Thursday 8 August 2013

Ladbrokes plc

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2013

GOOD OPERATIONAL PROGRESS NOT REFLECTED IN FINANCIAL PERFORMANCE TO DATE

Key financials

- Group net revenue [(1)] up 6.4% or 0.9% when adjusted to reflect change in machine taxation from VAT to MGD
- Group operating profit [(1)(2)] £85.7 million down 19.8%
- Underlying EPS [(3)] of 7.2p down 23.4%
- Interim dividend maintained at 4.30 pence
- Net debt of £375.5 million reduced by £11.4 million
- H1 exceptional cost of £21.8 million (FY est. £33 million) largely driven by transition to Playtech product and platforms

H1 impacted by Retail cost headwinds and slowdown in machines growth / Digital profit down but in line

- Digital profit down but in line with expectations
- Increased machine taxation and like for like content costs in UK Retail total c.£9 million in H1 as expected
- Decline in OTC gross win per shop driven by Q1 staking decline; Q2 trend improved
- Machine gross win up 3.2% driven by expansion in number of shops and increase in density
- Slowdown in machines market greater than expected; decline in gross win per shop per week of 0.5% for H1
- Machine Q1 exit rate of c. 3% like for like growth not maintained and inconsistent in Q2 with 5.5% decline in June

Digital now well positioned for earnings growth

- Transformational product and marketing services agreement signed with Playtech – integration progressing well
- Ladbrokes Israel operational from 1 May, now with circa 60 employees
- 'Vegas' tab launched with 70 new games on line and 25 available on mobile
- Foundation release of new mobile offer on Mobenga platform completed
- New Openbet agreement facilitates use of Playtech's IMS back office, for sportsbook
- Recent product agreement with Net Entertainment broadens further our range of games for online and mobile

UK Retail resilient

- Underlying metrics positive – stability of footfall and gross win per shop; customer profile getting younger
- New shops continue to deliver compelling payback (c. 30% IRR) – net 73 opened during H1, c. 30 expected in H2
- H2 rollout of over 1,500 Self Service Betting Terminals, Sky Sports and improved broadcast capability on track
- Full rollout of new 4 screen machine cabinet in Q1 2014 expected to drive growth

Trading changes deliver enhanced margin

- Investment in trading capability delivering improved gross win margin and enabling greater focus on customer value

Strong cash flow and balance sheet

- Continued strong cash flow drives further net debt reduction (net debt : EBITDA [(1)] 1.6x)
- Balance sheet strength allows flex in dividend cover

[(1)] *Excluding High Rollers.*
[(2)] *Profit before tax, net finance expense and exceptional items of £21.8 million (2012: £3.7 million).*
[(3)] *Adjusted to exclude exceptional items and High Rollers and applying the estimated full year tax charge of 10% to the half year ended 30 June 2013 results. (2012 full year tax charge of 5.2% has been applied to the half year ended 30 June 2012 results).*

Commenting on the results, Richard Glynn Chief Executive said:

"Following a strong performance in 2012, we have continued to make good operational progress against our strategy which, disappointingly, is not reflected in our first half financial performance.

Retail continues to be an integral part of the betting experience, providing sustainable and dependable revenues. We plan to carry on expanding our estate, evolving our offer and improving our trading capabilities to provide compelling value for our customers and take advantage of opportunities for growth.

Having established a position of market leadership in machines, with like for like revenue increasing by c.40% in the last 3 years, we always planned for a slowdown this year. We continue to compete strongly in a highly competitive market and have a number of initiatives in place for H2, including a new cabinet rollout starting in Q4.

Machine performance has however been inconsistent in 2013, and the market rate of growth slower than expected with positive trends towards the end of Q1 not maintained during Q2 which was more variable. Following a decline in June, prolonged hot weather in July severely impacted trading. Although recent weakness appears to have been influenced by one off factors, the July weather has exacerbated the volatility we were already experiencing, making underlying trends difficult to identify. In the remainder of 2013, as in H1, we expect to see a positive machines contribution from new shop openings and increased density, but are no longer planning on like for like growth.

In Digital, our partnership with Playtech will see us deliver a compelling online and mobile offer for customers underpinned by proven software, operated by experts. During H2 we will build on early progress already made by adopting Playtech products and technology and expect to benefit from new marketing and CRM capabilities. We aim to finalise the integration early in 2014, thereby enabling significant growth in earnings.

The strength of our balance sheet provides a firm foundation on which to build and we have maintained the dividend for shareholders, confident that the plans we now have in place will generate growth in earnings in 2014 and beyond."

Enquiries to:

Richard Glynn – Chief Executive
Ian Bull – Chief Financial Officer
Donal McCabe – External Relations Director
Matt Sharff – Head of Investor Relations
Ciaran O'Brien – Director of Corporate Communications

Tel : 0208 515 5728

The Company will be hosting an analyst presentation this morning at 9.30am in the auditorium at Nomura International plc, one Angel Lane, EC4R 3AB. This will be available to listen to by dialling the following numbers:

UK : +44 (0)20 3427 1903 or free phone 0800 279 4977
US/New York : +1646 254 3363
Confirmation code : 7699539

Replay will be available for 7 days on the following numbers:
UK : +44 (0)20 3427 0598
US/New York : +1 347 366 9565
Confirmation code : 7699539

Alternatively a live webcast of the presentation will be webcast live and is accessible via the Ladbrokes corporate website http://www.ladbrokesplc.com/investor-centre.aspx

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m	Year on year change %
Revenue (1)	**563.0**	**529.0**	**6.4**
Revenue incl High Rollers	566.5	550.6	2.9
Operating profit by division			
UK Retail	73.2	91.3	(19.8)
European Retail	9.7	10.3	(5.8)
Digital (4)	10.8	15.0	(28.0)
Core Telephone Betting	0.4	0.9	(55.6)
Corporate costs	(8.4)	(10.6)	20.8
Total operating profit (1) (2)	**85.7**	**106.9**	**(19.8)**
High Rollers	3.4	20.5	(83.4)
Group operating profit (2)	**89.1**	**127.4**	**(30.1)**
Exceptional items	(21.8)	(3.7)	n/a
Profit before tax and net finance expense	67.3	123.7	(45.6)
Profit before tax	55.1	106.9	(48.5)
Profit after tax	47.2	113.6	(58.5)
Underlying basic earnings per share (3)	**7.2p**	**9.4p**	**(23.4)**
Basic earnings per share	5.2p	12.5p	(58.4)
Interim dividend per share	4.30p	4.30p	-
Financial position			
Cash generated by operations	127.7	161.3	(20.8)
Net debt	375.5	397.0	5.4

(1) *Excluding High Rollers*

(2) *Operating profit is defined as profit before tax, net finance expense and exceptional items of £21.8 million (2012: £3.7 million).*

(3) *Adjusted to exclude exceptional items and High Rollers and applying the estimated full year 2013 tax charge of 10.0% to the half year ended 30 June 2013 results (2012 full year tax charge of 5.2% has been applied to the half year ended 30 June 2012 results).*

Chief Executive's Review

The first six months of 2013 have seen key developments across the business, though these have yet to be reflected in our current financial results. Operating profit for the half of £85.7 million was down 19.8% or £21.2 million.

UK Retail

During H1 we saw a 19.8% reduction (£18.1 million) in UK Retail operating profit, in part expected due to material content cost and tax headwinds and the lack of a major football tournament (Euro 2012 generated £28.0 million turnover and £3.2 million gross win in the comparable half). The impact of cancelled horseracing meetings, whilst material during Q1 has been somewhat offset, with more meetings year over year in the second quarter. Equally the performance across the major horseracing festivals; Cheltenham, Aintree and Ascot has been broadly flat. Total OTC gross win grew by 0.6%, with gross win on a like for like basis down 1.8%, though up 1.3% in the second quarter.

The growth of machines has been a major contributor to retail profit in the last 3 years, a period in which Ladbrokes has established and developed a position of market leadership with growth of c. 40%. While a reduction in the rate of machines growth was inevitable, the first half has seen a greater slowdown than originally expected.

During the period we saw machine gross win grow by 3.2% driven by the addition of more cabinets. While machine gross win per shop per week (like for like) was down by under 1% over the period, the end of Q2 saw a more marked decline. Current trading has been heavily impacted by the prolonged period of hot weather across the UK. Although

we have various machines initiatives in place for H2, the relative volatility in performance, exacerbated by one off factors, makes it difficult to identify the underlying growth rate. We do not expect to see like for like growth in the remainder of H2.

Retail is a sustainable and integral part of the overall betting and gaming market, remaining resilient in a difficult consumer environment. It is highly cash generative and underpins the Group's strong balance sheet.

Its enduring customer appeal is demonstrated by continued stability in footfall and a consistent decline in the average age profile of shop customers. We will continue to expand our shop estate, capitalising on the availability of high footfall locations, at relatively low rents. Following net 73 openings during H1 we plan circa 30 net openings in the remainder of the year.

Our offer is focused on giving customers more reasons to visit our shops and more opportunities to bet. During H2 we will complete our rollout of Sky Sports and will introduce new broadcast facilities, giving us more channels, more control over content and our customers more choice over what they watch and where. We will complete the introduction of over 1,500 Self Service Betting Terminals, which when allied to the increase in live sporting content, will allow us to actively promote betting in play. We will also introduce our latest machine cabinet towards the end of 2013, completing a full estate rollout during Q1 2014.

The investment we have made in our trading systems, together with greater insight into customers' preferences means we are now competing more aggressively on price with promotions on both key marquee events and daily specials providing compelling value.

Digital

Results during the first half are in line with the guidance given in April. Operating profit of £10.8 million was 28.0% (£4.2 million) down with like for like net revenue (excludes Betdaq) marginally lower and a small increase in operating costs.

In March we announced a new product and marketing services agreement with Playtech, enabling us to realise fully the benefits of previous investments and build a more competitive digital offer. Once fully implemented, it will accelerate revenue growth in 2014 and beyond.

From 1 May 2013 our new, wholly owned subsidiary, Ladbrokes Israel began operations. It currently has circa 60 employees, all of whom are highly experienced in digital marketing, with a proven track record in using Playtech's market leading CRM and in developing efficient acquisition processes. We expect this team to grow to around 100 by the end of 2013, in parallel with an ongoing restructure in our existing operations.

Allied to this we are in the process of introducing the full suite of Playtech's gaming products and have already made good progress. In the past few weeks, we have launched the 'Vegas' games casino online and on mobile. This strengthens our gaming offer, with an additional 70 games which are plugged into the IMS back office. Separately we have also concluded a deal with Net Entertainment, which expands our range of games further and re-affirms our commitment to work with a broad range of suppliers, using an open source platform.

The development of a new Ladbrokes mobile site on the Mobenga platform is also progressing well, with the recent completion of a foundation release. We expect a phased rollout of the complete offer over the next few months, with the aim to launch fully early in 2014.

In the interim we continue to release native Apps, with new Roulette, Blackjack and Bingo products all launched on the App store during H1. A new football coupon App and football singles App, 'Kammy's Kick Off' will be released during H2.

Our new browser based sportsbook was fully launched to all customers in April, alongside an open API, which provides third party developers easy access to our data. Post release of the sportsbook we have seen an element of decreased turnover given the expected adoption lag, as customers familiarise themselves with the new site. This is now stable with our focus during H2 on planned enhancements to functionality and further improvements in the user experience.

With the responsibility for customer acquisition and development in betting as well as gaming now transitioning to the team in Israel, the full benefits of the new sportsbook are unlikely to be realised until the Playtech integration is completed. In recent weeks we concluded a new agreement with Openbet, which enables us to introduce a single wallet across gaming and sportsbook product.

In February we completed the acquisition of the Betdaq betting exchange and are making good progress in developing it as a standalone business. We are on track to introduce a Ladbrokes exchange product to run alongside our existing fixed odds sportsbook early in 2014, creating a more comprehensive and strategically differentiated sports betting offer for customers.

Only once we have finalised the transition of services and product to Playtech, fully integrated systems and completed the restructure of resources, will we be able to realise the full potential of their integrated approach and dramatically improve the digital betting and gaming experience for our customers. We expect to complete this process early in 2014.

International

Our partnership with Playtech will enable us to; improve our performance in international markets where we already have a presence, as well as establishing a presence in appropriate new markets more easily. Our approach to opportunities outside of the UK will continue to be flexible, with a pragmatic approach to ensure we have access to local knowledge and expertise.

Our JV with Cirsa in Spain is a good example and we have recently concluded an extension to this partnership, with a planned launch of Sportium online in Spain and then Mexico over the next six months.

Exceptional costs

The agreement with Playtech will accelerate the performance of the Digital business, in particular in respect of customer development and mobile. During H2 therefore we will be focussed on completing the transition as efficiently as possible. In relation to this, we have incurred a number of exceptional charges. These relate primarily to the write off of existing mobile assets, some restructuring, project management costs and the transition from existing supplier arrangements. The charges relating to the agreement with Playtech total £15.6 million during H1.

Balance sheet

Given confidence in the Company's ability to grow earnings going forward and the recognition of the importance of dividends to our shareholders the Board feel it is appropriate to lower dividend cover in the short term, in order to maintain the dividend. The interim dividend is therefore held at 4.30 pence.

Regulation

The Government's triennial review of Stakes and Prizes, which included a review of B2 gaming machines, is expected to be announced in the coming weeks following the conclusion of the consultation process in April.

Trading and Outlook

We are comfortable with the outturn for Digital and European Retail in the second half. Corporate costs are expected to be circa £20 million for the full year.

The prolonged period of high temperatures throughout July has materially impacted UK Retail with footfall down between 10% and 15%. We have also seen a reduced sports betting margin in both UK Retail and Digital, particularly in horseracing, where hard ground has driven a marked reduction in the average runners per race and corresponding increase in the percentage of winning favourites. In UK Retail, machines gross win per shop declined by 9.2% in July.

Although this weather effect is one off, it is unlikely that lost machine revenue will be recovered during the rest of the year

Given the fact that recent volatility in the rate of machines growth has been further exacerbated by one off factors, the underlying trend is difficult to determine accurately. What is clear, however, is that growth across the market has slowed and the outlook is challenging. In the remainder of the year, we expect a positive machine contribution from new shop openings and from increased density, but are no longer planning for any like for like growth.

Group net revenue excluding High Rollers for July was down 12% (18% when adjusted for changes in machine taxation from VAT in 2012 to MGD in 2013). UK Retail net revenue was down 8% (16% when adjusted for changes in machine taxation), with Digital down 24% driven largely by a reduction in the sportsbook gross win margin.

Despite the current challenging environment, the Board remain confident in the outlook for the business, as continued strategic and operational progress lays the foundation for sustainable growth in 2014 and beyond.

Unaudited interim results for the half year ended 30 June 2013

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m
Net revenue by division:		
UK Retail [1]	401.7	370.5
European Retail [1]	65.6	63.9
Digital	90.8	88.3
Core Telephone Betting	4.9	6.3
Group net revenue (exc. High Rollers) [1]	563.0	529.0
High Rollers	3.5	21.6
Group net revenue [1]	566.5	550.6
Operating profit [2] (exc. High Rollers)	85.7	106.9
Operating profit [2] from High Rollers	3.4	20.5
Profit before net finance expense, tax and exceptional items	89.1	127.4
Net finance expense [3]	(12.2)	(16.8)
Profit before tax and exceptional items	76.9	110.6
Exceptional items before tax [4]	(21.8)	(3.7)
Profit before tax	55.1	106.9
Income tax (expense)/credit	(7.9)	6.7
Profit after tax	47.2	113.6

EBITDA[3]	118.7	154.0
Basic earnings per share [3]	7.4p	12.9p

[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 2012 numbers are provided in the business review section.

[2] Operating profit is defined as profit before tax, net finance expense and exceptional items of £21.8 million (2012: £3.7 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 and any other non-recurring items considered exceptional by virtue of their nature and size.

Business Review

UK Retail

NOTE - Proforma 2012 reflects the change from VAT on machines to MGD which took effect from 1 February 2013.

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m	Year on year change %	Proforma Half year ended 30 June 2012 £m	Year on year change %
- OTC amounts staked	1,151.7	1,257.2	(8.4)	1,257.2	(8.4)
- Machines amounts staked	5,804.3	5,912.3	(1.8)	5,912.3	(1.8)
Amounts staked	6,956.0	7,169.5	(3.0)	7,169.5	(3.0)
- OTC gross win	208.0	206.7	0.6	206.7	0.6
- Machines gross win	209.5	203.0	3.2	203.0	3.2
Gross win	417.5	409.7	1.9	409.7	1.9
Adjustments to GW (1)	(15.8)	(39.2)	59.7	(10.6)	(49.1)
- OTC net revenue	202.5	202.4	-	202.4	-
- Machines net revenue	199.2	168.1	18.5	196.7	1.3
Net revenue	401.7	370.5	8.4	399.1	0.7
Gross profits tax	(30.3)	(30.4)	0.3	(30.4)	0.3
Machine Games Duty	(34.6)	-	n/a	(28.6)	n/a
	336.8	340.1	(1.0)	340.1	(1.0)
Associate income	1.6	1.6	-	1.6	-
Operating costs	(265.2)	(250.4)	(5.9)	(250.4)	(5.9)
Operating profit (2)	73.2	91.3	(19.8)	91.3	(19.8)

(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 2013 (H1 2012: £5.6 million amounts staked and £3.6 million gross win).

Total gross win for the period was up 1.9% with growth in both machines and OTC. On a like for like basis, excluding new licences and closures, OTC gross win was 1.8% down and machines down 0.6% on 2012.

OTC amounts staked showed a decline of 8.4% (like for like down 10.9%). The level of staking has been impacted in the period by an increase in weather affected lost racing in Q1 and the absence of a major international football tournament, with the European Championships which fell predominantly in Q2 last year (the final fell into Q3). Amounts staked were down 11.2% in Q1 and down 5.8% in Q2.

OTC gross win margin of 17.8% (2012: 16.2%) was up 1.6 percentage points, driven by an increase across all sports products. Football showed the biggest percentage increase helped by a particularly favourable run of results in Q1. The significant reduction in gross win from the Cheltenham festival in Q1 was largely offset in Q2 by a strong Grand National meeting and a positive year on year performance at Royal Ascot.

Machines gross win of £209.5 million was up 3.2%. Gross win per shop per week, indicative of like for like growth, has been very variable, showing no discernible trend over the period and ending H1 down 0.5%. June was particularly poor and demonstrated the notable overlap which exists between football and machine customers, with the equivalent month in 2012 boosted by the European Championships and June 2013 being a comparatively fallow football month.

The machines market has become increasingly competitive over the period and this is reflected in an increase in free bets, which were £3.8 million higher year on year.

Machine density has increased to 3.92 from 3.86 in the period last year. In the half there were on average 8,725 terminals in the estate compared to 8,247 in H1 2012. At 30 June 2013 there were 8,942 machines (H1 2012: 8,317).

Operating costs for H1 increased 5.9% or £14.8 million. We expect total costs for the full year to be up c. 7% and within the guidance given in February of 9%. On a like for like basis costs were up 2.5% with the main increase coming from increased content costs following the start of new long term contracts with both Turf TV and SIS, as well the rollout of Sky Sports across the estate.

Operating profit of £73.2 million was 19.8% below H1 2012 operating profit of £91.3 million.

At 30 June 2013 there were 2,269 shops (31 December 2012: 2,196) in Great Britain. To date, we have opened 79 new shops and closed six.

European Retail

Operating profit [1] within European Retail of £9.7 million declined 5.8%. European Retail comprises our operations in Ireland, Belgium and Spain. These are discussed in more detail below.

Ireland

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m	Year on year change %	Proforma Half year ended 30 June 2012 £m	Year on year change %
- OTC amounts staked	265.2	276.5	(4.1)	276.5	(4.1)
- Machines amounts staked	76.3	80.3	(5.0)	80.3	(5.0)
Amounts staked	341.5	356.8	(4.3)	356.8	(4.3)
- OTC gross win	39.6	38.6	2.6	38.6	2.6
- Machines gross win	3.0	3.1	(3.2)	3.1	(3.2)
Gross win	42.6	41.7	2.2	41.7	2.2
Net revenue	41.3	40.5	2.0	40.9	1.0
Betting tax	(3.8)	(3.8)	-	(3.8)	-
Machine Games Duty	(0.5)	-	n/a	(0.4)	(25.0)
	37.0	36.7	0.8	36.7	0.8
Operating costs	(30.7)	(30.0)	(2.3)	(30.0)	(2.3)
Operating profit [1]	6.3	6.7	(6.0)	6.7	(6.0)

(1) Before exceptional items.
(2) Proforma 2012 reflects the change from VAT on machines to Machine Games Duty which took effect from 1 February 2013.

The OTC business in Ireland has displayed similar trends to the UK during H1 with amounts staked, down 4.1% offset by an increased gross win margin of 14.9% which was 0.9 percentage points ahead of 2012.

Total gross win in Ireland increased 2.2% to £42.6 million, with OTC gross win growth of 2.6% offsetting a small decrease in machine gross win in Northern Ireland. The second half of 2013 will see upgraded cabinets rolled out to the Northern Ireland estate.

Costs of £30.7 million were up 2.3% on 2012 driven largely by an increase in SIS, Turf TV and utility costs.

At 30 June 2013 there were 213 shops (31 December 2012: 213) in the ROI and 79 shops (31 December 2012: 79) in Northern Ireland.

Belgium

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m	Year on year change %
Amounts staked	95.1	92.5	2.8
Net revenue	24.3	23.4	3.8
Betting tax	(3.7)	(3.5)	(5.7)
Gross profit	20.6	19.9	3.5
Operating costs	(16.2)	(15.4)	(5.2)
Operating profit [1]	4.4	4.5	(2.2)

[1] *Before exceptional items.*

Amounts staked in Belgium grew 2.8%. Net revenue for the period was up 3.8% (local currency up 0.3%).

Operating costs were up 5.2% (1.6% in local currency) largely due to increased commission based payments to independent shop managers driven by the increased revenue.

At 30 June 2013, there were 267 shops compared to 277 at 31 December 2012.

Spain

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m	Year on year change %
Operating loss [1]	(1.0)	(0.9)	(11.1)

[1] *Before exceptional items.*

The Sportium business continues to expand at pace in the Valencia region and opened in the Murcia region during Q2. Sportium had 542 locations at 30 June 2013 compared to 360 at 31 December 2012. H2 2013 will see trading commence in the Galicia region, with Catalonia expecting to begin in H1 2014.

In the well established Madrid region, like for like amounts staked were up 3.2% in H1. The second full year of trading in Aragon has seen significant like for like growth with amounts staked up 23.3%. Trading during H1 has been strong with a total margin of 18.7% achieved through an improved football trading strategy which helped deliver a 23.6% football margin.

Digital

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m	Year on year change %
Net revenue			
- Sportsbook	41.0	37.3	9.9
- Casino and Games	35.7	38.3	(6.8)
- Poker	4.2	5.6	(25.0)
- Bingo	6.0	7.1	(15.5)
Net revenue	86.9	88.3	(1.6)
Betdaq revenue	3.9	-	n/a
Total net revenue	90.8	88.3	2.8
Betting tax	(1.6)	(0.5)	n/a
Operating costs	(78.4)	(72.8)	(7.7)
Operating profit [(1)]	10.8	15.0	(28.0)

[(1)] *Before exceptional items*

Total net revenue including Betdaq of £90.8 million for the half year ended 30 June 2013 was 2.8% (£2.5 million) higher than the half year ended 30 June 2012.

Excluding the impact of Betdaq, net revenue of £86.9 million was 1.6% lower than H1 2012 with sportsbook net revenue up 9.9% offset by Gaming net revenue which was down 10.0%.

Growth in sportsbook net revenue has been margin led. The gross win margin for the half of 8.5% was up 2.3 percentage points on 2012, benefitting from favourable sports results, particularly football during Q1, but also driven by continued improvements in trading and liability management. Sportsbook amounts staked were 18.6% down year on year, impacted by our continued drive to reduce unprofitable turnover and lower activity from higher staking customers particularly during June when we saw significant volume in 2012 around the European Championships.

Sportsbook net revenue on mobile grew 40.8% during H1. As part of the wider product agreement signed with Playtech in March, we will now be re-launching our mobile offer on the Mobenga platform. Good progress has already been made with an initial foundation release completed within the last week. Over H2 we will continue to develop the initial offer and expect the migration of all existing customers to be completed early in 2014. Mobile amounts staked now comprise 29% of total Sportsbook amounts staked (H1 2012: 19%).

We remain focused on providing the best pre event and Bet in Play content on the new website. In 2013, we have traded 44,000 events (H1 2012: 29,000) and Bet in Play volumes now represents 65% of all non-racing sportsbook stakes.

Casino and Games net revenue of £35.7 million was 6.8% down year on year. The ‘Vegas’ Playtech casino was launched on 24 July and our focus is now on improving acquisition and player retention. Our team in Israel is now working towards implementation of a more effective PPC and affiliates programmes to drive acquisition and utilise Playtech’s experience of sophisticated business intelligence and CRM systems to enhance the customer journey.

Poker net revenue fell 25.0% during the period to £4.2 million. Strong competition amongst poker operators, with increasing activity on recruitment of players continues to characterise a tough marketplace. Our expected transition to Playtech’s iPoker network, as part of the product and services agreement, will help us establish a more competitive position.

Bingo net revenue was £1.1 million or 15.5% down for the period at £6.0 million following a decline in actives. In H2 we will make improvements to our Bingo product with a new website fully supported by Playtech and our experienced marketing team in Israel.

Like for like operating costs (excluding Betdaq) of £74.2 million were 1.9% or £1.4 million higher than 2012 driven by increased depreciation. Betdaq operating costs for the period were £4.2 million.

Core Telephone Betting

	Half year ended 30 June 2013	Half year ended 30 June 2012	*Year on year change*
	£m	£m	*%*
Amounts staked	96.7	139.6	(30.7)
Net revenue	4.9	6.3	(22.2)
Gross profits tax	(0.2)	(0.6)	66.7
Operating costs	(4.3)	(4.8)	10.4
Operating profit [(1)]	0.4	0.9	(55.6)

[(1)] Before exceptional items.

Net revenue in the core telephones business declined 22.2% to £4.9 million, mainly due to a decline in amounts staked following the introduction of a minimum stake per call in the latter part of 2012. In addition, business from higher staking customers was down on 2012.

A 0.8 percentage point increase in gross win margin, together with lower operating costs, partially offset the net revenue decline. Operating profit for H1 was £0.4 million (2012: £0.9 million).

High Rollers

High Rollers generated an operating profit of £3.4 million in the period (H1 2012: £20.5 million).

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

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

	Half year ended 30 June 2013	Half year ended 30 June 2012
	£m	£m
Gross win	605.6	610.7
Adjustments [(1)]	(33.6)	(25.8)
VAT [(2)]	(5.5)	(34.3)
Revenue	566.5	550.6

(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 division.

	Half year ended 30 June 2013		Half year ended 30 June 2012	
	Gross win	Net revenue	Gross win	Net revenue
	£m	£m	£m	£m
UK Retail	417.5	401.7	409.7	370.5
European Retail	66.9	65.6	65.1	63.9
Digital	112.4	90.8	107.4	88.3
Core Telephone Betting	5.3	4.9	6.6	6.3
High Rollers	3.5	3.5	21.9	21.6
Total	605.6	566.5	610.7	550.6

Revenue

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m	Year on year change %
Excluding High Rollers			
Group revenue (reported)	563.0	529.0	6.4
Group revenue proforma [(1)]	563.0	557.9	0.9
Including High Rollers			
Group revenue (reported)	566.5	550.6	2.9
Group revenue proforma [(1)]	566.5	579.5	(2.2)

Group revenue increased by £15.9 million (2.9%) to £566.5 million (H1 2012: £550.6 million). Excluding High Rollers, revenue increased by £34.0 million (6.4%) to £563.0 million (H1 2012: £529.0 million).

On a proforma basis, Group revenue decreased by £13.0 million (2.2%) to £566.5 million (H1 2012 proforma: £579.5 million). Excluding High Rollers, revenue increased by £5.1 million (0.9%) to £563.0 million (H1 2012 proforma: £557.9 million). The increase is mainly due to the acquisition of Betdaq in February 2013, which contributed an additional £3.9 million revenue. UK Retail performance was marginally ahead of last year. Improved European Retail performance and growth in sportsbook in Digital was partially offset by a decline in casino, poker and bingo in Digital.

Operating profit [(2)]

Operating profit [(2)] decreased by £38.3 million (30.1%) to £89.1 million (H1 2012: £127.4 million).

Excluding High Rollers, operating profit [(1)] decreased by £21.2 million (19.8%) to £85.7 million (H1 2012: £106.9 million) reflecting reduced profits from all divisions, partially offset by decreased corporate costs.

Corporate costs

Before exceptional items, total corporate costs reduced by £2.2 million to £8.4 million (H1 2012: £10.6 million).

Finance expense

Before exceptional items, net finance expense of £12.2 million was £4.6 million lower than last year (H1 2012: £16.8 million) mainly reflecting a reduction in the net debt and a lower blended interest rate.

Profit before tax

The decrease in trading profits has resulted in a 30.5% decrease in first half profit from continuing operations before taxation and exceptional items to £76.9 million (H1 2012: £110.6 million).

Exceptional items before tax

£21.8 million of exceptional losses before tax include £6.4 million of integration costs in respect of the business combinations with Playtech and Betdaq, £10.7 million of asset write-downs principally arising from the business combinations, £2.7 million of corporate transaction costs and a £2.0 million loss on the closure of shops in UK and European Retail and closure of Digital sites.

Taxation

The Group taxation charge for continuing operations before exceptional items was £9.4 million. This has been based on an effective tax charge of 12.2%. Our estimate of the full year annual tax charge for 2013 is 10%.

Dividend

The Board today announces an interim dividend of 4.30 pence per share. The dividend will be payable on 31 October 2013 to shareholders on the register on 20 September 2013.

Earnings per share (EPS) – Group

Underlying
EPS (before exceptional items and High Rollers and using an effective tax charge of 10%) decreased by 23.4% to 7.2 pence (H1 2012 at 2012 full year tax rate of 5.2%: 9.4 pence), reflecting the reduced profit before tax and higher effective tax charge.

Total
EPS (before exceptional items) decreased 42.6% to 7.4 pence (H1 2012: 12.9 pence), reflecting the reduced profit before tax and higher effective tax charge. EPS (including the impact of exceptional items) was 5.2 pence (H1 2012: 12.5 pence). Fully diluted EPS (including the impact of exceptional items) was 5.1 pence (H1 2012: 12.3 pence) after adjustment for outstanding share options.

Cash flow, capital expenditure, borrowings and banking facilities

Cash generated by operations was £127.7 million. After net finance expense paid of £11.5 million, income taxes paid of £1.7 million, £41.8 million on capital expenditure and intangible additions and £19.4 million spent on business combinations; cash inflow was £53.3 million. Post dividend payment of £41.9 million, free cash flow of £11.4 million was generated in the period which has been used to reduce debt.

At 30 June 2013, gross borrowings of £402.8 million less cash and cash equivalents of £27.3 million resulted in a net debt of £375.5 million (31 December 2012: £386.9 million).

Going concern

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

(1) *2012 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 net revenue.*

(2) *Operating profit is defined as profit before tax, net finance expense and exceptional items of £21.8 million (2012: £3.7 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 for the remainder of the current financial year remain unchanged from those detailed on pages 22 to 24 of the Group's Annual Report and Accounts 2012 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, the costs of borrowing, taxation and 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 horseracing and the voluntary greyhound racing levies which respectively support the British horseracing and greyhound industries. In addition, Ladbrokes enters into contracts for the distribution of television pictures, audio and other data that are broadcast into Ladbrokes' betting shops. A number of these are under negotiation at any one time.

Operational and bookmaking

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 office in Tel Aviv, and its premises in Europort in Gibraltar from where the online betting and gaming operations are based.

Information technology and communications

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.

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.

Failure in the supply chain

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

Statement of Directors’ Responsibilities

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

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

The directors of Ladbrokes plc are listed in the Group’s annual report and accounts for the year ended 31 December 2012, with the exception of the following change in the period: Christopher Rodrigues resigned as independent non-executive director on 1 May 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

8 August 2013

Independent review report to Ladbrokes plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the half year ended 30 June 2013 which comprises the interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated balance sheet, interim consolidated statement of changes in equity, interim consolidated statement of cash flows and the related notes 1 to 13. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for the half year ended 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
8 August 2013

Unaudited financial statements
Interim consolidated income statement

	Half year ended 30 June 2013		Half year ended 30 June 2012	
	Before exceptional items[1] £m	Total £m	Before exceptional items[1] £m	Total £m
Continuing operations				
Revenue	566.5	566.5	550.6	550.6
Operating expenses before depreciation and amortisation (note 2)	(449.0)	(459.3)	(398.0)	(401.1)
Share of results from joint venture and associates	1.2	1.2	1.4	1.4
EBITDA	118.7	108.4	154.0	150.9
Depreciation, amortisation and amounts written off non-current assets	(29.6)	(41.1)	(26.6)	(27.2)
Profit before tax and net finance expense	89.1	67.3	127.4	123.7
Finance expense	(12.2)	(12.2)	(16.9)	(17.0)
Finance income	-	-	0.1	0.2
Profit before tax	76.9	55.1	110.6	106.9
Income tax (expense)/credit	(9.4)	(7.9)	6.5	6.7
Profit for the period	67.5	47.2	117.1	113.6
Attributable to:				
- equity holders of the parent	67.5	47.2	117.1	113.6
- non-controlling interests	-	-	-	-
	67.5	47.2	117.1	113.6
Earnings per share on profit for the period:				
- basic	7.4p	5.2p	12.9p	12.5p
- diluted	7.3p	5.1p	12.7p	12.3p
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 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 2013 £m	Half year ended 30 June 2012 £m
Profit for the period	47.2	113.6
Other comprehensive income/(expense):		
Items that will be reclassified to profit or loss:		
Currency translation differences	3.8	(2.0)
Total items that will be reclassified to profit or loss	3.8	(2.0)
Items that will not be re-classified to profit or loss:		
Re-measurement of defined benefit pension scheme	2.5	(4.0)
Tax on re-measurement of defined benefit pension scheme	(0.6)	1.0
Total items that will not be reclassified to profit or loss	1.9	(3.0)
Other comprehensive income/(expense) for the period, net of tax	5.7	(5.0)
Total comprehensive income for the period	52.9	108.6
Attributable to:		
- equity holders of the parent	52.9	108.6
- non-controlling interests	-	-

Interim consolidated balance sheet

	30 June 2013 £m	31 December 2012 £m
ASSETS		
Non-current assets		
Goodwill [1] and intangible assets	742.0	666.6
Property, plant and equipment	227.7	214.8
Interest in joint venture	4.8	4.8
Interest in associates and other investments	15.2	15.9
Other financial assets	8.9	6.5
Deferred tax assets	23.5	24.6
Retirement benefit asset	42.7	36.5
	1,064.8	969.7
Current assets		
Trade and other receivables	69.6	73.7
Cash and short-term deposits	28.0	19.4
	97.6	93.1
TOTAL ASSETS	**1,162.4**	**1,062.8**
LIABILITIES		
Current liabilities		
Bank overdraft	(0.7)	(0.1)
Trade and other payables	(163.8)	(140.1)
Corporation tax liabilities	(4.7)	(0.7)
Other financial liabilities	(1.5)	(1.3)
Provisions	(9.4)	(2.5)
	(180.1)	(144.7)
Non-current liabilities		
Interest bearing loans and borrowings	(402.8)	(406.2)
Other financial liabilities	(51.3)	(10.5)
Deferred tax liabilities	(77.5)	(75.0)
Provisions	(2.6)	(4.1)
	(534.2)	(495.8)
TOTAL LIABILITIES	**(714.3)**	**(640.5)**
NET ASSETS	**448.1**	**422.3**
EQUITY		
Issued share capital	269.0	266.4
Share premium	211.8	195.5
Treasury and own shares	(117.5)	(114.9)
Retained earnings	73.9	68.2
Foreign currency translation reserve	9.6	5.8
Equity shareholders' funds	**446.8**	**421.0**
Non-controlling interests	1.3	1.3
TOTAL SHAREHOLDERS' EQUITY	**448.1**	**422.3**

(1) See note 13 for goodwill additions as a result of business combinations.

Interim consolidated statement of changes in equity

	Issued share capital £m	Share premium £m	Treasury and own shares £m	Retained earnings £m	Foreign currency translation reserve[1] £m	Attributable to the equity shareholders of the Company £m	Non-controlling interest £m	Total share-holders equity £m
At 1 January 2012	266.2	194.6	(113.3)	(49.5)	8.0	306.0	0.7	306.7
Profit for the period	-	-	-	113.6	-	113.6	-	113.6
Other comprehensive expense	-	-	-	(3.0)	(2.0)	(5.0)	-	(5.0)
Total comprehensive income	-	-	-	110.6	(2.0)	108.6	-	108.6
Issue of shares	0.1	0.3	-	-	-	0.4	-	0.4
Share-based payments charge	-	-	-	4.6	-	4.6	-	4.6
Net movement in shares held in ESOP trusts	-	-	(1.8)	(0.1)	-	(1.9)	-	(1.9)
Equity dividends	-	-	-	(35.2)	-	(35.2)	-	(35.2)
Non-controlling interests	-	-	-	-	-	-	0.4	0.4
At 30 June 2012	**266.3**	**194.9**	**(115.1)**	**30.4**	**6.0**	**382.5**	**1.1**	**383.6**
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**

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

Interim consolidated statement of cash flows

	Notes	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m
Net cash generated from operating activities	10	114.5	139.0
Cash flows from investing activities:			
Interest received		-	0.1
Dividends received from associates		2.3	1.2
Payments for intangible assets		(12.7)	(24.3)
Purchase of property, plant and equipment		(29.1)	(20.7)
Cash from acquisitions		0.6	-
Acquisition of businesses	13	(19.4)	(1.5)
Purchase of interest in joint venture		(0.8)	-
Net cash used in investing activities		(59.1)	(45.2)
Cash flows from financing activities:			
Proceeds from issue of ordinary shares		0.3	0.4
Purchase of ESOP shares		(2.6)	(1.9)
Repayment of borrowings		(3.7)	(59.9)
Dividends paid	6	(41.9)	(35.2)
Net cash used in financing activities		(47.9)	(96.6)
Net increase/(decrease) in cash and cash equivalents		7.5	(2.8)
Effect of changes in foreign exchange rates		0.5	0.1
Cash and cash equivalents at beginning of the period		19.3	26.4
Cash and cash equivalents at end of the period		27.3	23.7
Cash and cash equivalents comprise:			
Cash at bank and in hand		28.0	24.4
Bank overdraft		(0.7)	(0.7)
		27.3	23.7

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 2013 were authorised for issue in accordance with a resolution of the directors on 8 August 2013.

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 2012 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 2013 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 2012.

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 2012 except for the adoption of new and amended standards as noted below.

The Group has combined 'cost of sales before depreciation and amortisation' and 'administrative expenses' into 'operating expenses before depreciation and amortisation' within the consolidated income statement. This is consistent with how costs are reported and managed within the business. The prior year comparative consolidated income statement has been restated to reflect this change.

The Group has adopted IFRS 13 Fair Value Measurement. It establishes a single source of guidance for fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. Although the adoption of this standard did not have a significant impact on the results or financial position of the Group, the Group has included additional disclosures to reflect the requirements of the standard.

The Group has adopted the revision of IAS 19 Employee Benefits. The most significant change relates to the net interest on the pension asset calculation being based on a single discount rate rather than the expected asset return. The impact on the Group of applying this revision was a decrease to profit of £0.2 million and an increase to other comprehensive income of £0.2 million. The prior period income statement and statement of comprehensive income for the period ended 30 June 2012 have not been restated, as the decrease to profit and decrease to other comprehensive expense of £0.2 million is not material to the Group.

The Group has adopted the amendments to IAS 1 Presentation of Financial Statements, which require the Group to separate items of other comprehensive income into two distinct categories: items that will not be reclassified subsequently to the income statement; and items that will be reclassified subsequently to the income statement when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The Group has adopted the amendment of IFRS 7. The most significant change relates to offsetting financial assets and liabilities. The amendments require disclosure about rights of set-off and related arrangements and are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement irrespective of whether they are set off in accordance with IAS 32. The adoption of this standard 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 8 August 2013 and is unaudited. The auditor has carried out a review and its report is set out on page 19.

Notes to financial information

2. Basis of preparation (continued)

The financial information set out in this document in respect of the year ended 31 December 2012 does not constitute the Group's statutory accounts for the year ended 31 December 2012. The auditor's report on the statutory accounts for the year ended 31 December 2012 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 2012 have been delivered to the Registrar of Companies.

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

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

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

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 businesses is assessed and measured according to the nature of the services provided. IFRS 8 requires segment information to be presented on the same basis as that used by the Board for assessing performance and allocating resources, and the Group's operating segments are aggregated into the five reportable segments detailed below:

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

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

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

	Revenue £m	Profit before tax and exceptional items £m	Profit before tax and after exceptional items £m
Continuing operations:			
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

Notes to financial information

3. Segment information (continued)

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

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

4. Exceptional items

	Half year ended 30 June 2013	Half year ended 30 June 2012
	£m	£m
Business integration costs [1]	(6.4)	-
Corporate transaction costs [2]	(2.7)	-
Loss on closure [3]	(2.0)	(1.5)
Impairment loss [4]	(10.7)	-
Spanish retrospective online gaming taxes	-	(2.2)
Total before tax	(21.8)	(3.7)
Exceptional tax credit	1.5	0.2
Total after tax	(20.3)	(3.5)

[1] Business integration costs of £6.4 million have been incurred following the Playtech deal and the acquisition of Betdaq. These costs have been incurred as follows: £5.5 million in Digital and £0.9 million in UK Retail.

[2] The Group incurred £2.7 million of corporate transaction costs in relation to the business combinations with Playtech, Betdaq and Chronicle Bet. These costs have been incurred within corporate costs.

[3] The Group closed its online venture in South Africa leading to a loss on closure of £1.0 million. In addition, the Group incurred £0.8 million loss on closure of UK Retail shops (30 June 2012: £0.6 million) and a £0.2 million loss on closure of European Retail shops (30 June 2012: £0.9 million).

[4] The Group incurred a £10.7 million impairment loss in the half year ended 30 June 2013 in respect of software assets (30 June 2012: £nil), principally as a result of the new agreements entered into with Playtech in the period.

£10.3 million (30 June 2012: £3.1 million) of the exceptional items have been reported within operating expenses and £11.5 million (30 June 2012: £0.6 million) reported within depreciation, amortisation and amounts written off non-current assets in the income statement.

Notes to financial information

5. Taxation

The tax charge for the half year ended 30 June 2013 was £7.9 million (30 June 2012: credit of £6.7 million).

The standard rate of UK Corporation Tax was reduced from 24% to 23% from April 2013. This will be reduced to 21% from April 2014 and as announced by the Chancellor in the Budget on 20 March 2013 to 20% from April 2015.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 23%. The reductions to 21% and to 20% were substantively enacted on 2 July 2013. Whilst detailed calculations have not been prepared at this stage, it is estimated that the impact of the remaining annual corporation tax rate reductions would be to reduce the deferred tax liabilities by approximately £10.0 million and to reduce the deferred tax assets by approximately £3.0 million.

6. Dividends

	Half year ended 30 June 2013 Pence	Half year ended 30 June 2012 Pence
Interim	4.30	4.30
	4.30	4.30

An interim dividend of 4.30 pence per share (30 June 2012: 4.30 pence) was declared by the directors at their meeting on 8 August 2013. These financial statements do not reflect this dividend payable. The 2012 final dividend of 4.60 pence (£41.9 million) was paid in the half year ended 30 June 2013 (30 June 2012: £35.2 million).

Notes to financial information

7. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £47.2 million (30 June 2012: £113.6 million) by the weighted average number of shares in issue during the half year of 915.4 million (30 June 2012: 908.1 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.

Continuing operations and Group	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m
Profit attributable to shareholders	47.2	113.6
Exceptional items, net of tax (note 4)	20.3	3.5
Adjusted profit attributable to shareholders	67.5	117.1

Weighted average number of shares (millions):		
Shares for basic earnings per share	915.4	908.1
Potentially dilutive share options and contingently issuable shares	9.4	12.4
Shares for diluted earnings per share	924.8	920.5

	Half year ended 30 June			
	Before exceptional items		**After exceptional items**	
Stated in pence	2013	2012	2013	2012
Continuing operations and Group:				
Basic earnings per share	7.4	12.9	5.2	12.5
Diluted earnings per share	7.3	12.7	5.1	12.3

8. Non-current assets

During the half year ended 30 June 2013, the Group acquired intangible assets at a cost of £17.9 million (30 June 2012: £24.3 million) and plant, property and equipment of £29.1 million (30 June 2012: £20.7 million).

At 30 June 2013 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £3.2 million (31 December 2012: £0.2 million).

Notes to financial information

9. Net debt

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

	30 June 2013 £m	31 December 2012 £m
Current assets		
Cash and short-term deposits	28.0	19.4
Current liabilities		
Bank overdrafts	(0.7)	(0.1)
Non-current liabilities		
Interest bearing loans and borrowings	(402.8)	(406.2)
Net debt	(375.5)	(386.9)

10. Note to the statement of cash flows

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m
Profit before tax and net finance expense	67.3	123.7
Non-cash exceptional items	15.7	3.7
Depreciation of property, plant and equipment	20.3	19.5
Amortisation of intangible assets	9.3	7.1
Share-based payments charge	1.1	4.6
(Increase)/decrease in other financial assets	(2.8)	0.6
Decrease in trade and other receivables	5.2	10.0
Increase in other financial liabilities	0.2	0.1
Increase in trade and other payables	15.8	1.9
Increase/(decrease) in provisions	1.0	(1.8)
Contribution to retirement benefit scheme	(4.8)	(5.2)
Share of results from joint venture	0.4	0.3
Share of results from associates	(1.6)	(1.7)
Other items	0.6	(1.5)
Cash generated by operations	127.7	161.3
Income taxes paid	(1.7)	(10.7)
Finance expense paid	(11.5)	(11.6)
Net cash inflow from operating activities	**114.5**	**139.0**

Notes to financial information

11. Related party transactions

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

	Half year ended 30 June 2013 £m	Half year ended 30 June 2012 £m
Equity investment		
- Joint venture [(1)]	0.8	-
Loans		
- Movement in loan balance with joint venture partner	(1.6)	(0.5)
- Movement in loan balance with joint venture	-	(0.1)
Dividends received		
- Associates [(2)]	2.3	1.2
Sundry expenditures		
- Associates [(3)]	23.7	18.9

(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 2013 £m	31 December 2012 £m
Loan balances outstanding		
- Joint venture partner	2.5	3.1
- Joint venture	0.4	0.4
Other receivables outstanding		
- Associates	3.0	5.0

12. Financial guarantees

Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £405.1 million (31 December 2012: £408.8 million). Bank guarantees have been issued on behalf of subsidiaries and joint ventures with a value of £13.8 million (31 December 2012: £13.7 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 £812.0 million (31 December 2012: £827.9 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £467.9 million (31 December 2012: £475.5 million) in relation to the turnover based element of the hotel rentals and £344.1 million (31 December 2012: £352.4 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 £336.4 million (31 December 2012: £351.6 million). Included in the net present value of the maximum exposure is £174.8 million (31 December 2012: £182.1 million) in relation to the turnover based element of the hotel rentals and £161.6 million (31 December 2012: £169.5 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.

12. Financial guarantees (continued)

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 2013 the Group has recognised a financial liability of £6.7 million (31 December 2012: £7.7 million) in respect of these guarantees. The reduction in the period has been recorded in operating expenses before depreciation and amortisation in the income statement. 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 1.6% has been used at 30 June 2013 (31 December 2012: 2.2%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.7 million.

13. Business combinations

a) Playtech

On 10 March 2013, the Group acquired 100% of the share capital of The Nation's Traffic Limited ("TNT"). On the same day, the Group signed a five year agreement with PT Turnkey Services Limited ("Playtech") for the provision of marketing, operational and CRM services ("marketing services agreement") to the Digital division of the Group, which also included a provision for the acquisition of an experienced and skilled digital marketing team with a track record of success with online gaming companies in order to accelerate the growth of Ladbrokes' online and mobile revenues. On 1 May 2013, TNT was renamed Ladbrokes Israel Limited and by this date forty experienced marketing personnel, the majority from Playtech, had joined Ladbrokes Israel Limited under the agreed terms of the acquisition.

In addition to the business combination described above, the marketing services agreement also provides the use of Playtech products, CRM tools and multiple brand approach, designed to drive customer lifetime values which will ultimately accelerate Ladbrokes' ability to grow online and mobile revenues. The consideration for these other services is excluded from the business combination and will be expensed as incurred. The costs associated with these arrangements are on an arm's length basis.

The fair value of the total consideration for the business combination at the date of the transaction was £35.3 million, including cash of £1.3 million and contingent consideration based on the growth of Ladbrokes' Digital EBITDA between 2012 and 2017. The estimated fair value of this contingent consideration at 10 March 2013 was £34.0 million. This contingent consideration is payable in April 2018 and April 2019, with advance payments due before these dates should performance exceed certain targets.

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 a range of EBITDA projections of the Digital business for 2017, which are based on the projections in place at the time of the acquisition with an estimated uplift for the benefits of the transaction, the predicted Ladbrokes plc EBITDA multiple in 2017 (8.25x); and the discount rate applied (a range of 12.9% to 16.1%, 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 £11.0 million and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £3.0 million. An increase of 1x in the EBITDA multiple would increase the contingent consideration by £4.0 million.

There have been no changes to the estimated fair value of the contingent consideration at 30 June 2013, which is classified at Level 3 in the fair value hierarchy.

Notes to financial information

13. Business combinations (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:	
Payables	(0.1)
Cash and cash equivalents	0.5
Identifiable net assets	0.4
Goodwill	34.9
	35.3
Satisfied by:	
Cash consideration	1.3
Contingent consideration	34.0
Total consideration	35.3
Cash consideration	1.3
Cash and cash equivalent balances acquired	(0.5)
Net cash flow on acquisition	0.8

The goodwill of £34.9 million arises from the acquisition of a pool of highly skilled and experienced marketing team which has a proven track record of success in digital marketing, business intelligence and CRM systems, to grow the lifetime values of online customers. None of this goodwill is expected to be deductible for tax purposes.

Ladbrokes Israel Limited has been consolidated in the Ladbrokes plc consolidated financial statements from 1 May 2013. Prior to its acquisition and the transfer of Playtech employees into the company, the company did not trade and therefore had no revenue or profits.

Acquisition-related costs of £1.0 million have been charged to exceptional items in the consolidated income statement for the period ended 30 June 2013.

b) Betdaq

On 28 February 2013, the Group acquired 100% of the issued share capital of Global Betting Exchange Alderney Limited ('GBEA'), a company registered in Alderney which operates the Betdaq betting exchange business. This acquisition was for total consideration of €42.8 million (£36.8 million), comprising cash consideration of €15.0 million (£12.9 million), the issue of Ladbrokes plc shares with a fair value of €18.6 million (£16.0 million) and contingent consideration with a fair value of €9.2 million (£7.9 million) at the acquisition date. The fair value of the consideration given as Ladbrokes plc shares is based on the number of shares issued (6,952,405 ordinary shares of 28 1/3 pence each) and the market value of the shares on the acquisition date, 28 February 2013.

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 (15%). 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 £1.7 million and a decrease of 2% in the discount rate would result in an increase in contingent consideration of £0.5 million. Decrease in the EBITDA multiple of 2 would result in a decrease in contingent consideration of £2.0 million.

There have been no changes to the estimated fair value of the contingent consideration at 30 June 2013, which is classified at Level 3 in the fair value hierarchy.

Notes to financial information

13. Business combinations (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	4.9
Intangible asset - customer relationships	2.2
Trade and other receivables	0.9
Trade and other payables	(1.9)
Cash and cash equivalents	0.1
Deferred tax liabilities on fair value adjustments	(0.9)
Identifiable net assets	5.3
Goodwill	31.5
	36.8
Satisfied by:	
Cash consideration	12.9
Shares	16.0
Contingent consideration	7.9
Total consideration	36.8
Cash consideration	12.9
Cash and cash equivalent balances acquired	(0.1)
Net cash flow on acquisition	12.8

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 6%. 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 £31.5 million, which includes £0.9 million arising as a result of deferred tax on fair value adjustments, arises from the acquisition of the skilled senior management and employees of GBEA, who have significant know-how in the betting exchange sector, as well as the potential to achieve synergies by exposing existing customers of the Group to Betdaq and the potential future access to the Betdaq exchange technology. None of this goodwill is expected to be deductible for tax purposes.

GBEA has been consolidated in the Ladbrokes plc consolidated financial statements from 28 February 2013. Since the date of acquisition, GBEA has contributed £3.9 million of revenue and a net loss of £0.3 million. Had GBEA been included for the period from 1 January 2013, the impact would not have been material to these financial statements.

In connection with the acquisition described above, on 28 February 2013 the Group also acquired 10% of the issued share capital of TBH Guernsey Limited ('TBHG'), a company registered in Guernsey, for cash consideration of €4.0 million (£3.4 million). This company owns the technology behind the Betdaq betting exchange business, and licences this technology to GBEA.

The transaction also gives the Group a call option to acquire the remaining shares after four years and a put option to sell its 10% stake and to recover the purchase consideration of €4.0 million in full. The fair value of these options is not considered material. These options are currently not exercisable. The Group has accounted for its investment in TBHG as an available for sale financial asset, initially recognised at fair value of €4.0 million (£3.4 million). There have been no changes in the fair value of the investment at 30 June 2013.

Acquisition-related costs of £1.3 million have been charged to exceptional items in the consolidated income statement for the period ended 30 June 2013.

Notes to financial information

13. Business combinations (continued)

c) Chronicle Bet

On 28 June 2013, the Group acquired the business and assets of Chronicle Bookmakers Limited ('Chronicle Bet') based in Ireland for a consideration of €6.0 million (£5.2 million). The Group has not yet completed its estimates of the fair value of assets acquired and liabilities assumed. The Group anticipates providing the full business combination disclosures in its annual report and accounts for the year ending 31 December 2013.

Acquisition-related costs of £0.4 million have been charged to exceptional items in the consolidated income statement for the period ended 30 June 2013.

Following the above business combinations, the Group's goodwill at 30 June 2013 is as follows:

	£m
At 31 December 2012	49.8
Additions:	
Betdaq	31.5
Playtech	34.9
At 30 June 2013	116.2