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LAD.L - Preliminary 2013 Ladbrokes plc Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 25, 2014 / 9:30AM GMT

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PRESENTATION

Peter Erskine *- Ladbrokes plc - Chairman*

Well, good morning, everyone, and thanks for joining us today for our 2013 preliminary results presentation.

It will come as no surprise to anyone in the room but our results reflect that it was a difficult year for the business. Nor should it be a surprise that while the 2013 financials are disappointing, the belief both of the Board and the Management is that the results do not reflect the significant operational progress made in the business. 2013 was a year of accelerated change and with that change, came disruption. In hindsight, it's clear we were too optimistic on our ability to mitigate the impact. The lessons from this were learned and we moved on.

Not surprisingly, particularly from the second half of last year, the Board required greater clarity on the operational progress being made in implementing the strategy. The executive team and the business responded well to this challenge. The planned milestones have been hit and the remainder are on track. There are early signs of progress. The new mobile offer on Mobenga is a much better product for our customers and our customers are responding. There's no room for complacency but the Board is encouraged.

2014 is a pivotal year. Key operational changes have to be delivered, particularly in Digital and particularly in half one. That means that patience is still required because the benefits do not come through immediately. There remains hard work to be done. And as is made clear, the first half of the year is about delivery. The second half is about the benefits coming through. I can assure you the whole business is focused on that.

Before I hand over to the team, I just like to take a moment to reflect on the current political uncertainty. While noise around the debate on B2 machines may be exacerbated by opportunists and vested interests, responsible gambling is a subject that we take very seriously. We are I feel leading the debate and are contributing fully to the industry response and we remain hopeful that the evidence-based decisions will be taken. Richard, I know, will cover this in more detail.

So now I would like to hand over to Ian and Richard to take you through the presentation and then we will be joined on the stage by Nick, Jim and Damian, for your questions. Thank you. Over to you, Ian.

Ian Bull - *Ladbrokes plc - CFO*

Thank you, Peter, and good morning, everyone. As we've said previously, 2013 was a financially disappointing year for Ladbrokes. Net revenue was flat at GBP1.11b adjusted for MGD, reflecting a very weak Q3 and a much stronger Q4, which was up 2.3%. Operating profit of GBP138.3m was down around 33%, a result consistent with our post-close update in January.

Profit before tax was down a similar percentage although finance costs, as you can see, were lower by GBP4.7m. High Rollers of GBP5.9m were slightly better in the interims, where we recorded GBP3.4m.

We guided to a 10% tax rate for the full year and I'm pleased to say that we've been able to continue to benefit from the offset of historic losses that we are now able to use, and these were previously disclosed in our accounts. The tax rate for this year was 5.1%, similar to last year. We expect the tax rate to rise to around 10% in the current year and to stay around this level for 2015 barring any external or political changes.

Underlying EPS, excluding High Rollers and exceptionals at 11.7p was down 36%. And dividends are proposed at 8.9p per share, a level consistent with the Board's dividend commitment and comfortably covered.

As you can see, net debt finished just below GBP400m and up at around GBP12m year over year, having spent GBP37m on business conversations -- combinations, excuse me, and GBP13m on exceptional costs. That means that our gearing ratio is 1.96 times net debt to EBITDA, excluding High Rollers.

I'm now going to run through the Group's financial results, review the performance of each division and summarize the guidance we've issued today for 2014.

The reduction in Group operating profit was experienced in all of our business units. I'm going to deal with significant items in Digital, UK, and European Retail, in some detail in the next few slides. So before I do, let me briefly touch on a couple of items on the right-hand side of the chart.

Firstly, in telephones, our business continues to decline with revenue down 32% this year, as we see a continued migration to Digital platforms. We have encouraged this by instigating a minimum bet per call at the end of 2012, and we expect those trends and losses to continue, even though we have taken action to reduce operating cost.

We have continued to focus on cost across the Company and mitigated as much as possible, saving around GBP21m this year, with GBP14m in Retail, which I will come back to.

In corporate costs from the chart, you can see we are GBP7m or so better than 2012. And we have done significant work around central cost levels in 2013 and I expect 2014 level to be no higher than those experienced in 2012, as we continue to push cost efficiency.

So let's look at UK Retail. Well, 2013 was a tough year in UK Retail after a very strong performance in 2012. Our team has worked really hard this year, increasing our portfolio by a net 101 shops, deployed nearly 1400 SSBTs, and made a significant investment in broadcast on the quality of our Retail offer.

Overall in 2013, gross win was broadly flat with machine growth more than offsetting a small decline in OTC gross win. But cost pressure, in particular from MGD and content together hitting us by GBP22m, resulted in a significant decline in EBIT for the year. Costs rose in line with our guidance in August, and I will come back to this in one moment.

Our UK Retail business is the key cash-generating engine of the Group. During 2013, our UK shop estate generated cash flow of GBP124.8m after CapEx of GBP44.7m. This cash flow is the foundation for growth elsewhere in the Group and will be enhanced, as we spend lower levels of CapEx going forward, and Richard will talk in one moment about our work to ensure that this is sustainable.

Let's talk a little bit more now about shop and machine performance. When looking at the top chart showing our gross win per shop, you can see it has been broadly stable. OTC is shown in the grey bars and machines in the red bars in this chart. And you'll remember the extended hot spell last summer, which quite dramatically expanded Q3, with footfall in the shops down industry wide and horse racing impacted by field sizes. So, all resulting in materially lower win margins for horse racing and double-digit declines in machines.

So I was pleased to see Q4 return nearer to more normalized levels with an OTC gross win of GBP103.1m, up 1.7% in the quarter, helping to partially offset Q3 and giving us an H2 decline of 2.7% and the full year down 1%.

Looking at the lower chart on machines, you can see although machines gross win was up 2.4% for the year, we saw another quarter of weak performance on a like-for-like basis in Q4 although, it was a little bit better than Q3. And in respect to OTC staking levels for 2013 were down around 2%. This was a good outcome, after an 8.4% decline in H1, where H2 saw a rise of 4.8%.

Gross win margin for the full year was 16.9%, 0.2 percentage points up on last year and as high as it's been since 2008.

Looking at Q4, and despite one very happy customer winning GBP1m in week 52 on the popular 49s numbers product -- excuse me -- Q4 was a more normal performance, with OTC amount stake up 4.6% and gross win margin at 17.1%.

Looking at 2014 then, I would just remind you we had a very strong Q1 in 2013 with an 18.9% gross win margin. We have already begun rolling out our new Clarity gaming machines and should have over 9,000 machines in situ across the estate in time for the World Cup. It will take a little time for customers to adapt to the new machines so to -- so we expect these, along with optimizing our business in SSBTs, with Sky, Wi-Fi and Ladbrokes TV to be a driver of growth in the second half of 2014.

I'd now like to look at our cost base. In 2013, UK Retail costs were up around 6.6%, in line with the 7% guidance issued at the interims last year with rising content costs a major driver.

On a like-for-like basis, cost rose around 3%. We took significant cost action last year, primarily through procurement savings, looking at more efficient labor scheduling, by paying bonuses only to non-management staff and through a renewed focus on head office and facilities costs. In aggregate, these actions offset around GBP14m of the cost pressures within our UK Retail business.

So looking to this year, we expect costs to rise around 5%. On a gross basis, costs will be higher. But taking into account our existing overhead actually in 2013 and further cost focus this year, we expect divisional costs to rise, as I said, around about 5%.

So 2% from the effect of new shops in 2013, including around GBP5m in incremental depreciation, already flagged in January. 3% on a like-for-like basis would be a pretty solid performance on top of the 2013 progress. As a reminder, rising industry-wide content cost a key driver with higher horse racing levy contributions and higher costs UK and Irish horse racing.

Over two years ago, we saw an opportunity to take advantage of quality high street locations at attractive rents becoming available and therefore undertook a focused expansion of our Retail estate, opening 189 new shops in areas of higher footfall with a further 20 acquisitions. Our recent openings have been successful and continue generating IRRs of around 30%, which is encouraging.

We have also been active improving the quality and flexibility of our estate. We close 20 shops in 2013, that was after 19 in 2012. We have shortened the average lease life on new and renegotiated leases to around five to six years and around 60% of our leases can be exited should we wish by the end of 2017.

But as part of responsible ownership, we still have a wide range of performance across the estate and a small number of shops with low contribution. We have undertaken a prudent review of our portfolio on a shop-by-shop or cluster basis, which is the right way to do it. And even with management actions that our team are taking around cost and driving returns, we have decided to take a net impairment charge for a number of our shops of GBP11.4m and we also intend to close 40 to 50 shops in the UK.

Shareholders should see this as an ongoing process, as we focus on optimizing the returns that we can generate from the estate and from the significant investment we have made in the last part -- past three years. We are confident that our Retail business has a viable future in the medium term, as cost pressures will continue to cause smaller players to withdraw from the market leading to some rationalization in the retail market, which will benefit the bigger brands who have both scale economics and an appropriate footprint. So these, along with our own actions, give us a higher quality and optimized estate for the sustainable future.

We will, of course, continue to monitor the regulatory situation, which may further impact this number and we would never want to second guess government actions but there are some scenarios around, which are probably a little a bit overblown in our view.

Turning now to Digital, where our results were weak, as we flagged in September. As you can see from this slide, revenue was weak across the product last year and with broadly stable costs, EBIT was GBP11.5m, excluding Betdaq and Australia with H2 lower than H1. Now, although actives were down year on year, in H2 we saw some early signs of progress.

So looking at Q4 versus Q3, i.e. sequential quarters, total actives were broadly level Q4 versus Q3. Mobile sportsbook actives grew 17% Q4 over Q3 and desktop sportsbook actives were 2% higher on a same basis. And Richard will update you on our progress here and current trading in one moment.

In gaming, our actives and therefore NGR were hampered by the inefficiencies of dual-running products from both our current supplier, as well as with Playtech.

So let's look at what we can expect to see in 2014. Richard will talk about the operational milestones that will hit in the first half of this year as a result of which, we expect financial results to be weighted towards the second half of this year. And given the sector-wide weak football and horseracing results in January, as I mentioned earlier, and the tough Q1 comp at 9.6% gross win margin 2013, it is unlikely that we will record material NGR growth in H1 this year over H2 last year.

From a cost perspective, we have now established the right level of fixed operating cost for our Digital business and now need to drive revenue across it to get the benefits of scale, as we drive the business in the second half of the year.

You will see in the appendix, the 2013 costs in Digital amounted to GBP147.1m, which I would say includes GBP74m of variable costs, GBP19m of depreciation, amortization and GBP54m of fixed cost. So, we are expecting broadly similar fixed costs in Digital in 2014, before depreciation and amortization, which itself will be around GBP7m higher, as I've all ready flagged. On marketing we expect to be in the 25% to 30% of NGR range. So, you can conclude that NGR growth in H2 will flow through with over 50%.

Let me turn now to European Retail, where EBIT at GBP15.6m was down GBP4.6m on last year. Ireland was the principle change year over year, where we saw flat revenue and cost pressures so similar economics to the UK business with a poor Cheltenham in the first half. In Belgium, we delivered flat EBIT despite some poor results. And in Spain, our joint venture is going well and is now EBITDA positive overall with Madrid, EBITDA positive for the second consecutive year. In 2014, we see another year of investment, as we built on our success in Madrid and expand into new territories.

A few moments now on our exceptional costs. And as you can see here, the majority, around GBP34m, come from our reorganization following the Playtech transaction. In the past nine months, we have established Ladbrokes Israel, which now has nearly 100 staff in Tel Aviv and we have closed and reorganized operations in both Rayners Lane and Gibraltar with the final move to Manila underway in the first half of this year. So, a material amount of change, as reflected in integration and restructuring costs.

As part of the move to Playtech, we took into account the potential for impacted assets and took a charge, as you know, of GBP10m for the mobile assets at the half year, with a further GBP5m impairment in the second half.

As part of our normal year-end processes, the reduction in UK and Ireland shop profitability has required a net impairment of GBP11.4m, which I've already covered. And the other items includes such as transaction fees, shop closures in part -- offset by the sales of some sites.

The total net cash cost in 2013 exceptionals was GBP13m, with a further GBP12.9m to come in 2014. So, as such much lower than the accounting charge, which includes balance sheet, of course, which are non-cash by nature.

Capital expenditure in 2013 was GBP90m, with GBP49m in Retail and GBP36m in Digital. This year, we expect CapEx to be between GBP60m and GBP65m. This reflects the fact that the build-out of our UK Retail estate is largely concluded and the need to spend less -- and we need to spend less in Digital as we use Playtech systems and our products alongside our own. So this is the right time to make reductions in our investment levels and we see this level as about right for the business as it is now constructed.

CapEx at this level still provides us with scope to invest and drive our business being well ahead on our estimates of base CapEx. You will see therefore that depreciation will outrun CapEx as depreciation reflects the significant investment made in Digital and Retail since 2011.

So let's now look at cash generation. And last year, we saw a strong free cash flow again and ended the year with a strong balance sheet. Net debt was stable and our key leverage ratio, as I said, remained inside 2 times net debt to EBITDA.

From a liquidity perspective, we have committed facilities under the RCF of GBP540m out to 2016 and the GBP225m bond is not due until 2017 so no urgent need to refinance our balance sheet. Looking to 2014, our cash generation will be enhanced by lower investment levels. So, as you can see this level of cash generation comfortably supports the dividend commitment from the Board of at least 8.9p per share for 2014, in addition to be able to expand and develop the business.

So before I summarize, I just wanted to set out on one slide, the various areas that we've guided for 2014, which I hope you find is helpful.

At a Group level, we see 2014 very much weighted towards the second half of the year. EBIT in H1 of this year is expected to be ahead of H2 last year but taking account of higher depreciation and the results in January will likely be down on the comparable period last year all other things being equal with then further growth anticipated through H2 in 2014.

So to summarize, 2013 was a disappointing financial performance but we have made significant operational progress. We view the UK Retail expansion as being largely complete and are focusing on returns on investment. Across the business, we will continue to focus on cost reduction and efficiency. And in Digital, we expect to complete all the final changes in the first half and in time for the World Cup.

We have therefore positioned the business with strong cash generation underpinning a sustainable and attractive dividend.

So thanks for listening. I'll now hand over to Richard.

Richard Glynn - *Ladbrokes plc - CEO*

Thank you, Ian. Ladies and gentlemen, good morning. Last year was a difficult year and while I think that we'd all like to draw a line under it to move on, we can know we can't do that until we've got all of the pieces of the business in place and working well together.

We have, over the last six months, made good progress towards that objective and the first half of this year will see us continue to bring it all together so that we can return to growth in H2. I've been pleased with our operational performance since August 2013 and I'm, of course, going to go into more detail shortly.

We've already delivered to customers incremental benefits. We've already upgraded some of our gaming products. We now have clearly accountable management teams for Digital and separately for Retail. We've continued to upgrade the quality of our sport betting earnings.

Going into 2014, we'll be optimizing our Retail estate. We'll reduce CapEx, boost cash generation and thereby underpin a healthy dividend. We have a really clear program to deliver the outstanding operational milestones including the transition to the full Playtech casino, introducing IMS across the back office, and the rollout of 9,000 new cabinets, all in time for the World Cup, all of which remain on track.

So 2014 is a big year for the business. It's a year when all the planning comes together and the next 106 days in particular leading up to the World Cup are critical. We know that we do not have the luxury of missing milestones. But whereas the financial impact from delivery of the remaining operational upgrades probably won't be seen until the second half of the year, the end of this development phase is now tangible.

Effectively, Ladbrokes is driving really hard the convergence of competitive products housed on leading technology, all operated by experts and supported by a very strong brand. During Q2, we will deliver the final ingredient that is personalized CRM and only when all of this is fully integrated and working together will we be truly competitive.

Mobilization of the Ladbroke's business is key to our success, given that mobile usage in the UK is estimated to account for approximately 50% of digital gambling by 2017.

We took a difficult decision in May 2013 and wrote off approximately GBP10m against the mobile platform that we had developed because we knew it was neither as competitive as the Mobenga platform nor was it fully integrated into the Playtech back office.

So we delivered our new mobile and tablet sports betting application onto the Mobenga platform in December 2013 on spec and as planned. We've already imported Perform live content onto that platform. We've already established an independent mobile development team, alongside our partners, the Chelsea Apps Factory. Our mobile product is now highly competitive, efficient, and intuitive and our customers have responded well.

Since 1 Jan, actives are up over 35% year over year and we've already achieved 40% of the total 2013 downloads. In January, stakes were up 93% year over year and signups increased by 123% year over year. And also pleasingly for the first time, we've been ranked number one in the App Store on consecutive weekends. So still early days but we've now got confidence that when we give customers a truly exciting product promoted by our brand on an efficient and an intuitive platform supported by expert capabilities, things start to happen.

Now our customers also told us that our desktop sportsbook product was uncompetitive so we listened and we acted. Since September, we've improved the load time with eased customer navigation. We've given easier access to customers to their products of choice. We've provided live streaming. We've offered price enhancements, particularly through more multiple and coupon products. We've achieved a 90% improvement in response and page load times making it amongst the fastest desktop product in the market with stability also greatly improved.

We've materially strengthened the peak load capacity resulting in an average of 400% increase in concurrent users on Saturdays since last December. And again, our customers have responded.

The total number of actives using the site has now stabilized with, as Ian said, 2% growth in Q4 2013 over Q3 2013, with January this year showing a further 2% growth over December last year. Again, encouraging but still more to do.

And staying here, we've also just recently launched the innovative Ladbrokes Exchange. Uniquely for Exchange customers, they will have the ability to deposit and withdraw from any Ladbrokes shop and will soon enjoy the Ladbrokes Red Box that is to ensure for them that prices are always available for them to cash out or hedge their positions.

We're pleased that we've now got a truly competitive mobile product and we're pleased that we've reached parity at worst in desktop sportsbook. The launch of the Exchange product is exciting and a real point of differentiation. We're comfortable with our plans to continue to evolve all of these products further in particular over the next 12 months so that we remain really competitive.

We must not relax nor however must we underestimate the improvements that our customers are already seeing. As the products improve, our customers respond well.

And on this theme of product upgrades, we're excited to already have launched our new online casino, including Playtech's Live Dealer and our new poker product. And we're poised and ready to upgrade the remaining suite of gaming products during Q2 this year, once our existing contractual restraints are released.

So if we take a step back and just examine where we sit today with our digital capabilities, we're confident that the combination of an existing top-class mobile offer with an increasingly competitive desktop sportsbook, alongside a differentiated Exchange product with some highly competitive games and gaming products all ready launched with more coming on stream, all driven by the very strong Ladbrokes brand and underpinned by targeted CRM, will provide a really compelling proposition for our customers going into the World Cup.

Now, Retail remains a key element of the UK gambling experience and importantly increasingly relevant to customer's mobile gambling experiences with 73% of regular gamblers still using betting shops and 49% of regular mobile gamblers also using a shop.

We're continuing to evolve the content and the layout and the format of our shops mirroring the flexibility that customers perceive in the digital world, in particular our younger customers who invariably multitask. The entire estate now offers customers Sky and Wi-Fi, as dwell time is set to become an increasingly important factor in driving Retail turnover.

We've already deployed some 1,400 self-service betting terminals offering a wider choice of bet in play and international content with a further 360 still to be deployed before the World Cup. We'll roll out 9,000 new gaming terminals again before the World Cup.

We continue to advocate that a strong Retail presence combined with a strong online product unified under a strong brand is the strong appealing combination for the next generation of betting audience.

Again, while the financial benefits of some of these improvements will not show until the second half of the year, we're well placed to compete and perhaps importantly to benefit should any consumer upturn eventually arise.

It became apparent to us during 2013 that we needed to strengthen further our teams and increase their channel accountability. In Digital, we have in only six months established the wholly-owned Ladbrokes subsidiary in Israel, with nearly 100 employees. We have over 80 people in Gibraltar now focusing primarily on personalized customer service and liability management. We've also established a stand-alone dedicated mobile team in South West London sitting alongside the Chelsea Apps Factory. We have a further team dedicated purely to the development of the desktop sportsbook.

The relationship with our Israeli partners continues to strengthen and I have to say has been a real catalyst for much of this change. We've also undergone a similar realignment in the Retail teams, and have perhaps, for the first time, a well resourced and dedicated team focused on our international operations. Each team is now led by real product experts, all of whom have direct accountability for delivery.

But clearly however in this sector, it's not just how good your team is but also how good the technology is that they have at their disposal. Our integration into the IMS platform will give the customer a single wallet but it will also give our marketing teams a single cross product view of our customers' behaviors.

We said last September that we would deliver the sportsbook integration into IMS and that we would migrate from MGS to Playtech products by the end of Q2. I remain confident that we'll not only have our entire suite of gambling and gaming products upgraded prior to the World Cut but that we will, in parallel, deliver the single wallet to our customers and deploy IMS and therefore be able to deploy personalized CRM across the entire product range within this timeframe.

There are clearly some important milestones and important steps still to deliver. However, we've delivered what we set out to deliver in September last year and we remain on track to complete this delivery and produce tangible benefits that will translate into improved financial performance during the latter part of the year. The Ladbrokes brand is still something to be really proud of. But in truth, it's been underexploited.

Ladbrokes remains the most used betting brand amongst regular customers in both retail and online in the UK. Recent Kantar survey show how the shop estate inherent support to the brand with some 60% of retail gamblers saying that in Q4 2013 they had used a Ladbrokes shop during the previous 12 months, and 21% of the same audience saying they'd entered a Ladbrokes in the previous seven days. That's stronger than any other betting and gaming brand.

There's increasing crossover between retail, mobile and desk-based customers with our evidence suggesting that the 20% or so of customers who exhibit multi-channel behavior are worth 1.7 times those of single brand users.

The final integration and upgrade of our sports and our casino product are, as I've said, due in 2014. And given that the anticipated growth of the UK market is expected to be driven primarily by these products and given the relatively untapped strength of our brand, we have confidence to expect that we can capitalize on what is a sizeable but as yet materially underexploited opportunity.

Ladbrokes take social responsibility very seriously. We will work with the industry with government and with our customers irrespective of their products of choice to ensure that social responsibility and gambling are synonymous. What we are seeking is some certainty over policy and direction of regulation.

As Ian had shown you, our results for 2013 already showed the financial consequences of machine gaming duty. In December, we will begin to incur the new point of consumption tax. If this tax is not accompanied by real regulatory teeth such as IP blocking, stringent license enforcement and perhaps most importantly, payments blocking, then offshore unlicensed operators will simply continue to target UK consumers to the detriment of regulated and taxpaying UK-based businesses.

There's also a clear concern around machines. The goal for all betting and gaming businesses must be to help people with problems to manage their behaviors better, whether using high staking products or when playing over extended periods of time for lower stakes, irrespective of the products they use or where they use them.

Ladbrokes will therefore set itself a stretching target of entertaining over time simply those customers who choose to play responsibly and with compliant sources of funds. We will use our unique Odds On loyalty scheme to place social responsibility at the heart of the Ladbrokes betting and gaming experience. We will trial and learn from the player and session data it provides and share the findings with our customers, with the industry and with the regulators so that all decisions can be truly evidenced-based.

Let me be clear, this is not a new issue. It's been central to our thinking for some while. It's not an issue that's going away nor should it. It must be at the heart of everything we do.

So the Broad of Ladbrokes will establish a social responsibility committee on par with say, the audit committee, to ensure that an element of executive pay is linked to clearly defined and monitored social responsibility measures and we feel that this stand better reflects the essential values that Ladbrokes represents, better reflects the communities that it serves and is appropriate for the modern gambling environment.

And one final point, Ladbrokes has always worked closely with local authorities and local communities. We've always said we understand their need to have some say over how their high streets look. The feedback we get says that in the vast majority of cases our shops benefit the high streets that they serve.

Now, we feel it's inevitable, irrespective of any future regulation that shop numbers in the UK will decline over the next few years. So we'll therefore continue to compete really hard to integrate into local communities, especially where our shops are contributory but whilst remaining sympathetic to local environmental concerns.

As I hope you can see, driving our UK Retail estate and becoming competitive in digital have been our main areas of focus but we've not overlooked our international ambitions, not only to offset the impact of point of consumption tax but also to capitalize on the upgraded products and our upgraded digital capabilities.

Our particular areas of focus have been Belgium, Australia and Spain. In Belgium we'll launch our online product and roll out SSBTs in time for the World Cup piggybacking out leading Ladbrokes Retail presence. The underlying metrics of our Australian business have grown ahead of expectations albeit at a time of truly adverse sporting results particularly during the last Spring Carnival. But we'll look to expand further into Australia, but we will not fall into the trap of overpaying for assets or customers in what is a highly competitive market.

In Spain, Ladbrokes and Cirsa have now merged our online sports betting, casino and bingo businesses under the Sportium brand, complementing the Sportium retail estate. We will drive further growth into Spain during 2014 and 2015 by establishing retail presences in key areas such as Catalunya.

Inevitably, the joint venture will incur further start-up costs as we extend our footprint to become number one across this country but we've already shown the clear path to profitability from regions such as Madrid. So we'll continue to review entry into new jurisdictions and other markets on a case-by-case and a pragmatic basis.

Ladies and gentlemen, Ladbrokes is finally becoming genuinely competitive. We're acutely aware of the journey that our shareholders have been on. We're conscious that our customers and our brand have remained resilient. We know that 2014 is a pivotal year. We've a brand that resonates and increasingly products that now do that brand justice. We've upgraded both our technical and our people capabilities. We're on track to give customers a single wallet and to deliver CRM that increases customer lifetime values. We continue to be highly cash generative. We have a strong balance sheet with which we underwrite a healthy dividend. We know what is required.

In essence during H1 we'll deliver the full suite of Playtech gaming products on to the IMS platform, roll out 9,000 terminals, further upgrade our trading capabilities, drive mobile growth and continue to improve our desktop product.

We're close now to seeing that convergence of brand with quality products onto a robust platform managed by experts and we remain confident that at such point Ladbrokes will really compete.

We are excited by the scale of opportunity available to us but we recognize we will only capitalize on this if we deliver the milestones set for ourselves through H1. H1 will see us complete this delivery. H2 is about growth. Thank you. Peter.

QUESTIONS AND ANSWERS

Peter Erskine - *Ladbrokes plc - Chairman*

Great. So if Nick, Jim, Damien and Ian and Richard could join me on the stage we'll take your Q&A. Just a couple of points, first of all, Richard North our new Investor Relations Head, most of you will have met but Richard -- Richard North, apologies, Richard Snow in the front, forgive me. So Richard Snow is here for those of you who have more detailed questions afterwards and over the coming few days. Could I just ask in terms of protocol of asking the questions, first of all there's a mic in front of you please use that having put your hand up. If you could limit it to no more than a couple of questions that would make it useful and if you could say your name and your firm because we do record this. So over to you folks. Young lady in the second row please. Good morning.

Victoria Greer - *JP Morgan - Analyst*

Thank you, that's very charitable. Victoria Greer from JP Morgan. Just two please. On the shop closures in UK Retail you talked about those as an ongoing process. Should we think about 40 to 50 closures per year as the right level and presumably if you're looking at the low end of the estate for closures, would you expect that to have a sort of broadly mutual effect for the divisional EBIT?

Secondly then just on marketing guidance for 2014, I think in the statement you've mentioned guidance of between 25% and 30% of revenue. Did you think about a higher level to support the launch or would you expect it to be H2 weighted?

Peter Erskine - *Ladbrokes plc - Chairman*

Nick, could you handle the shop closures point and then, Jim, maybe the marketing guidelines.

Nick Rust - *Ladbrokes plc - MD Retail*

Sure. Good morning. We normally close around 20 to 25 shops in an average year anyway. This year we have been planning to close a few more on the back of the economics of the business. Normal levels, I think you heard Richard say that we expect the market to show some reduction in the number of shops overall. We're obviously fighting to make sure with our reasonably strong position that we minimize the impact on our own business as that plays out and actually see some opportunity moving forwards. Whether it will be 40 to 50 ongoing, not clear at this stage. I wouldn't see larger numbers than that in outer years anyway, I can tell you.

In terms of the EBIT impact. obviously these shops have been closed for a reason. I have an opportunity to close them at the end of leases or in lease breaks, we have more flexibility in that area than we've ever had through a lot of good work over the last few years and so the impact, it will obviously provide some benefit which is included in our planning for the year but it's not a dramatic number.

Peter Erskine - *Ladbrokes plc - Chairman*

Jim.

Jim Mullen - *Ladbrokes plc - MD Digital*

Morning. The 25% to 30% is a strong range which gives us the investment required for H1, see the benefits in H2 but that will be reviewed based on effect on customer yield. So that's basically the plan that we're working towards at the moment.

Peter Erskine - *Ladbrokes plc - Chairman*

Sir.

Jarrod Castle - *UBS - Analyst*

Thank you. It's Jarrod Castle from UBS. Just in terms of -- just coming back to Digital, anything you want to say in terms of free bets, in terms of the percent there you might be giving?

And then just -- also just on performance of Live Dealer, I know it's kind of early days but how has that been going?

And then just lastly SSBTs, are they helping to drive ROICs? Will you cover your cost of capital? Are you already covering your cost of capital on those? Thanks.

Peter Erskine - *Ladbrokes plc - Chairman*

Okay SSBTs first with Nick and then the other two with Jim if you will.

Nick Rust - *Ladbrokes plc - MD Retail*

SSBTs, we were a little slower to deploy these than some of our competitors. We have deployed a successful solution for Spain and our international territories but we saw the opportunity was being picked up by customers, they were proving popular and we decided to go for a third party solution and roll it out pretty quickly to our shops. So most of the rollout was completed around the start of the football season at the end of last year and we're very encouraged by the numbers. We continue to show growth pretty much week on week except in football fixtures. We're expecting a good return and around about 70% of the income that we generate per machine is incremental to our OTC business. We think that the surface probably hasn't been scratched on how these will be deployed yet and we see them as an important part of our evolving shop offer moving forwards.

Peter Erskine - *Ladbrokes plc - Chairman*

Jim, free bets and Live Dealer.

Jim Mullen - *Ladbrokes plc - MD Digital*

On free bets, free bets is an important lever we have for growing and managing the business and with regards to how much it will be in relation to overall spend, it depends on how effective the customer yield and ROICs coming back. So we find that a very important lever we can use and that should be reviewed on a month to month and quarterly basis. Could you just repeat your question on Live Dealer please?

Jarrod Castle - *UBS - Analyst*

Just how Live Dealer is going in terms of take-up by consumers?

Jim Mullen - *Ladbrokes plc - MD Digital*

Two aspects of that. One is the most important thing was a successful transition which was launched on time with a more enhanced product and with regards to customer take-up we are tracking to what we had pre-migration and with some additional marketing and promotions we're hoping to expand upon that in H1.

Peter Erskine - *Ladbrokes plc - Chairman*

Sir.

Vaughan Lewis - *Morgan Stanley - Analyst*

Hi, Vaughan Lewis from Morgan Stanley. Can you talk about the sports pricing policy because sportsbook stakes down 13%, OTC down 2%. It looks like you've lost quite a lot of market share there. Do you think you've been too aggressive pushing the gross win margin and you need to give a bit of value back to customers and maybe have a lower gross win margin to make it a better product?

And then secondly on the IMS and the wallet, technically is it all going to be on Playtech then? So the wallet will be owned and held by Playtech effectively? And then can you integrate the retail functionality within that so you've got a truly single view of the customer? And then will you be able to integrate the Retail machines offer with that and if so will it be stable enough and will the capacity be big enough for the peaks like Cheltenham and Aintree and the World Cup?

Peter Erskine - *Ladbrokes plc - Chairman*

Richard.

Richard Glynn - *Ladbrokes plc - CEO*

Yes. Morning, Vaughan. I think that actually we're doing a good job optimizing the gross win margin and the trading capabilities, pricing trading and liability management across the business. There were two effects last year. The first one was, as you know, that we weeded out a lot of what we considered to be unprofitable business which was business that was winning from us but high turnover which dropped the turnover and I think we were pretty open about that.

I actually tend to agree with you. I think that we in certain cases let the pendulum swing too far by taking value off the session customers last year. I don't think there's a problem in that because thankfully the systems picked it up quite quickly and I think it's a trial and learning process. You have to evolve through it. I think that if you look at the way that our customers are now responding in the multiples, the coupons, the accumulator products, the higher margin products, they're seeing that we're really giving them through the (inaudible) bonus pricing, through the best pricing now, given them real value back and those customers are responding well. They're the customers we really want.

So, I actually don't believe that it's a binary trade-off between turnover and margin, I think what we do is we will optimize the margin and we will drive turnover from the customer base that we want to get it through. We will not compete with certain of our competitors who are pricing to overbroke on the big races. There's no point doing that, you can give money away and you'll be giving it away to the wrong customers. So I think our policy is sensible, I think it's aggressive, I think it's targeting the right customers, I think it's giving incredible value to the good customers whilst making sure that we're being cautious with the other end of the spectrum.

Peter Erskine - *Ladbrokes plc - Chairman*

On IMS and wallet?

Jim Mullen - *Ladbrokes plc - MD Digital*

IMS and wallet, I think there's four questions in that one IMS and wallet. The first one about will it be ready, yes, it will be ready in Q2 and end of H1 for growth in H2. So I hope that answers that one.

You asked about who owns the data and who owns the wallet. Well, Ladbrokes own the data and the wallet and our team, our management team and the team at Ladbrokes Israel will manage that to be as effective as it possibly can.

We will have a single customer view, we'll also have a single wallet and as importantly we'll have a single view of product that we can do cross sale as efficiently as possible.

And then I think the final question was regard to data and data crossover. This is primarily deliverable for H1 in Digital and where you'll see Digital growth, but it does provide us with a strategic core base for looking at our customers in its entirety.

Peter Erskine - *Ladbrokes plc - Chairman*

Two gentlemen there next to each other. Not at the same time obviously.

James Hollins - *Investec - Analyst*

Hello, it's James Hollins from Investec. Just following on from Vaughan's question, the -- in terms of delivering the new platform, can you just sort of run me through how much pre-work you can do? If I'm right you've got about 10 weeks between Micro moving off and the World Cup. I was wondering if you could say how much you can do ahead of that?

And the second one is I just want to check my numbers, I think you're guiding to Digital H1 EBIT of a loss of GBP10m, I was wondering if you could give any flavor for what you might expect in H2 and if those numbers are right?

And then the final one is perhaps some guidance on normalized trading for Australia and Betdaq, what we should be looking for, is it losses in the full year 2014? Thanks.

Peter Erskine - *Ladbrokes plc - Chairman*

Okay. Richard, if you take the first one, Ian, the EBIT and, Damien, Australia.

Richard Glynn - *Ladbrokes plc - CEO*

I think you're right, James. I think that there have been quite clear contractual constraints upon us whilst we dual run under the existing MGS contract before we transition through to Playtech. We're acutely aware of those contractual constraints. What we can do in advance we are doing already, trialing and testing and we have an incredibly clear roadmap lined up for the second that that contract finishes to move things through. I think we're pretty confident that in those 10 weeks that you've stated, that we will achieve what we need to achieve to deliver the milestone so that we're match fit ready for the World Cup.

Peter Erskine - *Ladbrokes plc - Chairman*

Ian.

Ian Bull - *Ladbrokes plc - CFO*

Good morning, James. I think the guidance we've given on Digital particularly for H1 is that I think it's unlikely we would record material NGR growth in H1 '14 versus H2 of '13. I've given you a pretty decent view in terms of what the cost structure looks like. I don't think we have guided to a negative GBP10m number for H1, so that's not a number that's come from Ladbrokes, but I think you've got enough material there now to see what the likely shape of H1 would be.

Peter Erskine - *Ladbrokes plc - Chairman*

And, Damien, on Australia.

Damian Cope - *Ladbrokes plc - MD International*

Good morning. Look we're very happy with the first six months of operation, notwithstanding the Spring Carnival results which have affected all the operators. We've got a great team down there, we're delivering genuine innovation, we've got some proprietary technology and I guess the biggest asset we have is a large portfolio of domains that means we effectively act as our own affiliate network which means that we can drive some very low CPAs. So we won't be guiding on to a specific number for 2014 but you should expect to see a positive contribution.

I think you asked on Betdaq as well. Again likewise, we expect to see a positive contribution in 2014. It's a non-trivial matter integrating an exchange into a sports betting product but we did that. We launched it in November last year as a soft launch. We've effectively been beta testing it since then and you should expect to see a number of developments over the next few months.

Peter Erskine - *Ladbrokes plc - Chairman*

And the gentleman next to the questioner.

Ed Birkin - *Credit Suisse - Analyst*

Thank you. Morning, it's Ed Birkin from Credit Suisse. Just two questions for me please. First of all on exceptional costs, you notice the GBP13m of 2013's exceptionals are going to be cash costs in 2014, can you just give us a bit of guidance on what we should expect with exceptionals in 2014? I assume given you're still running the Micro stuff that it's going to be exceptional operating costs in Digital again?

And secondly, just in terms of Digital revenues, can you just give us the proportion of your regulated revenues in Digital and how that's changed year on year please? Thank you.

Peter Erskine - *Ladbrokes plc - Chairman*

Ian, can you handle that?

Ian Bull - *Ladbrokes plc - CFO*

Hi Ed. Let me take the first question then. So for '14 I think we've guided on terms of what the cash impact for exceptionals have been, around about GBP13m. If you think about it we have done so much this year in reconfiguring the Digital business and you'll see this GBP34m from an accounting point are Playtech related. I think by and large the big changes in terms of the Digital changes are all in 2013 from an exceptional point of view.

It's impossible to say that there won't be exceptionals next year because of course we have to do our normal impairment tests anyway for both Retail and assets, so I think mine is not to presume what the outcome of those is going to be 12 months ahead of time. And secondly, we always have to do the deferred consideration tests for Playtech and Betdaq and Australia as well so you will expect to see continuation of those kind of exceptional costs and indeed shop closures. So this sounds like an oxymoron but the normal types of exceptional you'll expect to see come through. But I think the reassuring message really is the big numbers around about GBP34m which we talked about this morning, has come straight in 2013.

And the second question I think was on --

Ed Birkin - *Credit Suisse - Analyst*

Proportion of regulated revenues and how it's changed year on year.

Ian Bull - *Ladbrokes plc - CFO*

Okay. So if I give you the kind of UK Ireland split, non-UK Ireland split which is by and large a proxy for that, it's around about 85% and that's been broadly static year over year. It's moved by a couple of points.

Richard Glynn - *Ladbrokes plc - CEO*

I think it's just important to add on that, Ed, that the list of regulated territories that we take business from is clearly shown on the annual report and accounts. We control where jurisdictions we can take business out of. Ladbrokes Israel is a wholly-owned subsidiary so I think you should expect to see our policy being consistent through to the end of 2017, at the end of the Playtech deal.

Peter Erskine - *Ladbrokes plc - Chairman*

Next. Sir.

Patrick Coffey - *Barclays Capital - Analyst*

Yes, morning, it's Patrick Coffey from Barclays. Just two quick questions for me. First of all on the central costs guidance, you're now saying no more than 2012 when it was GBP25m, so that's sort of implying potentially a GBP7m increase year on year from FY13? Should we be expecting around GBP25m next year for central costs?

Second question I guess is just given the growth in mobile that Richard you talked about there, can you give us an idea of how that gross win margin, structural mix shift might look? So if we take a three to five year view with the growth of mobile where should we be kind of thinking that gross win margin can maybe get to?

Peter Erskine - *Ladbrokes plc - Chairman*

Ian, can you take the first one?

Ian Bull - *Ladbrokes plc - CFO*

Well, the central costs, Patrick, I think I've tried to picture it so that you get a representative number. 2013 central costs are really down because of no bonus, reduced share-based payments and there's some one-offs in there from Hilton guarantee. So by definition hopefully where we get to they are non-repeatable. So that's why I think 2013 is a better representation of where central costs might be.

Richard Glynn - *Ladbrokes plc - CEO*

I'm going to keep my crystal ball firmly in my pocket for the next three to five years gross win. What I think that you're saying is quite right though, which is, as the proportion of mobile products increase so theoretically the average margin may decline but I think the point that people are missing is that the product set on mobile is actually going to mirror more the accumulators and coupon products that customers find and so you will get an increasing amount coming through and we're now on some weekends taking 60% of the gross win through mobile now. Yes. You will get an increasing share of that but I think you'll also get a change in product set as people on mobile start to adopt similar to Retail products, so I think it's a bit early to predict what the gross win impact of that can be over the next couple of years.

Ivor Jones - *Numis - Analyst*

(technical difficulty) operator error. Ian, note 13 deals with the value of the deferred consideration, as I'm not an accountant could you explain to me what that means and why when it's marked to market the number comes down at the year end? So what's the change in the assumption if I've understood what it is at all?

On closing shops I don't quite follow what you're saying. Last year you were pleased to be opening 100, this year 20% plus of secondary retail in the UK is still void and the consumer is more confident, so shouldn't you still be -- have the same view on opening shops as you did 12 months ago and why are we closing them?

And then thirdly, on slide 27 where you do the picture of how all the technology fits together, Open Bet is in gray with a dotted box around it and you've probably told me what it means before, what's the significance of that graphical representation, does it signify something yet to come? Thank you.

Peter Erskine - *Ladbrokes plc - Chairman*

Okay, so if Ian can do one and then Richard two and three.

Ian Bull - *Ladbrokes plc - CFO*

So if I try and deal with the intricacies of IFRS accounting on deferred consideration in two minutes or less which is as you correctly say is Note 13. Note 13A on Playtech. In a highly simplistic way we look at our expectations on a number of scenarios about how we expect the Digital business to perform over the period to include December 2017, so a fairly long period. We have a number of scenarios in those. Those are then probability weighted by scenario, by year and you discount that back until it gets an assessment of the -- what the likely deferred consideration is. That number will change.

We are required to do this every reporting period so I'm going to get used to answering this question every time we meet. It will change because obviously expectations change as you go through the outer years. We are not remotely worried about the small change that we've seen coming through in the test that we've done from the full year from the half year. The reason there is a change is because if you think about it, we are a little bit lower and later in 2013 than where we expected to be. So that being the first year which obviously those of you which are MPV aficionados, the first year bears higher on the calculation than later years really. So it's only re-reflecting where the start of the curve is in 2013.

Ivor Jones - *Numis - Analyst*

But you don't pay any consideration in 2013 so why would the present value of the future consideration be affected by the 2013 value?

Ian Bull - *Ladbrokes plc - CFO*

Because -- so you do understand it, your second question belies your understanding of the accounting treatment, so I'm pleased with that. Because it's an assessment of the end point over the period of the time. So the start point, roughly, remind you the reference point is GBP51m of EBITDA, it's the 2012 reference point. So it's an assessment of what the progress is over the course of the period versus the agreement. So it really is as simple as that.

Ivor Jones - *Numis - Analyst*

So it's not really to do with the start point; it's to do with lowering the expected profit at the end point?

Ian Bull - *Ladbrokes plc - CFO*

Not really.

Richard Glynn - *Ladbrokes plc - CEO*

I think if we look at this in sort of less accountancy terms and you look at statements that Mor Weizer has made and you listen to statements that we're making about how comfortable and confident we both are and how delighted we will both be to be paying them quite a lot of money by 2017, I think you can get the gist of how we all feel about this relationship.

Ivor Jones - *Numis - Analyst*

So I should listen to that more than the fact that the numbers come down for a short period with no trading?

Richard Glynn - *Ladbrokes plc - CEO*

I think we've answered this question plenty now. Shall we move on to the second one?

Peter Erskine - *Ladbrokes plc - Chairman*

The question on the shops is sort of have we changed our view or is this consistent. So why are we closing shops when we were opening them a couple of years ago.

Nick Rust - *Ladbrokes plc - MD Retail*

Well, I think we were consistent. We said that we saw an opportunity two years ago to open additional shops. Even when we were opening a record number of shops over the last few years we were still closing some. It's a natural part of the market of course with changing high streets and so on.

As you know at the half year last year we had expected revenue growth to be higher. With hindsight in 2013, and we have taken account of that, there is still small revenue growth in the sector, but the costs as we flagged on the taxes mean that the economics of the business are accelerating and a likely reduction in shop numbers and I think we feel that we're delighted with the returns we've had on the investment. We feel we've got a stronger footprint as Richard mentioned earlier and we're well positioned to be one of the survivors and indeed winners in the retail space as some of that consolidation happens.

We do expect there'll be a correction in the structural costs in the market over the next few years particularly around horse racing, something will have to happen and the strongest businesses will come through at the other end of that. And so our focus is really on winning local battles frankly and winning each local marketplace and making the most of the investment that we've made in Wi-Fi, SSBTs and Sky and we've seen an encouraging start on that.

Peter Erskine - *Ladbrokes plc - Chairman*

Question on your charts.

Richard Glynn - *Ladbrokes plc - CEO*

With regards to the chart on page 27 --

White are Israeli national colors. Red are Ladbrokes colors. Grey are others.

Ivor Jones - *Numis - Analyst*

So no change planned. That's it.

Nick Edelman - *Goldman Sachs - Analyst*

Morning, it's Nick Edelman from Goldman Sachs. Just two short ones please. One follow up on that retail question is just will you be opening any new shops in 2014 or 2015, including re-siting shops?

And then secondly, just from an understanding point of view, when you talk about the personalised CRM coming into place across multi-products, is there a period of time over which that starts to build up and your knowledge base and database builds up? And if so, is that a sort of six month or 18 month or longer than that period of time? Thank you.

Peter Erskine - *Ladbrokes plc - Chairman*

Nick, any new shops?

Nick Rust - *Ladbrokes plc - MD Retail*

I think Ian put it very well and said that our expansion is largely complete. We will look at opportunities when they come up but we're not planning as you know to open a substantial amount of new shops this year. Our focus is on winning each individual local marketplace. We're focusing very hard on that and we're looking at really how the retail offer will change so that the winning organizations have the right propositions in place. You've heard already how important mobile is, we've got a very competitive service now which we're proud of and we know how important mobile and retail is moving forwards and we're focusing really on winning those local battles and being ready for the increasingly multi-channel nature of our sector.

Richard Glynn - *Ladbrokes plc - CEO*

Yes, I think your question on CRM is quite closely tied in with James's question. I mean of course what you do is incrementally you tie products into CRM, you have your teams working on them, you're bonusing customers who are there. So things like the Mobenga mobile platform, one of the key reasons was that it was already integrated into CMS, so we're already starting to deliver customers personalized CRM through the IMS platform.

If you look at Live Dealer that's exactly the same now and you can see that when we can deliver that, the customers start to respond and respond quite well but you only get the full benefits when you have all of the products tied in. It's like a rowing eight, if you've got seven the oars doing well, the eighth one doesn't just add on one it adds on a multiple of that. So when we have all the team rowing together and all of the products are on IMS I think that we will see a scale change in delivery, but we're certainly already trialing, testing and using it on the products that are integrated.

Peter Erskine - *Ladbrokes plc - Chairman*

Aisle up a couple, questions Sir?

Richard Carter - *Deutsche Bank - Analyst*

Good morning, Richard Carter from Deutsche Bank. A couple of questions. Firstly, on the UK Retail content cost inflation when do you say enough is enough and what options do you have do you think over the next few years to maybe do something around that?

Secondly, on the CapEx guidance of GBP60m to GBP65m it seems a little high to me, so could you just talk through a little bit more detail? You talked about there was a base rate, a base CapEx, so could you just tell us what you think that is so we can get an idea of what level of investment you're making in 2014?

And then I don't know if you picked this --- I don't know if you talked about this or I missed it, but you're closing 40-50 shops, is there a benefit in terms of UK Retail profit costs this year from doing that?

And then finally, on the recent increase in mobile KPIs, has that been marketing-costs driven or is that just driven by the launch of the new product?

Peter Erskine - *Ladbrokes plc - Chairman*

Okay. There were four there, thank you. The mobile KPIs, Jim, if you could just chat about that and perhaps Ian could have a bash at all the costs questions.

Jim Mullen - *Ladbrokes plc - MD Digital*

That's a simple one. That's down to the marketing mix of marketing brand and product so we have been pushing on the marketing. Our brand has been strong as you may have seen over the last three months and as Richard says, we think we have a mobile product now which is at least on parity compared to the set so that together is driving the early encouraging signs.

Ian Bull - *Ladbrokes plc - CFO*

From a CapEx point of view Richard, in the GBP60m to GBP65m, I think if we were to think about it as what was all the kind of maintenance CapEx level, across all of our businesses, across Digital and Retail and indeed in Damien's business international, I would say the maintenance CapEx is probably top 20s kind of territory, top GBP20m okay, so you can see as I said at the time, we're still investing in the business, over GBP35m in the rest of the business, which is in Retail, it's in Digital and it's also International as well. So we have three parts of the business we invest in from the CapEx point of view.

I think your second question or your third question actually was on the -- any EBIT impact from 40 to 50 closures. I think Nick did cover it, but just to reinforce what he said is of that 40 to 50 some are loss makers and some are actually contributing shops. It's just that we don't see a long-term benefit for them really so the aggregate effect is likely to be pretty small in terms of EBIT for 2014.

Nick Rust - *Ladbrokes plc - MD Retail*

And just on the contents side, when is enough enough? Most of the organizations in our sector are tied into agreements for a few years yet. I think the encouraging thing is that, and we're largely talking about horse racing in the retail sector, the encouraging thing is that there is an increasing understanding amongst key commercial and other stakeholders within racing, of the economics, the true economics of retail betting businesses and despite any bluster you may hear from -- in media around this, I think there is a moving together around that understanding and that there will need to be a solution developed rather than in effect the last round of negotiations were not quite take it or leave it, but there was a strong position for the content holders at the time.

I don't think that position is going to be so strong if the same approach is adopted next time. Horse racing revenues continue to fall and there'll be a point at which the current swing of behavior of customers means that a different approach will be taken and I think that the content holders are beginning to understand that and I would expect that in the time available an appropriate solution can be worked on over the next few years. And we are certainly spending quite a bit of time on that.

Peter Erskine - *Ladbrokes plc - Chairman*

Three last questions and then we'll draw stumps. Gentleman there.

David Jennings - *Davy - Analyst*

Good morning. David Jennings from Davy. I promise I only have one. Can you tell us how many active customers your Digital business had in 2013 and how that figure compared with 2012 please?

Ian Bull - *Ladbrokes plc - CFO*

Sorry, David, just give me one second I think it's actually in the appendix. Just checking. Yes. Unique actives so it's 873,000 in 2013 and about 1m in 2012. It's page 45. I know you won't have time to go through all those but that's where it is.

Peter Erskine - *Ladbrokes plc - Chairman*

There should be a mic somewhere near you.

Jeffrey Harwood - *Oriel - Analyst*

Jeffrey Harwood from Oriel. Two questions. First of all the change in strategy on the shop openings, is that partly regulatory driven?

And secondly, you indicated that some of the scare stories on regulatory change had been exaggerated, I wondered if you could expand your views on that please?

Richard Glynn - *Ladbrokes plc - CEO*

Yes, we're spending a lot of time I think, Jeffrey, hopefully working with and leading the industry on conversations with government, the Gambling Commission, with responsible gambling trusts, with NatSen who are the research organization. First of all, I don't think it is a change in strategy. I think that we said that we had a two-year window of opportunity based on the rents and the availability on shops and we said that we would drive through that two years. We continue to optimize the retail estate and I think people have been pretty clear on that.

I continue to believe that both government and opposition are looking for evidenced-based solutions. There is a lot of noise around the machine debate at the moment, quite clearly it's had quite an impact on ours and other people's share prices as the market reacts to uncertainty. I believe that what the government is looking for is something which will probably say this is what we intend to do now, this is the evidence we need to collect over a number of years and then we can continue to evolve a social responsibility approach to betting and gaming.

We've put this at the heart of our business. I think we've made a really clear statement by saying that we think that executive pay should be linked to this to make sure that it sits at the very heart of our business. We're the only business that has the Odds On data loyalty card which can link player and session data to their behaviors. We're the only people therefore who can track triggers, changes in behavior which allow the customer to see what their actions are and how they can respond to them. We will share all that with the industry. We'll share it with the government and I really believe that they will use that as the basis for evidence-based decision making over the next couple of years.

James Ainley - *Citibank - Analyst*

Yes, James Ainley from Citi. Just wanted to press you a bit further on the KPI's for the recent trading. Would the -- would you have seen -- sorry, what would mobile stakes growth have been ex free bets? So you talk about 93% total, what would it have been ex free bets?

And secondly, would the overall Digital business have seen sports stakes growth in that same period?

Peter Erskine - *Ladbrokes plc - Chairman*

I think we'll probably need to get back to you on the first one. And on the second one, Jim, could you do that?

Richard Glynn - *Ladbrokes plc - CEO*

Sorry on the first one, I'd also say that the free bets were an integral part of the marketing mix. You might as well say what would mobile turnover and stakes growth have been if we hadn't advertised on tele. I'm not quite sure I understand. It's an integral part of the mix as Jim says, what we're seeing now in mobile is an intuitive platform that's very clear with an incredibly strong brand with good marketing and based on the IMS platform, driven by experts. It's only been six or seven weeks but I think the response from the customers has shown that when you start getting all of those things together and the marketing percentage is still within the range that we said, you start to see a material change. So I think that we control it very well but the customers are responding to the combination of all of those things not just one factor of it.

Peter Erskine - *Ladbrokes plc - Chairman*

Go on, one last one, I know I said final a few times, but you look hurt.

Richard Stuber - *Nomura - Analyst*

Thank you. Richard Stuber from Nomura. Just a couple of quick questions please. First on telephone, it's loss making this year, you expect it to be loss making next year, at what point are you going to close down your telephone operations and just get people to move online only?

And the second question is on current trading. For the seven weeks only you say your net revenues are down 11%, I imagine a lot of it is due to the second week of football results. If you took that out, could you give a better underlying run rate of how the trading is going? Thank you.

Richard Glynn - *Ladbrokes plc - CEO*

I'll do the mobile, telephone sorry, yes, I mean you are quite right that there is a move to mobile, there is a move to desktop, but what we've always said is that there are certain customers who need a telephone-based service. At this moment in time we're happy to deliver it very much as a customer service. There may come a time in the future when that's not appropriate but I don't think we see that at this moment in time. It's part of our armory.

Ian Bull - *Ladbrokes plc - CFO*

And on the current trading question, Richard, I would say it's GBP11m not 11%. Actually it's probably around about 7% if you want the percentage number. I think what we saw is January was much worse than that. You've heard numbers from William Hill and others in terms of how big the impact of football was in January, so actually we've traded February a little bit better so far and we're only part way through February.

I think what we are seeing and it's not just football, let's be clear. Football has been brilliant for customers particularly in those couple of weeks of January. I think also we should acknowledge that horse racing has seen with the softer going a much lower than average number of riders per race. So the field sizes are smaller and the percentage of favorites that are winning are higher and those two are correlated with each other.

So it's very difficult to answer your question with a precise number, Richard, in terms of what the underlying rate is because you'd have to normalize both those things at the same time. I think suffice to say for us GBP11m down after seven weeks and obviously we're comping on some very strong Q1 last year, so last year's OTC and sportsbook were very, very high as well. So it makes it look a bit harder.

Peter Erskine - *Ladbrokes plc - Chairman*

Obviously, thank you very much for your time, obviously asking questions of us one on one and over the coming few weeks. I guess just as a closing thought, I would like to say nobody up here I am certain is pleased with 2013 financials and I think we've made that very clear but if you say we can affect the future, we have a business that everything it promised last late summer the milestones have been achieved and Richard went through those, and we're increasingly just totally focused on hitting those before the World Cup wherever we can.

And I think this has become a business, you can have a good bicker on the side, we got there late but we are now very definitely a business that hits its milestones, delivers what it promises and the first half will be continuing that so that the second half we can move this business back to growth. Thank you for your time.
