Thursday 4 August 2011

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2011

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Ladbrokes plc ("the Group") today announces its results for the half year ended 30 June 2011.

Financial Highlights

- Group net revenue[1] and operating profit[1][2] up 2.8% and 16.9% respectively excluding the impact of the World Cup[3] and one off VAT credit in 2010
- Group net revenue[1] of £487.8 million (2010: £492.1 million) and operating profit [1][2] £97.6 million (2010: £103.6 million)
- UK Retail machines gross win up 15.0% with gross win per terminal week of £821 (Q2 2011: £850)
- Net revenue growth after adjusting for the World Cup of 6.6% and 19.1% in Digital and Sportsbook respectively
- Group net debt of £449.4 million reduced by £42.6 million from £492.0 million at 31 December 2010
- Dividend of 3.90p up 1.3%

Key Operating Highlights

- Machines rollout completed early with accelerating growth in gross win per terminal in Q2
- Continued strong control of costs across the Group
- OTC amounts staked in UK Retail (excluding the World Cup) up 0.4% despite a challenging economic background
- New contract with Microgaming offers improved opportunities for growth through increased flexibility of content and better terms
- Roll out of a more flexible and intuitive website on track
- New proprietary pricing and trading tools, to enhance control of margin, now in use
- New trading platform launched and due to offer prices on football markets from start of the English Premier League

(1) Excluding High Rollers
(2) Profit before tax, finance costs, non-trading items and amortisation of customer relationships
(3) World Cup numbers do not include any estimate for substitution

Richard Glynn, Chief Executive, commented:

"In the face of challenging economic conditions it is pleasing to see good levels of underlying growth in both the UK Retail and Digital businesses.

We are making good progress in executing our strategy, taking immediate and practical steps to improve the business and also working towards achieving our technology milestones.

In UK Retail we are confident of delivering continued strong growth from machines whilst further demonstrating robust cost control and the ability to drive operating efficiencies.

We have taken significant steps to becoming more competitive online. Our new contract with Microgaming offers us more flexibility to work with other suppliers, thereby improving content, whilst continued enhancements to our website make it more functional, easier to use and engaging for customers.

We continue to focus on operational execution, investment in technology and the reinvigoration of our brand. We are on track to deliver a differentiated, personalised and more consistent offer across all platforms and are confident that the actions we are taking will revitalise the business."

Summary of Results

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m	*Year on year change %*
Revenue (excl High Rollers) [1]	487.8	492.1	*(0.9)*
Operating profit by division [1][2]			
UK Retail	75.4	76.9	*(2.0)*
Other European Retail	5.3	7.7	*(31.2)*
Digital	31.0	29.1	*6.5*
Core Telephone Betting	(3.3)	(0.3)	n/r
Corporate costs	(10.8)	(9.8)	*(10.2)*
Total operating profit excluding High Rollers [1][2]	97.6	103.6	*(5.8)*
High Rollers	(4.0)	8.9	*(144.9)*
Operating profit [1][2]	93.6	112.5	*(16.8)*
Earnings per share [1][3]	7.5p	7.7p	*(2.6)*
Interim dividend	3.90p	3.85p	*1.3*

(1) Continuing operations
(2) Profit before tax, finance costs, non-trading items and Digital amortisation of customer relationships
(3) Before non-trading items, High Rollers and corporation tax settlement benefit in the comparative period

Chief Executive's Review

Our strategic review in August 2010 laid out the key drivers to success:

Retail Excellence

Machine performance has benefitted from the efficient rollout of the new Global Draw terminals. Continuing operational focus has helped minimise the expected adoption lag and has driven enhanced performance. Gross win per terminal week was £821 in H1 reaching £850 in the second quarter. Machine gross win was 15.0% up in H1.

Our focus on machines will now move to improving the mix of games with new and exclusive content driving customer demand. We will also adopt improved yield management analysis to enhance utilisation and adjust machine formats to allow for local market conditions, tailoring the 'menu to the venue'.

OTC remains relatively resilient despite a difficult consumer environment and adverse sporting results in Q2, particularly in May. Amounts staked in the period were marginally ahead of last year with gross win margin flat when excluding the impact of the World Cup.

Cost control remains strong and guidance for the full year remains unchanged at 3.5% on a like for like basis.

Digital Capability

We continue to work towards a more competitive digital offering through a combination of investment in our eCommerce platform, better functionality, improved ease of use and broader content.

A good example of this is our renegotiated contract with Microgaming which we announced in June. New terms and greater flexibility increase the opportunities for growth for both parties. The ability to contract with other major software suppliers means we can now offer customers a wider range of products. We continue to make good progress in working with all of our key suppliers to evolve more commercial and flexible relationships.

During the period good progress has been made in developing our eCommerce platform.
As part of an initial refresh of our Sportsbook and ahead of a full re-launch early in 2012, we have introduced a sophisticated search facility which reduces the time it takes customers to find the bet they want, whilst enabling them to place a wager directly from ranked search results.

Mobile remains a priority with 18% of digital customers transacting through a mobile device in the past six months (7% in the same period in 2010). In the period we have delivered a Grand National app, extended our Sportsbook app to Android smartphones as well as being the first to offer live streaming of horseracing through a partnership with Racing UK. Further initiatives in H2 will include an extension of horseracing streaming to cover 100% of UK races and a new strategic partnership with O2.

We have overhauled our approach to online marketing, redesigning our affiliate programme, improving the optimisation of natural search results and moving to a new agency for pay per click, which has reduced fees and provided improved visibility of data.

Our strategy to recruit new players through the Sportsbook and migrating them across other products is showing early signs of success, with Sportsbook net revenue and new player sign ups growing by 19.1% and 37.6% respectively, after adjusting for the impact of the World Cup. The change in acquisition approach and a lower level of marketing spend in H1 has also yielded a 20.5% reduction in our adjusted CPA (Cost Per Acquisition).

Pricing, Trading and Liability Management

The development of our new trading platform is well underway. Successful trials during the finals of Wimbledon saw us provide over 60% more Bet in Play markets than our nearest rival for the Ladies Final. The next platform release will see us further automate the delivery of football thereby enabling a significant increase in the total number of Bet in Play events we are able to trade.

In addition to providing scale through an increase in events traded, the fully developed platform will increase productivity, simplify processes and provide superior liability management capability.

During the period we have invested in our algorithmic and trading teams and built several proprietary tools which increase the level of automation in trading, increasing efficiency and helping traders to better manage margin.

Customer and Brand

We said in February that the Ladbrokes brand needed to be reinvigorated in order to resonate with customers, building upon its inherent strengths of awareness and trust. In the coming week we will launch a new TV advertising campaign which is the first step in a coordinated campaign to make the brand more exciting, engage better with customers and help us grow market share.

We are on track to enhance our capabilities in BI/CRM (Business Intelligence/Customer Relationship Management), which is critical to identifying, retaining and growing the lifetime value of customers. We have aggregated customer data from numerous sources across the business and are well progressed in the selection process for a partner with whom we will move forward from Q4 of this year.

Regulatory Leadership

In the last few weeks the Government announced its intention to review both the licensing and taxation of offshore gambling. Ladbrokes will engage fully in the consultation process, ensuring the Treasury is aware of all the options and impacts of tax and regulation on a sector which employs 40,000 people and contributes £3 billion a year to the UK economy. We continue to contribute actively to the process of Levy modernisation and expect a formal consultation to take place later this year.

Trading and outlook

In July 2011 Group net revenue (excluding High Rollers) rose 13.6% year on year, after adjusting for the impact of the World Cup. In UK Retail OTC amounts staked (excluding the World Cup) were broadly flat with machine gross win per terminal week growing by 15.3%.

High Rollers in July 2011 generated a £0.5 million profit.

We continue to make good progress and are on track with the delivery of operational and technology milestones. Whilst remaining mindful of tough economic conditions and continuing uncertainty affecting consumer disposable incomes, we remain in line with Board expectations for the full year.

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Notes to editors:

The Company will be hosting an analyst presentation at the DB Auditorium (Winchester House, 75 London Wall, EC2N 2DB) at 9am this morning. This will be available to listen into by dialling +44 (0)207 138 0817 and using passcode 5479657.

Alternatively a live webcast of the presentation, with slides, will be available at the ‘Investor Centre’ on www.ladbrokesplc.com. A recording of the webcast will be available, at the same location, from 12pm (UK time) the same day. Similarly a replay phone facility will be available, for 7 days, on +44 (0)20 7111 1244 using passcode: 5479657#.

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'. Executive images are also available at www.vismedia.co.uk in the Ladbrokes section.

Unaudited interim results for the half year ended 30 June 2011

Continuing operations	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Net revenue (excluding High Rollers)	487.8	492.1
Net revenue from High Rollers	(4.7)	8.1
Net revenue	483.1	500.2
Operating profit[1][2] (excluding High Rollers)	97.6	103.6
Operating (loss)/profit[1][2] from High Rollers	(4.0)	8.9
Operating profit before amortisation of customer relationships[1][2]	93.6	112.5
Amortisation of customer relationships	(1.3)	-
Profit before net finance costs, tax and non-trading items	92.3	112.5
Net finance costs[2]	(15.7)	(17.8)
Interest income on tax settlement	-	20.0
Profit before tax and non-trading items[2]	76.6	114.7
Non-trading items before tax	(4.8)	(9.6)
Profit before tax	71.8	105.1
Income tax expense	(11.1)	(19.4)
Income tax settlement credit	-	261.9
Profit after tax – continuing operations	60.7	347.6
Profit/(loss) after tax – discontinued operations	0.2	(25.8)
Group profit after tax	60.9	321.8

EBITDA[2] – continuing	117.9	139.2
Basic earnings per share[2] – continuing	7.2p	39.3p
Basic earnings per share[2] (excluding tax settlement credit in the prior period) – continuing	7.2p	8.5p
Proposed dividend per share[3]	3.90p	3.85p

[1] Profit before tax, finance costs, non-trading items and amortisation of customer relationships.
[2] Before non-trading items and discontinued operations. Non-trading 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 business restructuring costs.
[3] The proposed interim dividend for the half year ended 30 June 2011 is 3.90p (30 June 2010: 3.85p).

Business Review

UK Retail

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m	*Year on year change %*
- OTC amounts staked	1,248.5	1,278.3	(2.3)
- Machines amounts staked	4,931.9	4,546.4	8.5
Amounts staked	6,180.4	5,824.7	6.1
- OTC gross win	202.2	211.5	(4.4)
- Machines gross win	170.2	148.0	15.0
Gross win	372.4	359.5	3.6
Adjustments to GW (1)	(34.7)	(26.8)	(29.5)
- OTC net revenue	197.7	207.3	(4.6)
- Machines net revenue	140.0	125.4	11.6
Net revenue	337.7	332.7	1.5
Gross profits tax	(29.6)	(31.1)	4.8
Associate income	1.2	1.7	(29.4)
Operating costs	(233.9)	(226.4)	(3.3)
Operating profit (2)	75.4	76.9	(2.0)

(1) Fair value adjustments, free bets and VAT
(2) Before non-trading items
(3) Greyhound tracks account for £5.4 million of amounts staked and £3.4 million of gross win in H1 2011 (H1 2010: £5.2 million of amounts staked and £3.7 million of gross win)

Though we remain cautious on the outlook for the UK economy, OTC activity continues to be relatively resilient. Amounts staked are up 0.4% in H1 after adjusting for the impact of last year's World Cup.

OTC gross win for the period declined by 4.4% to £202.2 million with OTC gross win margin of 16.0% versus 16.3% in 2010 (16.0% excluding the World Cup). The impact of a particularly poor Cheltenham festival in March was largely offset by improved results from Aintree, Epsom and Royal Ascot.

In May we completed the rollout of the new Global Draw terminals to all shops in the retail estate. Operational improvements, together with continuity of product between the old and new machines, have helped us to successfully mitigate any adoption lag. Machine gross win increased 15.0% during the period with gross win per terminal reaching £821 for the half (2010: £723) and £850 in Q2.

Operating costs, which exclude gross profits tax, increased £7.5 million or 3.3% in the half year to £233.9 million. Guidance for the full year remains at 3.5% on a like for like basis.

At 30 June 2011, there were 2,097 shops (31 December 2010: 2,098) in Great Britain. During the period, there were 13 openings, 14 shop closures, 14 relocations and 35 shop refurbishments. With a full pipeline of projects we still expect to open 50 new licences and close 20 over the full year.

Other European Retail – Ireland

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m	*Year on year change %*
- OTC amounts staked	308.1	292.7	5.3
- Machines amounts staked	74.4	56.5	31.7
Amounts staked	382.5	349.2	9.5
- OTC gross win	37.0	39.0	(5.1)
- Machines gross win	2.8	2.2	27.3
Gross win	39.8	41.2	(3.4)
Net revenue	38.6	39.9	(3.3)
Betting tax	(4.1)	(3.9)	(5.1)
Operating costs	(30.7)	(30.3)	(1.3)
Operating profit [(1)]	3.8	5.7	(33.3)

[(1)] Before non-trading items

OTC amounts staked grew by 5.3% across Ireland. Despite tough economic conditions, amounts staked in the Republic of Ireland grew 6.9% reflecting our strategy to reinvigorate the brand and work to grow market share on a localised basis.

Total gross win in Ireland of £39.8 million was down 3.4%, driven mainly by tough horse margins at the major festivals, with increased numbers of Irish winners at Cheltenham and Royal Ascot in particular.

Operating costs were up £0.4 million (1.3%) and overall operating profit fell to £3.8 million.

At 30 June 2011 there were 216 shops in the Republic of Ireland and 78 shops in Northern Ireland. During H1 we acquired ten shops from Bruce Bookmakers in the Republic of Ireland, opened one new licence and closed three.

Other European Retail – Belgium

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m	*Year on year change %*
Amounts staked	83.0	73.6	12.8
Net revenue	21.9	25.0	(12.4)
Betting tax	(3.9)	(8.6)	54.7
Gross profit	18.0	16.4	9.8
Operating costs	(15.5)	(13.5)	(14.8)
Operating profit [(1)]	2.5	2.9	(13.8)

[(1)] Before non-trading items

On 1 January 2011 Flanders and Wallonia moved from a turnover tax to a 15% gross profits tax and Brussels followed with the same gross profits tax rate from 1 April 2011. This change was passed on to the customer in full and in line with our expectations we have seen amounts staked increase steadily throughout the period, net revenue decline and gross profit increase, driven by the reduction in duty.

Costs have increased by £2.0 million driven by higher content charges and increased commissions on the higher levels of amounts staked.

Operating profit of £2.5 million is down 13.8%.

Other European Retail – Spain

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m	*Year on year change* %
Operating loss [1]	(1.0)	(0.9)	(11.1)

[1] Before non-trading items

The Spanish business has been impacted by the introduction of a national smoking ban which came into effect on 2 January 2011, unfavourable domestic football results and tough economic conditions. Despite this, amounts staked have grown by 14.6% (22.9% excluding the World Cup).

Sportium remains the market leader in Madrid and a focus on the next generation of Self Service Betting Terminals, to be delivered in H2 2011, will further improve our offer.

Trading commenced in Aragon on 27 April 2011, with 20 units open within the first two weeks and we will expand this further in H2. Navarra and Valencia have both issued decrees and we expect to make licence applications and to commence trading thereafter.

As at 30 June 2011 there were 134 corners (99 Madrid, 35 Aragon) and 17 standalone shops (Madrid only).

Digital

Digital	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m	*Year on year change %*
Net revenue			
- Sportsbook	33.7	33.5	0.6
- Casino	28.9	26.5	9.1
- Poker	7.4	10.7	(30.8)
- Bingo	7.2	6.4	12.5
- Games	8.5	8.5	-
Net revenue	85.7	85.6	0.1
Operating costs	(54.7)	(56.5)	3.2
Operating profit [1]	31.0	29.1	6.5

[1] Before non-trading items and amortisation of £1.3 million (2010: £nil) in respect of customer relationships.

The main focus within Digital has been on leveraging our inherent strength as a sportsbook brand. An acquisition strategy to recruit new players through Sportsbook can be seen in the growth of new player sign ups which are up 37.6% and in net revenue which grew 19.1%, both after excluding the impact of the World Cup. Bet In Play amounts staked grew by 7.7% in H1 and now deliver 49% of non-racing activity, up from 42% in H1 2010.

Overall, net revenue was marginally ahead in the half (6.6% excluding effect of the World Cup) with growth in Casino and Bingo offset by further declines in Poker. Net revenue growth in the period was also impacted by our previously announced decision to exit from unprofitable territories outside the UK. The UK now represents 79% of Digital revenue and showed year on year growth of 7.5%.

Our continued focus on the retention and reward of our most valuable customers is evident within Casino and Bingo where player yields are up 24.4% and 38.5% respectively, also reflecting improved player engagement and a strong contribution from our higher value customers.

Declining actives in both Casino (down 12.6%) and Bingo (down 18.2%) are a direct result of lower advertising support, with marketing spend weighted towards more profitable player recruitment.

Optimising customer acquisition routes, away from high CPA products towards Sportsbook is also reflected in improved efficiency with a 20.5% reduction in our adjusted CPA.

Net revenue for Games was flat at £8.5 million with a broadly constant number of actives and yield.

Poker net revenue fell 30.8% during the period to £7.4 million. The number of actives in the first half fell by 21.3% with customer yields down 11.3%.

The mobile channel continues to deliver strong revenue growth, with net revenue up 209% to £6.8 million and the number of customers growing by 153%. During the period 18% of the total Digital customer base (7% in H1 2010) transacted using this service.

Operating costs of £54.7 million fell 3.2% compared to H1 2010, mainly reflecting a lower level of marketing spend. Marketing investment was 17% of net revenue in the period compared to 24% in H1 2010, due in part to the impact of the World Cup. We expect the rate of marketing investment to be slightly higher in H2.

Core Telephone Betting

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m	*Year on year change %*
Amounts staked	150.0	137.3	9.2
Net revenue	3.9	8.9	(56.2)
Gross profits tax	(0.5)	(1.3)	61.5
Operating costs	(6.7)	(7.9)	15.2
Operating loss (1)	(3.3)	(0.3)	n/r

(1) Before non-trading items

In the Core Telephone Betting business amounts staked of £150.0 million has grown 9.2% in the period.

Gross win margin of 2.7% (2010: 6.6%) was impacted by a poor run on our higher staking customers, notably around major festivals and the Champions League final.

Operating costs of £6.7 million were 15.2% below 2010 with the closure of our Liverpool call centre in 2010 being the main saving.

A loss of £3.3 million was made in the period (2010: £0.3 million).

High Rollers

High Rollers generated an operating loss of £4.0 million (2010: £8.9 million profit).

Financial review

Revenue

Revenue from continuing operations decreased by £17.1 million (3.4%) to £483.1 million (H1 2010: £500.2 million). Excluding High Rollers, revenue decreased by £4.3 million (0.9%) to £487.8 million (H1 2010: £492.1 million). Excluding High Rollers and the World Cup, revenue from continuing operations increased £13.3 million (2.8%). The increase is mainly attributable to improved machines performance in UK Retail, Sportsbook and Casino in Digital partially offset by a decline in Other European Retail, Poker in Digital and Core Telephone Betting.

Profit before finance costs, tax, non-trading items and amortisation of customer relationships

Profit before finance costs, tax, non-trading items and amortisation of customer relationships decreased by £18.9 million (16.8%) to £93.6 million (H1 2010: £112.5 million). Excluding High Rollers, profit before finance costs, tax, non-trading items and amortisation of customer relationships decreased by £6.0 million (5.8%) to £97.6 million (H1 2010: £103.6 million). Excluding High Rollers, the benefit of the World Cup and one off VAT credit in 2010, profit before finance costs, tax, non-trading items and amortisation of customer relationships increased by £14.1 million (16.9%) reflecting increased profit in UK Retail and Digital partially offset by decreased profit in Other European Retail, increased losses in Core Telephone Betting and increased corporate costs.

Corporate costs

Before non-trading items, total corporate costs rose £1.0 million to £10.8 million. The increase largely reflects non-cash costs relating to long term share incentive schemes.

Amortisation of customer relationships

In the half year ended 30 June 2011 there is a £1.3 million amortisation charge within Digital in respect of customer relationships (2010: £nil). We expect this charge to be £2.6 million for the full year 2011.

Finance costs

The net finance costs of £15.7 million were £2.1 million lower than last year (H1 2010: £17.8 million) mainly reflecting lower average net debt. In 2010, there was also interest income of £20.0 million in respect of an interest rebate following the HMRC tax settlement.

Profit before tax

The decrease in trading profits as well as a higher overall finance cost, due to the one off interest rebate in 2010 described above, has resulted in a 33.2% decrease in first half profit for continuing operations before taxation and non-trading items to £76.6 million (H1 2010: £114.7 million).

Non-trading items before tax

£4.3 million of non-trading losses before tax include a £1.1 million loss on the closure of shops and disposal of assets within UK and Other European Retail, £1.3 million relating to corporate transactions and £1.9 million relating to business restructuring costs.

Following the termination of the Group's interest rate swaps in April 2010, the remaining £0.5 million of losses deferred in equity have been recycled to the income statement as a non-trading finance cost.

Taxation

The Group taxation charge for continuing operations before non-trading items of £11.7 million represents an effective tax rate of 15.3% (H1 2010: 19.0%, excluding the 2010 corporation tax settlement described below). The effective tax rate of 15.3% is a best estimate of the annual tax rate for 2011.

In 2010 the Group reached a settlement with HMRC which covered substantially all outstanding items in respect of the tax years through to 31 December 2007. The settlement resulted in the recognition in the 2010 income statement of a £261.9 million tax credit in relation to prior years.

Dividend

The Board today announces an interim dividend of 3.90 pence per share. The dividend will be payable on 1 December 2011 to shareholders on the register on 12 August 2011.

Earnings per share (EPS) – Continuing operations

Underlying
EPS (before non-trading items, High Rollers and excluding the benefit of the corporation tax settlement in the comparative period) decreased 2.6% to 7.5 pence (H1 2010: 7.7 pence), reflecting the decreased profit before tax and higher weighted average number of shares.

Total
EPS (before non-trading items) decreased 81.7% to 7.2 pence (H1 2010: 39.3 pence), reflecting the benefit of the corporation tax settlement in H1 2010. EPS (including the impact of non-trading items) was 6.7 pence (H1 2010: 38.5 pence). Fully diluted EPS (including the impact of non-trading items) was 6.6 pence (H1 2010: 38.4 pence) after adjustment for outstanding share options.

Earnings per share (EPS) – Group

Underlying
EPS (before non-trading items, High Rollers and excluding the benefit of the corporation tax settlement in the comparative period) increased 11.9% to 7.5 pence (H1 2010: 6.7 pence), reflecting the losses from discontinued operations in H1 2010.

Total
EPS (before non-trading items) decreased 81.3% to 7.2 pence (H1 2010: 38.4 pence), reflecting the benefit of the corporation tax settlement in H1 2010. EPS (including the impact of non-trading items) was 6.7 pence (H1 2010: 35.7 pence). Fully diluted EPS (including the impact of non-trading items) was 6.6 pence (H1 2010: 35.5 pence) after adjustment for outstanding share options.

Cash flow, capital expenditure and borrowings

Cash generated by operations was £130.3 million. After net finance costs of £11.1 million, income taxes paid of £12.7 million and £27.6 million on capital expenditure and intangible additions, cash inflow was £78.9 million.

At 30 June 2011, gross borrowings of £464.5 million less cash and cash equivalents of £15.1 million have resulted in a net debt of £449.4 million.

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 2011 £m	Half year ended 30 June 2010 £m
Gross win	532.7	539.4
Free bets, promotions, bonuses	(20.8)	(17.0)
VAT	(28.8)	(22.2)
Revenue	483.1	500.2

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

Gross win	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
UK Retail	372.4	359.5
Other European Retail	61.7	66.2
Digital	99.1	97.8
Core Telephone Betting	4.1	9.1
High Rollers	(4.6)	6.8
Total	532.7	539.4

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

Net revenue	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
UK Retail	337.7	332.7
Other European Retail	60.5	64.9
Digital	85.7	85.6
Core Telephone Betting	3.9	8.9
High Rollers	(4.7)	8.1
Total	483.1	500.2

Principal risks and uncertainties

Key risks are reviewed by the Operations Board 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 24 to and 26 of the Group's Annual Report and Accounts 2010 and are as follows:

Strategy

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

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

Marketplace

Changes in the economic environment and consumer leisure spend.

Financial

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

Operational

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

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

Marketplace

Competition

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

Operational and bookmaking

Bookmaking

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

Sporting schedules and cancellations

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

High fixed cost base

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

Loss of key locations

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

Information technology and communications

Technology changes

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

Technology failure

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

Data disclosure

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

Failure in the supply chain

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

Unaudited financial statements
Interim consolidated income statement

	Half year ended 30 June 2011		Half year ended 30 June 2010	
	Before non-trading items[1] £m	Total £m	Before non-trading items[1] £m	Total £m
Continuing operations				
Amounts staked[2]	7,944.2	7,944.2	7,566.3	7,566.3
Revenue	483.1	483.1	500.2	500.2
Cost of sales before depreciation and amortisation	(323.9)	(325.0)	(324.0)	(324.0)
Administrative expenses	(41.8)	(45.0)	(38.5)	(39.6)
Share of results from joint venture and associates	0.5	0.5	1.5	1.5
EBITDA	117.9	113.6	139.2	138.1
Depreciation, amortisation and amounts written off non-current assets	(25.6)	(25.6)	(26.7)	(26.7)
Profit before tax and finance costs	92.3	88.0	112.5	111.4
Finance costs	(15.8)	(16.3)	(18.3)	(27.7)
Finance income[3]	0.1	0.1	20.5	21.4
Profit before taxation	76.6	71.8	114.7	105.1
Income tax expense	(11.7)	(11.1)	(21.8)	(19.4)
Income tax settlement credit	-	-	261.9	261.9
Profit for the period – continuing operations	64.9	60.7	354.8	347.6
Discontinued operations				
Profit/(loss) for the period from discontinued operations	-	0.2	(8.7)	(25.8)
Profit for the period	64.9	60.9	346.1	321.8
Attributable to:				
Equity holders of the parent	64.9	60.9	346.1	321.8
Non-controlling interests	-	-	-	-
	64.9	60.9	346.1	321.8
Earnings per share from continuing operations:				
- basic	7.2p	6.7p	39.3p	38.5p
- diluted	7.1p	6.6p	39.2p	38.4p
Earnings per share on profit for the period:				
- basic	7.2p	6.7p	38.4p	35.7p
- diluted	7.1p	6.6p	38.2p	35.5p
Proposed dividends[4]	3.90p	3.90p	3.85p	3.85p

[1] Non-trading 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 business restructuring costs. Details of the non-trading items are given in note 4 and of discontinued operations in note 6 to the financial statements.
[2] Amounts staked does not represent the Group's statutory revenue and comprises the total amounts staked by customers on betting and gaming activities.
[3] In the prior period finance income includes £20.0 million interest income on the tax settlement.
[4] The dividends paid in the half years ended 30 June 2011 and 30 June 2010 were £33.8 million (3.75 pence per share) and £nil respectively. An interim dividend of 3.90 pence per share (2010: 3.85p) was declared by the directors on 4 August 2011. These financial statements do not reflect this dividend payable.

Interim consolidated statement of comprehensive income

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Profit for the period	60.9	321.8
Currency translation differences	3.6	(10.7)
Recycling of currency translation differences	-	(10.8)
Total foreign currency translation income/(expense)	3.6	(21.5)
Actuarial gains/(losses) on defined benefit pension scheme	3.9	(8.0)
Tax on actuarial gains/(losses) on defined benefit pension scheme	(1.0)	2.2
Total actuarial gains/(losses) on defined benefit pension scheme, net of tax	2.9	(5.8)
Net losses on cash flow hedges	-	(0.4)
Tax on net losses on cash flow hedges	-	0.1
Total net losses on cash flow hedges, net of tax	-	(0.3)
Recycling of losses on cash flow hedges	0.5	-
Tax on recycling of losses on cash flow hedges	(0.1)	-
Total recycling of losses on cash flow hedges, net of tax	0.4	-
Total other comprehensive gain/(loss) for the period	6.9	(27.6)
Total comprehensive income for the period	67.8	294.2
Attributable to:		
Equity holders of the parent	67.8	294.2
Non-controlling interests	-	-
	67.8	294.2

Interim consolidated balance sheet

	30 June 2011 £m	31 December 2010 £m
ASSETS		
Non-current assets		
Goodwill and intangible assets	617.2	610.1
Property, plant and equipment	204.1	207.4
Interest in joint venture	4.2	3.0
Interests in associates and other investments	15.1	14.5
Other financial assets	6.7	5.6
Deferred tax assets	62.0	69.3
Retirement benefit asset	40.8	34.5
	950.1	944.4
Current assets		
Trade and other receivables	72.7	84.6
Cash and short-term deposits	15.9	17.9
	88.6	102.5
Total assets	**1,038.7**	**1,046.9**
LIABILITIES		
Current liabilities		
Interest bearing loans and borrowings	(83.9)	(108.3)
Trade and other payables	(141.8)	(134.4)
Corporation tax liabilities	(19.9)	(26.2)
Other financial liabilities	(1.1)	(1.1)
Provisions	(1.3)	(1.3)
	(248.0)	(271.3)
Non-current liabilities		
Interest bearing loans and borrowings	(381.4)	(401.6)
Other financial liabilities	(10.6)	(10.8)
Deferred tax liabilities	(91.9)	(93.3)
Provisions	(13.7)	(12.9)
	(497.6)	(518.6)
Total liabilities	**(745.6)**	**(789.9)**
Net assets	**293.1**	**257.0**
EQUITY		
Issued share capital	266.2	266.1
Share premium account	194.5	194.1
Treasury and own shares	(114.0)	(114.4)
Retained earnings	(68.3)	(99.7)
Foreign currency translation reserve	14.1	10.5
Equity shareholders' funds	292.5	256.6
Non-controlling interests	0.6	0.4
Total equity	**293.1**	**257.0**

Interim consolidated statement of changes in equity

	Issued share capital £m	Share premium account £m	Treasury and own shares £m	Retained earnings £m	Foreign currency translation reserve £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
At 1 January 2010	**264.6**	**189.5**	**(112.5)**	**(430.8)**	**28.8**	**(60.4)**	**-**	**(60.4)**
Profit for the period	-	-	-	321.8	-	321.8	-	321.8
Other comprehensive loss	-	-	-	(6.1)	(21.5)	(27.6)	-	(27.6)
Total comprehensive income	-	-	-	315.7	(21.5)	294.2	-	294.2
Issue of shares	1.1	4.6	-	-	-	5.7	-	5.7
Cost of share-based payments	-	-	-	2.3	-	2.3	-	2.3
Net movement in shares held in ESOP trusts	-	-	(2.5)	2.5	-	-	-	-
Non-controlling interest	-	-	-	-	-	-	0.4	0.4
At 30 June 2010	**265.7**	**194.1**	**(115.0)**	**(110.3)**	**7.3**	**241.8**	**0.4**	**242.2**
At 1 January 2011	**266.1**	**194.1**	**(114.4)**	**(99.7)**	**10.5**	**256.6**	**0.4**	**257.0**
Profit for the period	-	-	-	60.9	-	60.9	-	60.9
Other comprehensive income	-	-	-	3.3	3.6	6.9	-	6.9
Total comprehensive income	-	-	-	64.2	3.6	67.8	-	67.8
Issue of shares	0.1	0.4	-	-	-	0.5	-	0.5
Cost of share-based payments	-	-	-	3.4	-	3.4	-	3.4
Net movement in shares held in ESOP trusts	-	-	0.4	(2.4)	-	(2.0)	-	(2.0)
Equity dividends	-	-	-	(33.8)	-	(33.8)	-	(33.8)
Non-controlling interest	-	-	-	-	-	-	0.2	0.2
At 30 June 2011	**266.2**	**194.5**	**(114.0)**	**(68.3)**	**14.1**	**292.5**	**0.6**	**293.1**

Interim consolidated statement of cash flows

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Net cash flows from operating activities[1]	106.4	205.9
Cash flows from investing activities		
Interest received	0.1	3.1
Payments for intangible assets	(10.2)	(4.8)
Purchase of property, plant and equipment	(17.4)	(12.8)
Proceeds from the sale of property, plant and equipment	0.7	0.4
Purchase of interest in joint venture	(1.2)	(0.8)
Proceeds from Casino licence disposal	-	4.3
Costs of disposal of discontinued operations	-	(1.6)
Cash disposed with discontinued operations	-	(1.7)
	(28.0)	(13.9)
Cash flows from financing activities		
Proceeds from issue of shares	0.4	5.6
Proceeds from borrowings	-	221.5
Purchase of ESOP shares	(2.1)	(5.6)
Repayment of borrowings	(45.5)	(393.9)
Dividends paid	(33.8)	-
	(81.0)	(172.4)
Net (decrease)/increase in cash and cash equivalents	(2.6)	19.6
Cash and cash equivalents at beginning of the period	17.7	28.0
Cash and cash equivalents at end of the period	15.1	47.6
Cash and cash equivalents comprise:		
Cash at bank and in hand and current asset investments	15.9	47.9
Bank overdraft	(0.8)	(0.3)
	15.1	47.6
Analysed as:		
Continuing operations	15.1	47.6
	15.1	47.6

[1] *See note 11 for a reconciliation between profit before tax and finance costs and net cash flows from operating activities.*

Notes to the financial statements

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 2011 were authorised for issue in accordance with a resolution of the directors on 4 August 2011.

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 2010 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 2011 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 2010.

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 2010 except for commencing to amortise the customer relationships intangible asset and the adoption of new standards and interpretations as noted below.

There have been a number of new and amended standards and interpretations effective in the period, including IAS 24 Related Party Disclosures (Revised), IAS 32 Financial Instruments: Presentation (Amendment), IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment), IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments and the Improvements to IFRS (issued 2010), none of which have had a significant impact on the results or financial position of the Group.

In addition, the Group is currently assessing the impact of other new and amended standards and interpretations that are not yet effective, including IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets, IFRS 7 Financial Instruments (Amendment) and IFRS 9 Financial Instruments – Classification and Measurement.

The interim financial information was approved by a duly appointed and authorised committee of the Board of Directors on 4 August 2011 and is unaudited. The auditors have carried out a review and their report is set out on page 32.

The financial information set out in this document in respect of the year ended 31 December 2010 does not constitute the Group's statutory accounts for the year ended 31 December 2010. The auditor's report on the statutory accounts for the year ended 31 December 2010 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 2010 have been delivered to the Registrar of Companies.

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

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

The non-trading 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 Group's continuing businesses are reported and measured according to the nature of the services provided and the Group's operating segments are aggregated into five reportable segments. The Group's reportable segments are:

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

The Board assesses the performance of operating segments based on a measure of profit before amortisation of customer relationships, interest and tax. This measurement basis excludes the effect of non-trading income and expenditure from the operating segments.

Half year ended 30 June 2011	Revenue £m	Profit before taxation and non-trading items £m	Profit before taxation and after non-trading items £m
Continuing operations:			
UK Retail	337.7	75.4	73.6
Other European Retail	60.5	5.3	5.1
Digital[(1)]	85.7	29.7	28.7
Core Telephone Betting	3.9	(3.3)	(3.3)
High Rollers	(4.7)	(4.0)	(4.0)
Segment revenue and profit	483.1	103.1	100.1
Corporate costs		(10.8)	(12.1)
Profit before tax and net finance costs		92.3	88.0
Net finance costs		(15.7)	(16.2)
Profit before tax (continuing operations)		76.6	71.8
Discontinued operations			
Hotels		-	0.2
Profit before taxation (discontinued operations)		-	0.2
Group revenue and profit	483.1	76.6	72.0

(1) *Included within the profit before taxation and before and after non-trading items in the Digital segment is £1.3 million of amortisation relating to customer relationships which is excluded from the non-statutory operating profit measure.*

3. Segment information (continued)

Half year ended 30 June 2010	Revenue £m	Profit before taxation and non-trading items £m	Profit before taxation and after non-trading items £m
Continuing operations:			
UK Retail	332.7	76.9	77.0
Other European Retail	64.9	7.7	7.7
Digital	85.6	29.1	27.9
Core Telephone Betting	8.9	(0.3)	(0.3)
High Rollers	8.1	8.9	8.9
Segment revenue and profit	500.2	122.3	121.2
Corporate costs		(9.8)	(9.8)
Profit before tax and net finance costs		112.5	111.4
Interest income on corporation tax settlement		20.0	20.0
Net finance costs		(17.8)	(26.3)
Profit before taxation (continuing operations)		114.7	105.1
Discontinued operations			
Italy Retail	8.3	(9.1)	(26.2)
Loss before taxation (discontinued operations)		(9.1)	(26.2)
Group revenue and profit	508.5	105.6	78.9

4. Non-trading items

Continuing operations:	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Business restructuring costs	(1.9)	-
Corporate transaction costs	(1.3)	(1.1)
Loss on closure of UK Retail shops	(0.9)	-
Loss on closure of Other European Retail shops	(0.2)	-
Bond and interest rate swaps termination costs	(0.5)	(8.6)
Net unrealised gain on retranslation of foreign currency borrowings	-	0.1
Total non-trading items before taxation	(4.8)	(9.6)
Non-trading tax credit	0.6	2.4
Non-trading items after taxation	(4.2)	(7.2)

Non-trading items relating to discontinued operations are shown in note 6.

5. Taxation

The total tax charge on continuing operations was £11.1 million (half year ended 30 June 2010: credit of £242.5 million).

The Chancellor, in the Budget on 23 March 2011, announced a further reduction in the main rate of corporation tax of 1% to 26%, in addition to the reductions announced in 2010. This legislation was substantively enacted on 29 March 2011. There will be progressive annual reductions of a further 1% until a rate of 23% is reached with effect from 1 April 2014. The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 26%. 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 £11 million and to reduce the deferred tax assets by approximately £7 million.

6. Discontinued operations

Profit/(loss) from discontinued operations comprises the following:

	Half year ended 30 June 2011		Half year ended 30 June 2010	
	Hotels	Total	Italy Retail	Total
	£m	£m	£m	£m
Revenue	-	-	8.3	8.3
Expenses	-	-	(17.4)	(17.4)
Loss before tax and non-trading items	-	-	(9.1)	(9.1)
Loss on disposal of business/assets	-	-	(15.8)	(15.8)
Litigation and transaction costs	-	-	(1.3)	(1.3)
Gain on financial guarantee contracts	0.2	0.2	-	-
Profit/(loss) before tax	0.2	0.2	(26.2)	(26.2)
Tax credit on trading items	-	-	0.4	0.4
Profit/(loss) for the period	0.2	0.2	(25.8)	(25.8)
Loss for the period before non-trading items	-	-	(8.7)	(8.7)

7. Dividends paid and proposed

Pence per share	Half year ended 30 June 2011 Pence	Half year ended 30 June 2010 Pence
Interim	3.90	3.85
	3.90	3.85

An interim dividend of 3.90 pence per share (2010: 3.85 pence) was declared by the directors at their meeting on 4 August 2011. These financial statements do not reflect this dividend payable. The 2010 final dividend of 3.75 pence (£33.8 million) was paid in the half year ended 30 June 2011.

8. Earnings per share

Basic earnings per share has been calculated by dividing the profit attributable to shareholders of the Company of £60.9 million (30 June 2010: £321.8 million) by the weighted average number of shares in issue during the half year of 907.5 million (30 June 2010: 902.1 million).

The calculation of adjusted earnings per share before non-trading items is included as it provides a better understanding of the underlying performance of the Group. Non-trading items are defined in note 2 and disclosed in notes 4 and 6.

	Half year ended 30 June 2011 £m	Half year ended 30 June 2010 £m
Continuing operations		
Profit attributable to shareholders	60.7	347.6
Non-trading items net of tax	4.2	7.2
Adjusted profit attributable to shareholders	64.9	354.8
Discontinued operations		
Profit/(loss) attributable to shareholders	0.2	(25.8)
Non-trading items net of tax	(0.2)	17.1
Adjusted loss attributable to shareholders	-	(8.7)
Group		
Profit attributable to shareholders	60.9	321.8
Non-trading items net of tax	4.0	24.3
Adjusted profit attributable to shareholders	64.9	346.1

	Half year ended 30 June 2011	Half year ended 30 June 2010
Weighted average number of shares (millions):		
Shares for basic earnings per share	907.5	902.1
Potentially dilutive share options and contingently issuable shares	9.1	3.8
Shares for diluted earnings per share	916.6	905.9

Earnings per share (pence)	**Before non-trading items**		**After non-trading items**	
	Half year ended 30 Jun 2011	Half year ended 30 Jun 2010	Half year ended 30 Jun 2011	Half year ended 30 Jun 2010
Continuing operations				
Basic earnings per share	7.2	39.3	6.7	38.5
Diluted earnings per share	7.1	39.2	6.6	38.4
Group				
Basic earnings per share	7.2	38.4	6.7	35.7
Diluted earnings per share	7.1	38.2	6.6	35.5

9. Property, plant and equipment

During the half year ended 30 June 2011, the Group acquired assets with a cost of £17.4 million (half year ended 30 June 2010: £12.8 million).

Assets with a net book value of £0.9 million were disposed of by the Group during the half year ended 30 June 2011 (half year ended 30 June 2010: £0.4 million).

At 30 June 2011 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.1 million (31 December 2010: £1.2 million).

10. Net debt

The Group's net debt is as follows:

	30 June 2011 £m	31 December 2010 £m
Current assets		
Cash and short-term deposits	15.9	17.9
Current liabilities		
Bank overdrafts	(0.8)	(0.2)
Interest bearing loans and borrowings	(83.1)	(108.1)
Non-current liabilities		
Interest bearing loans and borrowings	(381.4)	(401.6)
Net debt	(449.4)	(492.0)

11. Note to the statement of cash flows

	Half year ended 30 June 2011	Half year ended 30 June 2010
	£m	£m
Profit before tax and finance costs - continuing[1]	92.3	112.5
Loss before tax and finance costs - discontinued[1]	-	(9.1)
Profit before tax and finance costs[1]	92.3	103.4
Depreciation	20.9	23.9
Amortisation of intangible assets	4.7	2.8
Cost of share-based payments	3.4	2.3
Increase in other financial assets	(0.9)	(0.7)
Decrease in trade and other receivables	12.2	30.5
Decrease in other financial liabilities	(0.2)	(4.9)
Increase in trade and other payables	2.3	16.0
Increase/(decrease) in provisions	0.8	(2.2)
Contribution to retirement benefit scheme	(3.2)	(3.4)
Share of results from joint venture	0.1	0.2
Share of results from associate	(0.6)	(1.7)
Other items	(1.5)	(1.5)
Cash generated by operations	130.3	164.7
Income taxes (paid)/received	(12.7)	67.9
Finance costs paid	(11.2)	(26.7)
Net cash inflow from operating activities	106.4	205.9

[1] *Before non-trading items*

Cash and cash equivalents in the statement of cash flows comprises cash at bank and other short-term highly liquid investments with a maturity of three months or less and overdrafts:

	30 June 2011	31 December 2010
	£m	£m
Continuing operations		
Cash at bank and in hand	15.9	17.9
Bank overdrafts (included in current liabilities)	(0.8)	(0.2)
Total Group	15.1	17.7

12. 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 2011 £m	Half year ended 30 June 2010 £m
Equity investment		
- Joint venture[1]	1.2	0.8
Additional loans provided		
- Joint venture partner	1.2	0.7
Sundry expenditures		
- Associates	17.6	16.8

[1] Equity investment in Sportium Apuestas Deportivas SA.

The following table provides related party outstanding balances.

	30 June 2011 £m	31 December 2010 £m
Loan balances outstanding		
- Joint venture partner	6.2	5.0
Other receivables outstanding		
- Associates	2.9	3.4

13. Contingent liabilities

The following contingent liabilities exist at 30 June 2011:

Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £467.9 million (31 December 2010: £513.4 million). In addition, subsidiaries have guaranteed loans of £0.1 million (31 December 2010: £0.1 million) given in the normal course of business to other subsidiary companies.

Bank guarantees have been issued on behalf of subsidiaries and joint ventures with a value of £23.8 million (31 December 2010: £24.0 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 2011 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 £880.4 million (31 December 2010: £901.2 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £498.3 million (31 December 2010: £505.9 million) in relation to the turnover based element of the hotel rentals and £382.1 million (31 December 2010: £395.3 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 2011 is £365.9 million (31 December 2010: £385.9 million). Included in the net present value of the maximum exposure is £186.1 million (31 December 2010: £193.4 million) in relation to the turnover based element of the hotel rentals and £179.8 million (31 December 2010: £192.5 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.

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 2011 the Group has recognised a financial liability of £7.9 million (31 December 2010: £8.1 million) in respect of these guarantees. The reduction since the year end is due to time lapse.

The key assumption in the probability model is the hotels default rate. A rate of 2.2% has been used at 30 June 2011 (31 December 2010: 2.2%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.4 million.

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 2010. Since that date Ian Bull has been appointed as Chief Financial Officer of the Group. A list of current directors is maintained on the Ladbrokes plc website www.ladbrokesplc.co.uk.

By order of the Board

R Glynn I Bull

4 August 2011

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 six months ended 30 June 2011 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 Services Authority.

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Ernst & Young LLP
London
4 August 2011