

Thursday 28 February 2008

Ladbrokes^{PLC}

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

Christopher Bell
Chief Executive

Brian Wallace
Group Finance Director

Julian Arlett
Head of Investor Relations
Mobile: +44 (0) 7976 348 913

Ciaran O'Brien
Head of Public Relations
Mobile: +44 (0) 7976 180 173

Tel: +44 (0) 20 7355 0340

Ladbrokes

Ladbrokes.com

**Preliminary statement of results
for the year ended 31 December 2007**

	Year ended 31 December 2007 £m	Year ended 31 December 2006 ⁽¹⁾ £m
Continuing operations		
Gross win	1,286.4	990.3
Net revenue	<u>1,235.0</u>	<u>947.4</u>
Operating profit ⁽²⁾	420.0	262.2
Net finance costs ⁽²⁾	(68.0)	(44.6)
Interest income on hotels sale proceeds	<u>-</u>	<u>24.0</u>
Profit before tax and non-trading items ⁽²⁾	352.0	241.6
Loss on disposal of non-current assets	(1.1)	-
Other non-trading items before tax	<u>(6.7)</u>	<u>(3.5)</u>
Profit before tax	344.2	238.1
Tax	<u>(52.8)</u>	<u>(46.2)</u>
Profit after tax – continuing operations	<u>291.4</u>	<u>191.9</u>
EBITDA ⁽²⁾ – continuing	470.4	304.4
Earnings per share ⁽²⁾ – continuing	47.4p	21.7p
Proposed dividend per share	9.05p	8.60p

⁽¹⁾ Restated – details of restatement explained in notes 2(d), 2(e) and 15 to the financial statements.

⁽²⁾ Before non-trading items and discontinued operations. Non-trading items comprise profit/losses on disposal of non-current assets, unrealised gains/losses on derivatives, and litigation and transaction costs (Litigation and transaction costs - 2006 only).

⁽³⁾ The full consolidated income statement is shown on page 19.

Financial Highlights

- Operating profit⁽¹⁾ from continuing operations increased by 60.2% to £420.0 million (2006: £262.2 million).
- Operating profit⁽¹⁾ from continuing operations, excluding High Rollers, decreased by 4.4% to £241.0 million (2006: £252.0 million).
- Total gross win increased by 29.9% to £1,286.4 million (2006: £990.3 million). Total gross win from continuing operations, excluding High Rollers, grew by 6.0% to £1,036.8 million (2006: £978.1 million).
- Net debt of £917.0 million with cash generated by operations of £421.1 million.
- Effective tax rate⁽²⁾ of 15.6%.
- Final dividend of 9.05 pence per share (up 5.2%).
- During 2007, 19.9 million shares were purchased through Ladbrokes' share buy back programme. The buy back programme has continued in 2008, with a further 10.3 million shares purchased.
- Profit on disposal of Vernons of £46.0 million.

Ladbrokes Chief Executive, Christopher Bell, commented:

“Ladbrokes has achieved record profitability⁽³⁾ of £420.0 million, benefiting from a buoyant performance from Telephone Betting. Following a strong finish to 2007, we have made a positive start to the year. We will continue to develop the business through new products and channels, both in the UK and overseas and will promote our brand and products through TV advertising, whilst remaining vigilant on costs.”

Dividend

The Board has recommended a final dividend of 9.05 pence per share, representing an increase of 5.2%, payable on 2 June 2008 to shareholders on the register on 7 March 2008. This final dividend, together with the interim dividend of 4.85 pence, gives a total dividend of 13.90 pence.

(1) *Profit before tax, finance costs and non-trading items*

(2) *Before non-trading items for continuing operations*

(3) *Profit for continuing operations, before tax, finance costs and non-trading items*

Chief Executive's Statement

Overview

A strong performance from our Telephone Betting business has helped to drive Ladbrokes' highest ever profit⁽¹⁾ of £420.0 million in 2007. Our established European shop businesses produced solid overall performances against tough comparatives and eGaming again saw double digit growth, following the acquisition of Sponsio in January 2007. International development plans are primarily focused on the establishment of new businesses in Italy and Spain and opportunities in China and Vietnam.

European Retail

Total gross win in European Retail increased by 5.3%, including growth of 3.3% in UK Retail and 26.4% in Ireland.

Over the Counter (OTC) gross win comparatives were tough in the UK, with a football World Cup in 2006 and the start of the 2007 domestic football season having seen the worst run of results in six years. Additionally, 2007 experienced the wettest July since 1766, with abnormally high horse and greyhound racing cancellations. Overall OTC gross win declined by 3.8%.

By October 2007, our 8,190 machines were completely renewed with the latest dual screen Laras, which have proved very popular with our customers. The improved reliability has also significantly reduced machine downtime and machine gross win increased by 21.0%. Following the introduction of the Gambling Act in September, our machines now feature £500 payout jackpots, Blackjack and Poker. In the last quarter of 2007, with the benefit of these machine developments and winter evening opening, UK Retail gross win increased by 10.6%, with OTC and gaming machine gross win up by 1.2% and 33.6% respectively.

Ladbrokes became the first bookmaker to advertise sports betting on TV in October 2007. We are encouraged by the customer response to the campaign, which achieved a positive impact on customers' perception of brand values and their choice of brand. We will be launching further advertising campaigns during 2008, with the first two campaigns, supporting our online bingo and casino products, planned to commence in March and April respectively.

A strong emphasis remains on cost control in 2008, with good progress made in 2007, when costs increased by 7.9%, much less than the budgeted amount. Key initiatives in 2008 include the introduction of a new staff scheduling system and rationalisation of certain areas of service provision. In order to ensure that our customers can continue to watch all live horse racing in our UK and Irish shops we concluded a five year supply contract with Turf TV on 1 January 2008, at significant incremental cost. Excluding Turf TV, 2008 UK Retail cost growth is projected to be less than in 2007.

⁽¹⁾ Profit before tax, finance costs and non-trading items, for continuing operations

During 2007, we relocated, refurbished and extended 103 UK shops, bringing the total to 1,089 over the past five years, representing approximately half of the UK estate. We also opened 22 new licences and closed 30 shops.

Following the acquisition on 6 February 2008 of the Eastwood chain of 54 shops in Northern Ireland for £117.5 million, we are now the market leaders in Ireland with 271 shops. The Irish business performed well in 2007, growing operating profit by 43.6%.

We have continued to invest in our Italian business following re-regulation of the betting and gaming environment in 2006 through the Bersani decree. We now have 26 shops and seven Bersani corner licences, which are trading in line with our expectations. In the short term, our Italian management team remains focused on the challenging exercise of identifying and opening suitable premises for our Bersani licences and in making further shop acquisitions. Ladbrokes' Italian language website began trading in November.

Remote Betting and Gaming

eGaming showed good profit growth for the seventh consecutive year, driven by growth in Sportsbook, Games and Casino products, with Sportsbook in particular delivering a buoyant performance. The competitive landscape remains tough for Poker with high customer acquisition costs and margins squeezed by rakeback and other promotional offers. Unique active players across our range of products increased 9.4% to 601,000. The acquisition of Sponsio, our Nordic marketing partner in January 2007 helped us to increase our profit conversion from 33.0% of net gaming revenue in 2006 to 38.3% in 2007.

Our objective for eGaming remains the achievement of continued profit growth through product innovation and market development, whilst respecting jurisdictional barriers. Moving forward, we intend to increase our investment levels in customer acquisition which will maintain profitability levels in the short term but drive profit growth in future years.

Our Telephone Betting business increased its profits from £17.3 million to £183.6 million, as we saw increased activity from our High Rollers for much of the year which contributed significantly to cash flow and profits.

International development

Preparations continue in Spain, where we expect to be awarded an operating licence in the Madrid region in the near future. Our Sportium business, a Joint Venture between Ladbrokes and Cirsa Slot, has over 60 outlets which will be ready to begin trading in the months following the award. We await further de-regulation in other regions during 2008.

Ladbrokes continues to explore opportunities in Asia, particularly in Vietnam and China.

Regulatory environment

September 2007 saw the full implementation of the 2005 UK Gambling Act and following comprehensive preparation, our UK shops have already incorporated many of the changes allowed under the new legislation.

On 20 February 2008, the Minister of State at DCMS announced his determination of the Levy (the amount payable by UK bookmakers to horseracing via the Horserace Betting Levy Board). His decision was to leave the rate at 10% of UK horseracing gross win. However, he has also called for discussions to take place between the racing and the betting industry to find a replacement for the outdated horserace betting levy. With British racing now generating significant income from commercial sources outside of the levy, including horseracing media rights, Ladbrokes agrees that the time has come to replace the current system of statutory subsidies.

Following an internal review and as previously reported, the decision was taken not to pursue any of the new 16 casinos which may be allowed under the 2005 Gambling Act, as returns could not be expected prior to 2012.

Capital structure

In August 2007, the Board announced the start of a share buy back programme and it is intended that, over time, it will repurchase shares in order to move towards its stated target net debt to EBITDA range of 3.5 to 3.75 times (excluding Telephone High Rollers), whilst continuing to invest in growth opportunities. At the year end, 19.9 million shares had been bought back under this programme.

Outlook

The Board is mindful of general concerns about the state of the UK economy but is pleased to report that, following a strong finish in 2007, Ladbrokes has made a positive start to the year with gross win and operating profit ahead of last year in each of European Retail, eGaming and Telephone Betting. We are encouraged by the positive response to the initiatives which have been implemented in the UK Retail estate, whilst the Telephone High Rollers have maintained their momentum from last year, with operating profit from Telephone High Rollers of £36 million in the seven week period to 18 February 2008. Total gross win excluding Telephone High Rollers for the same period increased by 16%.

In eGaming, we are intent on maximising our brand and technology advantage in our key online markets and consequently, we are increasing the investment levels in 2008 to accelerate the new customer acquisition rate. We expect to maintain eGaming profitability levels in 2008 but with an objective to reach profitability of £80-90 million in 2010.

Operating results

Amount staked by business	Year ended	Year ended
	31 December 2007	31 December 2006 ⁽¹⁾
	£m	£m
European Retail	11,712.5	10,189.1
eGaming	1,300.4	1,216.9
Telephone Betting	1,866.6	939.9
Other ⁽²⁾	29.0	-
Total	14,908.5	12,345.9

Gross win by business	Year ended	Year ended
	31 December 2007	31 December 2006 ⁽¹⁾
	£m	£m
European Retail	842.4	799.8
eGaming	156.5	144.4
Telephone Betting	280.1	46.1
Other ⁽²⁾	7.4	-
Total	1,286.4	990.3

Net revenue by business	Year ended	Year ended
	31 December 2007	31 December 2006 ⁽¹⁾
	£m	£m
European Retail	804.5	767.5
eGaming	143.5	134.1
Telephone Betting	279.8	45.8
Other ⁽²⁾	7.2	-
Total	1,235.0	947.4

Profit from operations by business (before non-trading items)	Year ended	Year ended
	31 December 2007	31 December 2006 ⁽¹⁾
	£m	£m
European Retail	209.5	216.8
eGaming	55.0	44.3
Telephone Betting	183.6	17.3
Other ⁽²⁾	(7.0)	(1.6)
Corporate costs	(21.1)	(14.6)
Total	420.0	262.2

(1) Restated – details of the restatement explained in notes 2(d), 2(e) and 15 of the financial statements.

(2) Casino and international development operations

Business Review

European Retail

- Total gross win increased by 5.3% to £842.4 million (2006: £799.8 million) with operating profit decreasing by 3.4% to £209.5 million (2006: £216.8 million).

European Retail – UK

- Total gross win increased by 3.3% to £739.3 million (2006: £715.8 million). Whilst 2007 saw challenging comparatives, which included a football World Cup in 2006, high levels of lost racing and periods of difficult sports margins, the gaming machine estate performed well and winter evening opening, which commenced for the first time on 1 September 2007, showed encouraging early signs.
- Total gross win in the first half increased by 1.1%, whilst the second half delivered an increase of 5.6% in total gross win with a strong performance in the last two months of 2007. Following the introduction of the Gambling Act on 1 September, total gross win in the last four months of 2007 showed 11.1% growth, with an increase of 1.6% and 31.8% in OTC and gaming machine gross win respectively. The initial response to Ladbrokes' first TV advertising campaign for betting was positive and the experience has proven valuable in developing plans for 2008.
- On a like for like shop basis (excluding acquisitions, new licences and closed shops but including extended opening hours), total gross win showed an increase of 2.9%.
- OTC gross win decreased by 3.8% to £490.9 million (2006: £510.5 million), reflecting some substitution following the renewal of our gaming machine estate and a decline of 9.4% in horse racing amounts staked, whilst football saw an increase of 25.4% in amounts staked since the start of the 2007/08 Premiership season, buoyed by advertising and promotion. Focus has been placed upon enhancing the range and value of our football offering.
- The horseracing product range has seen a number of developments, with the introduction of betting in play on major race meetings and the 'Nation's Favourite Bet' in partnership with The Sun newspaper. Ladbrokes Results Zone offers the most comprehensive results service on the high street.
- The introduction of winter evening opening across more than 95% of shops has been enhanced by additional evening betting content for customers, including east coast US racing, live and exclusive greyhound racing from Ladbrokes' greyhound tracks and more virtual content. A greater range of betting opportunities than ever before is now screened in UK shops, including more exclusive high quality content than Ladbrokes' competitors.

- Like for like OTC gross win fell by 4.1%. Gross win margin was 17.1% (2006: 16.9%).
- Gaming machine gross win increased by 21.0% to £248.4 million (2006: £205.3 million), with average weekly gaming machine gross win of £585, compared to £481 for 2006, an increase of 21.6%.
- All Fixed Odds Betting Terminals (FOBTs) were upgraded to dual screen B2/ B3 gaming machines during Q1 2007 and Amusements With Prizes (AWPs) were replaced with the same dual screen machines by October 2007. As well as significantly improved reliability across the machine estate, the new B3 content (£500 jackpots) now represents around 50% of all gaming machine transactions and contributed to an increase in overall margin in 2007. Second half gaming machine gross win growth was 26.9% (H1 2007: 15.5%), including the benefit of extended opening hours from September.
- The replacement of the shop EPOS system was completed in the first half of 2007, enabling high street functionality which is bespoke to Ladbrokes, such as 'Boost Your Winnings'. Local communities now benefit from Dynamic Zoning technology, which tailors product and promotions to customers, based on local football teams.
- Operating costs increased by 7.9% to £445.9 million (2006: £413.1 million). This increase was driven by additional opening hours from September and a full year of Amusement Machine Licence Duty (AMLD), which was introduced in August 2006. Like for like costs (excluding AMLD, winter evening opening hours, new licences and closed shops) increased by 3.0%, with cost control remaining a key area of focus throughout 2007.
- Operating profit of £187.8 million decreased by 6.0% (2006: £199.8 million).
- During 2007, a mystery shopper programme was rolled out across 600 UK shops, with a focus on standards and customer service. Given the importance of the relationship between shop profitability and service, increased emphasis will be placed on maintaining and enhancing customer service in our shops going forward. The programme will be extended to all UK shops during 2008.
- At 31 December 2007, Ladbrokes had 2,133 shops in the UK. During 2007, 22 new licences were opened and 30 shops were closed. 41 shops were relocated during the year and 53 shops were refurbished.

European Retail - Ireland

- Gross win in Ireland increased by 26.4% to £61.8 million (2006: £48.9 million), driven by good growth from acquisitions and new licences and despite a difficult horseracing margin in the second half.

- Operating costs increased by 25.5% as a result of the impact of a larger shop estate and related establishment costs. Operating profit increased by 43.6% to £20.1 million (2006: £14.0 million).
- Shop numbers in Ireland increased from 195 at 31 December 2006 to 215 at the 2007 year end, with 13 acquisitions, nine new licences and two closures during the year. The acquisition of the 54 shop Eastwood chain in Northern Ireland was completed on 6 February 2008.

European Retail - Belgium

- Gross win in Belgium showed a decline of 0.9% with the marketplace remaining highly competitive, however operating profit increased 6.7% to £3.2 million (2006: £3.0 million) due to lower turnover tax and a reduction in operating costs.
- The number of Belgian shops was 274 at 31 December 2007 (2006: 286).

European Retail – Italy

- The newly re-regulated Italian betting market presents a good opportunity for Ladbrokes. During 2007, 13 existing betting shops were acquired for a cost of £16.7 million, giving a total of 17 acquired shops by the year end. These shops traded in line with our expectations during 2007. Ladbrokes is now represented in the major cities of Rome, Milan, Turin, Naples and Genoa and since the year end has completed the acquisition of a further eight shops around Turin and Vicenza.
- The rollout programme for the 142 new Bersani licences continues, following the licence award in March 2007, with the first shop and corners opened in December 2007. Whilst finding premises for new licences remains challenging, they are scheduled to be opened throughout 2008.
- Our local language internet site, Ladbrokes.it, was launched in November. Our odds service provider, Pianetta Scommesse increased its customer numbers during the year.
- We have established a head office in Milan which is focused on the expansion of the Italian business.
- Gross win for the year was £6.5 million, with operational and administration costs of £7.3 million and duty of £0.8 million, resulting in a start-up loss of £1.6 million for the year.

eGaming

- eGaming increased its profitability by 24.2% to £55.0 million (2006: £44.3 million) with Ladbrokes now one of the world's most profitable online betting and gaming operators. Results benefited significantly from the acquisition in January 2007 of Sponsio, Ladbrokes' Nordic marketing partners since 2001. Net revenue conversion consequently improved to 38.3% (2006: 33.0%).
- eGaming net revenue increased by 7.0% to £143.5 million (2006: £134.1 million), with unique active players of 601,000, 9.5% higher despite the impact of the World Cup in 2006. Yield per customer was down 2.0% at £239.
- Sportsbook net revenue showed strong growth of 14.7% to £52.2 million, (2006: £45.5 million including £4.5 million from the World Cup), with a gross win margin of 7.2% (2006: 6.4%). Growth in the second half remained strong at 15.7% driven by continued expansion in the product offering, including betting in play, video streaming and other sports content. For the year, unique active players grew 5.8% to 421,000 and yield per unique active player grew 8.8% to £124. Our new UK sportsbook was launched for beta testing at the end of 2007 with encouraging initial feedback and full launch is scheduled for H1 2008. Further localisation of our international offering is also a focus, particularly in the key Nordic countries where new sportsbooks were launched in February 2008.
- Casino net revenue of £43.1 million grew by 5.1%. Unique active players were up 16.7% at 105,000, with average monthly active player days up 13.9% and yield per unique active player down 9.7% at £411. Whilst the second half of the year saw a decline in yield, net revenue declined only marginally year on year due to the benefit of a 27.5% increase in active customers. The increase in active customers was driven by online marketing activity and continual improvements to our proposition, including new products (e.g. The Osbournes and Hitman branded slots) and further foreign language versions of the '1-click' suite of casino games. In 2008 a more rapid roll out of new products is planned, combined with geographically targeted new customer acquisition campaigns.
- Poker net revenue declined by 11.4% to £31.0 million, impacted by increased competition in our key European markets. Unique active players for the year were down 1.9% at 151,000 and yield per unique active player was down 9.7% to £205. Net revenue for the second half declined year on year by 7.8% to £15.3 million. In the second half our customer loyalty programme was enhanced and 3D poker was soft launched in November. The popular Ladbrokes Poker Cruise took place early in 2008 and the coming year will see further developments to the site including multi-currency tables and a full launch of the new 3D application, complemented by a more aggressive affiliates programme.
- Games net revenue showed significant growth of 36.5% to £17.2 million (2006: £12.6 million), with second half growth of 27.6% despite tougher comparatives. Average monthly active player days for the year were up

43.4% to 142,000, with unique active players up 17.5%. This performance benefited from the new Bingo product and supporting TV advertising campaigns together with a number of other new product launches during the year (including Deal or No Deal Jackpot and Who Wants to be a Millionaire Bingo). 2008 will see enhancements to Ladbrokes' bingo service, additional unique branded content and focus on localisation and affiliate growth.

- 2007 saw continuous improvements and growth in Ladbrokes' mobile Sportsbook and gaming offerings and further developments are planned for 2008. Compared with the Internet, wireless revenues are small but are growing fast and Ladbrokes is positioned to take advantage as consumer acceptance of the technology grows.
- eGaming's operating costs of £80.6 million were £2.3 million lower than 2006 compared to the 7.0% increase in net revenue, favourably impacted by the acquisition of Sponsio in January 2007. Like for like, excluding the impact of this acquisition, operating costs were up approximately 6.5%, with savings in banking and chargebacks offset by increased staff costs. Marketing costs overall increased by £2.8 million (16.2%), with real money sign-ups 4,000 higher than last year despite the impact of the World Cup. Adjusted cost per acquisition comparatives are not like for like, due to the impact of the acquisition of Sponsio in January 2007. However even after adjusting for this, the cost of £86 has risen, reflecting the higher level of competition in our key markets.
- The regulatory environment outside of the UK and Ireland remains challenging but there are early signs that European Member States are beginning to accept the anachronism of protecting state monopoly betting service providers under European law. Nevertheless, Ladbrokes remains unable to accept bets from customers in a number of important European markets including, for example, Germany and the Netherlands and is prohibited from promoting its services in a significantly greater number of member states. 2007 has seen Ladbrokes acquire an Internet betting licence in Italy and it is hoped that further progress is made in terms of both free movement of services and freedom of establishment in 2008 through the assistance of the European Commission and through national courts and the European Court.

Telephone Betting

- Telephone Betting achieved operating profits of £183.6 million in 2007 (£17.3m in 2006) buoyed by high levels of activity from High Rollers. Excluding High Rollers, operating profit declined by 35.2% to £4.6 million (2006: £7.1 million).
- Net revenue including High Rollers was £279.8 million (2006: £45.8 million).
- Net revenue excluding High Rollers decreased by 10.1% to £30.2 million (2006: £33.6 million including £1.6 million from the World Cup) with gross win margins of 7.1%, slightly behind 2006 levels (7.2%).

- Net revenue from High Rollers was £249.6 million (2006: £12.2 million).
- Excluding provisions for doubtful debts, operating costs (excluding duty and levy) increased by 13.6% to £20.9 million, mainly due to additional costs relating to High Rollers. Agent cost per call was up 3.4% to 61 pence (H1 2007: up 14.5%), with efficiencies impacted by lost racing both at the beginning of the year and during the wet summer.
- Excluding High Rollers, average monthly active player days declined by 7.6% and call volumes decreased by 8.5%, with yield down 2.8% at £263. Unique active players were down 7.6% at 115,000 (2006: 124,400).

Other

- The International development effort has focused mainly on opportunities in Asia, particularly in China, Vietnam and Taiwan, in addition to initial development activity in Italy and Spain. Whilst Ladbrokes was unsuccessful in its bid for the Taiwanese sports lottery, developments continue in China and Vietnam. Development costs totalled £4.5 million in 2007.
- In Spain, Ladbrokes has applied for an operating licence in the Madrid region with our joint venture partner, Cirsa Slot. Ladbrokes' £0.9 million costs were incurred in setting up the new business during the year.
- Casino losses of £1.6 million reflect the development costs of assessing the proposed new regional, large and small UK casinos and the operating results of Ladbrokes Casino and Sportsbar at Paddington Hilton.

Discontinued operations - Vernons

- The sale of Vernons to Sportech plc completed on 3 December 2007. Initial cash consideration was £40.8 million after working capital adjustments, with a further £3.2 million payable in 2008 and £3.0 million payable in 2009.

Enquiries to:

Brian Wallace, Group Finance Director (office +44 (0) 20 7355 0340)
Julian Arlett, Head of Investor Relations (mobile +44 (0)7976 348 913)
Ciaran O'Brien, Head of Public Relations (mobile +44 (0)7976 180 173)
Switchboard +44 (0) 20 7355 0340

A live conference call of the analyst presentation will be available at 9.30am (UK time) by dialing +44 (0) 208 817 9301 and asking for the 'Ladbrokes plc Preliminary results'. In addition, a live videocast of the presentation with slides and questions, together with this news release, will be available on Ladbrokes' corporate website which can be found at www.ladbrokesplc.com

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.

Operating and Financial Review

Financial review

Revenue and profit before tax	Year ended 31 December 2007		Restated year ended 31 December 2006	
	Net revenue	Profit	Net revenue	Profit
	£m	£m	£m	£m
Continuing operations:				
European Retail	804.5	209.5	767.5	216.8
EGaming	143.5	55.0	134.1	44.3
Telephone Betting	279.8	183.6	45.8	17.3
Other ⁽¹⁾	7.2	(7.0)	-	(1.6)
Corporate costs	-	(21.1)	-	(14.6)
	1,235.0	420.0	947.4	262.2
Net finance costs	-	(68.0)	-	(44.6)
Interest income on the hotels sale proceeds	-	-	-	24.0
Revenue and profit before tax	1,235.0	352.0	947.4	241.6
Discontinued operations:				
Vernons	16.8	4.8	18.6	4.9
Hotels	-	-	264.4	10.8
Revenue and profit before tax	16.8	4.8	283.0	15.7
Group revenue and profit before tax	1,251.8	356.8	1,230.4	257.3

(1) Casino and international development operations. Vernons was disposed in 2007.

Profit is before non trading items and profit on disposal of the Vernons business and hotels business.

Trading summary – Continuing operations

Revenue

Revenue for continuing operations increased by £287.6 million (30.4%) to £1,235.0 million, mainly as a result of High Rollers' activity in Telephone Betting, the performance of the Irish shops in the European Retail estate, and growth in eGaming.

Profit before finance costs, tax and non-trading items

Profit before finance costs, tax and non-trading items increased 60.2% to £420.0 million (2006: £262.2 million) reflecting increased profits in both Telephone Betting and eGaming offset by a decline in European Retail. Corporate costs increased due to the television advertising campaign in the second half of 2007.

Finance costs

The net finance costs of £68.0 million were £47.4 million greater than last year (2006: £20.6 million). 2006 benefited from interest income of £24.0 million earned on the proceeds of the Hilton International disposal. Excluding this income net finance costs increased by £23.4 million reflecting a full period of the increased leverage implemented following the Hilton International disposal.

Profit before tax – Continuing operations

The increase in trading profits offset by the higher finance costs in the year has resulted in a 45.7% increase in profit for continuing operations before taxation and non-trading items to £352.0 million (2006: £241.6 million).

Non-trading items before tax

A non-trading loss of £1.1 million before interest and tax includes a £1.5 million profit recognised upon disposal of shares in SIS reducing our shareholding from 25.3% to 23.4%. This is offset by a £2.6 million loss on closure of 30 shops in 2007 in the UK Retail estate. Other non-trading losses of £6.7 million (2006: £1.0 million loss) relate to unrealised losses on derivatives.

Taxation

The Group taxation charge for continuing operations before non-trading items of £54.8 million represents an effective tax rate of 15.6% (2006: 17.5%). The effective tax rate of 15.6% is lower than 2006 due in part to a reduction in the rate of mainstream corporation tax rates.

Discontinued operations

The £4.8 million trading profit in discontinued operations relates to the profit before tax of the Vernons business up until 3 December 2007 when it was sold. A £46.0 million non-trading profit was recognised on disposal.

Earnings per share (EPS) – Continuing operations

EPS (before non-trading items) was 47.4 pence (2006: 21.7 pence). Comparison with the prior year is affected by the share consolidation and convertible bond conversion that took place in 2006. EPS (including the impact of non-trading items) was 46.5 pence (2006: 20.9 pence). Fully diluted EPS was 46.1 pence (2006: 20.4 pence) after adjustment for outstanding share options.

Earnings per share (EPS) – Group

EPS (before non-trading items) increased to 48.0 pence (2006: 22.8 pence). EPS (including the impact of non-trading items) fell to 54.4 pence (2006: 67.2 pence), reflecting the profit on disposal of Hilton International in 2006. Fully diluted EPS was 54.0 pence (2006: 64.7 pence) after adjustment for outstanding share options.

Dividend and capital structure

The Board has proposed a final dividend of 9.05 pence per share (2006: 8.60 pence). The dividend will be payable on 2 June 2008 to shareholders on the register on 7 March 2008.

In August 2007, the Board announced the start of a share buy back programme. This commenced on 10 August 2007 and up until 31 December 2007 the Group had purchased a total of 19.9 million shares at a total cost of £70.4 million. It is intended that, over time, Ladbrokes will repurchase shares in order to move towards its stated target net debt to EBITDA range of 3.5 to 3.75 times (excluding Telephone High Rollers). The purchase of shares will be dependent on market conditions and will also take into account the cash generated in the business and other investment opportunities that may arise over time.

Restatement of divisional operating profits, non-trading finance costs and income, continuing operations and balance sheet reclassification

Following a review, the allocation of shared costs has been adjusted in 2007 to reflect more accurately each division's activity. These adjustments have no impact on reported Group profit, cash flows or net assets.

In addition the Vernons business has been classified as discontinued operations.

For comparative purposes, the segmental operating profit statement for the year ended 31 December 2006 has been restated to reflect these changes to reported profit and is shown in the table below:

Profit before tax and finance costs and before non-trading items	Year ended 31 December 2006	Allocation of shared costs	Restated before Vernons disposal	Vernons disposal	Restated Year ended 31 December 2006
	£m	£m	£m	£m	£m
European Retail	212.7	4.1	216.8	-	216.8
EGaming	47.0	(2.7)	44.3	-	44.3
Telephone Betting	17.7	(0.4)	17.3	-	17.3
Other ⁽¹⁾	5.9	(1.6)	4.3	(5.9)	(1.6)
Corporate costs	(15.2)	0.6	(14.6)	-	(14.6)
Total	268.1	-	268.1	(5.9)	262.2

(1) Casino and international development operations. Vernons treated as discontinued 2006.

Revenue for 2006 has also been restated to reclassify the share of results from associates from revenue to a separate line. Non-trading finance costs and finance income has been restated to disclose the net impact of gains and losses arising from fair value hedges within finance costs. The balance sheet for 31 December 2006 has been restated for a reclassification of non-current liability provisions and other financial liabilities, to current liability provisions and other financial liabilities.

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.

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Gross win	1,286.4	990.3
Free bets, promotions, bonuses	(14.4)	(12.3)
VAT	(37.0)	(30.6)
Revenue	1,235.0	947.4

Cash flow, capital expenditure and borrowings

Cash generated by operations was £421.1 million. After net finance costs and income taxes paid of £133.0 million and £155.1 million on capital expenditure, intangible additions and acquisitions, cash inflow was £133.0 million.

£40.8 million cash was received from the sale of the Vernons business. Proceeds of £7.6 million were received on the exercise of share options and the issue of shares and £84.6 million was paid out in dividends and £70.4 million was spent on the share buyback programme.

At 31 December 2007, gross borrowings of £975.7 million less cash, deposits and short term investments of £26.2 million and derivatives of £32.5 million have resulted in a net debt of £917.0 million.

Adoption of IFRS 7 Financial Instruments: Disclosures

The Group has adopted IFRS 7 for the year ending 31 December 2007 as required by the International Accounting Standards Board (IASB). IFRS 7 Financial Instruments: Disclosures has superseded IAS 32 Financial Instruments: Disclosure and Presentation, adding certain new disclosures about financial instruments to those currently required by IAS 32, with the remaining parts of IAS 32 dealing only with financial instruments presentation matters.

The new disclosures include additional information regarding the Group's financial guarantee contracts in respect of lease liabilities of subsidiaries within the disposed hotels division. These are described in note 14.

Consolidated income statement

	Year ended 31 December 2007		Restated year ended 31 December 2006	
	Before non-trading items ⁽¹⁾ £m	Total £m	Before non-trading items ⁽¹⁾ £m	Total £m
Continuing operations				
Amounts staked ⁽²⁾	14,908.5	14,908.5	12,345.9	12,345.9
Revenue	1,235.0	1,235.0	947.4	947.4
Cost of sales before depreciation and amortisation	(684.5)	(685.7)	(569.7)	(569.7)
Administrative expenses	(83.9)	(82.4)	(77.3)	(79.8)
Share of results from joint venture and associates	3.8	3.8	4.0	4.0
EBITDA	470.4	470.7	304.4	301.9
Depreciation and amounts written off non-current assets	(50.4)	(51.8)	(42.2)	(42.2)
Profit before tax and finance costs	420.0	418.9	262.2	259.7
Finance costs	(69.5)	(108.5)	(61.3)	(70.7)
Finance income	1.5	33.8	40.7	49.1
Profit before taxation	352.0	344.2	241.6	238.1
Income tax expense	(54.8)	(52.8)	(42.4)	(46.2)
Profit for the year – continuing operations	297.2	291.4	199.2	191.9
Discontinued operations				
Profit for the year from discontinued operations	3.4	49.4	10.4	425.3
Profit for the year	300.6	340.8	209.6	617.2
Attributable to:				
Equity holders of the parent	300.6	340.8	209.6	617.2
Earnings per share from continuing operations:				
- basic	47.4p	46.5p	21.7p	20.9p
- diluted	47.0p	46.1p	21.2p	20.4p
Earnings per share on profit for the year:				
- basic	48.0p	54.4p	22.8p	67.2p
- diluted	47.6p	54.0p	22.2p	64.7p
Proposed dividends ⁽³⁾	9.05p	9.05p	8.60p	8.60p

⁽¹⁾ Non-trading items are profits/losses on disposal of non-current assets, unrealised gains and losses on derivatives, litigation and transaction costs and profit on disposal of discontinued operations. Details on the non-trading items are given in notes 4 and 6 to the financial statements.

⁽²⁾ Amounts staked does not represent the Group's statutory revenue and comprises the total amount staked by customers on betting and gaming activities.

⁽³⁾ A final year dividend of 9.05p per share (2006: 8.60p) amounting to a total dividend of £54.4m (2006: £54.1m) was declared by the Directors on 28 February 2008. These financial statements do not reflect this dividend payable. The 2006 final dividend of 8.60p (£54.1m) and the 2007 interim dividend of 4.85p (£30.5m) were paid in 2007.

Consolidated balance sheet

	31 December 2007 £m	Restated 31 December 2006 £m
ASSETS		
Non-current assets		
Goodwill and intangible assets	525.9	427.5
Property, plant and equipment	263.8	243.1
Interest in joint venture	0.4	-
Interest in associates and other investments	10.0	11.0
Other financial assets	7.4	8.5
Deferred tax assets	28.1	13.1
Derivatives	4.5	12.7
Retirement benefit asset	33.6	22.6
	873.7	738.5
Current assets		
Trade and other receivables	138.5	75.0
Assets classified as held for sale	-	2.2
Derivatives	29.0	0.8
Cash and short term deposits	37.8	36.4
	205.3	114.4
Total assets	1,079.0	852.9
LIABILITIES		
Current liabilities		
Interest bearing loans and borrowings	(187.3)	(36.7)
Derivatives	-	(9.9)
Trade and other payables	(199.1)	(173.4)
Corporation tax liabilities	(142.4)	(161.6)
Other financial liabilities	(30.1)	(1.0)
Provisions	(2.6)	(2.9)
	(561.5)	(385.5)
Non-current liabilities		
Interest-bearing loans and borrowings	(800.0)	(952.2)
Derivatives	(1.0)	-
Other financial liabilities	(14.5)	(15.3)
Deferred tax liabilities	(142.3)	(114.6)
Provisions	(10.5)	(12.2)
	(968.3)	(1,094.3)
Total liabilities	(1,529.8)	(1,479.8)
Net liabilities	(450.8)	(626.9)
EQUITY		
Issued share capital	178.9	177.9
Share premium account	2,134.2	2,126.8
Treasury and own shares	(80.0)	(5.4)
Foreign currency translation reserve	9.4	2.2
Other reserves	(30.0)	-
Retained earnings	(2,663.3)	(2,928.4)
Equity shareholders' deficit	(450.8)	(626.9)

Consolidated cash flow statement

	Year ended 31 December 2007 £m	Year ended 31 December 2006 £m
Net cash flows from operating activities	285.5	156.5
Cash flows from investing activities		
Interest received	2.6	54.7
Dividends received from associates	2.3	0.8
Payments for intangible assets	(31.8)	(9.0)
Purchase of property, plant and equipment	(62.4)	(91.9)
Purchase of subsidiaries	(60.9)	(26.0)
Proceeds from the sale of property, plant and equipment	3.2	1.0
Proceeds from disposal of discontinued operations	40.8	3,241.4
Costs of disposal of discontinued operations	(0.7)	(74.7)
Cash disposed of with discontinued operations	(1.4)	(54.2)
Cash obtained through acquisition of subsidiaries	3.7	-
Purchase of interests in joint venture	(0.6)	-
Purchase of interests in associates and other investments	(0.1)	(0.5)
Proceeds from disposal of interest in associates	2.2	1.0
	(103.1)	3,042.6
Cash flows from financing activities		
Proceeds from issue of shares	7.6	70.3
Proceeds from borrowings	-	179.6
Proceeds from repayment of loans by associate	-	7.8
Purchase of ESOP shares	(2.5)	(5.0)
Purchase of treasury shares	(70.4)	-
Repayment of borrowings	(40.4)	(185.3)
Payments of new loans to associate	-	(1.8)
Dividends paid	(84.6)	(4,208.4)
	(190.3)	(4,142.8)
Net decrease in cash and cash equivalents	(7.9)	(943.7)
Net foreign exchange difference	0.4	1.3
Cash and cash equivalents at beginning of the year	33.4	975.8
Cash and cash equivalents at end of the year	25.9	33.4
Cash and cash equivalents comprise:		
Cash at bank and in hand and current asset investments	37.5	36.1
Bank overdraft	(11.6)	(2.7)
	25.9	33.4

Consolidated statement of recognised income and expense

	Year ended 31 December 2007	Year ended 31 December 2006
	£m	£m
Currency translation differences	7.2	1.3
Recycled foreign exchange	-	(3.8)
Actuarial gains on defined benefit pension scheme	5.1	9.6
Net (losses)/gains on cash flow hedges	(0.5)	1.1
Tax on items directly taken to equity	(1.3)	(2.9)
Total income and expenses recognised directly in equity	10.5	5.3
Profit for the year	340.8	617.2
Total recognised income and expense for the year	<u>351.3</u>	<u>622.5</u>
Attributable to:		
Equity holders of the parent	<u>351.3</u>	<u>622.5</u>

Notes to the financial statements

1. Corporate information

The consolidated financial statements of Ladbrokes plc for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on 28 February 2008.

Ladbrokes plc 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.

2. Basis of preparation

(a) The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union. The financial statements have been prepared in accordance with the accounting policies followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2007.

The financial information set out in this document does not constitute the Group’s statutory accounts for the year ended 31 December 2007 or 31 December 2006. The annual report and accounts for the year ended 31 December 2007 were approved by the Board of Directors today, along with this preliminary announcement, but have not yet been delivered to the Registrar of Companies. The auditor’s report on the statutory accounts for 2007 was unqualified and did not contain a statement under section 237 of the Companies Act 1985. Statutory accounts for 2006 have been delivered to the Registrar of Companies. The auditor’s report on the statutory accounts for 2006 was unqualified and did not contain a statement under section 237 of the Companies Act 1985.

The 2007 report and accounts, together with details of the dividend arrangements and the annual general meeting, will be despatched to shareholders on 31 March 2008. The Annual General Meeting will take place at the QE2 Conference Centre at 11am on 16 May 2008.

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

- Profits/losses on disposal of non-current assets;
- Profits/losses on disposal of businesses and investments;
- Unrealised gains/losses on derivative financial instruments arising from hedging interest rate and currency exposures; and
- Litigation and transaction costs.

The non-trading items have been included within the appropriate classification in the consolidated income statement.

2. Basis of preparation (continued)

The Group has restated its comparative year balance sheet and income statement to reflect: Vernons as a discontinued operation; to exclude from total revenue the share of results from joint ventures and associates; to disclose the net impact of gains and losses arising from fair value hedges within finance costs; for the reclassification of antepost liabilities and property provisions as current liabilities; and the reallocation of shared costs between reporting segments. Refer to note 15 for further details on the restatement of the prior year

(c) The changes in accounting policies are as follows

IFRS 7 Financial Instruments: Disclosures has superseded the disclosure requirements of IAS 32 Financial Instruments: Presentation and Disclosure, with the remaining parts of IAS 32 dealing only with financial instruments presentation matters.

Under the disclosure requirements of IFRS 7, financial instruments have been grouped into classes of similar instruments and the required disclosures made by class. The two main categories of disclosures required by IFRS 7 are:

- information about the significance of financial instruments and
- information about the nature and extent of risks arising from financial instruments and how the Group manages these risks.

The new disclosures on market risk include a sensitivity analysis of each type of market risk to which the Group is exposed.

The Group has adopted IFRS 7 for the year ended 31 December 2007 and for comparatives for the year ended 31 December 2006 as required by the International Accounting Standards Board (IASB).

The Group has adopted IAS 1 Amendment – Presentation of Financial Statements for the year ended 31 December 2007. This has had no effect on the financial position of the Group but does, however, give rise to additional disclosures.

The Group has applied the guidance under IFRIC 10 Interim Financial Reporting and Impairment for the year ended 31 December 2007, which concludes that where an entity has recognised an impairment loss in an interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost, that impairment should not be reversed in subsequent interim financial statements nor in annual financial statements. This has had no impact on the financial statements for the years ended 31 December 2006 and 2007.

The Group has early adopted the guidance under IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, for the year ended 31 December 2007. IFRIC 14 provides general guidance on how to assess the limit on the amount of the surplus that can be recognised as an asset under IAS 19 Employee Benefits. It also explains how

2. Basis of preparation (continued)

the pensions asset or liability may be affected when there is a statutory or contractual minimum funding requirement. The Interpretation standardises practices and ensures that entities recognise an asset in relation to a surplus on a consistent basis. This has had no impact on the financial statements for the years ended 31 December 2006 and 2007.

(d) Discontinued operations

The income statement for the year ended 31 December 2006 has been restated to reflect the disposal of the Vernons pools business. A reconciliation between the reported income statement and the restated income statement is given in note 15.

(e) Segmental analysis

The Group is organised and managed along three principal segments according to the nature of the services provided – European Retail (which comprises all activities connected with the UK and other European shop estate), eGaming and Telephone Betting.

Following a review, the allocation of shared costs has been adjusted in 2007 to reflect more accurately each division's activity. The segmental information for the year ended 31 December 2006 has been restated to reflect this change to reported profit and is shown in the table below

The adjustment has no impact on reported Group profit, cash flows or net assets.

The Vernons pools business was disposed in 2007. Consequently, Vernons has been reported as discontinued, thus reducing 2006 operating profit before non-trading items from £268.1 million to £262.2 million

Profit before tax and finance costs and before non-trading items	Year ended 31 December 2006	Allocation of shared costs	Restated before Vernons disposal	Vernons disposal	Restated Year ended 31 December 2006
	£m	£m	£m	£m	£m
European Retail	212.7	4.1	216.8	-	216.8
Egaming	47.0	(2.7)	44.3	-	44.3
Telephone Betting	17.7	(0.4)	17.3	-	17.3
Other ⁽¹⁾	5.9	(1.6)	4.3	(5.9)	(1.6)
Corporate costs	(15.2)	0.6	(14.6)	-	(14.6)
Total	268.1	-	268.1	(5.9)	262.2

(1) Casino and international development operations. Vernons treated as discontinued 2006.

3. Segment information

The Group's continuing operating businesses are organised and managed separately as three principal segments according to the nature of the services provided as outlined below.

The European Retail segment comprises all activities connected with the UK and other European shop estate.

The eGaming segment comprises betting and gaming activities from online operations.

The Telephone Betting segment comprises activities relating to bets taken on the telephone.

The Other segment comprises Casino and International development operations. The discontinued operations for 2007 comprise the Vernons pools business and in 2006 comprised Vernons and the ownership operations and management of hotels and healthclubs.

2007	Revenue £m	Profit before taxation and non- trading items £m	Profit before taxation and after non- trading items £m
Continuing operations:			
European Retail	804.5	209.5	208.4
Egaming	143.5	55.0	55.0
Telephone Betting	279.8	183.6	183.6
Other	7.2	(7.0)	(7.0)
Corporate costs	-	(21.1)	(21.1)
Total	<u>1,235.0</u>	<u>420.0</u>	<u>418.9</u>
Net finance costs	-	(68.0)	(74.7)
	<u>1,235.0</u>	<u>352.0</u>	<u>344.2</u>
Discontinued operations:			
Vernons	16.8	4.8	50.8
	<u>1,251.8</u>	<u>356.8</u>	<u>395.0</u>

3. Segment information (continued)

Restated 2006	Revenue £m	Profit before taxation and non-trading items £m	Profit before taxation and after non- trading items £m
Continuing operations:			
European Retail	767.5	216.8	216.8
EGaming	134.1	44.3	44.3
Telephone Betting	45.8	17.3	17.3
Other	-	(1.6)	(1.6)
Corporate costs	-	(14.6)	(17.1)
Total	<u>947.4</u>	<u>262.2</u>	<u>259.7</u>
Net finance costs	-	(20.6)	(21.6)
	<u>947.4</u>	<u>241.6</u>	<u>238.1</u>
Discontinued operations:			
Vernons	18.6	4.9	4.9
Hotels	264.4	10.8	426.8
	<u>283.0</u>	<u>15.7</u>	<u>431.7</u>
	<u>1,230.4</u>	<u>257.3</u>	<u>669.8</u>

4. Non-trading items

	2007 £m	2006 £m
Continuing operations:		
Profit on disposal of shares in associate	1.5	-
Loss on closure of UK Retail shops	(2.6)	-
Net unrealised gains and derivatives and (losses)/gains on retranslation of foreign currency borrowings	(6.7)	(1.0)
Litigation and transaction costs	-	(2.5)
Total non-trading items	<u>(7.8)</u>	<u>(3.5)</u>
Non-trading tax credit/(charge)	2.0	(3.8)
Non-trading items after taxation	<u>(5.8)</u>	<u>(7.3)</u>

5. Taxation

The total tax charge on continuing operations was £52.8 million (Restated 2006: £46.2 million). The taxation charge relates to £52.3 million of UK tax and £0.5 million of overseas tax. The £52.8 million total tax charge on continuing operations, comprising £68.3 million (2006: £30.9 million) current income tax charge offset by £15.5 million (2006: £15.3 million - charge) deferred income tax credit.

6. Discontinued operations

On 3 December 2007 the Group completed the sale of the Vernons pools business to Sportech plc. On 23 February 2006 the Group completed the sale of the hotels division to Hilton Hotels Corporation.

The effect of the disposals is as follows:

	2007 £m	2006 £m
Sales proceeds – cash consideration	40.8	3,241.4
Sales proceeds – deferred consideration ⁽¹⁾	6.2	-
Sales proceeds – total consideration	<u>47.0</u>	<u>3,241.4</u>
Total net liabilities/(assets) sold	3.6	(2,765.9)
Costs of disposal	(4.6)	(95.1)
Recycled foreign exchange	-	3.8
Profit on disposal	<u>46.0</u>	<u>384.2</u>

The deferred consideration is payable in two instalments, £3.2 million in 2008 and £3.0 million in 2009.

Profit for discontinued operations comprises the following:

	2007		2006	
	Vernons £m	Vernons £m	Hotels £m	Total £m
Revenue	16.8	18.6	264.4	283.0
Expenses	(10.8)	(12.7)	(253.2)	(265.9)
Profit from discontinued operations	6.0	5.9	11.2	17.1
Net finance costs	(1.2)	(1.0)	(0.4)	(1.4)
Profit from discontinued operations after finance costs before non-trading items	4.8	4.9	10.8	15.7
Profit on disposal of Vernons to Sportech plc	46.0	-	-	-
Profit on disposal of hotels division to Hilton Hotels Corporation	-	-	384.2	384.2
Profit on sale of non-current assets ⁽¹⁾	-	-	28.0	28.0
Profit before tax and non-trading finance costs	50.8	4.9	423.0	427.9
Non-trading finance income	-	-	3.8	3.8
Profit before tax from discontinued operations	50.8	4.9	426.8	431.7
Taxation:				
- related to pre tax profit	(1.4)	(1.5)	(3.8)	(5.3)
- related to non-trading items	-	-	(1.1)	(1.1)
Profit for the year from discontinued operations	<u>49.4</u>	<u>3.4</u>	<u>421.9</u>	<u>425.3</u>
Profit for the year from discontinued operations before non-trading items	<u>3.4</u>	<u>3.4</u>	<u>7.0</u>	<u>10.4</u>

6. Discontinued operations (continued)

- (1) The profit on sale of non current assets in 2006 related to the sale of a 40% interest in a Limited Partnership. The profit includes recognition of a deferred gain on disposal following the sale of ten hotels to the Limited Liability Partnership in 2002.

The major classes of assets and liabilities of the Vernons pools business held for sale as at disposal and of the hotels division held for sale as at disposal were:

	3 December 2007 £m Vernons	23 February 2006 £m Hotels
Assets		
Non current assets		
Goodwill and intangible assets	-	1,375.0
Property, plant and equipment	0.4	1,923.4
Interests in associates and other investments	-	72.8
Other financial assets	-	5.0
Deferred tax asset	-	27.6
Retirement benefit asset	-	0.4
	0.4	3,404.2
Current assets		
Inventories	-	15.1
Trade and other receivables	0.4	282.9
Cash and cash equivalents	1.4	67.8
	1.8	365.8
Total assets held for sale	2.2	3,770.0
Liabilities		
Current liabilities		
Interest bearing loans and borrowings	-	(43.6)
Obligations under finance leases	-	(2.6)
Trade and other payables	(5.5)	(427.9)
Corporation tax liabilities	(0.3)	(37.9)
	(5.8)	(512.0)
Non current liabilities		
Interest bearing loans and borrowings	-	(12.3)
Obligations under finance leases	-	(30.8)
Other financial liabilities	-	(20.6)
Deferred tax liabilities	-	(329.3)
Retirement benefit obligation	-	(92.5)
Provisions	-	(3.6)
	-	(489.1)
Total liabilities held for sale	(5.8)	(1,001.1)
Net (liabilities)/assets held for resale	(3.6)	2,768.9
Minority equity interest	-	(3.0)
Group's share of disposed net (liabilities)/assets	(3.6)	2,765.9

6. Discontinued operations (continued)

Cash flows relating to discontinued operations were:

	2007 £m	2006 £m
Net cash flows from operating activities	3.4	8.1
Investing activities	(0.1)	(5.5)
Financing activities	-	7.8
Proceeds from disposal of discontinued operations	40.8	3,241.4
Disposal costs of discontinued operations	(0.7)	(74.7)
Cash disposed with discontinued operations	(1.4)	(54.2)
Cash flows relating to discontinued operations	<u>42.0</u>	<u>3,122.9</u>

Income and expenses recognised directly in equity relating to the assets of the disposal group were:

	2007 £m	2006 £m
Currency translation differences	-	1.0
Actuarial losses on defined benefit pension scheme	-	(3.8)
Tax on items taken directly to equity	-	1.1
Total income and expenses recognised directly in equity	<u>-</u>	<u>(1.7)</u>

7. Dividends paid and proposed

	2007 Pence	2006 Pence
Proposed dividends		
Pence per share		
Interim	4.85	4.60
Final (excluding special)	9.05	8.60
	<u>13.90</u>	<u>13.20</u>

A final year end dividend of 9.05p per share (2006: 8.60p) amounting to a total dividend of £54.4 million (2006: £54.1 million) was declared by the Directors on 28 February 2008. These financial statements do not reflect this dividend payable. The 2006 final dividend of 8.60p (£54.1 million) and the 2007 interim dividend of 4.85p (£30.5 million) were paid in 2007.

8. Earnings per share

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. Total Group earnings per share in 2006 includes the profit on disposal of the hotels business. A 6 for 17 share consolidation took place on 13 April 2006, hence continuing earnings per share is not directly comparable.

Continuing operations

2007	Earnings £m	Diluted earnings £m	Basic EPS pence per share	Diluted EPS pence per share
Profit attributable to shareholders	291.4	291.4	46.5p	46.1p
Non-trading items net of tax	5.8	5.8	0.9p	0.9p
Adjusted profit attributable to shareholders	<u>297.2</u>	<u>297.2</u>	<u>47.4p</u>	<u>47.0p</u>
Restated 2006	Earnings £m	Diluted earnings* £m	Basic EPS pence per share	Diluted EPS pence per share
Profit attributable to shareholders	191.9	195.0	20.9p	20.4p
Non-trading items net of tax	7.3	7.3	0.8p	0.8p
Adjusted profit attributable to shareholders	<u>199.2</u>	<u>202.3</u>	<u>21.7p</u>	<u>21.2p</u>

8. Earnings per share (continued)

Discontinued operations

2007	Earnings £m	Diluted earnings £m	Basic EPS pence per share	Diluted EPS pence per share
Profit attributable to shareholders	49.4	49.4	7.9p	7.9p
Non-trading items net of tax	(46.0)	(46.0)	(7.3)p	(7.3)p
Adjusted profit attributable to shareholders	3.4	3.4	0.6p	0.6p

Restated 2006	Earnings £m	Diluted earnings* £m	Basic EPS pence per Share	Diluted EPS pence per share
Profit attributable to shareholders	425.3	425.3	46.3p	44.3p
Non-trading items net of tax	(414.9)	(414.9)	(45.2)p	(43.3)p
Adjusted profit attributable to shareholders	10.4	10.4	1.1p	1.0p

Total Group

2007	Earnings £m	Diluted earnings £m	Basic EPS pence per Share	Diluted EPS pence per share
Profit attributable to shareholders	340.8	340.8	54.4p	54.0p
Non-trading items net of tax	(40.2)	(40.2)	(6.4)p	(6.4)p
Adjusted profit attributable to shareholders	300.6	300.6	48.0p	47.6p

2006	Earnings £m	Diluted earnings* £m	Basic EPS pence per Share	Diluted EPS pence per Share
Profit attributable to shareholders	617.2	620.3	67.2p	64.7p
Non-trading items net of tax	(407.6)	(407.6)	(44.4)p	(42.5)p
Adjusted profit attributable to shareholders	209.6	212.7	22.8p	22.2p

* Diluted earnings included an adjustment to the attributable profit to reflect a reduction in the interest charge net of tax of £3.1 million in 2006 which would have resulted from the conversion of the convertible bond to equity.

8. Earnings per share (continued)

The number of shares used in the calculation is shown below:

	2007 Millions	2006 Millions
Weighted average number of ordinary shares for the purposes of basic earnings per share	626.5	919.1
Effect of dilutive potential ordinary shares:		
Share options	3.6	7.9
Issue of contingently issuable shares	1.4	1.2
Convertible bond conversion to ordinary share capital	-	30.0
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	<u>631.5</u>	<u>958.2</u>

At 31 December 2007, excluding Treasury shares, there were 611.5 million 28¹/₃p ordinary shares in issue. Including Treasury shares there were 631.4 million 28¹/₃p ordinary shares in issue.

At 31 December 2006, there were 627.8 million 28¹/₃p ordinary shares in issue.

9. Property, plant and equipment

During the year, the Group acquired assets with a cost of £63.6 million (2006: £84.7 million). In addition the Group acquired assets from business combinations at a cost of £4.3 million (2006: £0.2 million).

Assets with a net book value of £5.9 million were disposed of by the Group during the year (2006: £2.4 million).

10. Net debt

The Group's net debt structure is as follows:

	2007	2006		
	Total – Continuing operations £m	Continuing operations £m	Discontinued operations £m	Total £m
Non-current assets				
Derivatives	4.5	12.7	-	12.7
Current assets				
Derivatives	29.0	0.8	-	0.8
Cash and short term deposits	37.8	36.4	-	36.4
Current liabilities				
Bank overdrafts	(11.6)	(2.7)	-	(2.7)
Interest bearing loans and borrowings	(175.7)	(16.3)	-	(16.3)
Derivatives	-	(9.9)	-	(9.9)
Non-current liabilities				
Interest bearing loans and borrowings	(800.0)	(952.2)	(17.7)	(969.9)
Derivatives	(1.0)	-	-	-
Net debt per balance sheet	<u>(917.0)</u>	<u>(931.2)</u>	<u>(17.7)</u>	<u>(948.9)</u>

11. Reconciliation of profit to net cash inflow from operating activities

	2007 £m	2006 £m
Profit before tax and finance costs – continuing ⁽¹⁾	420.0	262.2
Profit before tax and finance costs – discontinued ⁽¹⁾	6.0	17.1
Profit before tax and finance costs ⁽¹⁾	<u>426.0</u>	<u>279.3</u>
Depreciation	45.5	38.1
Amortisation of intangible assets	5.0	4.3
Costs of share-based payments	6.4	2.3
Increase in other financial assets	(0.2)	-
Increase in assets classified as held for sale	-	(6.3)
Increase in trade and other receivables	(63.2)	(1.8)
Decrease in other financial liabilities	(1.7)	-
Increase in trade and other payables	15.7	3.2
(Decrease)/increase in provisions	(3.0)	5.7
Contribution to retirement benefit scheme	(6.1)	(67.6)
Share of results from joint ventures	0.2	-
Share of results from associates	(4.0)	(3.3)
Other items	0.5	10.8
Cash generated by operations	<u>421.1</u>	<u>264.7</u>
Income taxes paid	(65.8)	(48.9)
Finance costs paid	(69.8)	(59.3)
Net cash inflow from operating activities	<u>285.5</u>	<u>156.5</u>

(1) Before non-trading items

11. Reconciliation of profit to net cash inflow from operating activities
(continued)

Cash and short term deposits in the balance sheet comprise:

	2007	2006
	£m	£m
Continuing operations		
Cash at bank and in hand	37.5	36.1
Deposits with maturity greater than three months	0.3	0.3
	<u>37.8</u>	<u>36.4</u>

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

	2007	2006
	£m	£m
Continuing operations		
Cash at bank and in hand	37.5	36.1
Bank overdrafts (included in current liabilities)	(11.6)	(2.7)
	<u>25.9</u>	<u>33.4</u>

12. Issued capital and reserves

	Share capital £m	Share premium £m	Convertible bond adjustment £m	Other Reserve £m	Treasury and own shares £m	Retained earnings £m	Foreign currency translation £m	Total £m	Minority interests £m	Total equity £m
At 1 January 2006	160.6	1,767.7	34.3	158.2	(16.0)	483.2	4.7	2,592.7	3.0	2,595.7
Total recognised income and expense for the year	-	-	-	-	-	625.0	(2.5)	622.5	-	622.5
Issue of shares for cash	4.3	66.0	-	-	-	-	-	70.3	-	70.3
Issue of shares on conversion of convertible bond	13.0	287.0	(25.8)	-	-	-	-	274.2	-	274.2
Share-based payment awards	-	6.1	-	-	-	(0.7)	-	5.4	-	5.4
Reserves transfer	-	-	(8.5)	(158.2)	-	166.7	-	-	-	-
Cost of share-based payments	-	-	-	-	-	5.8	-	5.8	-	5.8
Net increase due to shares held in ESOP trusts	-	-	-	-	10.6	-	-	10.6	-	10.6
Minority interests disposed	-	-	-	-	-	-	-	-	(3.0)	(3.0)
Equity dividends	-	-	-	-	-	(4,208.4)	-	(4,208.4)	-	(4,208.4)
At 31 December 2006	177.9	2,126.8	-	-	(5.4)	(2,928.4)	2.2	(626.9)	-	(626.9)
At 1 January 2007	177.9	2,126.8	-	-	(5.4)	(2,928.4)	2.2	(626.9)	-	(626.9)
Total recognised income and expense for the year	-	-	-	-	-	344.1	7.2	351.3	-	351.3
Issue of shares for cash	0.9	6.7	-	-	-	-	-	7.6	-	7.6
Share-based payment awards	0.1	0.7	-	-	-	(0.8)	-	-	-	-
Cost of share-based payments	-	-	-	-	-	6.4	-	6.4	-	6.4
Own shares purchased	-	-	-	-	(70.4)	-	-	(70.4)	-	(70.4)
Provision for share buybacks	-	-	-	(30.0)	-	-	-	(30.0)	-	(30.0)
Net increase due to shares held in ESOP trusts	-	-	-	-	(4.2)	-	-	(4.2)	-	(4.2)
Equity dividends	-	-	-	-	-	(84.6)	-	(84.6)	-	(84.6)
At 31 December 2007	178.9	2,134.2	-	(30.0)	(80.0)	(2,663.3)	9.4	(450.8)	-	(450.8)

13. Business combinations

In 2007, the Group acquired the following interests with net assets at fair value of £50.7 million, for a consideration of £64.9 million (cash paid of £60.9 million, with a deferred consideration of £4.0 million), resulting in goodwill on acquisition of £14.2 million:

	Consideration £m	Interest	Date of acquisition
Paddington Casino Limited	10.7	65%*	3 January 2007
Sponsio Limited	41.8	100%	18 January 2007
European Retail acquisitions			
Keenan Sports and Leisure Limited	3.1	100%	28 February 2007
Micheletto Agenzia Ippica Cuneo SRL	1.4	100%	27 June 2007
Parco Del Lido SRL	4.3	100%	7 August 2007
Montecarlo SRL	1.5	100%	10 August 2007
Laura Bassi SRL	1.5	100%	29 August 2007
Ace Racing Limited	0.6	100%	30 November 2007

* The acquisition of the 65% during 2007 took the Group's shareholding to 100%. At 31 December 2006, the Group held a 35% shareholding which it accounted for as an investment in associate.

Sponsio Limited

Sponsio Limited is a Swedish service provider for the Group's eGaming operations and has formed part of the Group's eGaming segment.

The acquisition and fair value balance sheet of Sponsio Limited is as follows:

13. Business combinations (continued)

	Acquiree's carrying amount before combination £m	Fair Value adjustments £m	Total £m
Non-current assets			
Intangible assets – customer relationship	-	40.5	40.5
Current assets			
Trade and other receivables	0.7	-	0.7
Cash and cash equivalents	1.9	-	1.9
Total assets	<u>2.6</u>	<u>40.5</u>	<u>43.1</u>
Current liabilities			
Trade and other payables	<u>(1.3)</u>	-	<u>(1.3)</u>
Total liabilities	(1.3)	-	(1.3)
Fair value of net assets acquired	<u>1.3</u>	<u>40.5</u>	<u>41.8</u>
Consideration			
Cash consideration	37.4	-	37.4
Acquisition costs	0.4	-	0.4
Deferred consideration	4.0	-	4.0
Total consideration	<u>41.8</u>	<u>-</u>	<u>41.8</u>
The cash outflow on acquisition is as follows:			
Net cash acquired with subsidiaries	(1.9)	-	(1.9)
Cash paid (including costs)	<u>37.8</u>	-	<u>37.8</u>
Net cash outflow	<u>35.9</u>	<u>-</u>	<u>35.9</u>

The customer relationships of £40.5 million relate to the fair value of contracted relationships that Sponsio Limited held at the acquisition date.

From the date of acquisition, Sponsio Limited has contributed £nil to revenue and £2.3 million of operating profit to the Group.

Paddington Casino Limited

Paddington Casino Limited is a land based casino based in London, England and has formed part of the Group's Other segment.

The acquisition and fair value balance sheet of Paddington Casino Limited is as follows:

13. Business combinations (continued)

	Paddington Casino Limited £m
Non-current assets	
Intangible assets	0.5
Property, plant and equipment	4.3
Current assets	
Trade and other receivables	0.1
Cash and cash equivalents	0.5
Total assets	<u>5.4</u>
Current liabilities	
Trade and other payables	(1.3)
Interest bearing loans and borrowings	(4.1)
Total liabilities	<u>(5.4)</u>
Fair value share of net assets acquired	-
Goodwill arising on acquisition	<u>10.7</u>
Consideration	
Cash consideration	10.6
Acquisition costs	0.1
Total consideration	<u>10.7</u>

The cash outflow on acquisition is as follows:

Net cash acquired with subsidiaries	(0.5)
Cash paid (including costs)	10.7
Net cash outflow	<u>10.2</u>

The goodwill of £10.7 million comprises a customer list, which is not separately recognised. The customer list is not contracted and therefore does not need recognition criteria under IAS 38 Intangible Assets.

From the date of acquisition, Paddington Casino Limited has contributed £7.2 million to revenue and £0.7 million of operating loss to the Group.

European Retail statutory acquisitions

The Group made six acquisitions, which have formed part of its European Retail segment:

- Keenan Sport and Leisure Limited (based in Ireland)
- Ace Racing Limited (based in Ireland)
- Micheletto Agenzia Ippica Cuneo SRL (based in Italy)
- Parco Del Lido SRL (based in Italy)
- Montecarlo SRL (based in Italy)
- Laura Bassi SRL (based in Italy)

13. Business combinations (continued)

As shown in the table below, these acquisitions have been disclosed in aggregate, as they are not considered individually material to the Group.

	Acquiree's carrying amount before combination £m	Fair value adjustments £m	Fair value £m
Non-current assets			
Goodwill and intangible assest	0.3	12.1	12.4
Property, plant and equipment	0.7	(0.7)	-
Other financial assets	0.1	-	0.1
Current assets			
Trade and other receivables	0.2	-	0.2
Cash and cash equivalents	1.3	-	1.3
Total assets	<u>2.6</u>	<u>11.4</u>	<u>14.0</u>
Current liabilities			
Trade and other payables	(1.6)	-	(1.6)
Deferred income tax liability	-	(3.5)	(3.5)
Total liabilities	<u>(1.6)</u>	<u>(3.5)</u>	<u>(5.1)</u>
Fair value of net assets acquired			<u>8.9</u>
Goodwill arising on acquisition			<u>3.5</u>
Consideration			
Cash consideration			11.8
Acquisition costs			0.6
Total consideration			<u>12.4</u>

The cash outflow on acquisition is as follows:

Net cash acquired with subsidiaries	(1.3)
Cash paid (including costs)	12.4
Net cash outflow	<u>11.1</u>

From the date of acquisitions, the European Retail acquisitions have contributed £2.5 million to revenue and £0.6 million of operating profit to the Group.

If the Sponsio Limited, Paddington Casino Limited and European Retail statutory acquisitions has been completed on the first day of the financial year, Group revenues for the year would have been £5.4 million higher and the Group profit attributable to the equity holders of the parent company would have been £1.3 million higher than that disclosed in the Income Statement.

13. Business combinations (continued)

2006 Acquisitions

In 2006, the Group acquired the following interests with net assets at fair value of £19.3 million (including licences of £27.6 million), for a consideration of £28.6 million (cash paid of £26.0 million, with a deferred consideration of £2.6 million), resulting in goodwill of £9.3 million.

	Consideration £m	Interest %	Date of acquisition
Harney Bookmaker Limited	6.2	100.0%	26 April 2006
MD Betting Limited	4.8	100.0%	15 September 2006
North West Boomakers Limited	12.8	100.0%	29 September 2006
Nuova Pianeta Scommesse SRL	0.7	51.0%	18 September 2006
Mantovani SRL and Better SRL	4.1	100.0%	1 December 2006

From the date of these acquisitions to 31 December 2006, the European Retail acquisitions contributed £1.7 million to the net profit of the Group. If these acquisitions had been completed on the first day of 2006, profit from these acquisitions in 2006 would have been £4.4 million.

14. Financial guarantee contracts

The Group has given guarantees to third parties in respect of lease liabilities of subsidiaries within the disposed hotels division. The Group has an indemnity received from Hilton Hotels Corporation (HHC), at the time of the hotels division disposal, in relation to any loss the Group may subsequently incur under these third party guarantees.

The maximum liability exposure in respect of the guarantees is £1,228.1 million (2006: £1,288.9 million), with a maximum indemnity receivable of the same amount. The maximum liability represents the total of all guaranteed rentals under the non-cancellable agreements into which the Group has entered. These guarantees expire between 2009 and 2042 and the net present value of the maximum exposure at 31 December 2007 is £635.8 million (2006: £658.9 million). The Group monitors its exposure under these guarantees on a regular basis and seeks to novate its obligations.

At 31 December 2007 the Group has recognised a financial liability of £10.0 million (2006: £14.0 million) in respect of these guarantees together with a financial asset of £3.0 million (2006: £7.0 million) in relation to the indemnity.

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 leases being identified.

14. Financial guarantee contracts (continued)

The key assumption in the probability model is the hotel default rate. A rate of 1.2 per cent has been used as at 31 December 2007 (2006: 1.7 per cent). A 0.25 percentage point increase in the default rate would increase the financial liability by £2.0 million.

The financial guarantee asset has been valued on a similar basis to the liability, taking account of historic default data from internationally recognised credit-rating agencies and the credit profile of the counter party, HHC, to assess the likelihood of HHC continuing to be solvent at the time of any future potential claim under the indemnity.

15. Restatement of income statement and balance sheet for prior year

Year ended 31 December 2006

	<i>Reported Before non-trading Items</i>	<i>Adjustment Discontinued operations - Vernons</i>	<i>Adjustment Revenue</i>	<i>Restated Before non-trading Items</i>
	£m	£m	£m	£m
Amounts Staked⁽¹⁾	12,383.8	(37.9)	-	12,345.9
Continuing operations				
Revenue	966.0	(18.6)	-	947.4
Share of results from associates	4.0	-	(4.0)	-
Total revenue	970.0	(18.6)	(4.0)	947.4
Cost of sales before depreciation	(573.3)	3.6	-	(569.7)
Administrative expenses	(86.2)	8.9	-	(77.3)
Share of results from joint ventures and associates	-	-	4.0	4.0
EBITDA	310.5	(6.1)	-	304.4
Depreciation and amounts written off non - current assets	(42.4)	0.2	-	(42.2)
Profit before tax and finance costs	268.1	(5.9)	-	262.2
Finance costs	(62.3)	1.0	-	(61.3)
Finance income	40.7	-	-	40.7
Profit before taxation	246.5	(4.9)	-	241.6
Income tax expense	(43.9)	1.5	-	(42.4)
Profit for the year – continuing operations	202.6	(3.4)	-	199.2
Discontinued operations				
Profit for the year from discontinued operations	7.0	3.4	-	10.4
Profit for the year	209.6	-	-	209.6
Attributable to:				
Minority interests	-	-	-	-
Equity holders of the parent	209.6	-	-	209.6
	209.6	-	-	209.6
Earnings per share from continuing operations:				
- basic	22.0p	(0.3)p	-	21.7p
- diluted	21.5p	(0.3)p	-	21.2p
Earnings per share on profit for the year:				
- basic	22.8p	-	-	22.8p
- diluted	22.2p	-	-	22.2p

⁽¹⁾ Amounts staked does not represent the Group's statutory revenue and comprises the total amount staked by customers on betting and gaming activities.

15. Restatement of income statement and balance sheet for prior year (continued)

Non-trading finance costs and finance income has been restated to disclose the net impact of gains and losses arising from fair value hedges within finance costs.

The balance sheet for 31 December 2006 has been restated for reclassifications of £2.9 million non-current liability provisions to current liability provisions and £1.0 million of non-current financial liabilities to current financial liabilities.