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Ladbrokes plc

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2012

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Ladbrokes delivers growth in profit, cash and dividend

Financial highlights

- Group net revenue [(1)] grew by 8.4% to £529.0 million
- Group operating profit [(1) (2)] of £106.9 million, up 11.0%
- Profit before tax up 48.9% to £106.9 million
- Underlying earnings per share [(3)] up 25.3% to 9.4p
- 23.8% increase in cash generated by operations
- Net debt reduced by a further £56.9 million to £397.0 million
- 10.3% increase in interim dividend to 4.30 pence

Operating highlights

- UK Retail operating profit [(1) (2)] of £91.3 million, up 21.1%
- 2.4% growth in OTC (over the counter) net revenue with continued resilience in amounts staked, up 0.7%
- Machines net revenue up 20.1% with gross win per terminal week of £947 for H1 and £970 in Q2
- Odds On launched on machines ahead of schedule, already in use by over 100,000 customers
- Over 94% operating profit [(1) (2)] growth in European Retail driven by revenue growth in Ireland and Belgium
- Digital net revenue growth of 3.0% driven by sportsbook growth of 10.7%
- Growth in Digital actives maintained with 21.5% increase over the period (H2 2011: 18.2%)
- Over 110,000 new sportsbook customers and over 65,000 new casino customers year on year
- Continued growth in Bet in Play with stakes now 58% of total Digital sportsbook amounts staked [(4)]
- Over 25% of sportsbook net revenue and 37% of total sportsbook actives on mobile

Richard Glynn, Chief Executive, commented:

"At a Group level Ladbrokes has performed strongly. We have grown revenue by 8.4% and operating profit by 11.0%, with strong cash generation continuing and a further strengthening of our balance sheet.

Strong growth in operating profit in UK Retail and an improved performance in our European Retail and Telephone businesses was pleasing and more than outweighed a decline in Digital profits, which was greater than expected due largely to a weak sportsbook margin in Q2 and exacerbated by delays in technology.

Looking forward we expect to see further growth in UK Retail and plan to accelerate our programme of shop openings. We remain committed to our Digital strategy of building a more competitive offer through a combination of ongoing investments to enhance our marketing, product and technology.

The delivery of several key technology developments is our focus in H2. During Q4 we will deliver our new sportsbook, and begin the subsequent migration of all active customers. Our new mobile platform, which is reliant on the same technology, will then follow. The active data warehouse, now in use to underpin our new trading fieldbook, will be deployed further in Q4, providing enhanced customer analytics to our marketing teams. This then facilitates the subsequent development of our Customer Relationship Management capabilities. During H2 we will also extend the use of recent enhancements in our trading systems to cover further core sporting products. We remain confident that a combination of these developments, together with continued improvements to CRM throughout 2013, will allow us to grow our Digital business significantly.

Whilst we are mindful of the challenging economic backdrop we are comfortable that performance is in line with the Board's expectations for the full year."

Continuing operations (unless stated otherwise)	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m	Year on year change %
Revenue [1]	**529.0**	**487.8**	***8.4***
Revenue incl High Rollers	550.6	483.1	*14.0*
Operating profit by division [1] [2]			
UK Retail	91.3	75.4	*21.1*
European Retail	10.3	5.3	*94.3*
Digital [5]	15.0	29.7	*(49.5)*
Core Telephone Betting	0.9	(3.3)	n/a
Corporate costs	(10.6)	(10.8)	*1.9*
Total operating profit [1] [2]	**106.9**	**96.3**	***11.0***
High Rollers	20.5	(4.0)	*n/a*
Group operating profit [2]	**127.4**	**92.3**	***38.0***
Profit before tax	106.9	71.8	*48.9*
Profit after tax (on total operations)	113.6	60.9	*86.5*
Underlying basic earnings per share [3]	**9.4p**	**7.5p**	***25.3***
Basic earnings per share	12.5p	6.7p	*86.6*
Interim dividend per share	4.30p	3.90p	*10.3*
Financial position			
Cash generated by total operations	161.3	130.3	*23.8*
Net debt	397.0	449.4	*(11.7)*

(1) *Excluding High Rollers*
(2) *Profit before tax, net finance expense and exceptional items of £3.7 million (H1 2011: £4.3 million)*
(3) *Adjusted to exclude exceptional items, High Rollers and applying the estimated full year 2012 tax charge of 5.3% to the half year ended 30 June 2012 results*
(4) *Excluding all racing product*
(5) *Before amortisation of customer relationships of £1.3 million (H1 2011: £1.3 million) operating profit for Digital is £16.3 million (H1 2011: £31.0 million)*

Chief Executive's Review

UK Retail

Further strong growth in profits with net revenue up in machines and OTC

We have continued in H1 to demonstrate the strength and growth potential of UK Retail which is benefiting from ongoing efficiency initiatives and further expansion of the estate. Operating profit per shop of £77,300 for the trailing twelve months is up 12.5% and 35.9% over the past two years [1].

Net revenue in the period rose by 9.7%, driven by growth in both machines and OTC (20.1% and 2.4% respectively).

The OTC business continues to demonstrate its enduring customer appeal, despite challenging conditions on the UK high street. Amounts staked in the period were up by just under 1% on both an absolute and adjusted (for Euros and a heavily weather affected horseracing calendar) basis. Staking levels over the past three years remain effectively flat.

Machines continue to go from strength to strength and have added £95.5 million of additional revenue over the past two years. Net revenue in H1 was up £28.1 million or 20.1% driven by double digit growth across all categories of games. In H1 we have increased our average number of machines per shop to 3.86, a move which generated an additional £1.6 million of gross win year on year. At this new density, gross win per terminal week was £947 for the period and £970 in Q2.

(1) *2010 H1 excludes VAT credit of £3,200 per shop*

Whilst we do expect the rate of machine growth to slow in the second half of the year with last year's rollout of new Global Draw terminals now fully annualised, we are confident that our operational initiatives will continue to drive growth going forward.

The Odds On loyalty scheme was fully rolled out to machines, ahead of schedule, in Q2. It is early days but with over 100,000 active machine customers now using the card, we are pleased with the unique customer insights this delivers, without which optimised yield management would not be possible. In H2 we expect to further increase our machine density and to focus on utilisation rates during specific times of the day.

Driving Retail further
We have begun, over the past six months, to evolve an increasingly differentiated approach to running our shops, using customer insights and local market data to inform decisions and grow our market share. All aspects of operations from staffing and opening times, promotions and concessions, through to decisions on shop investment are now based around a principle of 'local retailing' which enables us to meet more closely the needs of our customers.

This has already assisted efficiency and in H1 enabled us to deliver better service at a reduced cost – our trading hours increased by 6% whilst paid hours reduced by over 7%. Going forward, our growing focus on targeted activities in local marketplaces will enable Ladbrokes to develop an increasingly competitive approach.

With shop profitability increasing we see continuing opportunities to grow the estate with the average payback on new openings being under three years. Over the course of 2012 we plan to open 75 shops and close 15. During H1 we opened 25 shops, closed two and refurbished 38.

Operating costs for H1 were up by 7.1%. In the full year we expect costs to be up by circa 6.0%. This is ahead of our previous guidance and is driven by higher than planned machine costs (driven by higher revenue) and the further planned expansion of the retail estate.

Digital

Building a differentiated offer
We have continued to invest in our digital infrastructure with the principal focus on four areas:

(1) The continued overhaul and upgrade of our key IT systems and trading platforms, which are the foundation of the business;
(2) Development and expansion of sports betting and gaming products;
(3) New and differentiated ecommerce capabilities (including new product website and mobile platform); and
(4) Enhanced digital marketing, including the longer term development of capabilities in Business Intelligence (BI) and CRM.

Each of these areas is a fundamental part of us building a differentiated digital business and is key to future growth in revenues.

Digital profit in H1 was always expected to be lower than in H1 2011 given the timing of our investments, with the impact on costs necessarily preceding any anticipated benefit to revenues. Our investment in some newly regulated territories, specifically Spain and Denmark, and our withdrawal from others, particularly Greece, also contributed to the lower level of profits.

This decrease in profit was however greater than planned, due mainly to a weak sportsbook margin in Q2 which was 1.3 percentage points lower year on year and 2.1 percentage points lower than Q1. Whilst April and June margins were close to the average for Q1 2011, the margin in May was the lowest since August 2009, driven by particularly poor football and horseracing results and exacerbated by losses to a number of higher staking customers. Turnover during the Euro 2012 football tournament was also below expectations. Moreover we had not advanced our product offering as much as we had planned due to delays in several key pieces of technology.

The development of this technology is our prime focus during H2. We expect to deliver our new sportsbook in Q4 with the migration of customers, starting with current actives, to begin thereafter, continuing into Q1 2013. The rollout of mobile necessarily follows this with the same technology underpinning our new mobile platform. We will begin beta testing this during Q1 2013 and expect to migrate customers once this process is complete. We are now using the new active data warehouse, which is the foundation for new fieldbook technology being used by our traders. In

Q4 2012 it will also be deployed to our marketing team, enhancing customer analytics by giving them a single cross channel and cross product view of all transactional data.

Once complete, we expect this technology to provide significant benefits to the business throughout 2013 and as importantly to provide the platform for the next phase of development, namely enhancement of customer lifetime value using advanced BI and CRM.

Continuing to grow our customer base
Strong acquisition has been maintained throughout H1 with growth in total Digital actives of 21.5% (H2 2011: 18.2%). Sportsbook actives grew by 23.8% in the period (H2 2011: 14.5%) and casino by 50.8% (H2 2011: 47.0%).

Further progress in product and trading
We have continued to enhance our trading function in H1. Increased automation in both pricing and liability management is starting to allow traders to focus more on the highest volume markets and improve the overall quality of our pricing. A wider rollout of these tools and further developments, means the business will be better placed to optimise margin and reduce volatility.

We have further strengthened Bet in Play (BIP) in the period, adding more events in more sports at more times of the day. We are on track to double the number of BIP events we offer from 29,000 in 2011 to 60,000 by the end of the year. BIP continues to grow and represented 58% of Digital sportsbook amounts staked (excluding racing products) in H1 (H1 2011: 49%).

Ahead of the rollout of our new platform, we have continued to make good progress in Mobile launching new games designed specifically for tablet use and continuing to improve the functionality of our existing Mobile sportsbook. During the period we exceeded £1 million revenue per week on several occasions, also recording more than 1 million Mobile bets during Grand National week. 37% of Digital actives (41% of football actives) are now on Mobile.

Strong cash generation funds dividend growth and debt reduction
Operating profit grew by 11.0% in H1, which together with an increase in revenue from High Rollers led to a 23.8% increase in cash from operations. We continue to use cash to fund ongoing investment in the business, the growth of our dividend, which we expect to maintain at a level twice covered by underlying earnings and the ongoing reduction of net debt, which we expect to maintain in the range of 1.5x to 2.0x net debt to EBITDA. A tax credit in H1 will lead to an estimated full year accounting rate of 5.3% for 2012. Going forward we now expect a normalised rate of 10% in 2013 and 2014.

Management change
In order to ensure an increased focus on our Digital business and delivery against targets we have today announced several management changes. As part of this Nick Rust is to take responsibility for the P&L of both our UK and Ireland Retail and Digital businesses. Damian Cope (recently joined, having previously been ecommerce operations director at Gala Coral) will assume responsibility for the P&L of our international businesses. Director of IT Mark Grimes will also join the Executive Committee to ensure technology delivery is given increased profile and scrutiny.

Directorate change
In accordance with Listing Rule 9.6.11R, Ladbrokes plc (the Company) announces the following:

Further to the Company's announcement dated 30 July 2012, Richard Ames has resigned as a director of the Company on 1 August 2012, and will be leaving the Company on 30 November 2012 (the Termination Date).
Peter Erskine, Chairman, said "Richard Ames has been a valuable and effective part of the Ladbrokes Board, and has played a significant and valuable part in the reinvigoration of Ladbrokes. The entire board wishes him every success in the future"

(see Notes to Editors section, page 6, for further information)

UK regulatory affairs
The March 2012 Budget confirmed the introduction of Machine Games Duty at 20%, significantly above the neutral rate for the industry and an additional cost to Ladbrokes alone of over £12 million per annum (based upon 2011 published figures). The Budget also confirmed the introduction of a new Point of Consumption Tax, currently planned to be introduced at 15%. We will continue to engage with Government to encourage a sensible tax and regulation framework for the industry.

The Culture, Media and Sport Committee inquiry into the 2005 Gambling Act was issued in July and we look forward to the response from the Department of Culture, Media and Sport in due course.

We continue to actively engage with MPs of all parties to demonstrate the positive contribution betting shops make on the High Street and we will continue to argue that the current planning and licensing framework regarding betting shops works adequately.

Trading and outlook

In the period from 1 July 2012 to 31 July 2012 Group net revenue (excluding High Rollers) was up 6.3%. Net revenue in UK Retail was up 9.0%, marginally ahead in OTC with strong growth continuing in machines. Digital net revenue grew 4.2%, driven by growth in the sportsbook with margin comparing favourably versus the same period last year. All results are shown excluding any impact from Euro 2012.

Whilst the economic climate in the UK remains a concern, the Board is encouraged by the continued strength of the UK Retail estate and remains confident in the Digital strategy.

Enquiries to:

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Notes to editors:

The Company will be hosting an analyst presentation at the DB Auditorium (Winchester House, 75 London Wall, EC2N 2DB) at 9:30am this morning. This will be available to listen into by dialling +44 (0)20 7136 2050 – pass code: 4936188#.

Alternatively a live webcast of the presentation, with slides, will be available at the 'Investor Centre' on www.ladbrokesplc.com. A recording of the webcast will be available, at the same location, from 12pm (UK time) the same day. Similarly a replay phone facility will be available, for 7 days, on +44 (0)20 7111 1244 – pass code: 4936188#.

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

Further information on directorate change:

Mr Ames will remain in service on his existing terms and conditions until the Termination Date, but will be on garden leave during this period. He will be eligible for a discretionary bonus for the 2012 financial year, prorata to his service for the year. The main features of his termination package on leaving are as follows. In settlement of all claims he will be entitled to a compensation payment of £506,585, half of which will be paid shortly after the Termination Date, and the balance paid in 8 monthly instalments. In the event that Mr Ames obtains alternative employment during the 8 month period, the monthly instalments will be reduced by reference to percentage of the earnings from such alternative employment. In relation to the Performance Share Plan and the Ladbrokes Growth Plan, Mr Ames will be treated as a good leaver and therefore his share awards will be preserved and will vest to the extent that relevant performance targets are met at the end of the relevant performance period (but subject to prorating to reflect Mr Ames period of employment within the performance period). Mr Ames' share awards under the Deferred Bonus Plan will be released to him following the Termination Date.

Unaudited interim results for the half year ended 30 June 2012

Continuing operations	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Net revenue by division:		
UK Retail	370.5	337.7
European Retail	63.9	60.5
Digital	88.3	85.7
Core Telephone Betting	6.3	3.9
Group net revenue (exc. High Rollers)	529.0	487.8
High Rollers	21.6	(4.7)
Group net revenue	550.6	483.1
Operating profit [(1)] (exc. High Rollers)	106.9	96.3
Operating profit/(loss) [(1)] from High Rollers	20.5	(4.0)
Profit before net finance expense, tax and exceptional items	127.4	92.3
Net finance expense [(2)]	(16.8)	(15.7)
Profit before tax and exceptional items	110.6	76.6
Exceptional items before tax	(3.7)	(4.8)
Profit before tax	106.9	71.8
Income tax credit / (expense)	6.7	(11.1)
Profit after tax – continuing operations	113.6	60.7
Profit after tax – discontinued operations	-	0.2
Profit for the period	113.6	60.9

EBITDA[(2)] – continuing	154.0	117.9
Basic earnings per share [(2)] – continuing	12.9p	7.2p

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

Business Review

UK Retail

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m	*Year on year change %*
- OTC amounts staked	1,257.2	1,248.5	0.7
- Machines amounts staked	5,912.3	4,931.9	19.9
Amounts staked	7,169.5	6,180.4	16.0
- OTC gross win	206.7	202.2	2.2
- Machines gross win	203.0	170.2	19.3
Gross win	409.7	372.4	10.0
Adjustments to GW [(1)]	(39.2)	(34.7)	(13.0)
- OTC net revenue	202.4	197.7	2.4
- Machines net revenue	168.1	140.0	20.1
Net revenue	370.5	337.7	9.7
Gross profits tax	(30.4)	(29.6)	(2.7)
Associate income	1.6	1.2	33.3
Operating costs	(250.4)	(233.9)	(7.1)
Operating profit [(2)]	91.3	75.4	21.1

[(1)] Fair value adjustments, free bets and VAT
[(2)] Before exceptional items
[(3)] Greyhound tracks account for £5.6 million of amounts staked and £3.6 million of gross win in H1 2012 (H1 2011: £5.4 million of amounts staked and £3.4 million of gross win)

Net revenue for the period was up 9.7%, driven by machines and OTC. OTC amounts staked have continued to prove resilient, growing by 0.7% in H1, having been 0.6% up in the full year 2011. Whilst stakes in the period benefited from the Euro 2012 championships, this was offset by a material increase in the number of UK and Irish horseracing cancellations (60 in H1 2012; 30 in H1 2011).

An increase in our gross win margin from 16.0% to 16.2% was helped by favourable Grand National and Cheltenham performances together with a higher volume of football staking year on year. OTC net revenue grew by 2.4% to £202.4 million.

Machines continue to perform strongly with net revenue growth in H1 of £28.1 million or 20.1%. Gross win per terminal week grew to £947 for H1 2012 (H1 2011: £821), an increase of 15.3%. Gross win per terminal week was £970 in Q2. Over the period we have increased our machine density per shop from 3.82 in 2011 to 3.86. This increase added circa £1.6 million of gross win. The rollout of the Odds On loyalty card to machines (previously only covered OTC betting) was completed in May 2012. This is expected to drive useful customer insights going forward.

In H1 2012 there were on average 8,247 terminals in the estate compared to 8,019 in H1 2011. At 30 June 2012 there were 8,317 machines (H1 2011: 8,031).

Operating costs for H1 increased by 7.1% or £16.5 million. We now expect total operating costs for the full year to be up by circa 6%, with the increase on previous guidance driven by higher than planned machines costs (with machines revenue ahead of our expectations) and an increase in our original number of planned shop openings.

Operating profit of £91.3 million was up 21.1% or £15.9 million for the period.

At 30 June 2012 there were 2,150 shops (31 December 2011: 2,127) in Great Britain. To date we have opened 25 new shops and closed two. We anticipate by the end of the year we will have opened 75 new shops whilst closing circa 15.

European Retail

Operating profit [(1)] within European Retail of £10.3 million grew by 94.3%. European Retail comprises our operations in Ireland, Belgium and Spain. These are discussed in more detail below.

Ireland

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m	Year on year change %
- OTC amounts staked	276.5	308.1	(10.3)
- Machines amounts staked	80.3	74.4	7.9
Amounts staked	356.8	382.5	(6.7)
- OTC gross win	38.6	37.0	4.3
- Machines gross win	3.1	2.8	10.7
Gross win	41.7	39.8	4.8
Net revenue	40.5	38.6	4.9
Betting tax	(3.8)	(4.1)	7.3
Operating costs	(30.0)	(30.7)	2.3
Operating profit [(1)]	6.7	3.8	76.3

[(1)] *Before exceptional items*

OTC amounts staked fell 10.3% against 2011 with lost meetings in H1 affecting overall performance. Ireland still struggles through tough economic conditions and this is exacerbated by an increasingly competitive environment, especially in the Republic of Ireland (ROI).

Total gross win in Ireland increased by 4.8% to £41.7 million with machines and OTC up 10.7% and 4.3% respectively. The OTC gross win margin of 14.0% was 2.0 percentage points ahead of 2011, driven largely by much improved results at Cheltenham.

Faced with the current economic downturn and highly competitive trading environment in the ROI, we have focused our efforts on reducing our operational cost base. Costs of £30.0 million were down 2.3% on 2011 driven largely by improvements in shop efficiency following operating changes to the way in which shops are staffed.

At 30 June 2012 there were 214 shops (31 December 2011: 213) in the ROI and 79 shops (31 December 2011: 79) in Northern Ireland. During the period, we opened four shops and closed three.

Belgium

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m	Year on year change %
Amounts staked	92.5	83.0	11.4
Net revenue	23.4	21.9	6.8
Betting tax	(3.5)	(3.9)	10.3
Gross profit	19.9	18.0	10.6
Operating costs	(15.4)	(15.5)	0.6
Operating profit [(1)]	4.5	2.5	80.0

[(1)] *Before exceptional items*

The Belgium business continues to benefit from changes made to the betting tax regime in 2011, all regions moving from a turnover tax to a 15% tax on gross profits. The removal of a duty on amounts staked has seen a growth in gross profit of 10.6% or £1.9 million which has been driven primarily by an increase in staking levels.

Costs for the period remained broadly flat, with operating profit ahead by £2.0 million or 80.0%.

At 30 June 2012, there were 284 shops compared to 282 at 31 December 2011.

Spain

	Half year ended 30 June 2012	Half year ended 30 June 2011	Year on year change
	£m	£m	%
Operating loss (1)	(0.9)	(1.0)	10.0

(1) Before exceptional items

The Sportium business in Madrid continues to see a pleasing growth in activity, with like for like amounts staked up 3.8% in the period, this in spite of worsening economic conditions and a particularly high rate of unemployment. Sportium is the clear market leader in Madrid and is now cash flow positive for this region including head office costs. In the period, the business has also incurred start-up costs elsewhere in Spain.

The business which also trades in Aragon, began rolling out to Navarra and Valencia during the period and we expect to begin trading in Murcia and Galicia early in 2013.

At 30 June 2012 there were 189 corners – 110 in Madrid, 65 in Aragon, 12 in Valencia and two in Navarra (31 December 2011: 169) and 18 standalone shops (31 December 2011: 18). In H2 Sportium will open further corner outlets in Valencia and Navarra as well as a network of standalone SSBTs in bars.

Digital

	Half year ended 30 June 2012	Half year ended 30 June 2011	Year on year change
	£m	£m	%
Net revenue			
- Sportsbook	37.3	33.7	10.7
- Casino	28.9	28.9	-
- Poker	5.6	7.4	(24.3)
- Bingo	7.1	7.2	(1.4)
- Games	9.4	8.5	10.6
Net revenue	88.3	85.7	3.0
Betting tax	(0.5)	-	n/a
Operating costs (1)	(72.8)	(56.0)	(30.0)
Operating profit (2)	15.0	29.7	(49.5)

(1) Includes amortisation of customer relationships of £1.3 million (2011: £1.3 million)
(2) Before exceptional items

We have progressed with our Digital development program in 2012 as we work towards building a more competitive customer offer through investment in enhanced technology, digital marketing and better product.

Sportsbook net revenue of £37.3 million was 10.7% ahead of 2011 driven by increased volumes. Amounts staked were up 24.2% year on year assisted by the Euros and some high staking customer activity. Excluding the Euros, amounts staked increased by 20.6%. The gross win margin for the period was down 0.4 percentage points to 6.2% driven by declines in both football and horses during Q2. Sportsbook actives for H1 grew 23.8% (H2 2011: 14.5%). Bet in Play volumes grew by 36.8% in H1 and now represent over 58% of all non-racing sportsbook stakes.

Casino revenue remained flat year on year following growth in activity from our main customer base offset by losses to certain higher value customers. Actives increased by 50.8% driven by marketing campaigns including free spins and free bet promotions.

Games revenue increased by 10.6%, driven by a further increase in content from the likes of Openbet, Cryptologic and Realistic. Actives grew by 15.4%.

Poker revenue fell 24.3% during the period to £5.6 million, continuing to reflect a particularly tough marketplace.

Bingo revenue fell 1.4% to £7.1 million with actives up 11.1%.

Mobile growth continued with revenue up 107.4%. Sportsbook revenues were 26.3% of total sportsbook revenue with over one third of sportsbook customers using mobile in the first half. Net revenue growth in mobile casino of 115.0% has benefited from tablet specific content in traditional table and slots games.

An increase in operating costs of 30.0% was broadly in line with our plan, driven by an uplift in marketing investment, additional IT, more people costs and an increase in depreciation, all of which are part of the overall improvement in the infrastructure of the Digital business. As anticipated, we also incurred start up losses following a successful application for licences in the Spanish and Danish markets which regulated during the period.

Modest growth in net revenue for the period, up 3.0% from £85.7 million to £88.3 million has been impacted by a continuing decline in poker (£1.8 million lower) and a weak sportsbook margin in Q2 (1.3 percentage points lower year on year).

Core Telephone Betting

	Half year ended 30 June 2012	Half year ended 30 June 2011	*Year on year change*
	£m	£m	*%*
Amounts staked	139.6	150.0	(6.9)
Net revenue	6.3	3.9	61.5
Gross profits tax	(0.6)	(0.5)	(20.0)
Operating costs	(4.8)	(6.7)	28.4
Operating profit/(loss) (1)	0.9	(3.3)	127.3

(1) Before exceptional items

Whilst amounts staked in the Core Telephone Betting business were down year on year, we have grown net revenue by £2.4 million. This is largely due to the relative strength of our margin in football in the period compared to last year, when business performance was materially impacted by several high staking customers betting on the Champions League Final.

Continued savings, particularly in staff costs, have contributed to a £4.2 million increase in operating profit.

High Rollers

High Rollers generated an operating profit of £20.5 million in the period (H1 2011: £4.0 million loss).

Financial review

Trading summary – Continuing operations

Revenue recognition – reconciliation to gross win

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

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

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Gross win	610.7	532.7
Adjustments [1]	(25.8)	(20.8)
VAT	(34.3)	(28.8)
Revenue	550.6	483.1

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

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

	Half year ended 30 June 2012		Half year ended 30 June 2011	
	Gross win £m	Net revenue £m	Gross win £m	Net revenue £m
UK Retail	409.7	370.5	372.4	337.7
European Retail	65.1	63.9	61.7	60.5
Digital	107.4	88.3	99.1	85.7
Core Telephone Betting	6.6	6.3	4.1	3.9
High Rollers	21.9	21.6	(4.6)	(4.7)
Total	610.7	550.6	532.7	483.1

Revenue

Revenue from continuing operations increased by £67.5 million (14.0%) to £550.6 million (H1 2011: £483.1 million). Excluding High Rollers, revenue increased by £41.2 million (8.4%) to £529.0 million (H1 2011: £487.8 million). The increase is mainly attributable to improved machines performance in UK Retail, improved European Retail performance and growth in sportsbook in Digital partially offset by a decline in poker and bingo in Digital.

Profit before net finance expense, tax and exceptional items

Profit before net finance expense, tax and exceptional items increased by £35.1 million (38.0%) to £127.4 million (H1 2011: £92.3 million).

Excluding High Rollers, profit before net finance expense, tax and exceptional items increased by £10.6 million (11.0%) to £106.9 million (H1 2011: £96.3 million) reflecting increased profit in UK Retail and European Retail, decreased corporate costs and moving from a loss to a profit in Core Telephone Betting, partially offset by decreased profit in Digital.

Corporate costs

Before exceptional items, total corporate costs reduced by £0.2 million to £10.6 million.

Finance expense

Before exceptional items, net finance expense of £16.8 million was £1.1 million higher than last year (H1 2011: £15.7 million) mainly reflecting an increase in margin on new facilities.

Profit before tax

The increase in trading profits has resulted in a 44.4% increase in first half profit from continuing operations before taxation and exceptional items to £110.6 million (H1 2011: £76.6 million).

Exceptional items before tax

£3.7 million of exceptional losses before tax include a £1.5 million loss on the closure of shops and disposal of assets within UK and European Retail, and £2.2 million in respect of Spanish retrospective online gaming taxes.

Taxation

The Group taxation credit for continuing operations before exceptional items was £6.5 million. This has been based on an effective tax charge of 5.3%, being the best estimate of the annual tax charge for 2012, having adjusted for a prior period credit arising in the first half of 2012. The credit of £27.7 million arises as the Group has now reached settlement with HMRC on all outstanding items in respect of tax years through to 31 December 2007.

Dividend

The Board today announces an interim dividend of 4.30 pence per share. The dividend will be payable on 25 October 2012 to shareholders on the register on 14 September 2012.

Earnings per share (EPS) – Group

Underlying
EPS (before exceptional items, High Rollers and using an effective tax charge of 5.3%) increased by 25.3% to 9.4 pence (H1 2011: 7.5 pence), reflecting the increased profit before tax and lower effective tax charge.

Total
EPS (before exceptional items) increased 79.2% to 12.9 pence (H1 2011: 7.2 pence), reflecting the increased profit before tax and lower effective tax charge. EPS (including the impact of exceptional items) was 12.5 pence (H1 2011: 6.7 pence). Fully diluted EPS (including the impact of exceptional items) was 12.3 pence (H1 2011: 6.6 pence) after adjustment for outstanding share options.

Cash flow, capital expenditure, borrowings and banking facilities

Cash generated by operations was £161.3 million. After net finance expense paid of £11.5 million, income taxes paid of £10.7 million and £45.0 million on capital expenditure and intangible additions, cash inflow was £94.1 million. Post dividend payment of £35.2 million and other outflows of £2.0 million, free cash flow of £56.9 million was generated in the period.

At 30 June 2012, gross borrowings of £420.7 million less cash and cash equivalents of £23.7 million resulted in a net debt of £397.0 million (31 December 2011: £453.9 million).

Going concern

In assessing the going concern basis, the directors considered the Group's business activities, the financial position of the Group and the Group's financial risk management objectives and policies. The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

Principal risks and uncertainties

Key risks are reviewed by the Executive Committee (made up of executive directors and senior executives) and the Board of Ladbrokes plc on a regular basis and where appropriate, actions are taken to mitigate the key risks that are identified.

The principal risks and uncertainties which could impact the Group for the remainder of the current financial year remain unchanged from those detailed on pages 16 to 18 of the Group's Annual Report and Accounts 2011 and are as follows:

Strategy

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

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

Marketplace

Changes in the economic environment and consumer leisure spend.

Financial

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

Operational

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

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

Marketplace

Competition

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

Betting and gaming industry

Taxes, laws, regulations and licensing

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

Increased cost of product

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

Operational and bookmaking

Bookmaking

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

Sporting schedules and cancellations

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

High fixed cost base

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

Loss of key locations

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

Information technology and communications

Technology changes

The market for online gambling products and services is characterised by technological developments, new product and service introductions and evolving industry standards. Failure by Ladbrokes to use leading technologies effectively, develop its technological expertise, enhance its products and services and improve the performance, features and reliability of its technology and advanced information systems, could have a material adverse effect on its competitive position.

Technology failure

Ladbrokes' operations are highly dependent on technology and advanced information systems and there is a risk that such technology or systems could fail. In particular, any damage to, or failure of online systems and servers, electronic point of sale systems and electronic display systems could result in interruptions to financial controls and customer service systems.

Data disclosure

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

Failure in the supply chain

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

Statement of Directors' Responsibilities

The directors confirm that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year, and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

The directors of Ladbrokes plc are listed in the Group's annual report and accounts for the year ended 31 December 2011, with the exception of the following changes in the period: C P Wicks retired as a non-executive director on 19 April 2012, C M Hodgson and R Moross were appointed as non-executive directors on 1 May 2012 and R J Ames resigned as an executive director on 1 August 2012. A list of current directors is maintained on the Ladbrokes plc website www.ladbrokesplc.com.

By order of the Board

R I Glynn I A Bull

2 August 2012

Independent review report to Ladbrokes plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the half year ended 30 June 2012 which comprises the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated balance sheet, interim consolidated statement of changes in equity, interim consolidated statement of cash flows and the related notes 1 to 12. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for the half year ended 30 June 2012 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
London
2 August 2012

Unaudited financial statements
Interim consolidated income statement

	Half year ended 30 June 2012		Half year ended 30 June 2011	
	Before exceptional items[1] £m	Total £m	Before exceptional items[1] £m	Total £m
Continuing operations				
Amounts staked[2]	9,037.9	9,037.9	7,944.2	7,944.2
Revenue	550.6	550.6	483.1	483.1
Cost of sales before depreciation and amortisation	(358.8)	(361.9)	(323.9)	(325.0)
Administrative expenses	(39.2)	(39.2)	(41.8)	(45.0)
Share of results from joint venture and associates	1.4	1.4	0.5	0.5
EBITDA	154.0	150.9	117.9	113.6
Depreciation, amortisation and amounts written off non-current assets	(26.6)	(27.2)	(25.6)	(25.6)
Profit before tax and net finance expense	127.4	123.7	92.3	88.0
Finance expense	(16.9)	(17.0)	(15.8)	(16.3)
Finance income	0.1	0.2	0.1	0.1
Profit before tax	110.6	106.9	76.6	71.8
Income tax credit/(expense)	6.5	6.7	(11.7)	(11.1)
Profit for the period – continuing operations	117.1	113.6	64.9	60.7
Discontinued operations				
Profit for the period from discontinued operations	-	-	-	0.2
Profit for the period	117.1	113.6	64.9	60.9
Attributable to:				
- equity holders of the parent	117.1	113.6	64.9	60.9
- non-controlling interests	-	-	-	-
	117.1	113.6	64.9	60.9
Earnings per share on profit for the period:				
- basic	12.9p	12.5p	7.2p	6.7p
- diluted	12.7p	12.3p	7.1p	6.6p
Proposed dividends[3]	4.30p	4.30p	3.90p	3.90p

[1] *Exceptional items are profits or losses on disposal or impairment of non-current assets or businesses, unrealised gains and losses on derivative financial instruments, corporate transaction costs and any other non-recurring items considered exceptional by virtue of their nature and size. Details of the exceptional items are given in note 4.*
[2] *Amounts staked does not represent the Group's statutory revenue and comprises the total amounts staked by customers on betting and gaming activities.*
[3] *The dividends paid in the half years ended 30 June 2012 and 30 June 2011 were £35.2 million (3.90 pence per share) and £33.8 million (3.75 pence per share) respectively. An interim dividend of 4.30 pence per share (2011: 3.90p) was declared by the directors on 2 August 2012. These financial statements do not reflect this dividend payable.*

Interim consolidated statement of comprehensive income

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Profit for the period	113.6	60.9
Currency translation differences	(2.0)	3.6
Actuarial (losses)/gains on defined benefit pension scheme	(4.0)	3.9
Tax on actuarial (losses)/gains on defined benefit pension scheme	1.0	(1.0)
Total actuarial (losses)/gains on defined benefit pension scheme, net of tax	(3.0)	2.9
Recycling of losses on cash flow hedges	-	0.5
Tax on recycling of losses on cash flow hedges	-	(0.1)
Total recycling of losses on cash flow hedges, net of tax	-	0.4
Other comprehensive (expense)/income for the period, net of tax	(5.0)	6.9
Total comprehensive income for the period	108.6	67.8
Attributable to:		
- equity holders of the parent	108.6	67.8
- non-controlling interests	-	-

Interim consolidated balance sheet

	30 June 2012 £m	31 December 2011 £m
ASSETS		
Non-current assets		
Goodwill and intangible assets	646.1	629.4
Property, plant and equipment	202.0	201.2
Interest in joint venture	3.8	4.3
Interests in associates and other investments	15.2	14.7
Other financial assets	8.0	9.1
Deferred tax assets	31.3	34.9
Retirement benefit asset	37.9	37.4
	944.3	931.0
Current assets		
Trade and other receivables	70.3	80.5
Corporation tax asset	17.8	-
Cash and short-term deposits	24.4	26.4
	112.5	106.9
TOTAL ASSETS	**1,056.8**	**1,037.9**
LIABILITIES		
Current liabilities		
Bank overdraft	(0.7)	-
Interest bearing loans and borrowings	(131.5)	(131.4)
Derivatives	-	(0.1)
Trade and other payables	(149.2)	(142.7)
Corporation tax liabilities	-	(0.7)
Other financial liabilities	(1.1)	(1.0)
Provisions	(7.6)	(4.3)
	(290.1)	(280.2)
Non-current liabilities		
Interest bearing loans and borrowings	(289.2)	(348.9)
Other financial liabilities	(11.0)	(10.4)
Deferred tax liabilities	(78.8)	(82.3)
Provisions	(4.1)	(9.4)
	(383.1)	(451.0)
TOTAL LIABILITIES	**(673.2)**	**(731.2)**
NET ASSETS	**383.6**	**306.7**
EQUITY		
Issued share capital	266.3	266.2
Share premium	194.9	194.6
Treasury and own shares	(115.1)	(113.3)
Retained earnings	30.4	(49.5)
Foreign currency translation reserve	6.0	8.0
Equity shareholders' funds	**382.5**	**306.0**
Non-controlling interests	1.1	0.7
TOTAL SHAREHOLDERS' EQUITY	**383.6**	**306.7**

Interim consolidated statement of changes in equity

	Issued share capital £m	Share premium £m	Treasury and own shares £m	Retained earnings £m	Foreign currency translation reserve[1] £m	Attributable to the equity shareholders of the Company £m	Non-controlling interest £m	Total share-holders equity £m
At 1 January 2011	266.1	194.1	(114.4)	(99.7)	10.5	256.6	0.4	257.0
Profit for the period	-	-	-	60.9	-	60.9	-	60.9
Other comprehensive income	-	-	-	3.3	3.6	6.9	-	6.9
Total comprehensive income	-	-	-	64.2	3.6	67.8	-	67.8
Issue of shares	0.1	0.4	-	-	-	0.5	-	0.5
Share-based payments charge	-	-	-	3.4	-	3.4	-	3.4
Net movement in shares held in ESOP trusts	-	-	0.4	(2.4)	-	(2.0)	-	(2.0)
Equity dividends	-	-	-	(33.8)	-	(33.8)	-	(33.8)
Non-controlling interests	-	-	-	-	-	-	0.2	0.2
At 30 June 2011	266.2	194.5	(114.0)	(68.3)	14.1	292.5	0.6	293.1
At 1 January 2012	266.2	194.6	(113.3)	(49.5)	8.0	306.0	0.7	306.7
Profit for the period	-	-	-	113.6	-	113.6	-	113.6
Other comprehensive expense	-	-	-	(3.0)	(2.0)	(5.0)	-	(5.0)
Total comprehensive income	-	-	-	110.6	(2.0)	108.6	-	108.6
Issue of shares	0.1	0.3	-	-	-	0.4	-	0.4
Share-based payments charge	-	-	-	4.6	-	4.6	-	4.6
Net movement in shares held in ESOP trusts	-	-	(1.8)	(0.1)	-	(1.9)	-	(1.9)
Equity dividends	-	-	-	(35.2)	-	(35.2)	-	(35.2)
Non-controlling interests	-	-	-	-	-	-	0.4	0.4
At 30 June 2012	**266.3**	**194.9**	**(115.1)**	**30.4**	**6.0**	**382.5**	**1.1**	**383.6**

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

Interim consolidated statement of cash flows

	Notes	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Net cash generated from operating activities	10	139.0	106.4
Cash flows from investing activities:			
Interest received		0.1	0.1
Dividends received from associates		1.2	-
Payments for intangible assets		(24.3)	(10.2)
Purchase of property, plant and equipment		(20.7)	(17.4)
Purchase of subsidiaries		(1.5)	-
Proceeds from the sale of property, plant and equipment		-	0.7
Purchase of interest in joint venture		-	(1.2)
Net cash used in investing activities		(45.2)	(28.0)
Cash flows from financing activities:			
Proceeds from issue of shares		0.4	0.4
Purchase of ESOP shares		(1.9)	(2.1)
Repayment of borrowings		(59.9)	(45.5)
Dividends paid	6	(35.2)	(33.8)
Net cash used in financing activities		(96.6)	(81.0)
Net decrease in cash and cash equivalents		(2.8)	(2.6)
Effect of changes in foreign exchange rates		0.1	-
Cash and cash equivalents at beginning of the period		26.4	17.7
Cash and cash equivalents at end of the period		23.7	15.1
Cash and cash equivalents comprise:			
Cash at bank and in hand		24.4	15.9
Bank overdraft		(0.7)	(0.8)
		23.7	15.1

Notes to financial information

1. Corporate information

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

The interim consolidated financial statements of the Group for the half year ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 2 August 2012.

2. Basis of preparation

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

(b) The Group's annual financial statements for the year ended 31 December 2011 were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The interim condensed consolidated financial statements for the half year ended 30 June 2012 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements at 31 December 2011.

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011 except for the adoption of new standards and interpretations as noted below and a voluntary change in accounting policy under IAS 8 Accounting policies, changes in accounting estimates and errors.

The amendments to IAS 12 Income Taxes provide an exception that the measurement of deferred tax assets and tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. The amendments to IFRS 7 Financial Instruments increase the disclosure requirements for transactions involving transfers of financial assets. None of these amendments have had a significant impact on the results or financial position of the Group.

In addition, the Group is currently assessing the impact of other new and amended standards and interpretations that are not yet effective, including IFRS 7 Financial Instruments: Disclosures (Amendment) – Offsetting Financial Assets and Financial Liabilities, IFRS 9 Financial Instruments – Classification and Measurement, IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements, IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures, IFRS 12 Disclosure of Interests in Other Entities, IFRS 13 Fair Value Measurement, IAS 1 Presentation of Financial Statements (Amendment) – Presentation of Items of Other Comprehensive Income, IAS 19 Employee Benefits (Revised) and IAS 32 Financial Instruments: Presentation (Amendment) – Offsetting Financial Assets and Financial Liabilities.

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

The interim financial information was approved by a duly appointed and authorised committee of the Board of Directors on 2 August 2012 and is unaudited. The auditor has carried out a review and its report is set out on page 18.

The financial information set out in this document in respect of the year ended 31 December 2011 does not constitute the Group's statutory accounts for the year ended 31 December 2011. The auditor's report on the statutory accounts for the year ended 31 December 2011 was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. Statutory accounts for the year ended 31 December 2011 have been delivered to the Registrar of Companies.

Notes to financial information

2. Basis of preparation (continued)

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

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

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

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

3. Segment information

Management has determined the Group's operating segments based on the reports reviewed by the Board of directors to make strategic decisions.

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

- UK Retail: comprises betting activities in the shop estate in Great Britain.
- European Retail: comprises all activities connected with the Ireland (Northern and Republic of), Belgium and Spain shop estates.
- Digital: comprises betting and gaming activities from online and mobile operations.
- Core Telephone Betting: comprises activities relating to bets taken on the telephone, excluding High Rollers.
- High Rollers: comprises activities relating to bets taken on the telephone from High Rollers.

Discontinued operations in 2011 comprise Hotels.

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

The segment results for the half year ended 30 June 2012 were as follows:

	Revenue £m	Profit before tax and exceptional items £m	Profit before tax and after exceptional items £m
Continuing operations:			
UK Retail	370.5	91.3	90.7
European Retail	63.9	10.3	9.4
Digital	88.3	15.0	12.8
Core Telephone Betting	6.3	0.9	0.9
High Rollers	21.6	20.5	20.5
Segment revenue and profit	550.6	138.0	134.3
Corporate costs		(10.6)	(10.6)
Profit before tax and net finance expense		127.4	123.7
Net finance expense		(16.8)	(16.8)
Group revenue and profit	550.6	110.6	106.9

3. Segment information (continued)

The segment results for the half year ended 30 June 2011 were as follows:

	Revenue £m	Profit before tax and exceptional items £m	Profit before tax and after exceptional items £m
Continuing operations:			
UK Retail	337.7	75.4	73.6
European Retail	60.5	5.3	5.1
Digital	85.7	29.7	28.7
Core Telephone Betting	3.9	(3.3)	(3.3)
High Rollers	(4.7)	(4.0)	(4.0)
Segment revenue and profit	483.1	103.1	100.1
Corporate costs		(10.8)	(12.1)
Profit before tax and net finance expense		92.3	88.0
Net finance expense		(15.7)	(16.2)
Profit before tax		76.6	71.8
Discontinued operations:			
Hotels		-	0.2
Profit before tax		-	0.2
Group revenue and profit	483.1	76.6	72.0

4. Exceptional items

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Continuing operations:		
Spanish retrospective online gaming taxes (1)	(2.2)	-
Loss on closure of shops (2)	(1.5)	(1.1)
Business restructuring costs	-	(1.9)
Corporate transaction costs	-	(1.3)
Interest rate swaps termination costs	-	(0.5)
Total before tax	(3.7)	(4.8)
Exceptional tax credit	0.2	0.6
Total after tax	(3.5)	(4.2)
Discontinued operations:		
Gain on financial guarantee contracts (note 12)	-	0.2
Total before and after tax	-	0.2

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

(2) The £1.5 million loss on closure of shops is made up of a £0.6 million loss on closure of UK Retail shops (30 June 2011: £0.9 million) and a £0.9 million loss on closure of European Retail shops (30 June 2011: £0.2 million). These include a loss on disposal of intangible assets of £0.5 million (30 June 2011: £0.1 million), a loss on disposal of property, plant and equipment of £0.2 million (30 June 2011: £0.5 million) and cost accruals of £0.8 million (30 June 2011: £0.5 million).

5. Taxation

The total tax credit on continuing operations was £6.7 million (30 June 2011: charge of £11.1 million).

The Group has now reached a settlement with HMRC on all outstanding items in respect of tax years through to 31 December 2007, resulting in an estimated full year effective tax charge, excluding exceptional items, of 5.3%. The tax credit for the period of £6.7 million includes a tax credit of £21.7 million and associated interest credit of £6.0 million, net of tax, in respect of the settlement.

The Chancellor, in the Budget on 21 March 2012, announced a 2% reduction in the main rate of corporation tax rather than 1% as previously announced in 2011. The standard rate of UK Corporation Tax was reduced from 26% to 24% from 1 April 2012, and there will be progressive annual reductions of a further 1% until a rate of 22% is reached with effect from 1 April 2014.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 24%. The reduction to 23%, effective 1 April 2013, was substantively enacted on 3 July 2012. Whilst detailed calculations have not been prepared at this stage, it is estimated that the impact of the remaining annual corporation tax rate reductions would be to reduce the deferred tax liabilities by approximately £7.0 million and to reduce the deferred tax assets by approximately £3.0 million.

6. Dividends

	Half year ended 30 June 2012 Pence	Half year ended 30 June 2011 Pence
Interim	4.30	3.90
	4.30	3.90

An interim dividend of 4.30 pence per share (30 June 2011: 3.90 pence) was declared by the directors at their meeting on 2 August 2012. These financial statements do not reflect this dividend payable. The 2011 final dividend of 3.90 pence (£35.2 million) was paid in the half year ended 30 June 2012 (30 June 2011: £33.8 million).

Notes to financial information

7. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £113.6 million (30 June 2011: £60.9 million) by the weighted average number of shares in issue during the half year of 908.1 million (30 June 2011: 907.5 million).

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

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Continuing operations		
Profit attributable to shareholders	113.6	60.7
Exceptional items, net of tax (note 4)	3.5	4.2
Adjusted profit attributable to shareholders	117.1	64.9
Discontinued operations		
Profit attributable to shareholders	-	0.2
Exceptional items, net of tax (note 4)	-	(0.2)
Adjusted profit attributable to shareholders	-	-
Group		
Profit attributable to shareholders	113.6	60.9
Exceptional items, net of tax (note 4)	3.5	4.0
Adjusted profit attributable to shareholders	117.1	64.9
Weighted average number of shares (millions):		
Shares for basic earnings per share	908.1	907.5
Potentially dilutive share options and contingently issuable shares	12.4	9.1
Shares for diluted earnings per share	920.5	916.6

	Before exceptional items		**After exceptional items**	
Stated in pence	Half year ended 30 Jun 2012	Half year ended 30 Jun 2011	Half year ended 30 Jun 2012	Half year ended 30 Jun 2011
Continuing operations				
Basic earnings per share	12.9	7.2	12.5	6.7
Diluted earnings per share	12.7	7.1	12.3	6.6
Group				
Basic earnings per share	12.9	7.2	12.5	6.7
Diluted earnings per share	12.7	7.1	12.3	6.6

8. Non-current assets

During the half year ended 30 June 2012, the Group acquired intangible assets at a cost of £24.3 million (30 June 2011: £10.2 million) and plant, property and equipment of £20.7 million (30 June 2011: £17.4 million).

At 30 June 2012 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.3 million (31 December 2011: £1.3 million).

Notes to financial information

9. Net debt

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

	30 June 2012 £m	31 December 2011 £m
Current assets		
Cash and short-term deposits	24.4	26.4
Current liabilities		
Bank overdrafts	(0.7)	-
Interest bearing loans and borrowings	(131.5)	(131.4)
Non-current liabilities		
Interest bearing loans and borrowings	(289.2)	(348.9)
Net debt	(397.0)	(453.9)

On 11 July 2012, the Group repaid the remaining balance of £131.5 million on the 7.125% bond using existing facilities.

10. Note to the statement of cash flows

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Profit before tax and net finance expense	123.7	88.0
Depreciation of property, plant and equipment	19.5	20.9
Amortisation of intangible assets	7.1	4.7
Share-based payments charge	4.6	3.4
Decrease/(increase) in other financial assets	0.6	(0.9)
Decrease in trade and other receivables	10.0	12.2
Increase/(decrease) in other financial liabilities	0.1	(0.2)
Increase in trade and other payables	1.9	2.3
(Decrease)/increase in provisions	(1.8)	0.8
Contribution to retirement benefit scheme	(5.2)	(3.2)
Share of results from joint venture	0.3	0.1
Share of results from associates	(1.7)	(0.6)
Other items	2.2	2.8
Cash generated by operations	161.3	130.3
Income taxes paid	(10.7)	(12.7)
Finance expense paid	(11.6)	(11.2)
Net cash inflow from operating activities	139.0	106.4

Notes to financial information

11. Related party transactions

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

	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m
Equity investment		
- Joint venture [1]	-	1.2
Loans		
- Movement in loan balance with joint venture partner	(0.5)	1.2
- Loan repaid from joint venture	(0.1)	-
Dividends received		
- Associates [2]	1.2	-
Sundry expenditures		
- Associates [3]	18.9	17.6

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

The following table provides related party outstanding balances.

	30 June 2012 £m	31 December 2011 £m
Loan balances outstanding		
- Joint venture partner	4.1	4.6
- Joint venture	0.4	0.5
Other receivables outstanding		
- Associates	3.5	5.0

12. Financial guarantees

Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £423.4 million (31 December 2011: £483.3 million). There have been no loans guaranteed by subsidiaries (31 December 2011: £0.1 million) given in the normal course of business to other subsidiary companies.

Bank guarantees have been issued on behalf of subsidiaries and joint ventures with a value of £13.8 million (31 December 2011: £22.1 million).

The Group has given guarantees to third parties in respect of lease liabilities of former subsidiaries within the disposed hotels division. The Group received an indemnity from Hilton Hotels Corporation (HHC), at the time of the hotels disposal, in relation to any loss the Group may subsequently incur under these third party guarantees. The guarantees expire between 2012 and 2042 and the lease liabilities comprise a combination of minimum contractual and turnover based elements.

The undiscounted maximum liability exposure in respect of the guarantees for all periods up to 2042 is £844.2 million (31 December 2011: £860.6 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £483.1 million (31 December 2011: £490.7 million) in relation to the turnover based element of the hotel rentals and £361.1 million (31 December 2011: £369.9 million) in relation to the minimum contractual based element. The maximum liability represents the total of all guaranteed rentals under the non-cancellable agreements into which the Group has entered.

12. Financial guarantees (continued)

The net present value of the maximum exposure at 30 June 2012 is £341.4 million (31 December 2011: £357.1 million). Included in the net present value of the maximum exposure is £176.0 million (31 December 2011: £183.3 million) in relation to the turnover based element of the hotel rentals and £165.4 million (31 December 2011: £173.8 million) in relation to the minimum contractual based element.

The Group monitors its exposure under these guarantees on a regular basis and seeks, where appropriate, to novate its obligations.

The financial guarantees liability has been valued using a probability based model to estimate the net present value of the liabilities payable in the event of a default by the hotels covered by the guarantees, and the probability of such a default and new tenants being identified.

At 30 June 2012 the Group has recognised a financial liability of £7.7 million (31 December 2011: £7.7 million) in respect of these guarantees.

The key assumption in the probability model is the hotels default rate. A rate of 2.2% has been used at 30 June 2012 (31 December 2011: 2.2%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.3 million.