218.2
Short leasehold	1,176.2	1,178.9
	1,392.8	**1,397.1**

Included in freehold and leasehold land and buildings is land and trading potential at a value of £1,618.6 million (2010: £1,607.5 million) which is not depreciated.

11. Investments

Company

	Subsidiary Undertakings £m
Net book value as at 24 September 2011 and at 25 September 2010	**210.0**

The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affect the results or financial position of the Company (the "principal subsidiaries").

Name of Company	Nature of Business
Coral Racing Limited	Provision of leisure activities
Coral Stadia Limited	Provision of leisure activities
Eurobet (Gibraltar) Limited	Provision of leisure activities
Eurobet UK Limited	Provision of leisure activities
Gala (Alderney) Limited	Provision of leisure activities
Gala Casinos Limited	Provision of leisure activities
Gala County Clubs Limited	Provision of leisure activities
Gala Leisure Limited	Provision of leisure activities
Patmor Limited	Provision of leisure activities
Gala Casinos (Gibraltar) Limited	Provision of leisure activities
Romford Stadium Limited	Provision of leisure activities
Eurobet Italia SRL	Provision of leisure activities
Gala Electric Casinos plc	Holding Company
Gala Group Finance plc	Finance Company
Gala Propco Three Limited	Finance Company

All of the principal subsidiaries are registered in Great Britain with the exception of Eurobet (Gibraltar) Limited, Gala Casinos (Gibraltar) Limited, Gala (Alderney) Limited and Eurobet Italia SRL which are incorporated in Gibraltar, Alderney and Italy respectively. All of the principal subsidiaries are 100% owned with all voting rights held within the Group. Gala Group Electric Casinos plc is directly owned by the Company. The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length.

12. Acquisitions

During the year the Group made a number of share and trade and asset purchases of LBO's and acquired two Bingo clubs. The purchases have been accounted for under acquisition accounting. Goodwill arising on the acquisitions is included in intangible assets.

Group

	Book Value £m	Fair Value Adjustments £m		Provisional Fair Value £m
Intangible fixed assets	9.1	(9.1)	(a)	-
Tangible fixed assets	2.6	13.5	(b)	16.1
Stock	0.1	-		0.1
Debtors	1.3	-		1.3
Cash at bank and in hand	0.9	-		0.9
Total assets	**14.0**	**4.4**		**18.4**
Creditors due after one year	(9.7)	-		(9.7)
Net assets acquired	**4.3**	**4.4**		**8.7**
Goodwill arising on acquisition	-	-		7.6
Consideration (including fees of £0.8 million)	**-**	**-**		**16.3**

(a) Being the write down of acquired goodwill
(b) Being the fair value adjustment to recognise trading potential

The post-acquisition results of these acquisitions have not been disclosed separately as they are not material to the results of the Group.

13. Stocks

Group

	2011 £m	2010 £m
Finished goods	**3.3**	**4.2**

14. Debtors

Group

	2011 £m	2010 £m
Trade debtors	3.1	2.0
Deferred tax asset (note 21)	12.2	28.8
Other debtors	18.2	14.5
Prepayments and accrued income	33.9	38.7
	67.4	**84.0**

Company

	2011 £m	2010 £m
Falling due after more than one year:		
Amounts owed by subsidiary undertakings	**542.7**	**471.3**

The amount owed relates to a loan note issued by Gala Electric Casinos plc which has a duration of 10 years, accrues interest at 15.0875% which is only payable on maturity on 27 October 2020. Interest accrued rolls up into the principal amount on 27 October each year until redemption. At the year end rolled up interest was £89.4 million (2010: £18.0 million).

15. Creditors: Amounts Falling Due Within One Year

Group

	2011 £m	2010 £m
Current instalments due on loans (note 17)	4.7	65.1
Loan, senior secured notes and senior notes interest	26.1	22.1
Trade creditors	38.7	27.5
Corporation tax	0.2	1.0
Other taxation and social security	29.0	26.0
Other creditors	12.6	14.5
Accruals and deferred income	81.2	66.1
	192.5	**222.3**

Included in creditors falling due within one year are creditors of £15.8 million (2010: £12.6 million) relating to exceptional items.

Company

	2011 £m	2010 £m
Amounts owed to subsidiary undertakings	**-**	**0.1**

16. Creditors: Amounts Falling Due After More Than One Year

Group

	2011 £m	2010 £m
Former Senior secured credit facilities	-	1,538.8
Gala Propco Three Limited loan (note 17)	347.6	357.3
New Senior secured credit facilities	805.1	-
Senior secured notes	340.4	-
Senior notes	258.6	-
GCGL loan note (note 18)	534.3	462.1
Other creditors	0.8	2.5
	2,286.8	**2,360.7**

Company

	2011 £m	2010 £m
GCGL loan note (note 18)	**538.7**	**467.8**

The GCGL loan note represents amounts owed to GCG Manager S.A Luxco S.C.A.

17. Borrowings

Group

	2011 £m	2010 £m
Amounts falling due:		
In one year or less or on demand	4.7	65.1
In more than one year but not more than two years	5.8	218.8
In more than two years but not more than five years	343.7	1,702.9
After more than five years	1,450.0	-
	1,804.2	**1,986.8**
Less:		
Issue costs	(41.1)	(25.6)
Discount on nominal value of senior notes	(6.7)	-
	1,756.4	**1,961.2**
Less: included in creditors: amounts falling due within one year	(4.7)	(65.1)
	1,751.7	**1,896.1**

The former senior secured credit facilities were presented net of unamortised issue costs of £22.9 million as at 25 September 2010 and was repaid on 27 May 2011.

17. Borrowings (continued)

The Gala Propco Three Limited loan (including amounts falling due within one year) of £352.3 million (2010: £361.2 million) is presented net of unamortised issue costs of £1.9 million (2010: £2.7 million). The loan is held by Gala Propco Three Limited. The Gala Propco Three Limited loan matures in 2014, is secured on certain Group properties and carries a fixed rate of interest of 6.1672%. The borrowings maturing in less than five years in the table above all relate to the Gala Propco Three Limited Loan.

On 27 May 2011 the Group completed a refinancing of its former senior secured credit facilities.

The principal terms of the new borrowings are as follows:

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

The senior secured credit facilities and the senior secured notes are secured on the assets of the Group. The Group incurred costs relating to the raising of the above borrowings of £41.0 million and the senior notes were issued at a £7.0 million discount to their nominal value. The issue costs and discount have been deferred and are being amortised over the term of the new borrowings.

The net proceeds from these borrowings together with group cash were used to repay all of the Group's previous senior secured credit facilities, totalling £1,537.2 million, plus accrued interest of £3.6 million. The previous senior secured credit facilities were repayable between April 2012 and April 2015 and bore interest rates varying between LIBOR plus 4% and LIBOR plus 6.375%.

The refinancing significantly extends the maturity of the Group's borrowings, with the new funding being repayable between 2017 and 2019.

At 24 September 2011 the senior secured credit facilities, senior secured notes and senior notes are presented net of unamortised issue costs (and in respect of the senior notes, also the discount to nominal value) of £19.9 million, £9.6 million and £16.4 million respectively.

In addition to the margin payable on the senior secured credit facilities, the Group pays a 1.5% (2010: 1.5%) facility fee in respect of the unused portion of the revolving credit facility. The revolving facility is available to finance working capital requirements and for general corporate purposes. Whilst no amounts have been drawn down on the revolving facility, £26.1 million (2010: £25.8 million) has been utilised through the issuance of letters of credit.

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

18. GCGL Loan Notes

Group

	2011 £m	2010 £m
Amounts falling due after more than 5 years including rolled up interest	538.7	467.8
Less: issue costs	(4.4)	(5.7)
At 24 September 2011`	**534.3**	**462.1**

The GCGL loan notes have been issued to its parent company, GCG Manager SA Luxco SCA as part of the financial restructuring which completed in June 2010. GCGL loan notes are unsecured, were issued with a duration of 10 years, accruing interest of 15.0625%, only payable on maturity on 27 October 2020. Interest accrued rolls up into the principal amount on 27 October each year until redemption. At the year end rolled up interest amounted to £88.7 million (2010: £17.8 million).

Company

	2011 £m	2010 £m
Amounts falling due after more than 5 years including rolled up interest	**538.7**	**467.8**

The unamortised issue costs of £4.4 million (2010: £5.7 million) are held within Gala Group Finance plc. Following the restructure (see note 29) this has been replaced by GCGL loan notes against which the issue costs are now recorded.

19. Financial Instruments

For the purposes of the disclosures which follow in this note, short-term debtors and creditors which arise directly from the Group's operations have been excluded. The Group's lease provisions are included in the following disclosures because, in establishing the lease provisions, the cash flows have been discounted and the discount rate is reappraised at each year end to ensure that it reflects the current market assessment of the time value of money.

Interest Rate Risk Profile of Financial Liabilities

The interest rate risk profile of the Group's financial liabilities at 24 September 2011 and 25 September 2010, after taking account of the interest rate swaps and caps used to manage the interest rate profile of financial liabilities, was:

		Fixed/Floating Rate Financial Liabilities			
	Total £m	Floating Rate Financial Liabilities £m	Fixed Rate Financial Liabilities £m	Weighted Average Interest Rate %	Weighted Average Term of Fix Years
At 24 September 2011	**2,421.8**	**903.9**	**1,517.9**	**8.91**	**10.45**
At 25 September 2010	2,531.8	1,267.9	1,263.9	7.70	5.10

19. Financial Instruments (continued)

Interest Rate Risk Profile of Financial Assets

Cash held at bank is invested in accordance with the Group's Investment in Cash policy to mitigate counterparty risk. During the year interest was earned on cash invested in the following forms of investment:

- Interest bearing current and deposit accounts with interest earned linked to the Bank of England base rate;
- Money market term deposits with interest earned linked to money market rates;
- 'AAA' rated money market funds with a changing daily yield based on the underlying investments.

The Gambling Commission, which regulates the gambling industry in Great Britain, required the Group to maintain a gaming reserve to cover potential gaming losses. As part of the gaming reserve arrangements the Group provided cash collateral of £2.5 million (2010: £10.0 million), £nil of which is included within the £26.1 million letters of credit described in note 16 above (2010: £7.5 million of which was included within the £25.8 million). In total, the Group provided cash collateral of £4.7 million (2010: £28.3 million) as at the year end, of which £2.5 million is for the gaming reserve, £1.6 million supports letters of credit and £0.6 million relates to a gaming reserve in Italy.

Subsequent to the year end, the Gambling Commission removed the requirement for the Group to maintain a gaming reserve.

Maturity Profile of Financial Instruments

The maturity profile of the carrying amount of the Group's financial liabilities at 24 September 2011 and 25 September 2010 was as follows:

	Debt 2011 £m	Other Financial Liabilities 2011 £m	Total 2011 £m	Debt 2010 £m	Other Financial Liabilities 2010 £m	Total 2010 £m
Amounts falling due:						
In one year or less, or on demand	4.7	9.1	13.8	65.1	9.3	74.4
In more than one year but not more than two years	5.8	7.8	13.6	218.8	8.5	227.3
In more than two years but not more than five years	343.7	21.8	365.5	1,702.9	18.7	1,721.6
In more than five years	1,988.7	72.9	2,061.6	467.8	77.7	545.5
	2,342.9	**111.6**	**2,454.5**	**2,454.6**	**114.2**	**2,568.8**
Finance charges allocated to future periods	-	(32.7)	(32.7)	-	(37.0)	(37.0)
Total financial liabilities	**2,342.9**	**78.9**	**2,421.8**	**2,454.6**	**77.2**	**2,531.8**
Unamortised issue costs and discount	(52.2)	-	(52.2)	(31.3)	-	(31.3)
	2,290.7	**78.9**	**2,369.6**	**2,423.3**	**77.2**	**2,500.5**

The Group maintains loan facilities to mitigate any liquidity risk it may face. The Group has £73.9 million undrawn borrowing facilities available at 24 September 2011 (2010: £24.2 million). These facilities incur commitment fees at 1.5% (2010: 1.5%). The revolving credit facility is available until 27 May 2017.

19. Financial Instruments (continued)

Fair Value of Financial Instruments

	Book Value 2011 £m	Fair Value 2011 £m	Book Value 2010 £m	Fair Value 2010 £m
Derivative financial instruments held to manage interest rate exposure:				
Interest rate swaps	-	-	-	(13.0)
Interest rate caps	2.8	0.2	4.6	4.9

The Group had interest rate swaps covering £nil (2010: £432.2 million) and interest rate caps covering £700.0 million (2010: £300.0 million) of its floating rate borrowings as at 24 September 2011. In addition to these, the Group had a further £625.0 million of senior secured notes and senior notes which have a fixed interest rate (2010: £nil). The strike rate of the caps is 2.0% as at 24 September 2011 (2010: 1.5%), rising in later years.

20. Obligations Under Leases

Annual commitments under non-cancellable operating leases are as follows:

Group

	Land and Buildings 2011 £m	Other 2011 £m	Land and Buildings 2010 £m	Other 2010 £m
Operating leases which expire:				
within one year	4.3	2.6	2.6	0.6
between two and five years	11.7	3.7	14.4	15.4
over five years	45.7	0.1	43.9	0.1
	61.7	**6.4**	**60.9**	**16.1**

There are no operating leases in the Company (2010: none).

21. Provisions for Liabilities and Charges

Group

	Onerous Contract Provisions £m	Other Provisions £m	Fortune Loyalty Scheme £m	Total £m
At 25 September 2010	74.1	0.4	0.4	74.9
Arising during the year	19.3	-	3.6	22.9
Utilised	(10.8)	-	(3.9)	(14.7)
Released	(9.2)	-	-	(9.2)
Unwinding of discount	4.2	-	-	4.2
At 24 September 2011	**77.6**	**0.4**	**0.1**	**78.1**

The basis of the above provisions is described in the accounting policies (note 1).

Onerous contract provisions include vacant, partly sub let leasehold properties, onerous leases and onerous contracts. Provision has been made on a discounted cash flow basis for the shorter of the remaining period of the lease/contract and the period until, in the Directors' opinion, the Group will be able to exit the lease/contract.

In respect of the Fortune loyalty scheme, as points are issued to customers, provision is made for the fair value of points expected to be redeemed. These points are expected to be redeemed over the next twelve months.

Deferred Taxation

Group

Movements in the net deferred tax asset during the year were as follows:

	2011 £m	2010 £m
At 25 September 2010	25.9	2.7
Movement through the profit and loss account	(16.9)	21.6
Movement through the Statement of Total Recognised Gains and Losses	(7.6)	1.6
At 24 September 2011	**1.4**	**25.9**

21. Provisions for Liabilities and Charges (continued)

Deferred taxation in the accounts consists of:

	2011 £m	2010 £m
Depreciation in advance of capital allowances	47.3	36.6
Other timing differences	51.6	64.6
Deferred tax asset not recognised in the accounts (note 8d)	(97.5)	(75.3)
	1.4	**25.9**
Deferred tax asset shown in debtors (note 14)	12.2	28.8
Deferred tax liability recognised against pension asset (note 27)	(10.8)	(2.9)
Net deferred tax asset	**1.4**	**25.9**

A deferred tax asset is recognised to the extent that the asset is forecast to be utilised within the next three years. The applicable tax rate for the utilisation of the asset is 25% which is the rate enacted at the balance sheet date.

A deferred tax asset has been recognised for losses in the Italian subsidiaries. This can be utilised against future taxable profits.

22. Share Capital

Group and Company

	Number (000)	Ordinary shares of 1 pence each £m
As at 24 September 2011 and at 25 September 2010	**21,326,531**	**213.3**

Gala Coral Group Limited
Notes to the Accounts
For the year ended 24 September 2011

23. Reserves

Group

	Capital Contribution Reserve £m	Merger Reserve £m	Profit And Loss Reserve £m	Total £m
At 25 September 2010	1,723.5	1.6	(1,077.8)	647.3
Loss for the financial year	-	-	(643.4)	(643.4)
Actuarial loss on pension scheme	-	-	31.3	31.3
Tax relating to pension scheme	-	-	(7.6)	(7.6)
Net foreign exchange adjustments offset in reserves	-	-	1.5	1.5
At 24 September 2011	**1,723.5**	**1.6**	**(1,696.0)**	**29.1**

Company

	Profit And Loss Reserve £m
At 25 September 2010	0.1
Profit for the financial year	0.6
At 24 September 2011	**0.7**

24. Notes to the Group Cash Flow Statement

a) Reconciliation of Operating (Loss)/Profit to Net Cash Inflow from Operating Activities

	2011 £m	2010 £m
Operating (loss)/profit	(419.8)	108.1
Depreciation, amortisation, impairment and write downs	653.3	222.4
Decrease/(increase) in debtors	1.3	(5.8)
Decrease in stocks	0.9	0.1
Increase/(decrease) in creditors	6.3	(36.7)
Decrease in provisions	(1.0)	(0.5)
Pension contributions in excess of profit & loss charge	(3.0)	(3.4)
Net cash inflow from operating activities	**238.0**	**284.2**

24. Notes to the Group Cash Flow Statement (continued)

b) Analysis of Net Debt

	At 25 September 2010 £m	Cash Flow £m	Transfers Between Categories £m	Other Non-cash Movements £m	At 24 September 2011 £m
Cash at bank and in hand	260.4	(118.7)	-	-	141.7
Debt due within one year	(65.1)	65.1	(4.7)	-	(4.7)
Debt due after one year	(2,358.2)	166.0	4.7	(98.4)	(2,285.9)
Total debt	(2,423.3)	231.1	-	(98.4)	(2,290.6)
Net debt	**(2,162.9)**	**112.4**	**-**	**(98.4)**	**(2,148.9)**

The net cash outflow in respect of debt due after more than one year includes £41.0 million in relation to issue costs on new long-term borrowings.

Non-cash movements comprise amortisation and write off of debt issue costs and senior notes discount of £26.8 million, accrual of interest on the GCGL loan notes of £70.9 million and a foreign exchange loss on former senior credit facilities of £0.7 million.

Cash at bank and in hand as at 24 September 2011 includes the Gala Propco Three Limited balance of £9.4 million (2010: £9.2 million), the cash in hand balance of £19.9 million (2010: £18.9 million) and the cash provided as collateral of £4.7 million (2010: £28.3 million).

c) Cash Flows relating to Exceptional Items (note 5)

	2011 £m	2010 £m
Included within operating cash flow:		
Restructuring and reorganisation costs	(24.9)	(53.1)
VAT refunds net of duty	(0.3)	59.6
	(25.2)	**6.5**
Disposal of fixed assets	47.7	10.2
Exceptional interest income	2.9	10.4
Exceptional senior loan amendment fees on refinancing	-	(23.8)
Exceptional break fees on the Gala Propco Three Limited loan	(0.6)	(0.4)
Early termination of interest rate caps and swaps	(1.9)	-
Net cash inflow	**22.9**	**2.9**

Included in the disposal of fixed assets is £6.4 million (2010: £4.8 million) of proceeds which are attributed to Gala Propco Three Limited following the sale of two trading Bingo clubs.

Included in restructuring and reorganisation costs is £1.6 million (2010: £nil) relating to the cash outflow from the financial restructuring of the group described in note 17.

25. Capital Commitments

Amounts contracted for but not provided in the accounts amounted to £9.9 million (2010: £2.2 million) for the Group and £nil (2010: £nil) for the Company.

26. Contingent Liabilities

Following another Gaming operator's High Court ruling that the application of VAT to Gaming Machines contravened the European Union's principle of fiscal neutrality the Group has successfully lodged claims for and received repayment of £44.1 million of VAT and £7.4 million of associated interest.

HMRC is appealing this ruling and their cases were heard at the Court of Appeal and Upper Tribunal in April 2010 and the European Court of Justice ("ECJ") in June 2011. Whilst the ECJ judgement issued on 10 November 2011 was positive for the Group, the case still needs to be discussed and decided through the UK courts. If HMRC are successful they are entitled to recover the amounts received, plus associated interest.

In the opinion of the directors, having considered the facts and advice before them, no provision is required in the financial statements for the outcome of these appeals.

The prior year contingent liabilities of £66.1 million and interest of £6.4 million in respect of VAT refunds on the Mechanised Cash Bingo claim and £29.9 million plus interest of £2.5 million in respect of VAT refunds on the Main Stage Bingo claim are now considered final and HMRC have confirmed that they are not going to continue to appeal these claims. HMRC also confirmed that they will not be seeking any repayment of these refunds.

27. Pension Commitments

Defined Contribution Pension Scheme

The Group participates in the Gala Coral Group pension scheme, which is a defined contribution pension scheme with a contributory and a non contributory membership level. The pension charge for the year represents contributions paid by the Group to the scheme in respect of Group employees and amounted to £2.6 million (2010: £2.3 million).

Defined Benefit Pension Scheme

The Group operates the Gala Coral Pension Plan, a fully funded defined benefit pension scheme which is closed to new entrants

The pension payable to an individual is based on their average earnings calculated over the period of pensionable service (career average revalued earnings or CARE).

A full actuarial valuation of the Gala Coral Pension Plan was undertaken at 5 April 2008.

An actuarial review of the scheme valuation was carried out by a qualified independent actuary as at 24 September 2011, in order to provide the following information required by FRS 17 amended "Retirement Benefits". The major assumptions used by the actuary were:

	2011	2010	2009
Rate of salary increases	3.9%	4.2%	4.3%
Rate of pension increases	2.9%	3.2%	3.3%
Discount rate	5.1%	5.1%	5.5%
RPI inflation assumption	2.9%	3.2%	3.3%
CPI inflation assumption	2.2%	-	-

27. Pension Commitments (continued)

Mortality Assumptions

	2011 Years	2010 Years
Longevity at age 65 for current pensioners:		
– Men	22.0	20.9
– Women	23.1	23.7
Longevity at age 65 for future pensioners:		
– Men	24.3	22.6
– Women	24.7	25.1

Assets and Liabilities of the Schemes and the Expected Rate of Return

	24 September 2011 £m	25 September 2010 £m	26 September 2009 £m	27 September 2008 £m	29 September 2007 £m
Total fair value of assets	283.6	260.2	241.1	230.4	218.1
Present value of scheme liabilities	(238.6)	(249.7)	(225.0)	(194.9)	(194.5)
Surplus in the scheme	**45.0**	**10.5**	**16.1**	**35.5**	**23.6**
Restriction of pension asset	(1.9)	-	-	-	-
Related deferred tax liability (note 21)	(10.8)	(2.9)	(4.5)	(9.9)	(6.6)
Net pension asset	**32.3**	**7.6**	**11.6**	**25.6**	**17.0**

Assets and Liabilities of the Schemes and the Expected Rate of Return (continued)

	Expected Rate of Return %	Value 24 September 2011 £m	Expected Rate of Return %	Value 25 September 2010 £m	Expected Rate of Return %	Value 26 September 2009 £m
Equities	5.8%	29.8	6.4%	41.6	6.5%	48.2
Hedge Funds	5.8%	21.0	6.4%	10.4	-	-
Bonds	4.4%	70.3	4.4%	67.6	4.8%	60.3
Gilts	2.5%	160.8	3.4%	140.6	3.5%	130.2
Other (cash)	1.3%	1.7	1.3%	-	1.3%	2.4

27. Pension Commitments (continued)

Reconciliation of the Present Value of Scheme Liabilities

	2011 £m	2010 £m
Present value of scheme liabilities at the beginning of the year	249.7	225.0
Current service cost	4.8	4.6
Interest cost	12.7	12.2
Benefits paid	(9.2)	(10.8)
Employee contributions	1.7	1.8
Actuarial (gain)/loss	(21.1)	16.9
Present value of scheme liabilities at the end of the year	**238.6**	**249.7**

Reconciliation of the Fair Value of Scheme Assets

	2011 £m	2010 £m
Fair value of scheme assets at the beginning of the year	260.2	241.1
Expected return on scheme assets	11.0	10.5
Actuarial gain	12.1	9.6
Benefits paid	(9.2)	(10.8)
Employer contributions	7.8	8.0
Employee contributions	1.7	1.8
Fair value of scheme assets at the end of the year	**283.6**	**260.2**

Analysis of the Amount Charged to Operating Profit

	2011 £m	2010 £m
Current service cost	**4.8**	**4.6**

Analysis of the Amount Charged to Other Finance Costs

	2011 £m	2010 £m
Expected return on pension scheme assets	11.0	10.5
Interest on pension liabilities	(12.7)	(12.2)
Other finance costs	**(1.7)**	**(1.7)**

The cumulative actuarial loss recognised in the Group statement of total recognised gains and losses ("STRGL") is £7.0 million gain (2010: £24.3 million loss).

The actual return on plan assets was £23.1 million (2010: £20.1 million). To develop the assumption for the expected rate of return on assets, the Group considered the current level of expected return on risk free investments, the historical level of the risk premium associated with the other asset classes in the portfolio and expectations for future returns of each asset class. A weighted average rate of return on assets was calculated. This resulted in the selection of a 3.6% assumption for 2010-11 (2010: 4.3%).

27. Pension Commitments (continued)

Movement in Surplus During the Year

	2011 £m	2010 £m
Surplus in scheme at the beginning of the year	10.5	16.1
Current service cost	(4.8)	(4.6)
Contributions	7.8	8.0
Other finance costs	(1.7)	(1.7)
Actuarial gain/(loss)	33.2	(7.3)
Surplus at the end of the year	**45.0**	**10.5**

Amounts for Current Year and Previous Four Years

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Experience adjustments on plan assets:					
Amount	12.1	9.6	(5.0)	(11.5)	0.9
Experience adjustments on plan liabilities:					
Amount	0.3	0.5	1.3	-	(0.4)
Total actuarial gains and losses recognised in the STRGL:					
Amount	31.3	(7.3)	(21.5)	(23.9)	26.1

An accrual of £0.3 million (2010: £0.4 million) existed in respect of pension contributions at 24 September 2011.

28. Related Parties

The Company has taken advantage of the exemption under FRS 8 "Related party disclosures" not to disclose related party transactions with companies which are wholly owned subsidiaries.

During the year ended 24 September 2011, the Group was not charged any monitoring fees (2010: monitoring fees of £0.18 million, £0.18 million and £0.26 million were charged to the Group by Candover, Cinven and Permira Funds respectively. These funds held the majority of the issued share capital of the Group until the financial restructuring on 21 June 2010). The directors appointed by Candover, Cinven and the Permira Funds did not receive emoluments from the Group in respect of their services.

The Group also made payments to related parties (by virtue of common directors) of £0.2 million to the Association of British Bookmakers and £2.1 million to the Greyhound Board of Great Britain (formerly the National Greyhound Racing Club) during the prior year.

29. Prior year financial restructuring

In anticipation of potential breaches of the financial covenants in its former senior credit facilities and mezzanine facility agreement the Group entered into discussions with its senior and mezzanine lenders during the second half of 2009 with a view to achieving a wholly consensual restructuring of the Group's balance sheet.

On 19 May 2010 the terms of a restructuring were agreed between representatives of the Group's mezzanine lenders, its sponsors and certain companies within the Group.

The restructuring was completed on 21 June 2010 (the "Effective Date") in accordance with an implementation agreement entered into with mezzanine lenders dated 3 June 2010. The principal transactions undertaken on the Effective Date to implement the restructuring were as follows:

29. Prior year financial restructuring (continued)

- the Company became the immediate parent company of Gala Electric Casinos plc following a share for share change on 11 June 2010. The Company's ultimate parent company became GCG Manager S.A. Luxco S.C.A (a new Luxembourg domiciled company, "Luxco"). Luxco is the parent company of the Company;
- the Group's mezzanine debt of £571.4 million was divided into sustainable mezzanine debt (being the amount of its commercially agreed value) ("sustainable mezz") and unsustainable mezzanine debt ("unsustainable mezz" being principal amounts only);
- the unsustainable mezz of £118.1 million was released by the mezzanine lenders;
- the sustainable mezz (approximately £453.3 million) was acquired by Gala Electric Casinos plc under the restructuring steps. As a consequence Gala Electric Casinos plc issued unsecured and subordinated loan notes ("GECL loan notes") totalling £453.3 million to the Company with a duration of 10 years accruing interest of 15.0875% and only payable on maturity in October 2020. The Company in turn, issued £453.3 million of loan notes ("GCGL loan notes") to Luxco at the direction of the mezzanine lenders, £3.3 million of which were subsequently capitalised;
- further cash subscriptions totalling £210.0 million were also made by certain mezzanine lenders via Luxco;
- proceeds from the above of £200.0 million were used to prepay part of the former senior credit facilities;
- the former senior credit facilities of circa £1,600 million (after the £200.0 million prepayment) were amended and the financial covenants in the Group's senior credit facility agreement adjusted to provide new headroom against the Group's forecast projections and:
- £10.0 million was paid to Gala Group Four Limited, in repayment of an intercompany loan, the balance of which (£1,605.4 million) was converted into a capital contribution. Gala Group Four Limited was outside the group headed by Gala Coral Group Limited and was placed into liquidation on 25 June 2010.

Following the restructuring, a majority of the issued share capital of Luxco, the new ultimate parent company of the Group, which includes the Company and all its subsidiaries, were held by:-

- investment funds indirectly managed by Apollo Global Management, LLC.
- funds managed by Cerberus Capital Management, L.P.
- funds indirectly managed by York Capital Management Global Advisors, LLC.
- funds advised by Park Square Capital, LLP.
- funds advised by Goldman Sachs International Bank.
- funds managed by Anchorage Capital Partners.

The costs associated with the restructuring are included within exceptional items in note 5.

30. Ultimate Controlling Party

As at 24 September 2011, the Company's immediate parent company and the ultimate parent company of the Group was GCG Manager S.A Luxco S.C.A (a "societe en commandite par actions" established under the laws of Luxembourg), with registered office at 7, Val Sainte Croix, L-1371 Luxembourg.