12 August 2014

Ladbrokes plc

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2014

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H1 OPERATIONAL OBJECTIVES DELIVERED; A GOOD WORLD CUP; POSITIONED TO DRIVE GROWTH

H1 key operational objectives delivered

- Mobile Sportsbook growth: staking +105%; actives +74% yoy; conversion rates improved by 14ppts
- Playtech migration completed; new back office (IMS/single wallet), casino and bingo products
- IMS/single wallet delivers improved customer experience and more effective marketing capability
- Successful roll out of c.9,000 Clarity machine cabinets ahead of World Cup
- SSBT estate grown to 1,750 supporting UK Retail focus on football
- Further international diversification: Australia – Betstar acquired and integrated

Good World Cup performance(5)(6) – a competitive customer offer

- Group stakes(7) £115.3 million up 22.4%; gross win margin(7) 24.3%
- Digital net revenue up 25.9%; sign ups up 48%; actives up 28%
- Mobile staking growth up over 1100%; 63% of sportsbook staking
- UK Retail staking up 7.9%; gross win margin 27.4%; significant increase in multiples
- Spain Retail JV(7) staking up 160%; Belgium Retail staking up 157%

Financial performance – H1 EBIT ahead of H2 2013 consistent with guidance

- Group net revenue(1) up 1.6%(2) despite some poor industry wide sporting results
- Group operating profit(1) (3) of £56.8 million down 33.7%
- Underlying earnings per share(4) down 38.6% to 4.3p
- Half year dividend maintained at 4.3p per share (H1 2013: 4.3p)
- High Rollers contributed £10.7 million of operating profit (H1 2013: £3.4 million)

Richard Glynn, Chief Executive, commented:

"In the first half of 2014 we successfully delivered all of the planned operational improvements in time for the World Cup. Our offer performed well, delivering a great betting experience for our customers and a good result for the business in a highly competitive market.

We have made substantial progress and while there is more to do there is also much to play for. We now have the products, the platforms, the people and the brand in place to deliver. Ladbrokes today is a far stronger company and well positioned for growth."

Positioned to drive growth in H2

Digitally Competitive

- Sportsbook: build on mobile success in H1
- Gaming: return to growth in H2
- Costs: maintain disciplined marketing approach

UK Retail Resilience

- Machines: deliver growth from Clarity machines and SSBTs
- Football: maintain focus building on 2013/14 season and World Cup experience
- Costs: deliver cost savings in H2

Growth Internationally

- Australia: drive growth and deliver on Betstar plan
- Spain and Belgium: enhance number one retail market positions

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m	Year on year change %
Revenue [1]	577.8	563.0	2.6
Revenue [1][2]	**577.8**	**568.5**	**1.6**
Revenue incl High Rollers	589.3	566.5	4.0
Operating profit by segment			
UK Retail	57.6	73.2	(21.3)
European Retail	6.6	9.7	(32.0)
Digital [4]	3.0	10.8	(72.2)
Core Telephone Betting	0.7	0.4	75.0
Corporate costs	(11.1)	(8.4)	(32.1)
Group operating profit [1] [3]	**56.8**	**85.7**	**(33.7)**
High Rollers	10.7	3.4	214.7
Total operating profit [3]	**67.5**	**89.1**	**(24.2)**
Exceptional items	(26.4)	(21.8)	(21.1)
Profit before tax and net finance expense	41.1	67.3	(38.9)
Profit before tax	27.7	55.1	(49.7)
Profit after tax	23.7	47.2	(49.8)
Underlying basic earnings per share [4]	**4.3p**	**7.0p**	**(38.6)**
Basic earnings per share	2.6p	5.2p	(50.0)
Interim dividend per share	4.30p	4.30p	-
Financial position			
Cash generated by operations	77.0	127.7	(39.7)
Net debt	425.9	375.5	(13.4)

(1) *Excluding High Rollers.*

(2) *In order to provide relevant comparative trends, 2013 net revenue has been adjusted to reflect the change from VAT to MGD on 1 February 2013.*

(3) *Operating profit is defined as profit before tax, net finance expense and exceptional items of £26.4 million (2013: £21.8 million).*

(4) *Adjusted to exclude exceptional items and High Rollers.*

(5) *Data for the World Cup is for the whole tournament (12 June to 13 July 2014) vs. 2010.*

(6) *On a comparable market basis.*

(7) *Including Sportium JV at 50%.*

(8) *Proforma 2013 data excludes Betstar and is unaudited.*

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Notes to editors:

The Company will be hosting an analyst presentation at the UBS, Ground Floor conference centre, 1 Finsbury Avenue, London EC2M 2PP at 9:30am this morning. This will be available to listen into by dialling +44 (0)20 3427 1912 – pass code: 7069155.

Alternatively a live webcast of the presentation, with slides, will be available at the 'Investor Centre' on www.ladbrokesplc.com. A recording of the webcast will be available, at the same location, from 12pm (UK time) the same day. Similarly a replay phone facility will be available, for 7 days, on +44 (0) 20 3427 0598 – pass code: 7069155.

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

Chief Executive's Review

Group overview

The objective at the start of the year was to complete our operational rebuilding ahead of the World Cup. We delivered successfully all our key deliverables on time and on plan. As we indicated, our operational focus in H1 meant that financial performance would inevitably lag behind. H1 2014 operating profit was below that achieved in H1 2013, but ahead of H2 2013 as we previously guided, despite poor industry wide sporting results.

Our World Cup performance demonstrated that we now offer, across the Group, a more competitive product with an encouraging customer response across all channels. We enter H2 confident in the power of the brand, our products, platforms and levels of service to attract customers and ensure they have a rewarding and enjoyable time with us. The focus is now on turning this into growth.

UK Retail

- **Overview**

High street betting continues to be an attractive proposition for customers and offers a resilient source of cash flow despite a challenging trading and regulatory environment.

- **Operational highlights**

One of our key objectives for 2014 had been to grow our football business given recent trends in horse racing betting. We have made a real push within the UK Retail estate on football through improving product in shop and investment in SSBTs. In the first half we rolled out a new football coupon dispenser to drive more valuable multiple football betting. An additional 350 SSBTs have been successfully deployed increasing our total to nearly 1,750 and we have reconfigured their deployment around the estate to maximise our returns. SSBTs continue to enhance our drive for more football business with over 70% of their overall staking being derived from football. Encouragingly this trend continued through the World Cup and we are now well positioned for the 2014/15 football season.

Another key deliverable for UK Retail estate was the roll out of the new Clarity machine cabinets across the estate ahead of the World Cup. In total c.9,000 machines were replaced in 2,226 shops in 14 weeks with an average installation time of 1 hour 29 minutes per shop.

The optimisation of the Retail estate progressed with 46 shops now closed against our target of c.50 for the year. At the end of the first half, we had closed 29 shops with the remainder closing in July as we continue to address the underperforming shops in our portfolio.

- **Financial performance**

In H1 we saw a 21.3% reduction in UK Retail operating profit, as a result of the industry-wide customer friendly results, notably in football in January and horse racing in June. Cost performance was somewhat better than planned mainly due to procurement and property savings and, adjusted for adverse results, underlying profit trends were as we expected.

Gross win margin for the period was 16.4% (H1 2013: 17.8%) reflecting some of the difficult trading weeks, particularly for football in January and the higher than average percentage of winning horse favourites at both the start and end of the period. While Cheltenham delivered a better year on year performance this was partly offset by Aintree which, while positive, was below last year's exceptional result. The major flat festivals in the period at Epsom and Ascot were particularly customer friendly with Ascot seeing 14 winning favourites in 30 races. We recorded losses in both festivals. This reflected a more general trend in racing with the winning favourite strike rate over the first six months being 37.5%, the highest observed for over 20 years. This is around 1.5 percentage points higher than the five year average exacerbated by the continued trend of smaller field sizes. While there has been some recycling, it was not enough to offset the poor run of results. Horse racing still struggles to attract younger betting customers and consequently staking declined in the latter part of H1, particularly during the World Cup.

In the first half we achieved significant success from our focus on football, with staking growing by c.27% (excluding the World Cup) on H1 2013 and football staking in the 2013/14 football season growing by 25% on 2012/13. Football margins were however impacted by some well reported results and fell to 19.6% for the period against 31.6% in 2013.

H1 saw a difficult start to the year for our comparatively older machine estate. Implementing the ABB code at the end of February likewise had a marked impact. However, by the end of the period we began to see the benefits of the new Clarity estate and the impact of the ABB code normalising as customers adapted to the new procedures. The new Clarity machines offer 50% more slots games (48 compared to 32) and this improved our product mix. The trend of lower maximum stake B3 revenue growing ahead of B2 content, first seen in 2013, continued.

In the first half, machine gross win was ahead by 1.8%. In Q1, machine gross win per shop per week was slightly down year on year but in Q2 it returned to growth, albeit at a low level, reflecting the initial benefit of the Clarity roll-out. Overall the underlying exit rate of machine growth at the end of H1 was c.1-2%.

Operating costs were up 4.3% year on year, better than our expectations of 5.0%. Like for like cost trends were also better than expected reflecting the continued focus on operating costs within the retail estate.

- **H2 Focus**

The focus for the second half of 2014 remains on improving the competitive offer of the Retail estate.

In H2 we will continue to drive football business by optimising the coupon offer in shops and maximising the benefits from the investment in SSBTs.

The roll out of our new Clarity gaming machine was completed ahead of the World Cup and should deliver improved performance from an enhanced customer experience.

The voluntary ABB code which was launched in March had a clear impact on revenues. It has now become part of the normal customer journey. We continue to promote widely the use of set limits functionality on machines alongside other social responsibility measures.

This increased focus on responsible gambling will be a permanent feature and we expect to implement further changes as part of the Government's new regulatory framework over the coming year. These measures propose restricting staking at over £50 a time to either identifiable account based play or via staff interaction only and will inevitably have some impact on revenues and the size of the shop estate. A further announcement from the DCMS on these measures is expected this autumn.

Work will continue on the size and composition of our Retail estate as we review the implications of the Government proposals on further restrictions around B2 content and the rise in taxation. This needs to be taken in association with the seemingly inexorable rise in costs for racing, for both content and the levy process. When set against the general industry trend of falling horse stakes, either a reduction in shop numbers or the cost of the product will have to be considered as the current economic model is simply unsustainable. Further shop closures will be inevitable but whilst we are still assessing the likely impact it remains premature to quantify.

Cost efficiency remains important in the UK and we have identified a further £3-4 million of cost savings phased to Q4 which would result in a UK cost performance broadly in line with H1 trends.

Digital

- **Overview**

The digital market continues to evolve with mobile products offering the greatest growth opportunity. Our focus has been on making our Digital products more competitive and attractive, delivering the necessary technical platforms for an exciting user experience and for enhanced CRM and growing customer lifetime values over time.

- **Operational highlights**

Our Digital offer has undergone a significant and accelerated transformation in the last six months across people, product and platforms. The foundations of the business have been significantly improved. The execution risk inherent in such change has materially reduced. Customers have responded positively and with sign ups up 37.2%, actives up 9.3% on H1 2013 and sportsbook conversion rates up 14% since January 2014, a foundation has been laid for further growth.

In the first half we made several key hires to the Digital leadership team and completed the works necessary to allow the business to deliver the potential of the Playtech deal, on time and within a year of the five year contract being signed.

The end of Q1 also saw the transition to Playtech casino products as we completed the refresh of our product offer on the new platform. At the end of April all our Digital products were launched onto the IMS platform, giving customers a single wallet across all betting and gaming products for the first time. This now enables Ladbrokes to deliver more personalised offers based on a customer's entire activity. The impact will be incremental as more customers both re-experience and sign up to the Ladbrokes offer, thereby utilising the benefits of our enhanced back office.

In mobile, alongside continuous product and customer journey improvements, we also added the ability to deposit via PayPal, access our Digital offer from Windows and Blackberry phones and enjoy real time in-play match action, statistics and timelines. These complemented other improvements delivered in the period which saw four new applications and the introduction of over 40 new features, all to either make the customer journey easier or enhance opportunities for cross sell.

In H1 customers have accelerated their adoption of mobile sports betting. This now represents more than half of Digital staking and has become the engine of growth. The Desktop product remains important but is now complementary to mobile rather than the lead driver of growth.

Our operational focus for desktop in H1 has therefore been on improving our customer experience through product simplification and on improving reliability by investing in increased capacity and faster systems.

We have enhanced desktop by adding Perform content and the Ladbrokes Exchange "tab" including its new "Red Box" offer, which lets customers compare instantly exchange and sportsbook prices to identify best value. The service was launched in April, and offers a differentiated proposition against many of our rivals.

- **Financial performance**

Ladbrokes exits H1 with the mobile business contributing over half of Digital staking. Strong mobile growth has been the engine behind the acceleration in the rate of growth of Digital overall. In Q2, Mobile sportsbook staking growth was 114% and overall Digital sportsbook staking was up c.30% from 24% in Q1. H1 saw the evidence of continued industry-wide migration of sports betting from desktop to mobile, a trend which has continued in H2.

Despite a strong World Cup margin of 18.7% and a far improved Digital offer, the disappointing industry wide sporting results seen in H1 saw a sportsbook gross win margin of 7.8% against 8.5% in H1 2013.

The encouraging signs in Mobile sportsbook performance seen at the start of the year continued throughout the period. Mobile sportsbook continued to grow with amounts staked accounting for 46% of sportsbook (H2 2013: 36%) and during the World Cup grew to about 63%.

Gaming revenue was down 18.3% reflecting the expected operational disruption of the transition to new products and new back office systems. However, in Games, where Ladbrokes Israel was able to operate free from having to rely on further technical enhancements growth was achieved in Q2. Ladbrokes Israel now has the resources and technical capability to support our focus on growth to build momentum particularly in casino with disciplined marketing spend driving broadly flat revenue in Q3 and growth in Q4.

Ladbrokes has continued its policy on competing aggressively but sensibly. Marketing spend was 31% of net revenue, consistent with our plan to invest in the World Cup. We continue to expect to end the year between 25% and 30%.

We have made further progress in establishing a broader international digital presence for the Group.

In under a year Ladbrokes has established itself in Australia as a leading betting brand and has secured good market share. Looking at year on year performance net revenue has grown by 216% (pro forma[8] constant currency basis) and actives by nearly 400% reflecting both strong organic growth and the benefit of the Betstar acquisition competed in April. During the period Australia was EBITDA positive and generated a small operating loss on net revenue of £13.6 million from actives of c.37,400. Overall Australian revenue is running ahead of our acquisition plan and following a 28 day integration the steps necessary to realise the £2.9 million Betstar annualised cost synergies have been taken. Ladbrokes continues to deliver a number of innovative products into the competitive Australia market and is well positioned for the Spring Racing Carnival.

We have made significant progress in developing our multi-channel strategy in Spain and Belgium. In Spain, Sportium's Digital offer completed its first full six months of trading with healthy growth on the previously separate, and now merged, businesses of LBapuestas.es and Cirsa.es. During the period Sportium recorded over 46,000 digital actives and has grown its market share to approximately 6%. In Belgium, shortly before the World Cup, we also launched Digital services under the Ladbrokes brand (www.ladbrokes.be). We will remain in investment mode in both H2 and 2015 in these markets and incur further aggregate development losses of c.£2-3 million in H2 as we build both these important opportunities.

Betdaq which was acquired in Q1 2013, has had a record period delivering total revenues, including Ladbrokes Exchange, of £6.6 million and break-even profitability. Net revenue was up 69.2% year on year and the exchange has continued to deliver a number of new product improvements during the year.

We continuously review our business and the markets from which we take business. During the period, this review process led us to cease to accept money from some locations immediately; and we will, potentially, cease to trade in other markets going forward, depending on the relevant legal and commercial considerations from time to time. This will impact H2 by c.£2 million at EBIT level.

- **H2 Focus**

The focus for H2 is to deliver financial growth from the significant operational achievements in H1.

We expect the market to remain competitive for customer recruitment in advance of the introduction of the Place of Consumption tax in December. We will continue to compete aggressively but sensibly for each customer maintaining a disciplined approach to maximise the benefits of every pound spent.

Ladbrokes Israel and our international digital operations, based in Manila will use customer insight to drive product enhancements, improved offers thereby driving player value.

We will continue to focus on growing mobile amounts staked through increasing sign ups and conversions. We are also targeting our active customers, encouraging enhanced play through better targeted offers and a constantly improving product, all led by customer feedback and delivered through the Ladbrokes innovation lab. Whilst our emphasis on innovation will necessarily focus on the Mobile growth opportunity, we will continue to build on the improvements in our Desktop product.

The recent encouraging signs in Games give us confidence that the benefits of IMS alongside enhanced CRM will support our focus to generate growth during H2 especially for Casino.

By delivering all the operational back office and product improvements by May, we have successfully created a base from which the Ladbrokes Digital offer can grow and the partnership with Playtech can deliver real value over the remaining four years of the agreement and beyond.

European Retail

Our increasing presence in European markets offers access to growth markets and has the potential to mitigate to some extent the effect of any further UK regulatory or economic change on our UK Retail business.

In Belgium amounts staked were £94.1 million, net revenue was flat while operating profit grew by 9.1% to £4.8 million. The product offer has improved with the introduction of 420 SSBTs to the retail estate. Their early performance is encouraging. We will be launching virtual racing product in the near future.

In Spain there was good growth in both amounts staked and earnings driven by expansion into new regions. With Catalunya launched late in the period, the retail estate has now risen to 1,075 shops. We will continue to invest in the Sportium brand to develop Spain's leading retail franchise as other regions regulate. In H2, we therefore expect to incur a further development loss of c.£1-2 million in support of this strategy.

In Ireland OTC amounts staked fell by 6.7% and net revenue fell by 10.6% and operating profit declined by 60.3%. In the Republic of Ireland, the competitive environment remains challenging. In Northern Ireland, trading reflected UK market conditions with Q1 football results the major factor. Cost control across both markets has been good.

World Cup Update

Ladbrokes delivered a strong financial performance in the World Cup with staking growing on the 2010 World Cup by over 20%(6)(7).

2014 was the Mobile World Cup. The Mobile offer was our stand-out performer with actives up nearly 700% and staking by over 1100%. This helped Digital perform strongly with staking growth of over 40% on 2010(6)(7); actives up 28% overall.

Although Digital was the channel of choice for betting on the World Cup, we were pleased that UK Retail grew staking by 8% reflecting the Group's focus on football product. UK Retail recorded a significant increase in slippage as customers took advantage of the increased availability of multiples and coupons.

In Spain and Belgium we generated 100% plus increases in staking and 200% plus increases in slippage and good online activity.

Overall margin was strong at 24.3% for the tournament. Results were initially weak, gross win across all parts of the Group in H1 was £18.5 million at only a 22.7% margin. With a much stronger run of results in H2, gross win margin improved to 28.0% and we generated an overall gross win of £28.0 million for the tournament.

Inherent strengths of the business offer firm foundations for growth

With the convergence of competitive products, platforms and capabilities the heavy lifting has been largely completed and we now move to normal operations with the continual evolution of our offer and refinement of our operations. The period also saw the start of a new, differentiated advertising campaign, "The Ladbrokes Life" which is aimed to celebrate the characteristics of the betting customers and set a modern tone that stands out from other advertising in the sector. The new advertising is highly relevant to the younger audience, translated seamlessly to social media and offered real flexibility allowing Ladbrokes to be the first in the sector to run a dedicated responsible gambling advert to promote the benefits of gambling as a fun leisure activity.

Ladbrokes' free cash flow generation has enabled significant investment in making Ladbrokes more competitive. The period saw the completion of a balance sheet re-financing programme. We extended existing bank facilities, which together with the completion of a £100 million retail bond offer that was well received and over-subscribed, delivered an extension of debt maturity on attractive terms as well as diversifying the sources of finance, all achieved with no change to the financial covenants and broadly neutral in interest rate effect.

Regulation and cost pressures

The Government announced in April proposed changes to the regulation of B2 machines where customers wished to stake over £50. The proposals focus on encouraging customers to open identifiable accounts or if they wish to play anonymously to have to interact with staff. We support the Government's drive to increase the promotion of responsible gambling. While the proposals will impact machine performance, we believe if implemented effectively across the sector, could help the small minority of customers, who are prone to developing a problem with their machine play, to help themselves.

At Ladbrokes we have been investing in our Odds On loyalty card over the last few years as an effective and valuable tool for both the customer, our commercial operations and, importantly in this context, for meeting and effectively delivering responsible gambling. We have already begun to test algorithms that identify player behaviour that may be exhibiting signs of problem gambling. These include frequency of play, patterns of wins and losses and betting and gaming habits. While it is still work in progress we will be aiming to trial customer communication based on the findings and will offer the findings to the Industry as part of our overall commitment to social responsibility.

We strongly believe in being at the forefront of responsible gambling. It is important for our brand and corporate values and has become an increasing priority for the regulators and legislators. The industry needs to become more adept at displaying its credentials in this area. To ensure social responsibility remains central to the business we have established a Board Sub-Committee that will regularly review responsible gambling, chaired by respected industry veteran and Senior Non-Executive Director, John Kelly. Attendees will include the Chairman and the Chief Executive. We are also progressing our work to link responsible gambling to executive remuneration for 2015 and beyond. Initially it is likely that we will target operational areas for improvement such as increasing card play, delivering an effective algorithm and rolling out new initiatives ahead of having a more sustainable KPI linked to relevant and meaningful business data.

Horse racing as a product continues to decline. Concerns continue to mount within the industry around the costs related to horse racing and the provision of racing content. While the racing industry continues to pursue strategies to increase its revenue from betting, the value it delivers continues to decline. This new reality needs to be understood. Constructive dialogue which places a proportionate value on the role bookmaking has in keeping horse racing as a viable sport can then take place in the right way to ensure a vibrant and growing product.

This December will see the implementation of the proposed Place of Consumption tax. How the tax will impact the market is still unclear but the risk remains that the tax is poorly enforced and will create an uneven playing field. Proper enforcement should negate such an outcome and we remain of the belief that well enforced legislation would mean our brand strength would come into play.

During the period in March 2014 one of the Group's subsidiaries was awarded a licence by the Nevada Gaming Commission. Shareholders of Ladbrokes plc are subject to regulation by the Nevada State Gaming Control Board and the Nevada Gaming Commission as a result of the Company's ownership of licensed subsidiaries in Nevada and the Company's registration as a publicly traded company operating in Nevada. Information regarding Nevada gaming regulatory requirements can be accessed by shareholders at http://www.ladbrokesplc.com/investor-centre/shareholder-info/nevada-requirements.aspx

Current trading and outlook

In the period from 1 July to 5 August 2014, net revenue increased year on year by £17.6 million (+18.4%) or by £6.3 million (+6.6%) excluding Australia and the World Cup.

In UK Retail, machine revenue has shown good growth albeit against a weak comparative. OTC gross win margin improved but results and margins have not yet returned to more usual levels. Overall OTC net revenue is well ahead benefitting from the latter stages of the World Cup. OTC staking declined modestly, reflecting trends seen towards the end of H1 for traditional products, in particular horse racing, which have not yet recovered following the World Cup.

In Digital, sportsbook net revenue growth has continued with a good margin performance boosted by the World Cup. Casino net revenue returned to growth in the period, an early but encouraging sign.

With the Group well positioned to capitalise on the 2014/15 football season across all platforms, the Board remains confident of the outlook for the business and in delivering a result in line with its expectations for the current year subject to no further adverse regulatory changes and a normal run of sporting results in the second half.

Interim dividend

The Board has declared an interim dividend of 4.3 pence per share for H1 consistent with its commitment to pay a dividend of not less than 8.9 pence per share for 2014.

Unaudited interim results for the half year ended 30 June 2014

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m
Net revenue by segment:		
UK Retail [(1)]	405.7	401.7
European Retail [(1)]	61.3	65.6
Digital	105.0	90.8
Core Telephone Betting	5.8	4.9
Group net revenue (exc. High Rollers) [(1)]	577.8	563.0
High Rollers	11.5	3.5
Group net revenue [(1)]	589.3	566.5
Operating profit [(2)] (exc. High Rollers)	56.8	85.7
Operating profit [(2)] from High Rollers	10.7	3.4
Profit before net finance expense, tax and exceptional items	67.5	89.1
Net finance expense [(3)]	(12.8)	(12.2)
Profit before tax and exceptional items	54.7	76.9
Exceptional items before tax [(4)]	(27.0)	(21.8)
Profit before tax	27.7	55.1
Income tax expense	(4.0)	(7.9)
Profit after tax	23.7	47.2

EBITDA[(3)]	104.9	118.7
Basic earnings per share [(3)]	5.3p	7.4p

(1) Group, UK Retail and European Retail net revenue performance is flattered by the machine VAT being replaced by MGD on 1 February 2013. Proforma 2013 numbers are provided in the business review section.

(2) Operating profit is defined as profit before tax, net finance expense and exceptional items of £26.4 million (2013: £21.8 million).

(3) Before exceptional items.

(4) 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, changes in fair value of contingent consideration and any other non-recurring items considered exceptional by virtue of their nature and size.

Business Review

1. UK Retail

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m	Year on year change %	Proforma Half year ended 30 June 2013 £m	Year on year change %
- OTC amounts staked	1,208.3	1,151.7	4.9	1,151.7	4.9
- Machines amounts staked	5,880.5	5,804.3	1.3	5,804.3	1.3
Amounts staked	7,088.8	6,956.0	1.9	6,956.0	1.9
- OTC gross win	200.5	208.0	(3.6)	208.0	(3.6)
- Machines gross win	213.3	209.5	1.8	209.5	1.8
Gross win	413.8	417.5	(0.9)	417.5	(0.9)
Adjustments to GW (1)	(8.1)	(15.8)	48.7	(10.4)	22.1
- OTC net revenue	196.3	202.5	(3.1)	202.5	(3.1)
- Machines net revenue	209.4	199.2	5.1	204.6	2.3
Net revenue	405.7	401.7	1.0	407.1	(0.3)
Gross profits tax	(29.6)	(30.3)	2.3	(30.3)	2.3
Machine Games Duty	(41.8)	(34.6)	(20.8)	(40.0)	(4.5)
	334.3	336.8	(0.7)	336.8	(0.7)
Associate income	-	1.6	-	1.6	-
Operating costs	(276.7)	(265.2)	(4.3)	(265.2)	(4.3)
Operating profit (2)	57.6	73.2	(21.3)	73.2	(21.3)

(1) Fair value adjustments, free bets and VAT.
(2) Before exceptional items.
(3) Greyhound tracks account for £5.8 million of amounts staked and £3.8 million of gross win in H1 2014 (H1 2013: £5.8 million amounts staked and £3.8 million gross win).
(4) Proforma 2013 reflects the change from VAT on machines to Machine Games Duty which took effect from 1 February 2013.

Total gross win for the period was down 0.9%. On a like for like basis, excluding new licences and closures, OTC gross win was down 5.4% and machines down 0.6% on H1 2013.

OTC amounts staked showed an increase of 4.9% (like for like up 2.9%) with Q1 up 8.5% and Q2 up 1.8%.

OTC gross win margin of 16.4% (H1 2013: 17.8%) was down 1.4 percentage points, driven by what we would consider to be a particularly difficult period of results for both football and horses. In the early part of the year we were impacted by several weekends of extremely customer friendly football results with a high percentage of winning favourites leading to three large losing weeks. Our football margin was over 10 percentage points down year on year. Horses have also seen a higher percentage of winning favourites, and while we had an average Cheltenham and a good Grand National the festival results in June were very poor and we finished H1 2014 down 1.1 percentage points year on year.

Machines gross win of £213.3 million was up 1.8%. Gross win per shop per week was £3,618 (H1 2013 £3,636). The first half saw significant changes for our machine estate with the ABB Code introduced at the end of February, closely followed by the roll out of our new Clarity cabinets (completed prior to the World Cup).

Operating costs for H1 increased 4.3% or £11.5 million. We expect total costs for the full year to be up c.4%, within the guidance given in February. On a like for like basis costs were up 2.6% with the main increase coming, again, from content.

Operating profit of £57.6 million was £15.6 million below H1 2013 operating profit of £73.2 million.

At 30 June 2014 there were 2,268 shops (31 December 2013: 2,297) in Great Britain. To date, we have closed 46 shops (29 shops closed by 30 June 2014).

2. European Retail

Operating profit (before exceptional items) within European Retail of £6.6 million down 32.0%. European Retail comprises our operations in Ireland, Belgium and Spain. These are discussed in more detail below.

Ireland

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m	Year on year change %	Proforma Half year ended 30 June 2013 £m	Year on year change %
- OTC amounts staked	247.3	265.2	(6.7)	265.2	(6.7)
- Machines amounts staked	68.6	76.3	(10.1)	76.3	(10.1)
Amounts staked	315.9	341.5	(7.5)	341.5	(7.5)
- OTC gross win	34.7	39.6	(12.4)	39.6	(12.4)
- Machines gross win	2.8	3.0	(6.7)	3.0	(6.7)
Gross win	37.5	42.6	(12.0)	42.6	(12.0)
Net revenue	37.0	41.3	(10.4)	41.4	(10.6)
Betting tax	(3.4)	(3.8)	10.5	(3.8)	10.5
Machine Games Duty	(0.6)	(0.5)	(20.0)	(0.6)	-
	33.0	37.0	(10.8)	37.0	(10.8)
Operating costs	(30.5)	(30.7)	0.7	(30.7)	0.7
Operating profit [(1)]	2.5	6.3	(60.3)	6.3	(60.3)

(1) Before exceptional items.
(2) Proforma 2013 reflects the change from VAT on machines to Machine Games Duty which took effect from 1 February 2013.

Ireland is coming out of a recession with positive signs of economic recovery, however we have seen a decline because of the highly competitive environment in the Republic of Ireland.

The OTC business in Ireland has displayed similar trends to the UK during H1 2014. Amounts staked were down 6.7% and gross win margin of 14.0% was 0.9 percentage points behind H1 2013. The first half of 2014 (especially the first quarter) was impacted by unfavourable football results and this was compounded by a high percentage of winning favourites at major racing festivals.

Total gross win in Ireland decreased by 12.0% to £37.5 million.

Costs of £30.5 million were down 0.7% on H1 2013 driven largely by shop scheduling improvements and a reduction in head office and property costs.

At 30 June 2014 there were 213 shops (31 December 2013: 216) in the Republic of Ireland and 79 shops (31 December 2013: 79) in Northern Ireland.

Belgium

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m	Year on year change %
Amounts staked	94.1	95.1	(1.1)
Net revenue	24.3	24.3	-
Betting tax	(3.7)	(3.7)	-
Gross profit	20.6	20.6	-
Operating costs	(15.8)	(16.2)	2.5
Operating profit (1)	4.8	4.4	9.1

(1) Before exceptional items.

In H1 we saw a continuation of 2013 trends with an ongoing industry-wide decline in horse racing activity offset by continued good growth in sports betting, notably football. This was best demonstrated during the World Cup where we experienced growth of 144% in amounts staked and 63% in net revenue compared to 2010. During the period we also successfully completed the rollout of 420 SSBTs ahead of the World Cup and early customer feedback has been very encouraging.

Amounts staked in Belgium fell 1.1% with net revenue for the period flat (constant currency up 3.5%). Operating costs were down 2.5% (up 1.0% in constant currency).

At 30 June 2014, there were a total of 356 outlets, a combination of Ladbrokes shops and newsagent outlets offering Ladbrokes services, compared to 359 at 31 December 2013.

Spain

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m	Year on year change %
Operating loss (1)	(0.7)	(1.0)	30.0

(1) Before exceptional items.

Sportium, our JV with Cirsa, recorded another strong period with retail stakes up 40% compared to H1 2013 and retail net revenue up 45%. These numbers were helped by a strong World Cup performance with stakes up 160% and net revenue up 183% versus 2010. Overall the total retail activities of the JV (pre addition of Ladbrokes head office costs) made a positive EBITDA contribution in H1 of £1.6 million.

During the period Sportium was awarded retail betting licenses, and subsequently opened outlets, in the regions of Catalunya and Castilla La Mancha. Both regions have started strongly and Sportium now operates in eight regions within Spain, and holds approximately 35% market share of the total regulated retail market.

After opening 107 new outlets in Catalunya and a total of 215 additional outlets across the other regions Sportium had 1,075 locations at 30 June 2014 compared to 753 at 31 December 2013.

3. Digital

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m	Year on year change %
Net revenue			
- Sportsbook	47.3	41.0	15.4
- Casino and Games	30.6	35.7	(14.3)
- Poker	1.7	4.2	(59.5)
- Bingo	5.2	6.0	(13.3)
Net revenue	84.8	86.9	(2.4)
Betdaq revenue	6.6	3.9	69.2
Australia revenue	13.6	-	-
Total net revenue	105.0	90.8	15.6
Betting tax	(0.4)	(1.6)	75.0
Joint venture loss	(1.2)	-	-
Operating costs	(100.4)	(78.4)	(28.1)
Operating profit (1)	3.0	10.8	(72.2)

(1) Before exceptional items

New products

H1 2014 has seen the finalisation of the integration of both the Playtech products and the back office system. Product migration started in H2 2013 with the launch of the new ‘Vegas’ games casino and the transition of our Mobile product to the Mobenga platform and our poker product to the Playtech iPoker network in December 2013.

During Q1 2014, we made continued operational progress to ensure Ladbrokes is in a stronger competitive position going into the World Cup and deliver financial performance consistent with our guidance in February, where we targeted a sequential improvement in net revenue in H1 2014 on H2 2013 with similar EBITDA. In January 2014, we migrated our Casino Live Dealer product to Playtech and on 27 March 2014, we launched Playtech Casino products completing the transition of gaming products onto the new platform

On 29 April, we completed the integration of our Digital products onto the Playtech IMS platform giving our customers a single wallet across all of our betting and gaming products. Ladbrokes now has the ability to deliver more personalised CRM based on an individual's entire activity, a full suite of new gaming/casino products for our customers to enjoy, as well as a new and comprehensive back office system.

Mobile Focus

We have continued to develop our new mobile sportsbook product through our Ladbrokes innovation Lab alongside Chelsea Apps Factory on the Mobenga platform. Mobile sportsbook actives were up 74% in H1 (Q1 +32%, Q2 +98%) and amounts staked were up 105% (+92% excluding the World Cup) and comprised 60% of Sportsbook stakes in June.

The World Cup was extremely strong on Mobile with sportsbook stakes comprising 64% of total sportsbook stakes. We had 164,000 actives playing on Mobile during the World Cup period and the focus is now on player retention, heading into the new Premier League season. We have a number of initiatives in the pipeline in H2 to drive the product roadmap and continually enhance the customer experience.

Differentiation

The Betdaq acquisition in 2013 has allowed Ladbrokes to offer betting via an exchange which is complimentary to the fixed odds activity. It is an increasingly integrated part of our offer and consequently, we are now aligning it with our other products with IMS integration for a single wallet experience and utilising the CRM benefits of this. We also plan to integrate Playtech side games and Perform sports streaming within the exchange product. In H1 Betdaq generated net revenue of £6.6 million, up 69.2% on H1 2013 and break-even EBIT (2013: loss £0.3 million).

Diversification

Ladbrokes increased the international and product diversification of its Digital segment significantly in H1 acquiring Betstar in Q1, launching Ladbrokes.be in April and completing the first full six month period of operation of our Spanish joint venture, Sportium.es. In H1 Australia generated net revenue of £13.6 million and incurred an operating loss of £0.1 million. Ladbrokes.be generated £0.2 million revenue and start-up costs of £1.2 million.

Performance overview

Total net revenue including Australia and Betdaq of £105.0 million for the half year ended 30 June 2014 was 15.6% (£14.2 million) higher than the half year ended 30 June 2013.

Excluding the impact of Australia and Betdaq, net revenue of £84.8 million was 2.4% lower than H1 2013 with Sportsbook net revenue up 15.4% offset by Gaming net revenue which was down 18.3%.

Sportsbook

Sportsbook revenue has increased 15.4% despite the gross win margin being lower at 7.8% (H1 2013: 8.5%). The growth has come primarily from Mobile which has seen amounts staked increase by 105% in H1 (+92% excluding World Cup) following the launch of the Mobenga product at the end of 2013. Desktop stakes declined 4% year on year, benefitting from strong activity from higher staking customers.

The World Cup in H1 delivered amounts staked of £31.6 million at a 18.7% gross win margin, resulting in revenue of £4.9 million. 64% of World Cup stakes were on the Mobile product. Overall, the World Cup delivered amounts staked of £44.2 million, at an 18.6% margin, resulting in revenue of £6.8 million. We had 227,000 actives and delivered 78,000 sign ups. Our focus on both Desktop and Mobile platforms for H2 is to retain those customers and maximise player value

Bet in Play remains a key growth opportunity. We have invested in live streaming content which is delivering on both Mobile and Desktop. Bet in play stakes have grown 54.9% in Half 1 (50.6% excluding the World Cup).

The 7.8% gross win margin was achieved despite the disappointing industry wide results seen in Q1. The Q2 margin of 9.1% has been primarily driven by the strong World Cup margin of 18.7%.

Gaming

Gaming net revenue was down 18.3% to £37.5 million. At the end of April we transferred our remaining Gaming products, most importantly casino and bingo, away from our existing supplier to Playtech. We then migrated our customer base onto the new product platform. We are now in a position to compete more strongly with more advanced CRM, driven by IMS, Playtech's back office system.

Casino and Games net gaming revenue of £30.6 million was 14.3% lower than H1 2013. Games revenue has increased by 10.2% year on year in Q2.

Mobile is a key growth opportunity and remains a real focus for Ladbrokes. The cross sell from the Sportsbook product is delivering encouraging results and we are also consistently delivering new third party content to compliment Playtech's games.

Costs

Like for like operating costs (excluding Australia, Betdaq and our start up in Belgium) have increased by 6.3% to £78.9 million in H1. Excluding depreciation and amortisation, costs were £0.1 million (0.1%) higher than 2013 due to higher marketing costs associated with the World Cup which were partly offset by the reduced software costs following the new Playtech product agreement.

The marketing percentage of net revenue was 31% (H1 2013: 30%). This is primarily as a result of World Cup investment which will drive benefit in the second half of the year.

4. Core Telephone Betting

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m	*Year on year change %*
Amounts staked	87.9	96.7	(9.1)
Net revenue	5.8	4.9	18.4
Gross profits tax	(0.3)	(0.2)	(50.0)
Operating costs	(4.8)	(4.3)	(11.6)
Operating profit (1)	0.7	0.4	75.0

(1) Before exceptional items.

Traditional telephone betting is a declining part of the bookmaking sector, with many customers migrating to digital services on a PC, tablet or mobile.

Net revenue for the period of £5.8 million was up 18.4%, despite amounts staked being 9.1% lower reflecting the higher gross win margin of 7.8% (H1 2013: 5.5%). An increase in operating costs of £0.5 million resulted in an operating profit of £0.7 million (H1 2013: £0.4 million).

5. High Rollers

High Rollers generated an operating profit for the period of £10.7 million (H1 2013: £3.4 million).

6. Quarterly Trends Table

YoY (except where stated)	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014
Group EBIT[1] ex High Rollers	£48.3m	£17.0m	£35.6m	£18.4m	£38.4m
UK Retail					
OTC stakes	(5.8)%	+5.1%	+4.6%	+8.5%	+1.8%
OTC GW margin	**16.9%** +1.6pp	**14.9%** (2.0)pp	**17.1%** (0.4)pp	**16.2%** (2.7)pp	**16.5%** (0.4)pp
Machine gross win growth	+3.2%	+0.7%	+2.5%	+2.2%	+1.5%
Machine Gross Win per Shop per week	(1.9)%	(5.0)%	(2.4)%	(1.1)%	+0.4%
Total Net Revenue YoY (Restated)	2.1%	(3.9)%	+1.6%	(2.3)%	+1.5%
Digital (exc. Aus/Betdaq)					
Sportsbook Net Revenue	+5.7%	(23.0)%	(15.9)%	(17.9)%	+54.8%
Gaming Net Revenue	(8.6)%	(13.6)%	(17.2)%	(17.7)%	(19.3)%
Sportsbook Gross Win Margin	**7.5%** +2.2pp	**6.6%** (1.0)pp	**8.0%** (0.3)pp	**6.4%** (3.2)pp	**9.1%** +1.5pp
Sportsbook Net Revenue – vs. prior quarter	(17.0)%	(21.0)%	+22.4%	+2.2%	+57.1%
Gaming Net Revenue– vs. prior quarter	+3.1%	(9.9)%	(1.4)%	(10.1)%	+2.7%

(1) *Profit before tax, net finance expense and exceptional items*

Financial Review

Trading summary

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 free bets, promotions, bonuses and other fair value adjustments. Gross win includes free bets, promotions and bonuses, as well as VAT payable on machine income.

A reconciliation of gross win to revenue for the Group is shown below.

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m
Gross win	635.0	605.6
Adjustments (1)	(44.3)	(33.6)
VAT (2)	(1.4)	(5.5)
Revenue	589.3	566.5

(1) Includes free bets, promotions, bonuses and other fair value adjustments.
(2) From 1 February 2013, VAT on machines was replaced by MGD which is included as an operating expense, rather than as a deduction from revenue.

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

	Half year ended 30 June 2014		Half year ended 30 June 2013	
	Gross win £m	Net revenue £m	Gross win £m	Net revenue £m
UK Retail	413.8	405.7	417.5	401.7
European Retail	61.8	61.3	66.9	65.6
Digital	141.0	105.0	112.4	90.8
Core Telephone Betting	6.9	5.8	5.3	4.9
High Rollers	11.5	11.5	3.5	3.5
Total	635.0	589.3	605.6	566.5

Revenue

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m	Year on year change %
Excluding High Rollers			
Group revenue (reported)	577.8	563.0	2.6
Group revenue pro-forma [(1)]	577.8	568.5	1.6
Including High Rollers			
Group revenue (reported)	589.3	566.5	4.0
Group revenue pro-forma [(1)]	589.3	572.0	3.0

Group revenue increased by £22.8 million (4.0%) to £589.3 million (H1 2013: £566.5 million). Excluding High Rollers, revenue increased by £14.8 million (2.6%) to £577.8 million (H1 2013: £563.0 million).

On a pro-forma basis, Group revenue increased by £17.3 million (3.0%) to £589.3 million (H1 2013 proforma: £572.0 million). Excluding High Rollers, revenue increased by £9.3 million (1.6%) to £577.8 million (H1 2013 proforma: £568.5 million). The increase is mainly attributable to the World Cup, which contributed an additional £15.8 million revenue and the acquisition of Bookmaker and Betstar in Australia, which contributed an additional £13.6 million revenue. These were partially offset by weaker sporting results, namely football in the first quarter and the Epsom and Royal Ascot festivals in June. All segments apart from European Retail showed year on year growth in net revenue.

Operating profit [(2)]

Operating profit [(2)] decreased by £21.6 million (24.2%) to £67.5 million (H1 2013: £89.1 million).

Operating profit is stated after depreciation and amortisation of £37.4 million. The Group expects full year depreciation and amortisation charge to be at the upper end of the range of £75-80 million including amortisation charges following the acquisition of Betstar completed in April.

Excluding High Rollers, operating profit [(2)] decreased by £28.9 million (33.7%) to £56.8 million (H1 2013: £85.7 million) reflecting reduced profits from UK Retail, European Retail and Digital, partially offset by increased profits in the Core Telephone Betting segment.

Corporate costs

Before exceptional items, total corporate costs increased by £2.7 million to £11.1 million (H1 2013: £8.4 million). The increase is primarily due to a higher share based payments charge and the 2013 comparative benefitting from a £1.0 million credit from the Hilton hotel guarantees.

The Group expects corporate costs for 2014 to be slightly lower than the charge in the full year ended 31 December 2012.

Finance expense

Before exceptional items, net finance expense of £12.8 million was £0.6 million higher than last year (H1 2013: £12.2 million) mainly due to an increase in the net debt partially offset by a lower blended interest rate.

Profit before tax

The decrease in trading profits has resulted in a 28.9% decrease in first half profit before taxation and exceptional items to £54.7 million (H1 2013: £76.9 million).

Exceptional items before tax

Total exceptional items before tax of £27.0 million (H1 2013: £21.8 million) includes the following:

- £14.1 million of losses on closure of shops in the UK and Ireland estate (H1 2013: £2.0 million);
- £8.0 million charge relating to the re-measurement of the contingent considerations in respect of business combinations from 2013;
- £3.8 million of costs relating to early termination of contractual commitments within jurisdictions where we have closed our Digital operations in the period;
- £0.5 million of corporate transaction costs associated with the business combinations (H1 2013: £2.7 million); and
- £0.6 million exceptional finance expense relating to the write off of arrangement fees asset following the re-financing of the Group's committed facilities.

Taxation

The Group taxation charge before exceptional items was £5.5 million. This represents an effective tax charge of 10.0% (H1 2013: 12.2%). There was a tax credit of £1.5 million in relation to exceptional items in H1 2014 (H1 2013: £1.5 million credit). The estimate of the full year taxation charge for 2014 is 10%.

Dividend

The Board has declared an interim dividend of 4.3 pence per share. The dividend will be payable on 13 November 2014 to shareholders on the register on 26 September 2014.

Earnings per share (EPS) – Group

Underlying
EPS (before exceptional items and High Rollers) decreased by 38.6% to 4.3 pence (H1 2013: 7.0 pence), reflecting the reduced profit before tax and higher weighted average number of shares.

Total
EPS (before exceptional items) decreased 28.4% to 5.3 pence (H1 2013: 7.4 pence), reflecting the reduced profit before tax and higher weighted average number of shares. EPS (including the impact of exceptional items) was 2.6 pence (H1 2013: 5.2 pence). Fully diluted EPS (including the impact of exceptional items) was 2.6 pence (H1 2013: 5.1 pence) after adjustment for outstanding share options.

Cash flow, capital expenditure, borrowings and banking facilities

Cash generated by operations was £77.0 million. After net finance expense paid of £13.6 million, income taxes paid of £8.3 million, £26.9 million on capital expenditure and intangible additions and £12.1 million spent on business combinations; cash inflow was £16.1 million. Post dividend payment of £42.0 million and other net cash outflows of £1.4 million, net debt at the end of the period increased by £27.3 million.

The Group expects capital expenditure for full year ended 31 December 2014 to be in the range of £60-£65 million.

At 30 June 2014, gross borrowings of £456.0 million less cash and cash equivalents of £30.1 million resulted in a net debt of £425.9 million (31 December 2013: £398.6 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 unaudited financial statements.

(1) *2013 revenue adjusted for the impact of MGD which came in to effect from 1 February 2013 as MGD is an operating expense compared to VAT on machines which was deducted from gross win in arriving at revenue.*
(2) *Operating profit is defined as profit before tax, net finance expense and exceptional items of £26.4 million (2013: £21.8 million).*

Principal risks and uncertainties

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

The principal risks and uncertainties which could impact the Group are detailed on pages 22 to 24 of the Group's Annual Report and Accounts 2013 and are as follows:

Strategy

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

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

Marketplace

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

Financial

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

Operational

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

Specific risks which are either unique to Ladbrokes or apply to the industry 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 horse racing and the voluntary greyhound racing levies which respectively support the British horse racing and greyhound industries. In addition, Ladbrokes enters into contracts for the distribution of television pictures, audio and other data that are broadcast into Ladbrokes' betting shops. A number of these are under negotiation at any one time.

Operational and bookmaking

Trading, liability management and pricing

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

High fixed cost base

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

Loss of key locations

Ladbrokes has a number of key sites, in particular Imperial House at Rayners Lane in London, its head office and main operations centre, its premises in Europort in Gibraltar from where online betting and gaming operations are based and in Tel Aviv, Israel where our Digital marketing operation operates from.

Information technology and communications

Technology failure

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

Data management

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

Technology changes

The market for online and mobile 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.

Failure in the supply chain

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

Statement of Directors' Responsibilities

The 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 4.2.7R and DTR 4.2.8R, 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 2013. 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
Chief Executive	Chief Financial Officer

12 August 2014

Independent review report to Ladbrokes plc
Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed the condensed consolidated interim financial statements, defined below, in the interim report of Ladbrokes plc for the half year ended 30 June 2014. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are 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 Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The condensed consolidated interim financial statements, which are prepared by Ladbrokes plc, comprise:

- The interim consolidated income statement and the interim consolidated statement of comprehensive income for the period then ended;
- The interim consolidated balance sheet as at 30 June 2014;
- The interim consolidated statement of changes in equity for the period then ended;
- The interim consolidated statement of cash flows for the period then ended; and
- The explanatory notes to the condensed consolidated interim financial statements.

As disclosed in note 2, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The condensed consolidated interim financial statements included in the interim report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of condensed consolidated financial statements involves

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.
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 consolidated interim financial statements.

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 consolidated interim financial statements.

Responsibilities for the condensed consolidated interim financial statements and the review

Our responsibilities and those of the directors

The interim report, including the condensed consolidated interim financial statements, 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 Conduct Authority.

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the interim report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, 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.

Other matter

The financial statements of Ladbrokes plc for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 24 February 2014.

PricewaterhouseCoopers LLP
Chartered Accountants
12 August 2014
London

Notes

(1) The maintenance and integrity of the Ladbrokes plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(2) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Unaudited financial statements
Interim consolidated income statement

	Half year ended 30 June 2014		Half year ended 30 June 2013	
	Before exceptional items[1] £m	Total £m	Before exceptional items[1] £m	Total £m
Revenue	589.3	589.3	566.5	566.5
Operating expenses before depreciation and amortisation	(483.4)	(504.1)	(449.0)	(459.3)
Share of results from joint venture and associates	(1.0)	(1.0)	1.2	1.2
EBITDA	104.9	84.2	118.7	108.4
Depreciation, amortisation and amounts written off non-current assets	(37.4)	(43.1)	(29.6)	(41.1)
Profit before tax and net finance expense	67.5	41.1	89.1	67.3
Finance expense	(12.9)	(13.5)	(12.2)	(12.2)
Finance income	0.1	0.1	-	-
Profit before tax	54.7	27.7	76.9	55.1
Income tax expense	(5.5)	(4.0)	(9.4)	(7.9)
Profit for the period	49.2	23.7	67.5	47.2
Attributable to:				
- equity holders of the parent	49.2	23.7	67.5	47.2
- non-controlling interests	-	-	-	-
	49.2	23.7	67.5	47.2
Earnings per share on profit for the period:				
- basic	5.3p	2.6p	7.4p	5.2p
- diluted	5.3p	2.6p	7.3p	5.1p
Proposed dividends	4.30p	4.30p	4.30p	4.30p

[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, changes in fair value of contingent consideration 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.*

Interim consolidated statement of comprehensive income

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m
Profit for the period	23.7	47.2
Other comprehensive income/(expense):		
Items that will be reclassified to profit or loss:		
Currency translation differences	(1.1)	3.8
Total items that will be reclassified to profit or loss	(1.1)	3.8
Items that will not be re-classified to profit or loss:		
Re-measurement of defined benefit pension scheme	(5.8)	2.5
Tax on re-measurement of defined benefit pension scheme	1.2	(0.6)
Total items that will not be reclassified to profit or loss	(4.6)	1.9
Other comprehensive (expense)/income for the period, net of tax	(5.7)	5.7
Total comprehensive income for the period	18.0	52.9
Attributable to:		
- equity holders of the parent	18.0	52.9
- non-controlling interests	-	-

Interim consolidated balance sheet

	30 June 2014 £m	31 December 2013 £m
ASSETS		
Non-current assets		
Goodwill and intangible assets	781.4	770.7
Property, plant and equipment	207.4	224.5
Interest in joint venture	8.3	6.5
Interest in associates and other investments	17.9	17.5
Other financial assets	6.2	5.5
Deferred tax assets	-	17.0
Retirement benefit asset	51.0	53.1
	1,072.2	1,094.8
Current assets		
Trade and other receivables	60.9	53.0
Corporation tax receivable	12.7	-
Cash and short-term deposits	30.7	24.0
	104.3	77.0
TOTAL ASSETS	**1,176.5**	**1,171.8**
LIABILITIES		
Current liabilities		
Bank overdraft	(0.6)	(0.6)
Trade and other payables	(164.2)	(181.3)
Corporation tax liabilities	(6.8)	(0.1)
Other financial liabilities	(1.3)	(1.5)
Provisions	(5.5)	(1.3)
	(178.4)	(184.8)
Non-current liabilities		
Interest bearing loans and borrowings	(456.0)	(422.0)
Other financial liabilities	(70.5)	(61.9)
Deferred tax liabilities	(57.1)	(72.3)
Provisions	(8.8)	(2.5)
	(592.4)	(558.7)
TOTAL LIABILITIES	**(770.8)**	**(743.5)**
NET ASSETS	**405.7**	**428.3**
EQUITY		
Issued share capital	269.9	269.5
Share premium	213.8	212.9
Treasury and own shares	(116.3)	(116.7)
Retained earnings	32.3	55.5
Foreign currency translation reserve	4.7	5.8
Equity shareholders' funds	**404.4**	**427.0**
Non-controlling interests	1.3	1.3
TOTAL SHAREHOLDERS' EQUITY	**405.7**	**428.3**

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 £m	Attributable to the equity shareholders of the Company £m	Non-controlling interest £m	Total share-holders equity £m
At 1 January 2013	266.4	195.5	(114.9)	68.2	5.8	421.0	1.3	422.3
Profit for the period	-	-	-	47.2	-	47.2	-	47.2
Other comprehensive income	-	-	-	1.9	3.8	5.7	-	5.7
Total comprehensive income	-	-	-	49.1	3.8	52.9	-	52.9
Issue of shares	2.6	16.3	-	(2.6)	-	16.3	-	16.3
Share-based payments charge	-	-	-	1.1	-	1.1	-	1.1
Net movement in shares held in ESOP trusts	-	-	(2.6)	-	-	(2.6)	-	(2.6)
Equity dividends	-	-	-	(41.9)	-	(41.9)	-	(41.9)
Non-controlling interests	-	-	-	-	-	-	-	-
At 30 June 2013	**269.0**	**211.8**	**(117.5)**	**73.9**	**9.6**	**446.8**	**1.3**	**448.1**
At 1 January 2014	**269.5**	**212.9**	**(116.7)**	**55.5**	**5.8**	**427.0**	**1.3**	**428.3**
Profit for the period	-	-	-	23.7	-	23.7	-	23.7
Other comprehensive expense	-	-	-	(4.6)	(1.1)	(5.7)	-	(5.7)
Total comprehensive income	-	-	-	19.1	(1.1)	18.0	-	18.0
Issue of shares	0.4	0.9	-	-	-	1.3	-	1.3
Share-based payments charge	-	-	-	1.8	-	1.8	-	1.8
Net movement in shares held in ESOP trusts	-	-	0.4	(2.1)	-	(1.7)	-	(1.7)
Equity dividends	-	-	-	(42.0)	-	(42.0)	-	(42.0)
Non-controlling interests	-	-	-	-	-	-	-	-
At 30 June 2014	**269.9**	**213.8**	**(116.3)**	**32.3**	**4.7**	**404.4**	**1.3**	**405.7**

Interim consolidated statement of cash flows

	Notes	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m
Net cash generated from operating activities	10	55.1	114.5
Cash flows from investing activities:			
Dividends received from associates		-	2.3
Purchase of intangible assets		(19.5)	(12.7)
Purchase of property, plant and equipment		(7.4)	(29.1)
Cash obtained through acquisition of business		1.7	0.6
Acquisition of businesses	13	(12.1)	(19.4)
Purchase of interest in joint venture		(2.5)	(0.8)
Net cash used in investing activities		(39.8)	(59.1)
Cash flows from financing activities:			
Proceeds from issue of ordinary shares		0.1	0.3
Purchase of ESOP shares		(0.5)	(2.6)
Proceeds from borrowings, net of issue costs		98.7	-
Repayment of borrowings		(65.0)	(3.7)
Dividends paid	6	(42.0)	(41.9)
Net cash used in financing activities		(8.7)	(47.9)
Net increase in cash and cash equivalents		6.6	7.5
Effect of changes in foreign exchange rates		0.1	0.5
Cash and cash equivalents at beginning of the period		23.4	19.3
Cash and cash equivalents at end of the period		30.1	27.3
Cash and cash equivalents comprise:			
Cash at bank and in hand		30.7	28.0
Bank overdraft		(0.6)	(0.7)
		30.1	27.3

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 2014 were authorised for issue in accordance with a resolution of the directors on 12 August 2014.

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 2013 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 2014 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 2013.

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 2013 except for the adoption of new and amended standards as noted below:

- IFRS 10 'Consolidated financial statements'. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.
- IFRS 11, 'Joint arrangements'. Under IFRS 11 Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement.
- IFRIC 21, 'Levies'. IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognised.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit and loss.

Adoption of these standards did not have a significant impact on the results, financial position or disclosures of the Group.

The interim financial information was approved by a duly appointed and authorised committee of the Board of Directors on 12 August 2014 and is unaudited. The auditor has carried out a review and its report is set out on pages 25 and 26.

The financial information set out in this document in respect of the year ended 31 December 2013 does not constitute the Group's statutory accounts for the year ended 31 December 2013. The auditor's report (from Ernst & Young LLP) on the statutory accounts for the year ended 31 December 2013 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 2013 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 defined the following items of income and expense as exceptional in nature:

- profits or losses on disposal or impairment of non-current assets or businesses;
- unrealised gains and losses on derivative financial instruments;
- corporate transaction costs; and
- changes in the fair value of contingent consideration.

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.

3. Segment information

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

The performance of the Group’s segments 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 which include Ladbrokes Israel, Ladbrokes Australia and Betdaq.
- Core Telephone Betting: comprises activities relating to bets taken on the telephone, excluding High Rollers.
- High Rollers: comprises activities primarily relating to bets taken on the telephone from High Rollers.

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 items (income or expenditure) from the operating segments.

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

The segment results for the half year ended 30 June 2014 were as follows:

	Revenue £m	Profit before tax and exceptional items £m	Profit before tax and after exceptional items £m
UK Retail	405.7	57.6	44.0
European Retail	61.3	6.6	6.1
Digital	105.0	3.0	(8.8)
Core Telephone Betting	5.8	0.7	0.7
High Rollers	11.5	10.7	10.7
Segment revenue and profit	589.3	78.6	52.7
Corporate costs		(11.1)	(11.6)
Profit before tax and net finance expense		67.5	41.1
Net finance expense		(12.8)	(13.4)
Group revenue and profit	589.3	54.7	27.7

Notes to financial information

3. Segment information (continued)

The segment results for the half year ended 30 June 2013 were as follows:

	Revenue	Profit before tax and exceptional items	Profit before tax and after exceptional items
	£m	£m	£m
UK Retail	401.7	73.2	70.7
European Retail	65.6	9.7	9.4
Digital	90.8	10.8	(5.1)
Core Telephone Betting	4.9	0.4	-
High Rollers	3.5	3.4	3.4
Segment revenue and profit	566.5	97.5	78.4
Corporate costs		(8.4)	(11.1)
Profit before tax and net finance expense		89.1	67.3
Net finance expense		(12.2)	(12.2)
Group revenue and profit	566.5	76.9	55.1

4. Exceptional items

	Half year ended 30 June 2014	Half year ended 30 June 2013
	£m	£m
Loss on closure (1)	(14.1)	(2.0)
Fair value adjustment to contingent consideration (2)	(8.0)	-
Corporate transaction costs (3)	(0.5)	(2.7)
Digital – exit costs (4)	(3.8)	-
Exceptional finance charges (5)	(0.6)	-
Business integration costs	-	(6.4)
Impairment loss	-	(10.7)
Total before tax	(27.0)	(21.8)
Exceptional tax credit	1.5	1.5
Total after tax	(25.5)	(20.3)

(1) The £14.1 million loss on closure includes a £13.9 million loss on closure of UK Retail shops offset by a £0.3 million gain on the sale of on course pitches and a £0.5 million loss on closure of European Retail shops. These include a loss on disposal of intangible assets of £4.0 million, a loss on disposal of property, plant and equipment of £2.0 million and cost accruals of £8.1 million.

(2) The fair value of the contingent consideration in respect of the business combinations with Playtech, Betdaq and Gaming Investments Pty Ltd in Australia has been re-measured at 30 June 2014. This resulted in an overall charge to the income statement of £6.3 million. In addition, the Group incurred costs of £1.7 million, representing consideration for Gaming Investments Pty Ltd payable to certain senior management of that business contingent on their continued employment. These have been incurred within the Digital segment. Refer to note 14 for more details.

(3) The Group incurred £0.5 million of corporate transaction costs in relation to the acquisition of Betstar Pty Ltd. These costs have been incurred within corporate costs.

(4) The Group closed its online operations in a number of jurisdictions following a review of the regulatory requirements of operating in those jurisdictions, incurring costs of £3.8 million. These costs represent termination of contractual commitments in these jurisdictions.

(5) During the period, the Group cancelled £135.0 million of committed loan facilities. The arrangement fees associated with these facilities of £0.6 million have been charged to exceptional items in the period.

Notes to financial information

4. Exceptional items (continued)

£20.7 million (30 June 2013: £10.3 million) of the exceptional items have been reported within operating expenses and £5.7 million (30 June 2013: £11.5 million) reported within depreciation, amortisation and amounts written off non-current assets and £0.6 million within finance expense in the income statement.

5. Taxation

The tax charge for the half year ended 30 June 2014 was £4.0 million (30 June 2013: charge of £7.9 million).

The standard rate of UK Corporation Tax was reduced from 23% to 21% from April 2014. This will be further reduced to 20% from April 2015.

Net deferred tax liability of £57.1m consists of £23.0m of deferred tax asset which has been offset against a deferred tax liability of £80.1m due to the availability of the right of offset.

6. Dividends

	Half year ended 30 June 2014 Pence	Half year ended 30 June 2013 Pence
Interim	4.30	4.30
	4.30	4.30

An interim dividend of 4.30 pence per share (30 June 2013: 4.30 pence) was declared by the directors at their meeting on 12 August 2014. These financial statements do not reflect this dividend payable. The 2013 final dividend of 4.60 pence (£42.0 million) was paid in the half year ended 30 June 2014 (30 June 2013: £41.9 million).

7. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £23.7 million (30 June 2013: £47.2 million) by the weighted average number of shares in issue during the half year of 920.5 million (30 June 2013: 915.4 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.

Group	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m
Profit attributable to shareholders	23.7	47.2
Exceptional items, net of tax (note 4)	25.5	20.3
Adjusted profit attributable to shareholders	49.2	67.5

Weighted average number of shares (millions):		
Shares for basic earnings per share	920.5	915.4
Potentially dilutive share options and contingently issuable shares	7.3	9.4
Shares for diluted earnings per share	927.8	924.8

Notes to financial information

7. Earnings per share (continued)

	Half year ended 30 June			
	Before exceptional items		After exceptional items	
Stated in pence	2014	2013	2014	2013
Group:				
Basic earnings per share	5.3	7.4	2.6	5.2
Diluted earnings per share	5.3	7.3	2.6	5.1

8. Non-current assets

During the half year ended 30 June 2014, the Group acquired intangible assets at a cost of £15.6 million (30 June 2013: £17.9 million) and plant, property and equipment of £7.6 million (30 June 2013: £29.1 million).

At 30 June 2014 the Group had no contractual commitments for the acquisition of property, plant and equipment (31 December 2013: £nil).

9. Net debt

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

	30 June 2014 £m	31 December 2013 £m
Current assets		
Cash and short-term deposits	30.7	24.0
Current liabilities		
Bank overdrafts	(0.6)	(0.6)
Non-current liabilities		
Interest bearing loans and borrowings	(456.0)	(422.0)
Net debt	(425.9)	(398.6)

The Group issued a £100 million retail eligible bond at par on 16 June 2014 that matures 8.25 years after issue date. The bond carries a coupon of 5.125%, paid semi annually in arrears, the first interest period being a short period to 16 September 2014. Proceeds from the bond were used to pay down drawings under the bank facilities.

The Group also extended the maturity on £350 million of its committed bank facilities on 13 June 2014 to 13 June 2019. At the same time £135 million of committed bank facilities were cancelled, leaving a total of £405 million of committed bank facilities.

As at 30 June 2014 £266.0 million of committed bank facilities were undrawn.

Notes to financial information

10. Note to the statement of cash flows

	Half year ended 30 June 2014 £m	Half year ended 30 June 2013 £m
Profit before tax and net finance expense	41.1	67.3
Non-cash exceptional items	24.5	15.7
Depreciation of property, plant and equipment	22.0	20.3
Amortisation of intangible assets	15.4	9.3
Share-based payments charge	1.8	1.1
Increase in other financial assets	-	(2.8)
(Increase)/decrease in trade and other receivables	(7.2)	5.2
(Decrease)/increase in other financial liabilities	(0.2)	0.2
(Decrease)/increase in trade and other payables	(17.7)	15.8
Increase in provisions	-	1.0
Contribution to retirement benefit scheme	(4.5)	(4.8)
Share of results from joint venture	1.1	0.4
Share of results from associates	-	(1.6)
Other items	0.7	0.6
Cash generated by operations	77.0	127.7
Income taxes paid	(8.3)	(1.7)
Net finance expense paid	(13.6)	(11.5)
Net cash inflow from operating activities	55.1	114.5

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 2014 £m	Half year ended 30 June 2013 £m
Equity investment		
- Joint venture (1)	2.5	0.8
Loans		
- Movement in loan balance with joint venture partner	(0.4)	(1.6)
- Movement in loan balance with joint venture	-	-
Dividends received		
- Associates (2)	-	2.3
Sundry expenditures		
- Associates (3)	25.6	23.7

(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 2014 £m	31 December 2013 £m
Loan balances outstanding		
- Joint venture partner	1.2	1.6
- Joint venture	0.5	0.5
Other receivables outstanding		
- Associates	4.4	1.8

Notes to financial information

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 £459.0 million (31 December 2013: £424.0 million). Bank guarantees have been issued on behalf of subsidiaries and joint ventures with a value of £7.4 million (31 December 2013: £13.9 million).

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

The undiscounted maximum liability exposure in respect of the guarantees for all periods up to 2042 is £693.6 million (31 December 2013: £707.6 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £442.1 million (31 December 2013: £449.5 million) in relation to the turnover based element of the hotel rentals and £251.5 million (31 December 2013: £258.1 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.

The net present value of the maximum exposure at 30 June 2013 is £267.2 million (31 December 2013: £303.9 million). Included in the net present value of the maximum exposure is £153.7 million (31 December 2013: £175.5 million) in relation to the turnover based element of the hotel rentals and £113.5 million (31 December 2013: £128.4 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 2014 the Group has recognised a financial liability of £5.0 million (31 December 2013: £5.0 million) in respect of these guarantees. This financial liability is classified at Level 3 in the fair value hierarchy as the fair value is measured using techniques where significant inputs are not based on observable market data.

The key assumption in the probability model is the hotels default rate. A rate of 1.5% has been used at 30 June 2014 (31 December 2013: 1.7%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.3 million.

13. Business combinations

On 14 April 2014, the Group acquired the business and assets of Betstar Pty Ltd, an on-line sports betting business based in Australia with a view to build the Group's presence in Australia. This acquisition was for total consideration of AUD23.4 million (£13.2 million), comprising cash consideration of AUD21.4 million (£12.1 million) on completion and further cash consideration with a fair value of AUD2.0 million (£1.1 million) is payable by 31 December 2014.

Notes to financial information

13. Business combination (continued)

The Group has performed a preliminary estimate of the fair value of the assets acquired and liabilities assumed as part of the business combination, as follows:

	£m
Net assets acquired:	
Intangible asset - brand name	1.4
Intangible asset - customer relationships	3.2
Tangible assets - hardware	0.1
Trade and other receivables	0.8
Trade and other payables	(1.7)
Cash and cash equivalents	1.7
Deferred tax liabilities on fair value adjustments	(1.4)
Identifiable net assets	4.1
Goodwill	9.1
	13.2
Satisfied by:	
Cash consideration	12.1
Deferred consideration	1.1
Total consideration	13.2
Cash consideration	12.1
Cash and cash equivalent balances acquired	(1.7)
Net cash flow on acquisition	10.4

The fair value of the brand name has been estimated based on the present value of the after-tax royalty savings attributable to owning the brand over an estimated useful life of ten years. The key assumption in estimating the fair value is a royalty rate of 1%. The customer relationships were valued using the income approach method based on a three year average life for the customer base. The key assumptions in estimating the fair value are future revenue and customer churn. Any reasonable change in these assumptions would not result in a material change to the fair value.

The goodwill of £9.1 million, which includes £1.4 million arising as a result of deferred tax on fair value adjustments, arises primarily from the synergies resulting from the business combination. None of this goodwill is expected to be deductible for tax purposes.

Since the date of acquisition, the Betstar business has contributed £1.0 million of revenue and an operating profit of £0.7 million. Had Betstar been included for the period from 1 January 2014, the impact would not have been material to these financial statements.

Transaction related costs of £0.5 million have been charged to exceptional items in the consolidated income statement for the period ended 30 June 2014.

Following the above business combination, the Group's goodwill at 30 June 2014 is as follows:

	£m
At 31 December 2013	138.6
Additions:	
Betstar Pty Ltd	9.1
At 30 June 2014	147.7

Notes to financial information

14 Financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2014, by level of fair value hierarchy. All assets and liabilities measured at fair value are measured as level 3 (fair value is measured using techniques where the significant inputs are not based on observable market data).

30 June 2014	Level 1 £m	Level 2 £m	Level 3 £m
Assets measured at fair value			
Other financial assets	-	-	3.4
Liabilities			
Trade and other payables	-	-	(8.0)
Other current financial liabilities	-	-	(1.3)
Other non-current financial liabilities	-	-	(65.4)
Total	-	-	(74.7)
Net liabilities measured at fair value	-	-	(71.3)

Carrying amounts versus fair values

Assets and liabilities designated at fair value through profit or loss and available for sale financial assets are carried at fair value. The fair value of cash at bank and in hand approximates to book value due to its short-term maturity. The fair value of the £225 million 7.625% bond at 30 June 2014 was £250.2million (31 December 2013: £252.9 million). The fair value of the £100 million 5.125% bond at 30 June 2014 was £102.7 million. The amortised cost of interest bearing loans and borrowings, with the exception of the £225 million 7.625% bond and the £100 million 5.125% bond, and the carrying value of all other assets and liabilities approximates to fair value.

Trade and other payables

Included in trade and other payables are £8.0 million of ante-post liabilities (31 December 2013: £5.9 million). Other current financial liabilities are deferred revenues associated with the fair value of reward points issued; both are classified as level 3 financial instruments as their fair value is measured using techniques where the significant inputs are not based on observable market data. Changes in the fair value of these instruments are recorded in the consolidated income statement.

Other non-current financial liabilities

Included within other non-current financial liabilities is contingent consideration associated with previous business combinations of £59.9 million (31 December 2013: £53.6 million), classified as level 3 financial instruments, as its fair value is measured using techniques where the significant inputs are not based on observable market data. Financial guarantees are also classified as level 3 financial instruments; a description of the valuation techniques, significant inputs and assumptions is described in note 12.

a) Playtech

The estimated fair value of the contingent consideration at 30 June 2014 is £29.4 million (31 December 2013: £28.9 million), which is classified at Level 3 in the fair value hierarchy. The £0.5 million increase in the fair value since the acquisition date has been recorded in the income statement within exceptional items.

The fair value of the contingent consideration has been estimated using a discounted cash flow analysis. The key assumptions in estimating the fair value are a range of EBITDA projections of the Digital business for 2017, the predicted Ladbrokes plc EBITDA multiple in 2017 (8.0x); and the discount rate applied (a range of 14.0% to 25.5%, depending on the year). All of these assumptions have been applied on a probability-weighted basis.

The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of £11.0million and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £2.0million. An increase of 1x in the EBITDA multiple would increase the contingent consideration by £4.0million.

Notes to financial information

14 Financial instruments (continued)

b) Betdaq

The estimated fair value of the contingent consideration at 30 June 2014 is £8.9 million (31 December 2013: £9.5 million), which is classified at Level 3 in the fair value hierarchy. The £0.6 million decrease in the fair value since the acquisition date has been recorded in the income statement within exceptional items.

The contingent consideration is linked to the performance of the business over a four year period and is capped at €535.0 million. The fair value of the contingent consideration has been estimated using a discounted cash flow analysis at the acquisition date. The key assumptions in estimating the fair value are the EBITDA projections of the Betdaq business for 2016, the predicted Ladbrokes plc EBITDA multiple in 2016 (8x) and the discount rate applied (14.6%). All of these assumptions have been applied on a probability-weighted basis.

The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of £1.8 million and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £0.4 million. A decrease in the EBITDA multiple of 2x would result in a decrease in contingent consideration of £2.2 million.

c) Gaming Investments Pty Ltd

The estimated fair value of the contingent consideration at 30 June 2014 is £21.6 million (31 December 2013: £15.2 million), which is classified at Level 3 in the fair value hierarchy. The £6.4 million increase in the fair value since the acquisition date has been recorded in the income statement within exceptional items. This contingent consideration is payable in 2016. The fair value of the contingent consideration has been estimated using a discounted cash flow analysis at the acquisition date.

A further earn out payment with an estimated fair value of A$26.2 million (£14.2 million) is linked to the continued service of certain key individuals. This additional earn out payment has been recorded within exceptional operating expenses in the income statement over the earn out period (6 September 2013 to 30 June 2016).

The key assumptions in estimating the fair value are the EBITDA projections of the Ladbrokes Australia business for 2016, the predicted Ladbrokes plc EBITDA multiple in 2016 (8.0x) and the discount rate applied of 17.5%. The contingent consideration is sensitive to changes in these assumptions. For example, an increase of 10% in EBITDA projections would result in an increase in contingent consideration of A$3.8 million (£2.1million) and a decrease of 2% in the discount rate would result in an increase in contingent consideration of A$1.3 million (£0.7 million).