Ladbrokes PLC

Annual report and accounts 2010

Making Ladbrokes Favourite

Ladbrokes is the most recognised betting brand in Britain and offers an all-embracing range of betting and gaming services via its retail, digital and telephone operations. In 2010 we took £15 billion in stakes which generated Group revenues of over £980 million. We are investing for the future with six clearly identified critical success factors that will help to make Ladbrokes favourite.

Retail

.com

Mobile

Telephone

For further information about the Group go to:
www.ladbrokesplc.com

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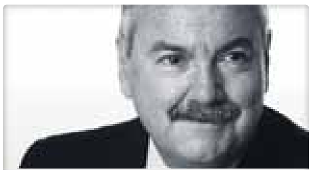
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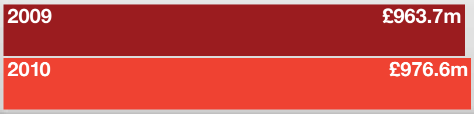
Business and financial highlights

- Strong growth in Group operating profit(1)(2) (excluding High Rollers) in 2010 with double digit percentage increases across all trading segments of the business despite challenging economic conditions
- Focus on instore management of machines drives improvement in performance and sets growth platform for Global Draw rollout
- Enhanced customer offer in Digital with launch of innovative betting apps for mobile devices: Sports Bet, Kick Off and Blackjack
- Enhanced business fundamentals with continued strong cash generation and significant reduction in Group net debt
- Resumption of progressive dividend policy with 2010 full year dividend of 7.60p which is 4.62p up on 2009

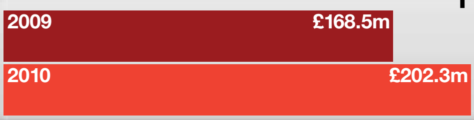
Net revenue(1)
(£million)

£976.6m
+1.3%



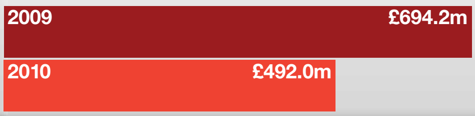
Operating profit(1)(2)
(£million)

£202.3m
+20.1%



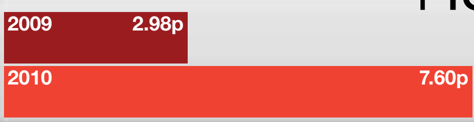
Group net debt
(£million)

£492.0m
-29.1%



Dividend
(pence per share)

7.60p
+155.0%



(1) Continuing operations excluding High Rollers.
(2) Profit before tax, finance costs and non-trading items.

At a glance

UK Retail

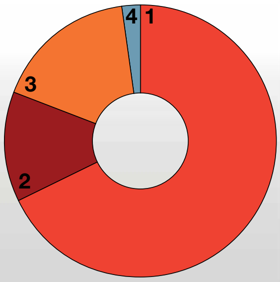
With over two thousand shops across the UK the Ladbrokes brand is a familiar one on most high streets. Revenue is predominantly driven by Over the Counter betting and gaming machines which are a growing part of the mix.

Number of shops
2,098

Operating profit(1)(2)
£149.1m

Amounts staked
£11.7bn

Net revenue split[1]
(%)



1 UK Retail **68%**
2 Other European Retail **13%**
3 Digital **17%**
4 Telephone **2%**

Other European Retail

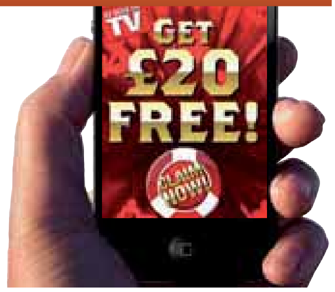
We also operate retail estates in Ireland, Belgium and in Spain through our joint venture Sportium which is the market leader in Madrid.

Number of shops
589

Operating profit[1][2]
£13.9m

Amounts staked
£821.0m

Digital



Since the initial launch of the Ladbrokes online service in 2000, Digital has become an increasing part of the profit mix, accounting for over 30% of operating profit[1][2] in 2010. Our Digital offer now includes not only the Ladbrokes.com website but also our range of apps for mobile devices: Sports Bet, Kick Off and Blackjack.

Net revenue split
Sportsbook 38%, Casino 33%, Poker 11%, Games 10%, Bingo 8%

Operating profit[1][2]
£62.7m

Unique active players[3]
799,000

Telephone

As one of the UK's leading bookmakers, Ladbrokes provides a broad channel offering which includes taking bets over the telephone. We operate call centres in London and Kuala Lumpur as well as taking calls in 180 of our UK shops. We also operate a telephone service for our High Rollers which contributed operating profit[2] of £5.0 million in 2010 (2009: £66.9 million).

Number of telephone calls
5.0m

Net revenue[1]
£16.2m

Unique active players[3]
85,900

[1] Continuing operations excluding High Rollers.
[2] Profit before tax, finance costs and non-trading items.
[3] A player who has contributed to rake and/or placed a wager in the period.

Peter Erskine
Chairman

Chairman's statement

Our Chairman, Peter Erskine, looks back at the performance of the Group over the past 12 months and considers how recent changes to the Board, senior management appointments and a newly aligned operational structure, position it for the future.

Dear Shareholder,

2010 has been a significant year of change for Ladbrokes.

In April, following a thorough recruitment process with many high calibre candidates, we appointed Richard Glynn as the new Chief Executive of the Group. Aside from his relevant online experience (after nine years at Sporting Index) and analytical skills, what impresses me most is Richard's ambition and enthusiasm for the business. His desire to succeed and restore Ladbrokes to a position of leadership within the industry is infectious.

He has executed an honest, thorough and expeditious appraisal of the business. This confirmed that whilst our brand remains amongst the best in the gambling industry we have fallen behind the competition in areas such as technology and digital marketing.

Strategy

Over the next few pages Richard has taken a candid approach to discussing the challenges which the business now faces, as well as outlining how he and his team plan to overcome them. He has prioritised six objectives or 'Critical Success Factors' and the Group is now fully focused on achieving them.

Organisational change

To implement these changes effectively the management team has been restructured. This revised organisational structure addresses the historic lack of alignment in what had been an operationally siloed business as well as promoting a greater level of responsibility and accountability throughout. Offices have been consolidated with everybody moved to the head office at Rayners Lane, reflecting a one customer one company ethos. A number of new hires have been made to strengthen the existing team.

In August Gary McIlraith joined us from Alix Partners as Managing Director of Digital Channels, International and Strategy. Gary's expertise at delivering enhanced customer performance in the highly segmented online environment is particularly valuable in the rapidly changing digital age. As a consequence of the restructuring and flattening of reporting lines, John O'Reilly decided, after a very successful 18 years, to leave Ladbrokes to seek new challenges.

In December Stephen Vowles started as Director of Customer Experience, a role which reflects the Group's commitment to adopt a customer centric approach throughout its operation, offer and brand positioning. Stephen's brand experience includes eight years with Proctor & Gamble where he played a pivotal role in the launch of Nectar.

In February 2011 Nick Rust joined us from Gala Coral as Managing Director of Retail. He is a highly experienced retail betting and gaming executive with a very good industry reputation. This appointment has allowed Richard Ames to take up a key central role as Managing Director of Consumer Operations with responsibility for delivery of cross-Group operations in areas such as technology, trading and business intelligence.

Finally, after 16 years association with the Group, Brian Wallace, Group Finance Director, has advised the Board of his intention to stand down as a Director. Brian has agreed to remain in his role until late summer to help the change go as smoothly as possible. On behalf of the Board and the senior team at Ladbrokes I would like to thank him for the significant contribution he has made to the Group over many years and wish him every future success.

Board and Corporate Governance

The Board has also been further enhanced by the appointment of John Kelly as Senior Independent Non-executive Director. John has an in depth knowledge of the industry having previously been Chief Executive Officer and Chairman of the Gala Coral Group. John's appointment adds another string to our bow and after having added Darren Shapland and Sly Bailey in December 2009, I feel we have a strong and experienced Board who are ready and able to tackle the challenges to come.

Meetings with shareholders over the past 12 months have served to emphasise the importance which is placed on the Board and its corporate governance. I am pleased with how the Board is interacting and developing. Board meetings have a healthy level of debate which provides me with confidence that each Board member is heavily engaged in understanding and advising on the subjects being discussed.

The report on Corporate Governance is set out on pages 32 to 36. During 2010 the Board has been applying the principles relating to its role and effectiveness. This included taking a lead in Richard Glynn's appointment, reshaping the structure of the Board and developing the new strategy for the Company's long term success.

Dividend

In line with our stated intention to resume a progressive dividend policy the Group will be paying a final dividend of 3.75 pence per share taking the full year dividend to 7.60 pence per share. This dividend is approximately 2.0 times covered by underlying earnings, excluding the impact of High Rollers and the effect of the HMRC settlement in April 2010.

The dividend will be payable on 1 June 2011 to shareholders on the register as at 25 February 2011.

Summary

Within the context of a tough economic climate and a material organisational restructure, the continued commitment, enthusiasm and team spirit of people in all parts and at every level of the Ladbrokes business has been encouraging.

I am satisfied with the progress made during 2010. The business has delivered an improved performance with operating profit[1][2] up 20.9% on last year driven by double digit profit growth across all divisions. The strength of the balance sheet has been enhanced by a 29.1% reduction in net debt.

We have established a solid platform for growth and defined clear, ambitious but achievable objectives on which to focus and I am confident that we now have the right team, with the right skills and the right strategy to make them a reality.

Peter Erskine
Chairman

Notes:
(1) Continuing operations excluding High Rollers.
(2) Profit before tax, finance costs and non-trading items.

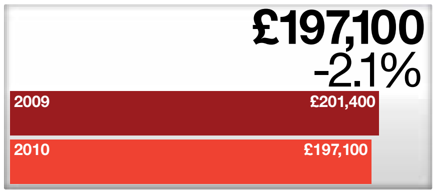
Measuring our performance

The Board and the executive team use a number of key performance indicators ('KPIs') to monitor Group and divisional performance against budgets and forecasts as well as to measure progress against our strategic objectives. There are also a number of other Group and divisional metrics that are used by the business to monitor results, which are referred to within business and financial reviews.

KPIs – UK Retail | **Purpose of KPI**

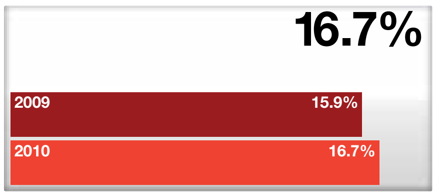
Over the Counter (OTC) Gross Win[1] per shop

Measure used by management to assess the performance of our OTC product offering (non machine) in UK Retail shops.



Over the Counter Gross Win[1] margin

Measure used to monitor the profitability of OTC performance expressed as a proportion of amounts staked.

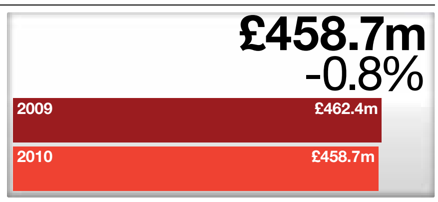


Gross Win per machine per week

Measure used by management to assess the performance of our machine offering in UK Retail shops.

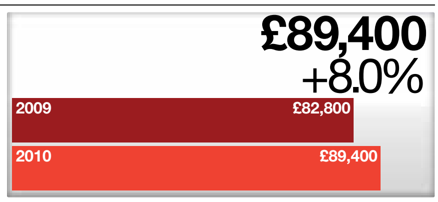
Operating Costs[2][4]

Analysis of costs is key to monitoring performance and enables areas for further cost efficiencies to be identified.



EBITDA[1][4] per shop

Enables management to analyse divisional performance on a per shop basis across the retail estate. Used to gauge performance versus market.



KPIs – Digital	Purpose of KPI	2010	Change	2009	2010
Net Revenue[1]	Measure used by management to assess the performance of our Digital offering.	£169.4m	+5.4%	£160.7m	£169.4m
EBIT[3]	Measure of divisional profitability which is equal to Net Revenue less all relevant operating costs and gaming taxes.	£62.7m	+36.0%	£46.1m	£62.7m
Unique Active Players[1]	Defined as any player who has contributed to rake and/or placed a wager in the period. It is a measure of our success at recruiting and retaining customers.	799,000	+4.2%	767,000	799,000
Real Money Sign Ups[1]	A new player who has registered and deposited funds into an online account. It is a measure of our success at attracting new customers.	392,000	+4.5%	375,000	392,000
Adjusted Cost per Acquisition[1]	Measuring how much on average it costs us (marketing spend and affiliate expenses) to recruit each new customer.	£91	0.0%	£91	£91

KPI – Customers	Purpose of KPI	2010	2009	2010
Mystery shopper score	Measure of our success at meeting customer needs, assessed by third party audit.	90%	83%	90%

Notes:
[1] A full list of terms is set out in the Glossary on page 116.
[2] Operating costs is a total of cost of sales after depreciation and amounts written off non-current assets and before gross profits tax, plus administrative expenses.
[3] Profit before tax and finance costs before non-trading items from continuing operations.
[4] Before non-trading items.

Making Ladbrokes favourite

Below are the six critical success factors which the business has prioritised in order to realise its strategic ambition and grow shareholder value

Building upon our retail strength

Optimise machine performance, operational efficiency and cost reduction. Margin enhancement and leverage intelligence from OddsOn!

Establishing a strong digital capability

Develop best in market products. Most effective customer acquisition and retention. Widen distribution through mobile leadership

Focusing on brand and consumer

Evolve the brand based upon integrated approach to marketing, placing customer experience and insight at the heart of our offer

Delivering technological excellence

Invest in technology solutions to increase control over and differentiation of product

Maintaining regulatory leadership

Continue to play a lead role in ensuring changes to tax and charges are commercially equitable

Develop our pricing, trading and liability management

Create competitive pricing, trading and liability management to improve product range and optimise margin

Richard Glynn
Chief Executive

Chief Executive's review

Why did you want to join Ladbrokes?

Put simply I wanted the best job in the sector and I'm delighted to have been given the opportunity. When I think back to when I was in my twenties my friends and I would all go to Ladbrokes when we wanted to place a bet. It was a growth company and an innovator. In recent years it has become less competitive. However I believe it has significant core strengths and upside potential and with a clearer focus, some targeted investment, a lot of hard work and more decisive execution, we can restore Ladbrokes to its industry leading position.

This is a big opportunity because there are some very clear and achievable things that we can do that will make a big difference to this Company's position in the marketplace. This year we have been able to make a start on some of these things and this has already helped us to achieve some good results. Whilst we have now broken ground, the next two years will be crucial as we develop our technology, marketing capabilities and business intelligence, foundations that will enable us to compete more effectively in a fast-changing marketplace.

What has been clear to me for some time is that Ladbrokes has been over-reliant on its brand and has not invested enough to enable it to compete. I believe that with a much clearer strategic approach and the right investment to enable it, we can make Ladbrokes favourite.

What were the most significant things you found when you joined the Company?

I undertook a thorough assessment of the business when I joined. I wanted to look at its strengths and weaknesses and make an honest appraisal of where we were and where we needed to be. I have to say that while I have identified many things that can be improved there are also many things that have impressed me and even surprised me about this Company. I knew before I came that Ladbrokes had a strong brand, a strong balance sheet and a reputation for working effectively with regulators.

I've been impressed at the strength of the Retail estate and the continued focus on operational efficiency and cost controls as well as the many talented people here who have welcomed the opportunity to contribute to a genuine change in our culture and approach. Their impressive level of knowledge and a willingness to work hard is coupled with a tangible desire for success. If I didn't know it before I came, I am now convinced that the core ingredients needed to reignite this business are all here. I did find a lack of strategic direction, underinvestment and a siloed approach to doing business that was holding the Company back. However we have worked, and continue to work, hard to address these historical weaknesses and to outline a clear path to making the business great again.

What do you think are your key challenges at Ladbrokes?

The most recent success of the business has primarily been driven by an operational focus on retail betting and gaming. Whilst our Digital business has grown significantly since launching in 2000, it is currently not as competitive as it ought to be in a rapidly evolving marketplace, particularly when you consider our brand heritage. There are several challenges which we must meet head on in order to change this.

In order to address them we first needed to restructure the siloed nature of the business. Operationally the Company has historically been divided by product with a lack of alignment meaning an inconsistent and at times commercially inefficient approach. We have put in place a completely new management structure with roles and responsibilities focused on delivering to the customer, regardless of the channel.

Having set the structure it was crucial that we brought in the right people to enhance our existing talent base. During 2010 we appointed; Gary McIlraith, Director of Digital Channels, International Development and Strategy; Nick Rust, Managing Director of Retail; Stephen Vowles, Director of Customer Experience and Andrew Harley, Group Human Resources Director. We now have a strong senior team focused on delivery of a clear vision, supported by an experienced and knowledgeable Board. We've brought in people with the right skills to make this a business that responds to the customers' needs whichever channel they choose to interact with us.

We are now well positioned to tackle the other challenges facing the business.

What approach are you taking to meeting these challenges?

With the structure and people in place I've set some very clear objectives for the business. I've called these our critical success factors and have summarised them as:

(i) Building upon our retail strength
(ii) Focusing on brand and consumer
(iii) Maintaining regulatory leadership
(iv) Developing our pricing, trading and liability management
(v) Delivering technological excellence
(vi) Establishing a strong digital capability

In some areas we are more advanced than others – for example in Retail we have done some excellent work to control costs and optimise the profitability of the estate. The contract with Global Draw, announced earlier in 2010, to supply new machines to our UK shops began in January 2011. We expect the new machines, their enhanced content and an improved operational focus to drive material improvements to machine profits in 2011.

Our brand is strong, but we have been underinvested in it over recent years and it has lacked consistency. We now need to make it more relevant to today's consumers.

We also know that Ladbrokes has a strong regulatory reputation and we will continue to focus on this area to ensure that regulation is sensible and proportionate in those markets where we currently operate and may choose to operate in the future.

The final three areas are interlinked and rely on us investing in systems, skills and technologies to maximise the potential of the business across all channels and across our existing markets.

By building an optimised pricing, trading and liability management system we can offer an improved range of products, including wider and deeper Bet In Play markets. It will also enable us to maximise our margin.

This relies on having the best trading platform available and that means investment in technology. Technology is also core to our Digital business where we are already focused on improving our understanding of the customer and expanding our product offer. Mobile is a good example of this and we have recently launched a range of smartphone apps; Sports Bet, Kick Off and Blackjack, prioritising marketing spend in this area to support our ambitions.

E-excellence is about the skills that we require to ensure this technology delivers to its utmost potential through better customer relationship management, better search engine optimisation and an improved ability to recruit and retain customers.

Together these elements make us an e-enabled business with the potential to compete much more effectively at home and crucially in the international marketplace where we may need to partner with brands or tender for government licences to secure the best opportunities.

Executive structure

Richard Glynn
Chief Executive

Brian Wallace Group Finance	**Nick Rust** Retail	**Richard Ames** Consumer Operations	**Stephen Vowles** Customer Experience	**Gary McIlraith** Digital International & Strategy	**Andrew Harley** Group HR

Can you explain your online strategy?

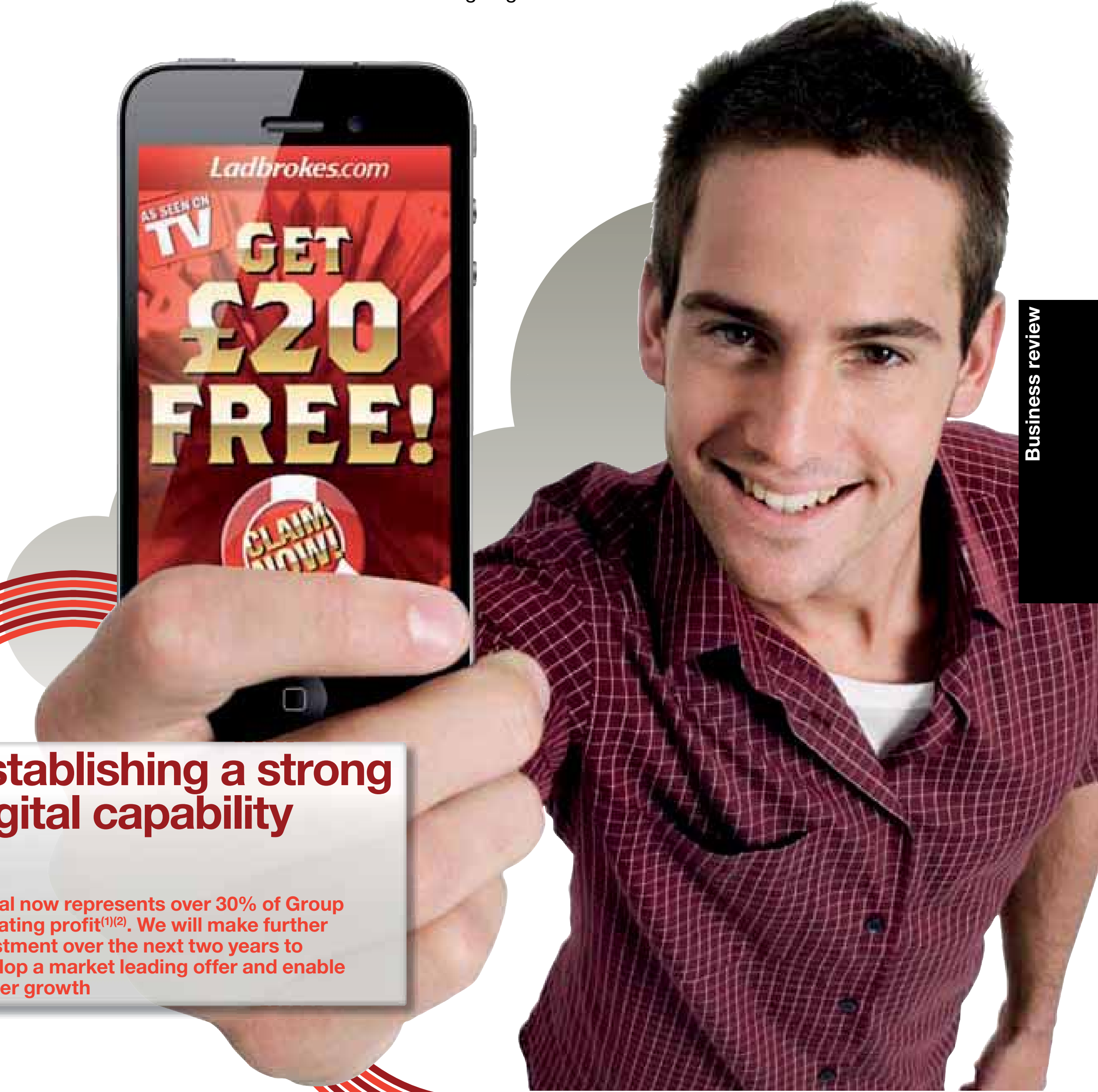
Ladbrokes has seen strong growth in the online gambling sector over the past ten years to the point where Digital now accounts for over 30% of Group operating profit[(1)(2)]. However during this period we have also seen the emergence of many new competitors in the online space and therefore need to invest and further develop in order to become more competitive. Our online strategy is focused as follows:

(i) **Reinforcing our reputation as a leader in sports betting.** Whilst many of our customers enjoy playing our world-class Casino, Poker, Bingo and Games, many of them came to us first to bet on their favourite sport. Our heritage and expertise in sports betting gives us a head start against newer market entrants but we have to continue to innovate, in areas such as Bet In Play and mobile sports betting, to stay ahead.

(ii) **Having the best online products.** We are constantly expanding the range of sports events and markets available to customers and regularly introducing new and exciting casino games. In 2011 we plan to have circa 27,000 Bet In Play events available and will continue to innovate to ensure Ladbrokes customers have access to the best betting and gaming products available in the market.

(iii) **Customer closeness.** I want Ladbrokes to have a better understanding of its customers than any of our competitors. In this way we can deliver products better tailored to their needs and an improved customer experience. Ladbrokes is a trusted brand, which is especially important to online customers. We will build on this strength and give customers more reasons to choose Ladbrokes in the future.

(iv) **Developing our online marketing capabilities.** The online world has become increasingly competitive and the skills needed to attract and retain customers more sophisticated. In the last year we have invested significantly in increasing our online marketing capabilities and expect this to improve our profitability going forward.



Establishing a strong digital capability

Digital now represents over 30% of Group operating profit[(1)(2)]. We will make further investment over the next two years to develop a market leading offer and enable further growth

Business review

[(1)] Continuing operations excluding High Rollers
[(2)] Profit before tax, finance costs and non-trading items

You seem to have fallen behind some of your competitors in UK Retail. What steps are you taking to address this?

The financial performance of the UK Retail business is measured by looking at the level of OTC revenue, machine revenue and operating costs. Whilst our level of OTC gross win per shop is competitive, we see clear opportunities to increase our gross win percentage. Indeed we are already taking steps to improve our pricing, trading and liability management, all of which will help to do this.

We also recognise that our existing machine performance has fallen behind in the market but we have well defined plans to address this. As I have already mentioned, we have changed our machines supplier and we will complete a rollout of the brand new 'Vision' cabinet during the first half of 2011. In preparation for this we have appointed a specific management team whose sole focus is on improving operational performance and the training of staff ahead of and during the rollout process. We have very clear performance targets in this area and aim to align our machine profitability to that of our closest competitors over the next two years. The evidence is already pointing to good rates of growth in 2011.

The control of costs in Retail has been a key focus and there have been tremendous strides in this area over the past 18 months. Whilst we expect our costs to increase due to a change in VAT and our machines arrangement, we continue to prioritise cost control particularly within the context of existing economic uncertainty in the UK and have implemented a pay freeze throughout the business for the second consecutive year.

Retail will also benefit from our increased customer focus and from the brand work that we will be conducting during 2011. In addition the focus upon improving our technology capabilities particularly our trading, pricing and liability management expertise will support our objective of maximising revenues and minimising costs in the Retail business.

Finally as I have already mentioned we've appointed Nick Rust, as Retail Managing Director. Nick brings with him a strong track record of performance as Managing Director of Coral Retail.

Roll out of the new Global Draw machines will be completed during the first half of 2011

After a detailed trial and evaluation process of all national operators Ladbrokes agreed a four year contract with Global Draw for the supply of new gaming machines to our UK Retail estate. Global Draw is the market leader in this field, supplying and operating over 18,000 server based gaming machines in over 4,000 venues worldwide. Rollout of the new machines began in January and will be completed during the first half of 2011.

The new Vision cabinet, which will be exclusive to Ladbrokes, is an evolution of the successful Nevada dual screen terminal, with additional functionality derived from the brand new Videobet platform. Specific features include new promotional and marketing tools to enhance tournament mode and allow specifically targeted campaigns focused on individual games managed centrally or locally. The platform is fully integrated with Ladbrokes BS2000 (EPOS), and loyalty card systems.

The agreement allows us to offer customers the best of both worlds with the ability to play the most popular games from the established Barcrest terminals and slots games, as well as the new Global Draw products, including market leading 20p Roulette, Blackjack, and a range of popular slots games created by Reeltime, Games Media and third party providers.

We will have access to an extensive range of new games throughout the duration of the agreement from a variety of games designers, with new B2/B3/Category C products and a mix of exclusive content being introduced every year.

Ladbrokes is confident that the combination of a new Global Draw cabinet, a wide range of proven successful content displayed on a menu and layout already familiar to existing Ladbrokes machine players is a winning one.

Building upon our retail strength

In a fast-changing market place the strength of retail provides not only a stable source of regulated revenue with growth potential but also delivers brand benefits across all channels

OPEN

How are you looking to use technology to enable the strategy?

The development of our technology is critical to our ambition to become a truly e-enabled business. It can enable us to become better at what we do in so many different ways. It will underpin best in class pricing, trading and liability management and this gives us the tools we need to manage risk, improve trading margin and differentiate our consumer offer.

In 2011, we will continue to develop our pricing, trading and liability management platform, building on the progress we made in 2010. We will also implement a new eCommerce platform that has all of the features you would expect from a leading e-enabled business. This includes improved site search capabilities, a single customer wallet for all products and our own front end platform that lets us seamlessly and easily integrate the best Sportsbook and gaming products available in the market. The eCommerce project will take approximately 18 months to complete, but we have already begun and the improvements to our platform will start to come through in 2011. Technological development will also enable better use of data and content and improved business intelligence which will enhance our strong brand and customer base. Strength in these areas will enable us to deliver improved customer satisfaction and will increase our competitive edge in what is a rapidly evolving marketplace.

How important do you think mobile betting will be in future?

We see mobile as an important part of providing a complete customer offer in a rapidly evolving marketplace. We have invested accordingly in 2010 and the launch of our new and exciting Sports Bet, Blackjack and Kick Off smartphone apps ensures that we are well placed to simplify and improve the betting experience of existing customers as well as reaching out to new ones. Indeed our innovation in this area was recently recognised with us winning the Mobile Gambling Award for Mobile Entertainment at the recent Future Mobile Awards[1]. We see mobile as a strong growth opportunity and it will be supported by new marketing campaigns in 2011.

1

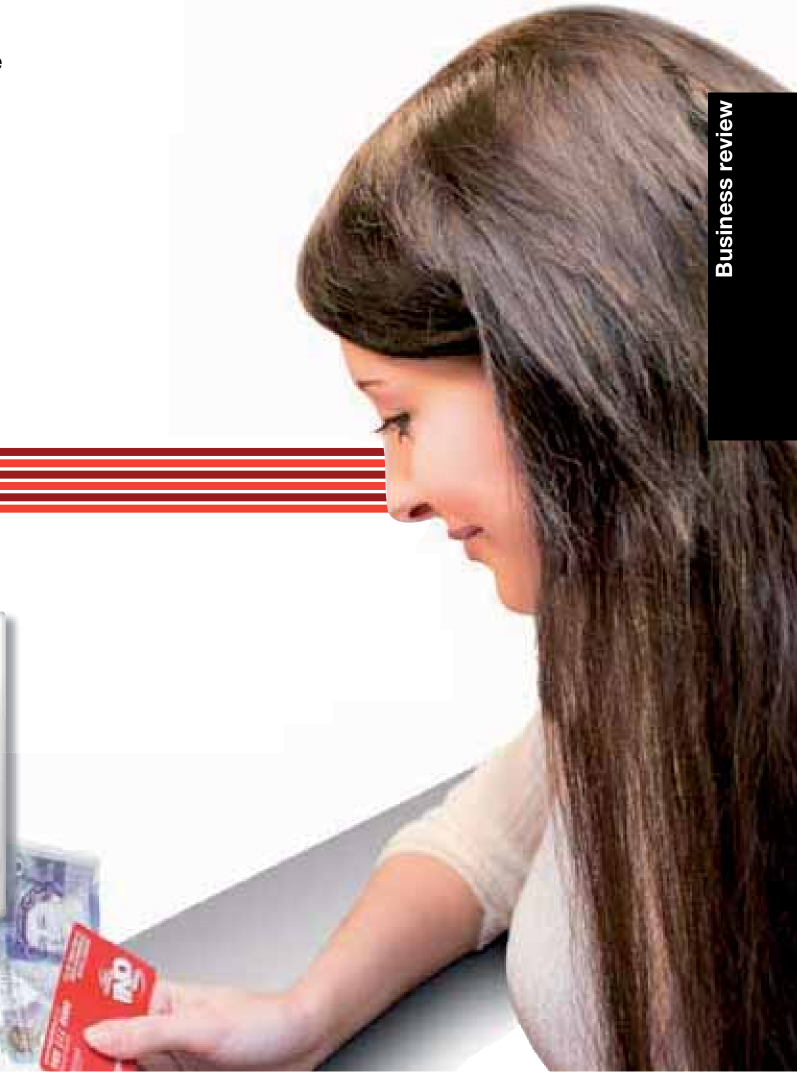
"Ladbrokes has consistently sought to promote the mobile channel as a key part of its online strategy, and has been rewarded with strong customer growth."

1 Future Mobile Awards
2 Sports Bet
3 Blackjack
4 Kick Off

2 3 4

Focusing on brand and consumer

The Ladbrokes name is widely trusted and leads the market in terms of unprompted awareness. We must build upon this to restore the edge to our brand, widen our appeal and build customer lifetime value



What are your plans to grow outside the UK?

We believe that regulated markets offer the best opportunity for Ladbrokes to expand our business and create value for shareholders. We are in favour of appropriate regulation that benefits consumers by ensuring operators are regulated whilst generating necessary tax revenue for governments and creating an incentive for operators like ourselves to compete on a level playing field generating a fair return on our investment.

We already have market leading retail operations in Belgium, Ireland and Spain and in 2011 we will begin to operate online in South Africa through a business venture based on a regulated licence awarded in 2010.

In 2010 we saw preparatory action in many countries, particularly within Europe, for legislation to regulate online gambling. We are watching those markets closely and, where appropriate regulation is adopted, we will look at the potential for Ladbrokes to enter and compete successfully on a market by market basis.

Maintaining regulatory leadership

In an environment of regulatory change continuing to play a lead role in working alongside trade bodies, industry representatives and governments will help minimise the exposure of the business and our industry to future tax increases

Develop our pricing, trading and liability management

Pricing, trading and liability management lie at the heart of a betting company. They are fundamental to further enhancing our reputation as a leader in sports betting which is where our heritage lies and which is often the point of entry for customers new to Ladbrokes

How active do you intend to be in the area of regulation and what are your priorities?

We have always played and will continue to play a lead role in this area working closely with trade bodies and industry representatives.

We have a major task in terms of communicating what this industry does in terms of social responsibility and the importance of sensible regulation for customers, business and Government. Our key priority in the UK is to limit the exposure of the business and industry to future tax increases and ensure that changes in the way the business is taxed remain commercially equitable. We are actively engaged with both the Government and the Opposition on the Levy debate as regards the current scheme and also in terms of a future commercial partnership to replace it. Outside of the UK differing cultural and social attitudes towards gambling, particularly within Europe is reflected in a lack of a uniform approach to regulation. Accordingly we will assess opportunities to expand internationally on a case by case basis.

How do you plan to build upon Ladbrokes' brand heritage?

This will be a major focus for Stephen Vowles as Director of Customer Experience. The Ladbrokes brand leads the market in terms of unprompted awareness in the UK. This is a strength, but, in isolation, is not enough. In today's highly competitive environment online brands have made a great deal of progress at our expense and we have not been fast enough to respond. By ending our siloed approach to products we are now able to develop a truly integrated approach to marketing and dramatically improve our communications and customer retention.

In 2011 we will start to evolve the positioning of the Ladbrokes brand based upon the continuing customers learnings driven by our OddsOn! loyalty programme. This unique insight into how, where and when our customers engage with us will enable the development of an industry leading approach to the personalisation of product.

What has been achieved so far?

It has been a year of significant change. We have delivered a strong performance, particularly in the latter half of this year as well as preparing the foundations for the significant changes which are still to come. We are focused on what we are trying to achieve and have a clearly defined set of priorities that will enable us to achieve it. It will no doubt be challenging; we operate in an increasingly competitive marketplace. We have however clearly identified what needs to be done, have put in place the right structure to do it and will continue to work tirelessly in order to continue delivering against our objectives.

What do you hope customers will be saying about Ladbrokes in two years' time?

I want them to see a major difference. I want them to see us as having the most complete and consistent offer no matter how they choose to bet with us and I want them to be proud to recommend us to their friends. I want them to make Ladbrokes favourite.

Delivering technological excellence

The development or acquisition of technological strength lies at the heart of our strategy and provides the foundation on which the evolution of the business is built

UK Retail

The strength of our brand is driven by presence on the high street and is the envy of many of our online competitors. Retail is the bedrock of the business and remains a very visible, stable and commercially compelling high quality source of regulated earnings

OTC amounts staked were down 7.3% year on year driven by the challenging economic environment and the loss of a significant number of horseracing fixtures due to adverse weather. The first and last quarters of the year saw the most horseracing abandonments and these quarters were 11.1% and 10.6% down respectively. Quarters two and three, with minimal abandonments and the benefit of the World Cup, were 3.3% and 4.7% down respectively.

OTC gross win for the year declined by 2.4% to £417.0 million. The overall OTC gross win margin of 16.7% was 0.8 percentage points higher than 2009 with the improvement due to a strong performance from football. Our football margin of 25.1% was 8.7 percentage points higher year on year reflecting both the unexpectedly low return in 2009 and the better than normal results during 2010.

OTC net revenue decline was 0.8%, as the 7.3% OTC stake decline was offset by the improved margin and a £7.1 million reduction in OTC free bets (to £7.8 million in 2010), following the change to the OddsOn! loyalty scheme in July 2009.

Despite the disruption caused by the machine supplier trials, ongoing throughout the year, total machine gross win grew 7.2% during the year to £302.8 million with average gross win per gaming machine per week rising 6.6% to £730 in 2010. The performance in the fourth quarter was particularly encouraging with gross win per gaming machine per week up 11.6% reflecting strong management focus and the end of the disruption period on Barcrest machines (92% of the estate). During the year 24 regional managers have been deployed to focus solely on machines and we carried out a machine re-siting initiative. In 2010 there were on average 7,953 terminals versus 7,892 in 2009. At 31 December 2010 there were 8,020 machines.

After conducting extensive machine trials with multiple suppliers during the year, in August we announced our intention to switch 95% of our machine estate to Global Draw machines. The new "Vision" cabinet on the "Video-bet" platform is already in 139 of our shops and we expect to complete this rollout during the first half of 2011. We believe, that over time, this significant step will have a material impact on closing the machine performance gap between ourselves and our competitors.

After adjusting for the effects of higher VAT, net revenue for machines grew 4.8%.

Operating costs fell £3.7 million in the year to £458.7 million reflecting continued strong cost control. The benefit of an additional VAT recovery (£4.7 million) and the buyout of premium pay (2010 benefit of £3.0 million; £12.0 million annualised) was partially offset by incremental advertising around the World Cup and accrued bonuses during the year.

Operating profit before non-trading items for the year was up 10.9% at £149.1 million.

At 31 December 2010 there were 2,098 shops (31 December 2009: 2,088) in Great Britain. During the year, there were 40 openings, 30 shop closures, 25 relocations and 102 shop refurbishments.

UK	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m	Year on year change %
– OTC amounts staked	**2,461.6**	2,654.7	(7.3)
– Machines amounts staked	**9,218.5**	8,787.4	4.9
Amounts staked	**11,680.1**	11,442.1	2.1
– OTC gross win	**417.0**	427.4	(2.4)
– Machines gross win	**302.8**	282.5	7.2
Gross win	**719.8**	709.9	1.4
Adjustments to GW(1)	**(54.6)**	(53.2)	(2.6)
– OTC net revenue	**409.2**	412.5	(0.8)
– Machines net revenue	**256.0**	244.2	4.8
Net revenue	**665.2**	656.7	1.3
Gross profits tax	**(61.2)**	(63.0)	2.9
Associate income	**3.8**	3.2	18.8
Operating costs	**(458.7)**	(462.4)	0.8
Operating profit(2)	**149.1**	134.5	10.9

(1) Fair value adjustments, free bets and VAT.
(2) Before non-trading items.
(3) Greyhound tracks account for £10.3 million of amounts staked and £6.5 million of gross win in 2010 (2009: £10.2 million of amounts staked and £6.5 million of gross win).

Other European Retail

Our operational strength and experience in the UK has been applied across Europe where we also operate retail estates in Belgium, Ireland and in Spain via our joint venture Sportium

Other European Retail – Ireland

The economic and trading environment in Ireland remains challenging. OTC amounts staked fell 12.0% year on year or 9.1% on a constant currency basis.

Overall gross win in Ireland was down 7.4% at £79.9 million with a positive machine performance (in Northern Ireland) more than offset by the decline in OTC amounts staked. The OTC gross win margin was 0.5% higher than in 2009 with a strong football margin slightly offset by a weaker horse margin.

Net revenue fell by 4.3% including lower free bets (down £3.1 million).

In response to the challenging environment, the business has continued to maintain a tight focus on cost control. Operating costs for Ireland fell by 7.5% to £59.4 million (2009: £64.2 million) driven largely by staff scheduling efficiencies and a review of all head office costs. On a constant currency basis, costs were down 4.2%.

At 31 December 2010 there were 208 shops (31 December 2009: 207) in the Republic of Ireland and 78 shops (31 December 2009: 78) in Northern Ireland. During the year, two shops were closed, three opened, 20 refurbished and three relocated.

Ireland	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m	Year on year change %
– OTC amounts staked	**556.6**	632.5	(12.0)
– Machines amounts staked	**121.4**	100.9	20.3
Amounts staked	**678.0**	733.4	(7.6)
– OTC gross win	**75.0**	82.1	(8.6)
– Machines gross win	**4.9**	4.2	16.7
Gross win	**79.9**	86.3	(7.4)
Net revenue	**77.7**	81.2	(4.3)
Betting tax	**(7.4)**	(8.2)	9.8
Operating costs	**(59.4)**	(64.2)	7.5
Operating profit(1)	**10.9**	8.8	23.9

(1) Before non-trading items.

Other European Retail – Belgium

Gross win in Belgium was down £1.3 million at £48.1 million with lower levels of amounts staked offset by a slightly better margin performance. Operating profit increased by 60.0% largely reflecting lower betting tax combined with continuing tight cost control. At 31 December 2010 there were 288 shops versus 298 at 31 December 2009.

Belgium	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m	Year on year change %
Gross win	**48.1**	49.4	(2.6)
Net revenue	**48.1**	49.4	(2.6)
Betting tax	**(16.8)**	(18.5)	9.2
Operating costs	**(26.5)**	(27.9)	5.0
Operating profit(1)	**4.8**	3.0	60.0

(1) Before non-trading items.

Other European Retail – Spain

Bet volumes and amounts staked in the Sportium joint venture continue to exceed expectations. Notwithstanding Spain's success at World Cup 2010, the overall gross win margin was 18.3%. The joint venture has improved efficiencies in its corner-focused business model and the estate has continued to grow. The corner-focused model has been designed to capitalise on any regulatory change and the Group continues to monitor regulatory progress closely. Helped by encouraging net revenue trends and increasing scale, operating losses were significantly reduced to £1.8 million (2009: £3.5 million). Sportium remains the market leader in Madrid and generated positive cash flows in the final quarter of 2010.

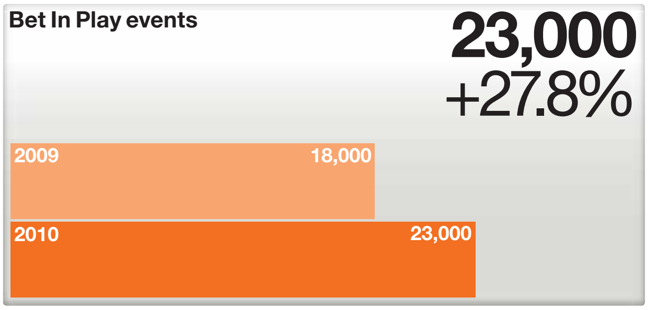
At 31 December 2010 there were 91 corners (31 December 2009: 78) and 15 standalone shops (31 December 2009: five). Sportium intends to open a further 22 corners and two shops in 2011.

Spain	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m	Year on year change %
Operating loss(1)	**(1.8)**	(3.5)	48.6

(1) Before non-trading items.

Digital

In a rapidly evolving global marketplace, technological development and increasingly sophisticated customer demand have made a competitive digital gaming offer imperative. Ladbrokes is continuing to invest in the functionality of our website as well as launching innovative new apps for mobile devices



Digital net revenue increased by 5.4% to £169.4 million. This increase and a 4.2% growth in active customers as well as 4.5% growth in new sign-ups, reflects the benefit of investments made in our online mobile products and the development of our online marketing capabilities. Revenue growth in Sportsbook, Casino and Bingo was partially offset by continued weakness in Poker where the market remains challenging.

Higher net revenue, lower costs and lower taxes resulted in operating profit before non-trading items rising 36.0% to £62.7 million.

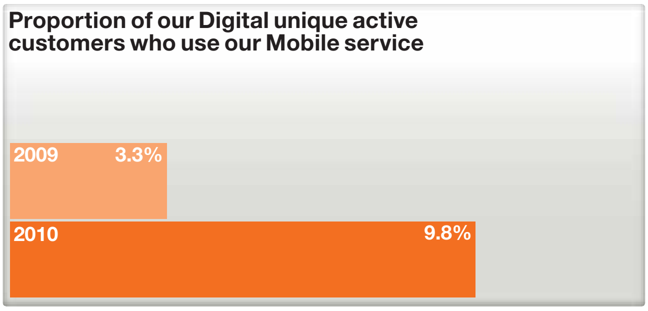
Sportsbook net revenue grew 16.9% to £65.1 million driven by 18.9% growth in pre-event turnover and 11.2% growth in Bet In Play with the overall gross win margin in line with 2009 at 6.5%. As stated at the half year, the World Cup boosted player numbers and revenues and delivered very good gross win margins. This trend continued into the second half of the year with excellent football performance delivering a margin of 8.5%, 2.7 percentage points higher than 2009. Conversely, horseracing margins softened due to the introduction of Best Odds Guaranteed in August 2009, together with relatively poor results in some of the significant racing festivals over the year, particularly the Grand National, Royal Ascot and Glorious Goodwood. Overall horse margin for the year of 5.6% was 2.7 percentage points lower than 2009. Active customer growth of 11.3% was driven by the World Cup as well as continued improvements in the functionality and content of our Sportsbook site, with average monthly active player days growing by 13.0% and yield per customer showing 5.6% growth against 2009.

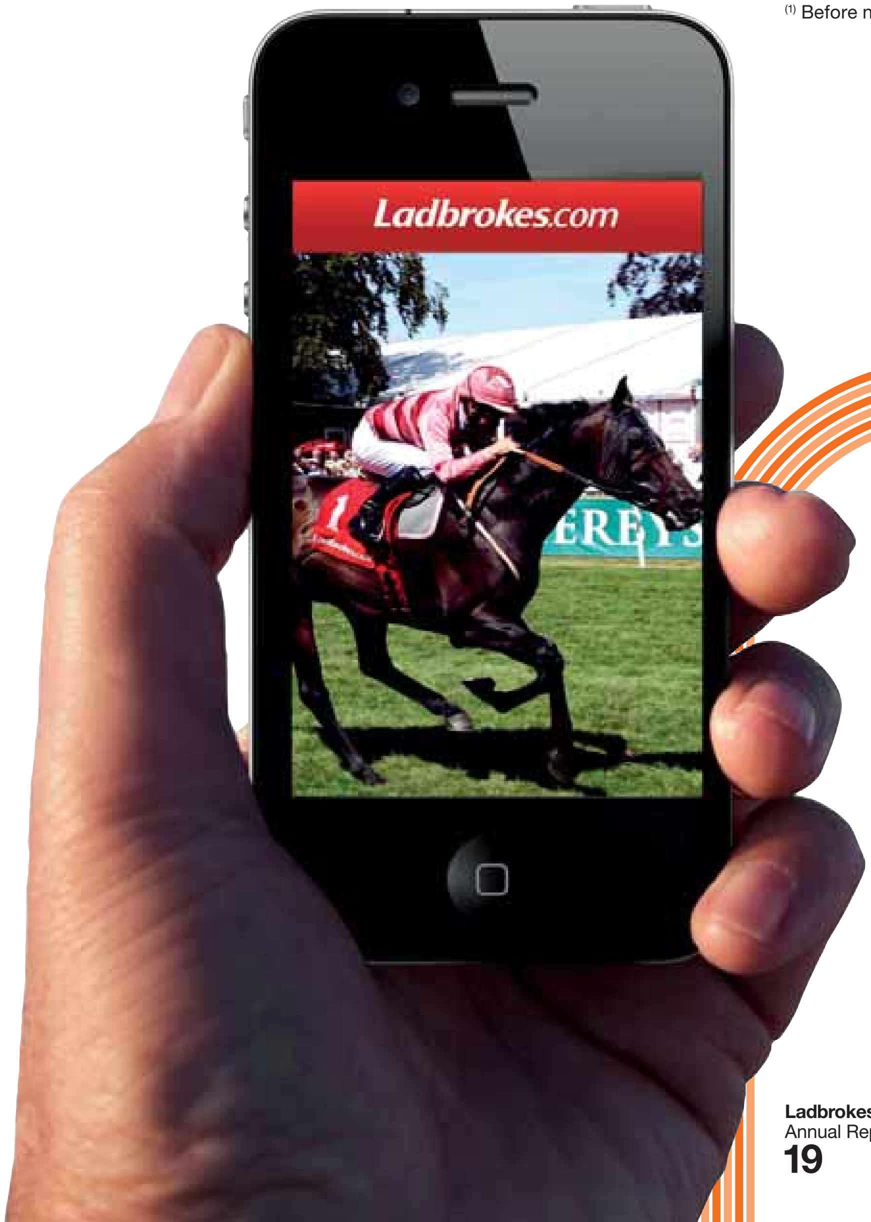
Casino net revenue was up 6.3% to £55.3 million following an exceptionally strong second half of the year (net revenue growth of 14.3%). Active player growth of 5.6% was achieved while maintaining average yield per customer at 2009 levels. This was achieved by focusing on both improving the retention of new player signups and building up one to one relationships with our VIP customers through better customer service and stand out promotions to our most valuable players.

Poker net revenue fell 20.7% during the period to £18.8 million with the European poker market remaining challenging. While the number of active customers in the year fell by 27.7%, this is against a comparative period which saw significant customer reactivation and incentivisation accompanying the migration of our Poker customer base to the Microgaming network. Customer yield growth of 9.8% was a result of lower customer acquisition numbers aided by an increased focus on VIP retention.

Bingo net revenue grew 11.4% to £13.7 million. While the number of customers declined 3.0% with a lower level of player recruitment activity and marketing spend in 2010, this was more than offset by 14.8% growth in customer yield driven through continued product improvements and proactive customer management to deliver greater customer lifetime value.

With only one major new game launched in the year, net revenue for Games was down 2.9% at £16.5 million, with active customers down 0.7% and yield showing a 3.3% decline.





Included within the Digital division is the Mobile channel that has seen year-on-year revenue growth of 78.4% (to £5.7 million) and active customer growth of 205.9% delivered through continued product enhancement and effective player recruitment. With our range of innovative smartphone apps launched in 2010 and those in the pipeline for 2011, and through our high profile Masters Snooker sponsorship, Ladbrokes Mobile is developing a strong position within the UK Mobile gaming market.

Operating costs of £106.7 million fell 0.3% compared to 2009. This was a result of more effective marketing spend and reduced levy costs from the relocation of our Sportsbook operation to Gibraltar in 2009, which were partially offset by technology and people costs resulting from the move. Marketing investment was 18.8% of net revenue in the period compared to 20.6% of net revenue in 2009. Nevertheless, new player signups grew 4.5% bolstered by the World Cup customer recruitment campaign. The adjusted cost per acquisition was flat compared to 2009 at £91.

Digital	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m	Year on year change %
Net revenue			
– Sportsbook	**65.1**	55.7	16.9
– Casino	**55.3**	52.0	6.3
– Poker	**18.8**	23.7	(20.7)
– Bingo	**13.7**	12.3	11.4
– Games	**16.5**	17.0	(2.9)
Net revenue	**169.4**	160.7	5.4
Gross profits tax	**–**	(7.6)	100.0
Operating costs	**(106.7)**	(107.0)	0.3
Operating profit(1)	**62.7**	46.1	36.0

(1) Before non-trading items.

Telephone

> **We continue to take over 5 million telephone calls from over 85,000 customers per year. Telephone betting remains an important part of ensuring that we provide as broad an offering, in terms of access to our services, as possible**

The profit from High Rollers for the period was £5.0 million (2009: £66.9 million).

The Core Telephone Betting business continues to struggle to compete with offshore low tax operators and the shift of customers to the internet. Excluding High Rollers, net revenue was up 3.2% to £16.2 million with the 11.6% decline in amounts staked offset by a better gross win margin of 6.0% (2009: 5.4%) and lower free bets. Unique active customers fell 10.8% to 85,900 (2009: 96,300), with average monthly active player days down by 12.3% and call volumes down by 12.8%.

The majority of telephone calls are now handled by staff in the UK Retail estate and this initiative, combined with the closure of the Liverpool call centre in 2010, has resulted in telephone operating costs (excluding High Rollers) falling 15.1% to £14.1 million.

Core Telephone Betting (excluding High Rollers)	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m	Year on year change %
Net revenue	**16.2**	15.7	3.2
Gross profits tax	**(2.5)**	(2.4)	(4.2)
Operating costs	**(14.1)**	(16.6)	15.1
Operating loss[1]	**(0.4)**	(3.3)	87.9

[1] Before non-trading items.

Regulation

UK Regulatory Environment

In our core UK market the Government is considering a number of issues that will impact on the Ladbrokes business. Ladbrokes maintains an ongoing dialogue with the Government and the Opposition both directly and through trade associations with the aim of achieving balanced regulation and fiscal stability.

British Gambling Prevalence Study

The results of the British Gambling Prevalence Survey 2010 were published on 15 February 2011. The survey provides an update on participation in gambling and the prevalence of problem gambling in Great Britain. Ladbrokes will continue to play its part in tackling problem gambling through responsible business practices, working with the Government and key bodies like the Responsible Gambling Strategy Board and by donating funds to the Gambling Research, Education and Treatment Foundation.

The Horserace Betting Levy

The Secretary of State for Culture, Olympics, Media and Sport has determined the 50th Levy Scheme. The Scheme, which runs from April 2011 to March 2012, will apply at an increased rate of 10.75% on gross profits on British horseracing. The threshold below which licensed betting offices pay abated charges was reduced to £50,000 per shop. Over the long term Ladbrokes believes a commercial replacement for the Levy will bring better outcomes for both racing and betting. Ladbrokes will continue to engage with the Government on positive solutions for change.

Machine Taxation Reform

The Government has confirmed its intention to proceed with reforms to the taxation of gaming machines and proposes to replace both Amusement Machine Licence Duty (AMLD) and VAT on net takings with a new Machine Games Duty (MGD). MGD will be a tax on the income from the playing of prize games on machines. The Government intends to consult on draft legislation with relevant parties in Spring/early Summer 2011, with the intention of legislating in the 2012 Finance Bill.

Offshore regulation

The previous administration carried out a consultation into the Regulatory Future of Remote Gambling in Great Britain. This consultation closed in June 2010 and the Government is due to report during 2011 on the consultation findings and proposals for regulating remote gambling operators.

Other European Retail

Ireland

Legislation was introduced in the 2011 Irish Finance Bill to extend betting tax to online operators at the rate of 1% of turnover.

Spain

A number of regions are pursuing regulation of retail betting and Ladbrokes, through our Sportium joint venture, will be targeting opportunities in Aragon and Navarra. As in Madrid, there will be a focus on corners and self-service betting terminals.

Opportunities in newly regulating markets

Ladbrokes is adopting a focused approach to new market opportunities. Markets are assessed on a case by case basis and where the taxation and regulatory frameworks do not represent a realistic probability to deliver value to shareholders we will not pursue these opportunities. For this reason we have withdrawn from the French market and did not pursue digital opportunities in Belgium and Norway.

The Spanish Government has proposed legislation to regulate online gambling. Ladbrokes will assess the market opportunity on the basis of the final approved law, with particular regard to taxation levels.

Financial review

Revenue and profit before tax	Year ended 31 December 2010 Revenue £m	Year ended 31 December 2010 Profit[1] £m	Year ended 31 December 2009 Revenue £m	Year ended 31 December 2009 Profit[1] £m
Continuing operations:				
UK Retail	665.2	149.1	656.7	134.5
Other European Retail	125.8	13.9	130.6	8.3
Digital	169.4	62.7	160.7	46.1
Core Telephone Betting	16.2	(0.4)	15.7	(3.3)
High Rollers	3.5	5.0	68.5	66.9
	980.1	230.3	1,032.2	252.5
Corporate costs[2]	–	(23.0)	–	(17.1)
	980.1	207.3	1,032.2	235.4
Net finance costs	–	(34.0)	–	(44.1)
Interest income on corporation tax settlement	–	20.0	–	–
Revenue and profit before tax	**980.1**	**193.3**	**1,032.2**	**191.3**
Discontinued operations:				
Italy Retail	8.3	(9.1)	26.9	(9.9)
Casino	–	–	4.6	(0.9)
	8.3	(9.1)	31.5	(10.8)
Net finance costs	–	–	–	0.1
Revenue and loss before tax	**8.3**	**(9.1)**	**31.5**	**(10.7)**
Group revenue and profit before tax	**988.4**	**184.2**	**1,063.7**	**180.6**

[1] Profit is before non-trading items.
[2] In 2009 Corporate costs and International development costs were disclosed separately.

Revenue
Revenue from continuing operations decreased by £52.1 million (5.0%) to £980.1 million (2009: £1,032.2 million). Excluding High Rollers activity, revenue increased by £12.9 million (1.3%) to £976.6 million (2009: £963.7 million) mainly as a result of improved machines performance in the UK Retail estate and improved sportsbook performance in Digital.

Profit before finance costs, tax and non-trading items
Profit before finance costs, tax and non-trading items decreased by £28.1 million (11.9%) to £207.3 million (2009: £235.4 million). Excluding High Rollers activity, profit before finance costs, tax and non-trading items increased by £33.8 million (20.1%) to £202.3 million (2009: £168.5 million) reflecting increased profits across all channels partially offset by higher corporate costs.

Finance costs
The net finance costs of £34.0 million were £10.1 million lower than last year (2009: £44.1 million) mainly reflecting lower average net debt. There was also interest income of £20.0 million in respect of an interest rebate following the HMRC tax settlement.

Profit before tax
The decrease in trading profits offset by favourable net interest in the period has resulted in a 1.0% increase in profit for continuing operations before taxation and non-trading items to £193.3 million (2008: £191.3 million).

Non-trading items before tax
£28.5 million of non-trading losses before tax include a £7.3 million impairment charge in the UK and Irish Retail estate, a £3.1 million loss on closure of shops and disposal of assets in the UK and Other European Retail estates, as well as an £8.1 million charge in relation to accelerated depreciation of machines and related contract termination costs. £1.9 million of impairment and related closure costs were incurred following the exit from a French joint venture and £0.7 million related to litigation and transaction costs. Additionally, £7.4 million of restructuring costs were incurred across the Group. These include costs associated with changes in executive management and operational structure as a result of a full strategic review of the Group.

Finance non-trading costs of £17.7 million include £8.6 million in relation to bond termination costs and £9.1 million in relation to the unwinding of interest rate swaps.

Taxation

On 21 April 2010 the Group reached a settlement with HMRC which covered substantially all outstanding items in respect of tax years through to 31 December 2007. The settlement resulted in the recognition in the 2010 income statement, within the tax charge, of a £261.9 million tax credit in relation to prior years. Additionally the Group received cash of £80.0 million in respect of corporation tax repayable from HMRC.

Excluding the corporation tax settlement, the Group taxation charge for continuing operations before non-trading items of £35.6 million represents an effective tax rate of 18.4% (2009: 15.0%).

Discontinued operations

The £9.1 million trading loss in discontinued operations is the loss before interest, tax and non-trading items from Italy. The Italy Retail business was sold on 31 May 2010 and the total loss on disposal of the Italy business was £17.3 million.

The Paddington Casino licence was sold for £4.3 million on 22 January 2010.

Earnings per share (EPS) – Continuing operations

EPS (before non-trading items) increased 113.8% to 46.4 pence (2009: 21.7 pence), reflecting the benefit of the corporation tax settlement. EPS (including the impact of non-trading items) was 41.5 pence (2009: 19.5 pence). Fully diluted EPS (including the impact of non-trading items) was 41.4 pence (2009: 19.4 pence) after adjustment for outstanding share options.

EPS (before non-trading items and excluding the benefit of the corporation tax settlement) decreased 28.1% to 15.6 pence (2009: 21.7 pence), reflecting the increased underlying corporation tax rate and higher weighted average number of shares.

Earnings per share (EPS) – Group

EPS (before non-trading items) increased 123.6% to 45.4 pence (2009: 20.3 pence), reflecting the benefit of the corporation tax settlement. EPS (including the impact of non-trading items) was 38.5 pence (2009: 9.9 pence). Fully diluted EPS (including the impact of non-trading items) was 38.4 pence (2009: 9.9 pence) after adjustment for outstanding share options.

EPS (before non-trading items and excluding the benefit of the corporation tax settlement) decreased 27.6% to 14.7 pence (2009: 20.3 pence), reflecting the increased underlying corporation tax rate and higher weighted average number of shares.

Cash flow, capital expenditure and borrowings

Cash generated by operations was £272.9 million. After net finance costs of £35.6 million, income taxes received of £51.9 million and £48.8 million on capital expenditure and intangible asset additions, cash inflow was £240.4 million.

At 31 December 2010, gross borrowings of £509.9 million less cash and short term deposits of £17.9 million have resulted in a net debt of £492.0 million.

Reconciliation of gross win to revenue

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 2010 £m	Year ended 31 December 2009 £m
Gross win	**1,059.3**	1,118.9
Free bets, promotions, bonuses and other fair value adjustments	**(33.5)**	(49.3)
VAT	**(45.7)**	(37.4)
Revenue	**980.1**	1,032.2

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

Gross win	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
UK Retail	**719.8**	709.9
Other European Retail	**128.0**	135.7
Digital	**192.5**	184.3
Core Telephone Betting	**16.4**	16.6
High Rollers	**2.6**	72.4
Total	**1,059.3**	1,118.9

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

Net revenue	**Year ended 31 December 2010 £m**	Year ended 31 December 2009 £m
UK Retail	**665.2**	656.7
Other European Retail	**125.8**	130.6
Digital	**169.4**	160.7
Core Telephone Betting	**16.2**	15.7
High Rollers	**3.5**	68.5
Total	**980.1**	1,032.2

Risks and how we manage them

Risk governance and responsibilities

- The Board has overall responsibility for risk management as an integral part of strategic planning
- The Operations Board (made up of executive directors and senior executives) makes recommendations on the overall approach to risk management and identifies the key risks. The Operations Board is assisted by a Risk Committee made up of Group and divisional senior executives
- The Audit Committee is responsible for assessing the scope and effectiveness of the systems established to identify, assess, manage and monitor risks
- Each key risk is assigned Operations Board member ownership

Risk management process

- The key risks are assessed by the Risk Committee using a bespoke risk methodology and reviewed by the Operations Board
- At each Board meeting any changes to key risks are identified and all key risks are reviewed formally by the Board twice yearly
- The risk management processes are reviewed by the Audit Committee annually
- Risk management forms an integral part of the Group's internal control, planning and approval process

Risk methodology

- The Risk Committee considers the following impact areas in assessing risks:
  - Legal and regulatory
  - Betting and gaming compliance
  - Financial management and bookmaking
  - Reputation
  - Technology
  - Data integrity and fraud protection
  - Customers
  - Employees
- For each risk identified within these impact areas the likelihood, consequence, mitigating controls and actions, risk owner and forecast residual risk are identified by the Risk Committee
- The overall risk level is quantified and assessed to ensure that the appropriate mitigation measures and future actions have been identified

Strategy

Achieving the strategy outlined in the Chief Executive's review will deliver long-term growth for the benefit of all stakeholders whilst minimising some of the key risks that Ladbrokes faces. Failure to achieve the strategy has the potential to affect the business and its performance. How strategy is established and the associated risks are managed are described in Corporate governance.

Principal risks and uncertainties

There are general business risks faced by Ladbrokes that are comparable to those faced by most other businesses. In addition, there are more specific risks which are either unique to Ladbrokes or apply to the industry it operates in. The risks outlined here are those principal risks and uncertainties that are material to the Group. They do not include all those associated with Group activities and are not set out in any order of priority.

General business risks include:

- Marketplace – changes in the economic environment, changes in consumer leisure spend.
- Financial – availability of debt financing and costs of borrowing, taxation, pension fund liability.
- Operational – recruitment and retention of key talent, execution of international expansion.

Specific risks that are material to Ladbrokes are:

Risks	Mitigation
Marketplace	
Competition Ladbrokes faces competition primarily from other land-based bookmakers, online betting exchanges and other online gambling operators. In particular, the online gambling market is characterised by intense and substantial competition and by relatively low barriers to entry for new participants. In addition, Ladbrokes faces competition from market participants who benefit from greater liquidity as a result of accepting bets and wagers from jurisdictions in which Ladbrokes does not operate (because of legal reasons or otherwise).	Ladbrokes' performance and competitive position are continuously monitored and, where appropriate, changes are instituted, including in relation to marketing, product development, yield management, cost control and investment. Acquisition opportunities, with a view to taking advantage of market consolidation, are continuously evaluated.
Betting and gaming industry	
Taxes, laws, regulations and licensing Regulatory, legislative and fiscal regimes for betting and gaming in key markets around the world can change, sometimes at short notice. Such changes could benefit or have an adverse effect on Ladbrokes and additional costs might be incurred in order to comply with any new laws or regulations.	Regulatory, legislative and fiscal developments in key markets are monitored closely (see page 21 for further details), allowing Ladbrokes to assess and adapt quickly to changes in the environment and minimise risks to the business. Ladbrokes engages with its regulators and the relevant trade organisations with regard to the betting and gaming regulatory framework and other issues of shared concern, such as problem gambling.
Increased cost of product Ladbrokes is subject to certain financing arrangements intended to support industries from which it profits. Examples are the horseracing and the voluntary greyhound racing levies which respectively support the British horseracing and greyhound industries. In addition, Ladbrokes enters into contracts for the distribution of television pictures, audio and other data that are broadcast into Ladbrokes' betting shops.	Ladbrokes engages with the relevant trade associations and the principal bodies of sport and event industries with regard to sports rights payments, including the statutory horseracing levy, animal welfare and other issues.
Operational and bookmaking	
Bookmaking Ladbrokes may experience significant losses as a result of a failure to determine accurately the odds in relation to any particular event and/or any failure of its risk management processes.	Ladbrokes' core expertise is risk management and it has developed the skills and systems to be able to offer a wide range of betting opportunities and accept large bets. There is in place a highly experienced trading team and risks are spread across a wide range of events. A bookmaker's odds are determined so as to provide an average return to the bookmaker over a large number of events and therefore, over the long-term, Ladbrokes' gross win percentage has remained fairly constant.
Sporting schedules and cancellations There are certain high profile sporting events which attract significant betting activity e.g. the Grand National and the FIFA Football World Cup. Cancellation or curtailment of such events, for example due to adverse weather conditions, or the failure of certain sporting teams to qualify for sporting events, can adversely impact Ladbrokes' results.	In addition to gaming machines, Ladbrokes has a number of alternative products to fill gaps in the schedules including virtual horseracing.
High fixed cost base Ladbrokes has a relatively high fixed cost base as a proportion of its total costs, consisting primarily of employee and rental costs associated with its betting shop estate. This means that falls in revenue could have a significantly adverse effect on Ladbrokes' profitability unless the Group reduces its costs substantially in the short to medium term.	Business re-engineering initiatives have been implemented to reduce the cost base. Structural contingency plans have been put in place and where possible central facilities have been co-located. The future strategy to increase online revenues will limit the dominance of the fixed costs.

Risks	Mitigation
Operational and bookmaking	
Loss of key locations Ladbrokes has a number of key sites, in particular Imperial House at Rayners Lane in London, its head office and main operations centre, and its premises in Europort in Gibraltar from where the online gaming operations are based.	Existing business continuity plans and arrangements for offsite data storage, alternate system availability and remote working for key operational and senior management are currently under review as part of an ongoing process.
Information technology and communications	
Technology changes The market for online gambling products and services is characterised by technological developments, new product and service introductions and evolving industry standards. Failure by Ladbrokes to use leading technologies effectively, develop its technological expertise, enhance its products and services and improve the performance, features and reliability of its technology and advanced information systems, could have a material adverse effect on its competitive position.	Ladbrokes has committed considerable resources into upgrading its existing technology, IT infrastructure, communication systems and application systems, as well as developing and acquiring new platforms. Rigorous testing regimes are utilised to ensure a continued high quality of product offerings and services are maintained.
Technology failure Ladbrokes' operations are highly dependent on technology and advanced information systems and there is a risk that such technology or systems could fail. In particular, any damage to, or failure of online systems and servers, electronic point of sale systems and electronic display systems could result in interruptions to financial controls and customer service systems.	Ladbrokes has a level of resilience in place which seeks to eliminate single points of failure within key technology locations.
Data disclosure Ladbrokes processes sensitive personal customer data (including name, address, age, bank details and betting and gaming history) as part of its business and therefore must comply with strict data protection and privacy laws in all jurisdictions in which the Group operates. Ladbrokes is exposed to the risk that this data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation. This could also result in prosecutions and the loss of the goodwill of its customers and deter new customers.	Advanced security systems are deployed to protect transactional data. Sophisticated hardware and security mechanisms are used to ensure all sensitive and confidential data is fully encrypted. To provide fail-safe integrity of all data, a series of storage systems are used to replicate all data processed by online services. In respect of fraud protection, an extensive programme of data monitoring is in place with both prevention and detection audit controls.
Failure in the supply chain Ladbrokes is dependent on a number of third parties for the operation of its business. The withdrawal or removal from the market of one or more of these major third party suppliers, or failure of third party suppliers to comply with contractual obligations could adversely affect our operations.	Infrastructure suppliers, network and telecommunication suppliers and application service providers are long-term partners in providing an infrastructure which seeks to ensure the delivery of sophisticated and high performance transaction processing systems. There is continual communication with these suppliers and providers at an operating level and service level agreements have been established to maintain high service levels. The ongoing review of business continuity plans will include key supplier alternatives and the future strategy is to bring more of the value chain in-house.

Fair Play – Corporate responsibility at Ladbrokes

We are committed to being a leader of our sector in responsible business practice. Maintaining a reputation for fairness and integrity, strengthening our customer focus and achieving high levels of employee satisfaction are all vital to growing our business.

Our Corporate Responsibility (CR) programmes are in line with our broader business strategy. We embed CR principles into our day to day operations, maintaining high ethical and socially responsible standards and remaining compliant with all relevant CR legislation.

The 7 pillars of our CR strategy represent the key CR issues for our business:

1. keeping our customers satisfied, well informed and interested in the products and services we offer;
2. promoting responsible gambling behaviours across our business and the industry as a whole;
3. attracting a diverse workforce and sustaining high levels of competence, motivation and loyalty to the business;
4. minimising the risks from our third-party relationships – business partnerships, joint ventures or within our supply chain;
5. minimising health, safety and security risks to our business, our employees and the general public from our operations;
6. understanding global environmental agendas and minimising the impact of increasing environmental costs on our operations; and
7. being a good corporate citizen and a respected neighbour in our communities.

We monitor our performance through appropriate key performance indicators (KPIs) reflecting each pillar of our CR strategy. Our progress has been good and remains aligned to our strategic aims.

Putting customers at the heart of our business

We are keen to drive brand loyalty and all that the brand stands for, including trust and integrity. It is important to provide our customers with an enjoyable, efficient, secure, fair and socially responsible service and all our employees are trained to support this commitment. To check our performance, we continually seek the views of our customers and encourage feedback on our employees and services. Our performance is also checked through third-party audits (e.g. mystery shopper surveys) and by monitoring customer complaints. During 2010 our mystery shopper scores averaged 90% customer satisfaction. Furthermore, our customer loyalty card – OddsOn! – continues to grow with 250,000 new customers signing up in 2010 and a total of 1.1 million customers altogether. Through OddsOn! we have given back to our customers over 3.4 million free bets, with 1.1 million of those in 2010.

Ensuring responsible gambling

We continue to meet the regulatory requirements in all countries where we are licensed to operate, including those of the UK Gambling Commission, the Gibraltar Regulatory Authority, the governments of the Republic of Ireland and Northern Ireland, the Belgium Gaming Commission and the regional governments in Spain. Furthermore, we continue to support the UK Gambling Commission's three key licensing objectives to:

- keep crime out of gambling;
- ensure gambling is conducted fairly and openly; and
- protect children and vulnerable people from being harmed or exploited by gambling.

All relevant personnel are trained to meet our high standards and our performance is monitored on a continual basis by our Compliance Director and the supporting Compliance Committee.

Ladbrokes continues to work with its peers and national governments to improve responsible gambling behaviour across the industry. For many years we have supported the Association of British Bookmakers (ABB) and the Remote Gambling Association (RGA) in establishing industry-wide CR standards and promoting self-regulation.

We ensure that our customers are well informed about our products, about problem gambling issues and for our online customers, about their own gambling history.

We provide inherent protection to try to limit the possible financial impacts on our customers from excessive gambling e.g. daily and weekly deposit limits and appropriate customer due diligence.

We protect the young and the vulnerable through clear marketing standards, strict age limits, online age verification checks and self-exclusion arrangements.

For most people, gambling is an enjoyable and harmless leisure pursuit. However, for a small number of people gambling can become a behavioural problem. Ladbrokes has a responsibility to help tackle problem gambling, understand its causes and promote its treatment. We make our employees aware of the symptoms of problem gambling and train them in how to respond.

Ladbrokes was a founding member of the GREaT Foundation, formerly known as the Responsibility in Gambling Trust (RIGT). Through our membership of GREaT, we support GamCare and the Gordon Moody Association (formerly Gordon House). A key role for GREaT is to develop a national public education and awareness strategy, as part of the overall prevention of problem gambling agenda. The gambleaware website continues to perform well and the logo or website address www.gambleaware.co.uk is carried on all our websites and advertising.

Supporting our business with a strong workforce

During 2010, a new human resources People Plan has been developed to meet the needs of our changing business.

Our development and reward programmes are designed to support our business objectives and pay dividends for enhanced performance. As our business becomes more sophisticated, we need to ensure that we sustain a high level of competence across the business and increase our capacity to respond to changing market needs. To meet this need we have restructured our business management and made some key appointments at senior levels.

We aim to be a modern, attractive and fair employer and to value and recognise employee loyalty. We provide clear opportunities for employee development and progression, all of which helps to maintain high levels of employee satisfaction and minimise turnover.

Our incentive schemes and benefits programmes are proving to be best in class initiatives, having been shortlisted again for a number of prestigious awards.

A rolling programme of employee engagement consultations is underway to provide robust information on the issues that matter most to our workforce. The results of these consultations, which include an annual engagement survey, will provide managers with data upon which they can build action plans for improvement.

Minimising risks in our supply chain

We assess the social, ethical and environmental risks associated with our business partnerships, joint ventures and product sourcing. This work is ongoing and by the end of 2010 over 1,085 suppliers have now signed up to our Environmental, Socially Responsible and Ethical Purchasing Policy through our central procurement process.

Providing a safe environment for our employees and customers

We aim for best practice health, safety and security standards throughout all our operations and we support a proactive culture of risk management. We also monitor and seek to minimise the financial impacts of health and safety related claims from across our business.

One of the important risks to the health of our employees and our customers comes from breaches of security on our premises, such as robbery and theft. We have invested heavily in CCTV which is installed across all of our UK retail estate, both to help reduce the number of incidents and to help protect employees and customers.

During 2010 we worked with the Safe Bet Alliance to develop and issue a Voluntary Code of Safety & Security for Bookmakers. The Safe Bet Alliance is a collaborative initiative which includes ABB, Metropolitan Police, Local Authorities Coordinators of Regulatory Services (LACORS) and Community Union. The Code sets out a single national standard for betting shop safety and security.

Ladbrokes is the only bookmaker to have developed a Primary Authority relationship in the UK under the new scheme for better regulation. Liverpool City Council now acts as a single point of contact – a Primary Authority – for all health and safety issues affecting Ladbrokes shops all over the UK.

Our health and safety record in 2010 was good. We had no reportable fatalities or major injuries across our business and, following 180 health and safety inspector visits in the UK alone, there were no enforcement notices or prosecutions for health and safety offences.

Providing a greener future

We seek to minimise the impact of increasing environmental costs on our operations and have set up a green task force to help us achieve this aim, with representatives from across the business.

We have identified and implemented a number of energy efficiency initiatives during 2010 in support of our aim to reduce our UK carbon footprint by 21% by 2013 compared with 2008 usage. This is equivalent to a saving of more than 11,000 tonnes of CO_2 per year. The majority of this saving will be made in the retail estate. All of our shop linear fluorescent lighting has been upgraded to incorporate high frequency technology, which has reduced our total energy spend by 8% in 2010. We have also developed a new shop-fitting specification incorporating many of the new carbon reduction technologies. As a result our new shops are 30% more efficient. So we are making steady progress.

We have also been working hard to green our UK car fleet by offering qualifying lower emission cars. Our car fleet now has an average emission figure of 141g of CO_2 per km, nearly 20g per km less than the average for new cars in the UK.

Contributing to society and being a good corporate citizen

We contribute positively to the societies in which we operate, through employment, payment of taxes, contributions to growth in the economy and supporting industries and by supporting our local communities. We recognise the links our employees have to their own communities and through Ladbrokes in the Community Charitable Trust (LICCT) we support their activities by giving something back. LICCT has raised over £5.7 million for good causes since it was established in 2003. The funds have been raised by employees all around the UK and Ireland. During 2010 LICCT donated over £750,000 to charitable and community causes across the UK.

In addition, Ladbrokes has donated over £945,000 to community safety, citizenship and problem gambling charities.

A leader in our sector

During 2010 our high standards of CR were recognised by many index and award bodies. For the fourth time we have been listed as one of Britain's Most Admired Companies and in October, we were Highly Commended at the pwc Building Public Trust Awards (BPTA). The BPTA for Sustainability Reporting recognises the greatest depth and relevance of sustainability reporting in the FTSE 250. For the eighth year in succession we were pronounced one of the leaders in our sector in the Dow Jones Sustainability Indexes (DJSI) and were included in the FTSE4Good Indices.

Managing our issues

The Chief Executive is ultimately responsible for CR matters. The Chief Executive is supported by the CR Team who provides an overview and advisory function for the business.

Overall governance of CR is the responsibility of the Board. CR and governance issues are given full consideration by the Board when defining Group strategy.

CR risks are regularly reviewed by the business and are considered by the Board, as appropriate, as a part of the corporate risk review process (see page 24). CR matters are reported to the Board on a regular basis (as a minimum quarterly) thus forming part of the Board calendar, along with tailored director briefings and, where appropriate, training.

The Board reviews the key CR issues and agrees the annual CR strategy. Board members are provided with adequate background information to support their decision making. The Remuneration Committee also takes account of CR issues when determining executive remuneration and benefits.

CR governance and management processes are subject to internal audit and the reporting process is externally reviewed by our CR advisors, Acona Limited.

Highlights of the year 2010

Awards/activities	Highlights
1st Class Club	High performing employees from across the business brought together through the club to discuss future developments in the retail operation.
Britain's Most Admired Companies	Again accredited as one of Britain's Most Admired Companies. Came 8th in the Leisure and Hotels sector.
British Safety Council Awards 2010	Received the International Safety Award for good health and safety performance.
Building Public Trust Award 2010	Highly Commended in pwc's prestigious BPTA for our Sustainability Reporting. The Sustainability Reporting in the FTSE 250 award recognises the greatest depth and relevance of sustainability reporting, through publicly available information provided to stakeholders.
ClubLadbrokes	48% of our workforce actively takes advantage of the Ladbrokes employee benefits scheme www.clubladbrokes.co.uk.
Carbon Trust Standard	Achieved the Carbon Trust Standard in September in recognition of the progress made against our five year carbon plan to reduce our carbon footprint by 21% by 2013.
Dow Jones Sustainability Indices	Included again in the Dow Jones Sustainability Indices with an overall score of 77%. We are one of only two global betting and gaming companies to be included.
Employee Benefits Awards 2010	Highly Commended for most effective motivation or incentive strategy. Runner up in both the Compensation and Benefits Professional of the Year and Communications Strategy of the Year.
FTSE4Good Indices	Remains in FTSE4Good. We have been members since its foundation in 2002.
GREaT Foundation	Founder member of the GREaT Foundation funding research, education and treatment of problem gambling. Gold Level Sponsor, donating £765,000.
Ladbrokes 2010 Incentive Campaigns	Launch of the new 2010 Ladbrokes Serious About Service and employee incentive campaigns, including Making it Happen and Raising the Stakes. A total of 2,693 employees were rewarded during the year.
Personnel Today Awards 2010	Runner up in the Personnel Today Award for Reward and Benefits.
Primary Authority for Better Health & Safety Regulation	The only bookmaker to develop a Primary Authority relationship in the UK. Liverpool City Council will act as a single point of contact – a Primary Authority – for all health and safety issues affecting Ladbrokes shops all over the UK.
Royal Society for the Prevention of Accidents (RoSPA) Awards 2010	RoSPA Silver Award for achieving a high level of performance underpinned by a good management system and delivering consistent improvement.
Safe Bet Alliance	Launch of the Safe Bet Alliance Voluntary Code of Safety & Security for Bookmakers.

Our full CR report

For further details of our CR policies and performance, please refer to our 2010 CR Report which is available on our website www.ladbrokesplc.com. The website also contains CR reports from previous years together with our CR policies. Further information on our approach to responsible business is included in the Directors' report.

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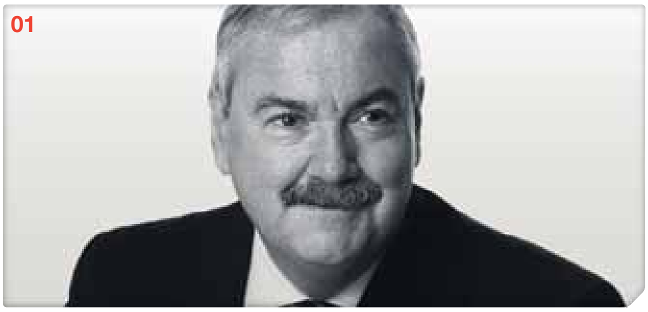
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Board Committees As at 17 February 2011

Remuneration Committee
Christopher J Rodrigues (Chaired by)
Sly Bailey
Peter Erskine
John F Jarvis

Nomination Committee
Peter Erskine (Chaired by)
John F Jarvis
John M Kelly
Christopher J Rodrigues

Audit Committee
Darren M Shapland (Chaired by)
John M Kelly
C Pippa Wicks

Board of directors

01 Peter Erskine
Chairman
Peter was appointed Chairman and a non-executive director in 2009. He was Chairman and Chief Executive of O_2 until January 2008 and is a non-executive director of Telefónica. Prior to this he held senior positions with BT (from 1993 to 2001), UNITEL and Mars. He is a member of the Telecoms and IT Advisory Boards of Macquarie Bank and Apax Private Equity and is a member of the Advisory Board on Strategy of Henley Management College. Age 59.

02 Richard I Glynn
Chief Executive
Richard was appointed Chief Executive and a director on 22 April 2010. He was Chairman of Sporting Index from November 2008 to April 2010, having been Chief Executive from 2001. Prior to this he was Group Managing Director of WCT and CEO of Megalomedia PLC. In 2009 he founded Alinsky Partners where he worked with management, financial institutions and investors to effect transformation. From 2000 to 2010, he served as a special trustee of Great Ormond Street Hospital Children's Charity and from 2008 to 2010 was a trustee of the Child Health Research Appeal Trust of the UCL Institute of Child Health. He is currently a member of the Bookmakers' Committee of the Horserace Betting Levy Board and trustee of the GREaT Foundation. Age 46.

03 Richard J Ames
Managing Director, Consumer Operations
Richard was appointed to the Board in 2009. A business school graduate, he joined Ladbrokes in 2005 as Retail Commercial Director. He was appointed Managing Director, UK Retail in 2006 and assumed responsibility for Ireland in 2008. In August 2010 he was appointed Managing Director, Consumer Operations with responsibility for key cross-business operational delivery of areas such as trading, IT, business intelligence, compliance and security. He previously held senior management positions with Dixons and Asda. Age 41.

04 Brian G Wallace ACA
Group Finance Director
Brian rejoined the Board in 2007. As well as being Group Finance Director, he has responsibility for the Belgian business. Until the sale of Hilton International in 2006, he was Deputy Chief Executive (from 2000) and Group Finance Director (from 1995) of the Company, then named Hilton Group plc. Prior to this he held senior financial positions in Geest and Schlumberger. He is a non-executive director of The Miller Group Limited and was a non-executive director of Scottish & Newcastle plc and of Hays plc. Age 56.

05 John M Kelly OBE
Independent Non-Executive Director & Senior Independent Director
John was appointed a non-executive director and Senior Independent Director on 1 September 2010. He was founder and Chief Executive of the Gala Coral Group having led a management buy-in from Bass Plc and subsequently became Chairman until 2009. Prior to founding Gala Coral he was a Board member at Mecca Leisure Limited and was a Board member of The Prince of Wales Business in the Community Charity from 2003 to 2010. He is Chairman of Trainline.com and of Kings Park Capital LLP Advisory Board as well as being a co-founder of Dunelmia Partners LLP. Age 63.

06 Sly Bailey
Independent Non-Executive Director
Sly was appointed a non-executive director in 2009. Since 2003 she has been Chief Executive of Trinity Mirror plc. From 1989 to 2003 she held senior positions with IPC Media Limited including Chief Executive from 1999. Previously she was senior independent director and remuneration committee Chairman of EMI plc and a non-executive director of Littlewoods Plc. She is a non-executive director of the Press Association, President of NewstrAid and a governor of the English National Ballet School. Age 49.

07 John F Jarvis CVO, CBE
Independent Non-Executive Director
John was appointed a non-executive director in 2006. Currently Chairman of Jarvis Hotels Limited, he is also a non-executive director of Apollo Genting London Limited, non-executive Chairman of Sandown Park and a member of The Jockey Club. He was previously a non-executive director of United Racecourses and non-executive Chairman of Sporting Index. From 1979 to 1990, he was an executive director of the Company, then named Ladbroke Group plc, and Chairman of Hilton International from 1987 to 1990. Age 68.

08 Christopher J Rodrigues CBE
Independent Non-Executive Director
Christopher was appointed a non-executive director in 2003. He is currently Chairman of International Personal Finance plc and Chairman of the national tourism body, VisitBritain. Until 2006 he was President and Chief Executive of Visa International. Prior to this he was Group Chief Executive of Bradford & Bingley plc, Group Chief Executive of Thomas Cook and also held several senior management positions with American Express. He is a Steward of Henley Royal Regatta, Chairman of the Windsor Leadership Trust and Chairman of the Almeida Theatre. Age 61.

09 Darren M Shapland FCCA
Independent Non-Executive Director
Darren was appointed a non-executive director in 2009. He is currently Group Development Director of J Sainsbury plc, having been Chief Financial Officer from 2005 to 2010. He is also Chairman of Sainsbury's Bank plc. He was previously Group Finance Director of Carpetright plc from 2002 to 2005 and Finance Director of Superdrug Stores plc from 2000 to 2002. Between 1988 and 2000, he held a number of senior financial and operational management positions with Arcadia Group plc. Age 44.

10 C Pippa Wicks
Independent Non-Executive Director
Pippa was appointed a non-executive director in 2004. She joined AlixPartners Limited, London, the specialist performance improvement and turnaround firm as a Managing Director in 2003. She previously held senior positions with Pearson plc and was Group Finance Director of Courtaulds Textiles plc between 1993 and 1999. She was a non-executive director of Arcadia Group plc. Age 48.

Corporate governance

The Board continues to be committed to high standards of corporate governance. The Board strives to provide the right leadership, strategic oversight and control environment to produce and sustain delivery of value to all of the Company's shareholders. The Board applies integrity, principles of good corporate governance and accountability throughout its activities and each director brings independence of character and judgement to the role. All of the members of the Board are individually and collectively aware of their responsibilities to the Company's stakeholders.

The following describes the Board's approach to corporate governance and how the Combined Code on Corporate Governance and the UK Corporate Governance Code have been applied.

Compliance statement
In 2010 the Company was subject to and complied with all of the provisions set out in section 1 of the Combined Code on Corporate Governance published in June 2008, apart from section 1 A.3.3. and C.3.1. during the period from 15 May 2010 to 1 September 2010 when, respectively, there was no Senior Independent Director and the Audit Committee consisted of only two non-executive directors. This was following the resignations of N M H Jones and H E Staunton and prior to the appointment of a replacement independent non-executive director, the recruitment process for whom commenced in February 2010 and concluded with the appointment of J M Kelly in September 2010.

As at 31 December 2010 the Company complied with the provisions of the UK Corporate Governance Code published in June 2010.

Both Codes are published by the Financial Reporting Council and are available on its website www.frc.org.uk.

Board
The Board currently comprises the non-executive Chairman, three executive directors and six independent non-executive directors. The Chairman has a primary responsibility for the running of the Board and for relations with shareholders. The Chief Executive is responsible for the operations and for the development of strategic plans and initiatives for consideration by the Board. The division of responsibilities between the Chairman and the Chief Executive has been clearly established, set out in writing and agreed by the Board. During 2010 the division of responsibilities was reviewed and restated. J M Kelly acts as Senior Independent Director, whose role is to provide a sounding board to the Chairman and to serve as an intermediary for the other directors when necessary. Other roles and responsibilities of the Senior Independent Director are described elsewhere.

The other significant commitments of the Chairman during 2010 are detailed in his biography on page 31. There were no changes to those commitments during 2010.

The Board schedules eight meetings each year, but arranges to meet at other times as appropriate. Of the ten meetings held in 2010, C J Rodrigues and C P Wicks were both unable to attend one scheduled meeting due to other business commitments, D M Shapland was unable to attend one scheduled meeting due to illness and both C Bell and J P O'Reilly did not attend two scheduled meetings following the Company's announcements that they were to step down as directors of the Company.

In addition, the Chairman met during the year with the non-executive directors without the executive directors present.

The Board has a formal schedule of matters specifically reserved for its decision and approval. These include the approval of the strategic and annual profit plans, key public information releases (e.g. financial statements), dividends, major acquisitions and disposals, material contracts, treasury and other Group policies. The section "Internal control and risk management systems" on pages 34 and 35 contains further information on how the Board operates.

The Company seeks to ensure that the Board is supplied with appropriate and timely information to enable it to discharge its duties. The Board requests additional information or variations to regular reporting as it requires. A procedure exists for directors to seek independent professional advice in the furtherance of their duties, if necessary. All directors have access to the advice and services of the Company Secretary.

All directors receive an induction on joining the Board. A combination of tailored Board and committee agenda items and other Board activities, including briefing sessions, assist the directors in continually updating their skills and the knowledge and familiarity with the Company required to fulfil their role both on the Board and on Board committees. In addition, external seminars, workshops and presentations are made available to directors. The Company provides the necessary resources for developing and updating directors' knowledge and capabilities.

The Board undertakes a formal annual evaluation process of its own performance and that of its committees and individual directors which in 2010 was externally facilitated by Lintstock.

Questionnaires tailored to the specific circumstances of the Company were completed by each director on the Chairman, in relation to their own performance and on the effectiveness of the Board and its committees.

The Chairman conducts an appraisal of each director. The Senior Independent Director, having consulted with each of the other directors, conducts an appraisal interview with the Chairman. In 2010 a detailed report on the effectiveness of the Board and its committees was produced by Lintstock and the results of which were considered by the Board and the individual committees and actions arising were agreed. The following themes were addressed: board composition, expertise and dynamics; board support, time management and board committees; strategic, operational and risk oversight; succession planning and human resources management; and priorities for change.

Whilst all directors are expected to bring an independent judgement to bear on issues of strategy, performance, resources (including key appointments) and standards of conduct, the independent non-executive directors were selected and appointed for this purpose.

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters.

Appointment and replacement of directors
A person who is willing to act as a director, and is permitted by law to do so, may be appointed as a director of the Company by shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) or by a decision of the directors. No person, other than a director retiring at that general meeting, shall be appointed or re-appointed a director at any general meeting unless he or she is recommended by the directors or, not less than seven clear days before the date appointed for the meeting, notice executed by that person of his or her willingness to be appointed or re-appointed is lodged at the Company's registered office.

The articles of association of the Company provide that:

- at every Annual General Meeting any director who has been appointed as a director by the directors since the last Annual General Meeting, or who was not appointed or re-appointed as a director at one of the preceding two Annual General Meetings, must retire from office (notwithstanding any agreement the director may have with the Company) and that any director so retiring may offer himself or herself for appointment or re-appointment as a director by the members at the meeting;
- any director may retire from office at any general meeting and that any director so retiring may offer himself or herself for appointment or re-appointment as a director by the members at the meeting; and
- if a director retires from office at any general meeting, the director shall retain office until the end of the meeting (irrespective of the outcome of any resolution that the director be appointed or re-appointed as a director put to the members at the meeting).

The UK Corporate Governance Code specifies that all directors of FTSE 350 companies should be subject to annual election by shareholders. The Company is a FTSE 350 company and all directors will be subject to election or re-election at the 2011 Annual General Meeting.

The independent non-executive directors understand that the Board will not automatically recommend their re-election by shareholders. The Chairman and the independent non-executive directors are appointed for a specified term of approximately three years, subject to re-election.

The Companies Act 2006 allows shareholders in general meeting by ordinary resolution (requiring a simple majority of the persons voting on the relevant resolution) to remove any director before the expiration of his or her period of office, but without prejudice to any claim for damages which the director may have for breach of any contract of service between him or her and the Company.

A person also ceases to be a director if he or she notifies the Company of his or her resignation, ceases to be a director by virtue of any provision of the Companies Act 2006, becomes prohibited by law from being a director, has a bankruptcy order against him or her or is the subject of a relevant insolvency procedure, or if a medical practitioner gives a written opinion stating the director has become physically or mentally incapable of acting as a director and may remain so for more than three months, or is removed from office by notice signed by all the other directors sent to the director, or if the Board so decides following at least six months' consecutive absence without permission or he or she becomes subject to relevant procedures under the mental health laws.

Powers of the Company's directors

Subject to the articles, the directors are responsible for the management of the Company's business, for which purpose they may exercise all the powers of the Company. The shareholders may, by special resolution, direct the directors to take, or refrain from taking, specified action. The directors' exercise of the powers of the Company to borrow money is restricted. The directors have power to issue new shares and to purchase the Company's own shares, in each case to the extent permitted by law or as allowed by shareholder resolution (resolutions to issue and purchase shares are regularly proposed at the Company's Annual General Meetings).

Board committees

The Board has four standing committees, all of which have written terms of reference clearly setting out their authority and duties. The terms of reference of the Audit, Nomination and Remuneration Committees, which are reviewed annually, can be viewed on the Company's website (www.ladbrokesplc.com). The Operations Board, the Risk Committee and the Compliance Committee referred to elsewhere are not formal Board committees.

Audit Committee

The members of the Committee are:

	Appointment date	Committee role
Darren M Shapland	16 February 2010	Chairman
John M Kelly	1 September 2010	Member
C Pippa Wicks	1 June 2004	Member

H E Staunton and N M H Jones resigned from the Committee on 14 May 2010. D M Shapland was appointed as Chairman on 14 May 2010.

All members of the Committee are independent non-executive directors. Appointments to the Committee are made by the Board at the recommendation of the Nomination Committee, which consults with the Chairman of the Audit Committee.

The Board has satisfied itself that the members of the Committee have recent and relevant financial experience.

The Committee is provided with sufficient resources to undertake its duties. It has access to the services of the Company Secretary (who acts as secretary to the Committee) and all other employees. The Committee is able to take independent legal or professional advice when it believes it necessary to do so.

The Committee meets as required, but not less than three times a year. Four meetings were held in 2010. Between 15 May 2010 and 1 September 2010 there were only two members in the Committee and the Committee's terms of reference were amended accordingly. One meeting was held during this period with full attendance. D M Shapland was unable to attend a second meeting during this period due to illness and on this occasion J F Jarvis and C J Rodrigues were appointed temporary additional members of the Committee. There was full attendance at the other two meetings held in 2010.

Although other directors, including the Group Finance Director, attend Audit Committee meetings, the Committee also meets for private discussions with the external auditor, who attends all of its meetings, and can do so with the internal auditor.

The Committee is the body which carries out the functions required by DTR 7.1.3. The main role and responsibilities of the Committee in 2010 were to:

- monitor the integrity of the financial statements of the Company;
- review the Company's internal financial control and risk management systems;
- monitor and review the effectiveness of the Company's internal audit function; and
- oversee the Company's relationship with the external auditor including the recommendation to the Board of its appointment and remuneration.

Should the Committee's monitoring and review activities reveal any material cause for concern or scope for improvement, it will make recommendations to the Board on action needed to address the issue or make improvements.

Corporate governance continued

The main activities of the Committee in 2010 were as follows:

- with the assistance of reports received from management and the external auditor, the critical review of the significant financial reporting issues in connection with the preparation of the Company's financial and related formal statements;
- assessing the scope and effectiveness of the systems established to identify, assess, manage and monitor financial and non-financial risks;
- monitoring the integrity of the Company's internal financial controls. The Committee does so by reference to:
  (a) summaries of business risks and mitigating controls;
  (b) regular reports and presentations from the heads of keyrisk functions, internal audit and external audit; and
  (c) the results of the system of annual self-certification of compliance with key controls and procedures;
- monitoring and reviewing the plans, work and effectiveness of the internal audit function, including any actions taken following any significant failures in internal controls;
- reviewing, with the external auditor, its terms of engagement, the findings of its work, and at the end of the audit process reviewing its effectiveness; and
- reviewing the independence and objectivity of the external auditor.

The external auditor reports to the Committee on the actions taken to comply with professional and regulatory requirements and with best practice designed to ensure its independence. The Committee has agreed a policy on the engagement of the external auditor to supply non-audit services, the application of which it monitors. The policy, which can be viewed on the Company's website (www.ladbrokesplc.com), specifies services that may not be provided and contains a level of cost at which Committee approval is required enabling the Committee to satisfy itself that auditor objectivity and independence are safeguarded.

Finance Committee
This Committee meets as required to deal with all routine business that excludes matters that are specifically reserved to the Board or to another committee and specific matters delegated to it by the Board requiring attention between scheduled Board meetings. Any two directors can conduct the business of this Committee.

Nomination Committee
The members of the Committee are the Chairman of the Board and two or more independent non-executive directors.

The current members of the Committee are:

	Appointment date	Committee role
Peter Erskine	18 February 2009	Chairman
John F Jarvis	14 May 2010	Member
John M Kelly	15 February 2011	Member
Christopher J Rodrigues	18 May 2007	Member

N M H Jones resigned from the Committee on 14 May 2010. Appointments to the Committee are made by the Board.

The Committee is provided with sufficient resources to undertake its duties. It has access to the services of the Company Secretary (who acts as secretary to the Committee) and all other employees. The Committee is able to take independent legal and professional advice when it believes it necessary to do so.

The Committee meets as required but not less than twice a year. Four meetings of the Committee were held in 2010. There was full attendance at these meetings.

The main role and responsibilities of the Committee are to:

- review the structure, size and composition of the Board (which includes an objective and comprehensive evaluation of the balance of skills, knowledge and experience of the Board) and make recommendations to the Board with regard to any changes;
- consider succession planning for the directors and other senior executives and make recommendations to the Board;
- identify and nominate for the approval of the Board candidates to fill Board vacancies as and when they arise;
- review the leadership of the Company to ensure the continued ability of the Company to compete effectively in the marketplace;
- recommend candidates for the role of Senior Independent Director and for membership of the Audit and Remuneration Committees, in consultation with the Chairmen of those Committees; and
- make recommendations to the Board concerning the re-appointment of non-executive directors at the end of their specified term of office and the re-election by shareholders of any director under the retirement by rotation provisions or otherwise.

The Committee performed the above activities as necessary in 2010.

R I Glynn was appointed as an executive director and as Chief Executive with effect from 22 April 2010. J M Kelly was appointed as a non-executive director and Senior Independent Director with effect from 1 September 2010. Descriptions of the roles and capabilities required were prepared and suitable candidates were identified by external advisers. In the case of J M Kelly's appointment, this was following a review of the structure, size and composition (including skills, knowledge and experience) of the Board.

Remuneration Committee
Details of the Remuneration Committee, including membership, are set out in the Directors' remuneration report, which should be read in conjunction with this section.

Internal control and risk management systems
The Board has ultimate responsibility for the internal control and risk management systems operating throughout the Group and for reviewing their effectiveness. No such systems can provide absolute assurance against material misstatement or loss. The Group's systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and to provide the Board with reasonable assurance that potential problems will normally be prevented or will be detected in a timely manner for appropriate action.

The Company had procedures in place throughout the year and up to 17 February 2011, the date of approval of this Annual Report, which accord with the Internal Control Guidance for Directors on the Combined Code published in September 1999.

The Board has delegated the detailed design of the systems of internal control and risk management to the executive directors.

The framework and key procedures during 2010 in relation to the financial reporting process were as follows:

- the Group operates through two principal divisions, Retail and Digital. Responsibilities for managing business risks arising were defined by the Board;
- the executive directors met regularly together and with other senior executives (the Operations Board) to consider Group strategy, financial performance, business development and Group management issues. In addition, there are monthly financial and operational review meetings together with an annual programme of plans/reforecasting and strategy reviews attended by the Chief Executive and Group Finance Director together with other executives as appropriate. Divisional management comprised executives with appropriate functional responsibilities. Divisional management met regularly to manage their respective businesses;
- the Board established corporate strategy and Group business objectives. Divisional management integrated such objectives into business strategies for presentation to the Board with supporting financial objectives;
- there was an ongoing process for identifying, evaluating and managing the risks faced by the Group. Key risks and their financial implications were appraised by the Operations Board which was assisted by a committee of Group and divisional executives (the Risk Committee). This was an integral part of the strategic planning process. The appropriateness of controls was considered, having regard to cost/benefit, materiality and the likelihood of risks crystallising. Key risks and actions to mitigate those risks were considered at each regular Board meeting and were formally reviewed and approved by the Board twice yearly. Each key risk was assigned Operations Board member ownership;
- divisional budgets, containing financial and operating targets, capital expenditure proposals and performance indicators, were reviewed by the executive directors and supported divisional business strategies. The Group profit plan was approved by the Board;
- reports on financial and non-financial performances were regularly provided to directors and discussed at Board meetings. Performance against both budgets and objectives together with management of business risks, were reviewed with divisional management, as were forecasts and material sensitivities. The Board regularly received reports from key executives and functional heads covering areas such as operations, forecasts, business development, strategic planning, human resources, legal and corporate matters, compliance, health and safety and corporate responsibility;
- there was a Group-wide policy governing appraisal and approval of investment expenditure and asset disposals. Major projects were reported on at each regular Board meeting. Post investment audits were undertaken on a systematic basis and were formally reviewed by the Board twice yearly;
- key policies and control procedures (including treasury, compliance and information system controls) are documented in manuals having Group-wide application. Operating companies also used procedure manuals that integrated with Group controls;
- a system of annual self-certification of compliance with key controls and procedures was operated throughout the Group;
- the Group had an internal audit function, outsourced to Deloitte LLP, which reported to management on the Group's operations; and
- to underpin the effectiveness of controls, it was the Group's policy to recruit and develop management and employees of high calibre, integrity and with appropriate disciplines. High standards of business ethics and compliance with laws, regulations and internal policies were demanded from employees at all levels.

The role of the Audit Committee in reviewing the effectiveness of the systems of internal control and risk management is explained in the Audit Committee section.

The Board also conducts an assessment of the effectiveness of the internal control and risk management systems. The assessment takes account of all significant aspects including: risk assessment; the control environment and control activities; information and communication; and monitoring.

Relations with shareholders

There is a regular programme of meetings with major institutional shareholders to consider the Group's performance and prospects. In addition, presentations are made twice yearly after the announcement of results, the details of which, together with the Group's financial reports and announcements, can be accessed via the Company's website (www.ladbrokesplc.co.uk). The Chairman met in 2010 with several institutional investors and their representative bodies in addition to results presentations and the Annual General Meeting. Other directors are available to meet the Company's major shareholders if requested.

The Senior Independent Director is available to shareholders if they have concerns, where contact through the usual channels of Chairman, Chief Executive and Group Finance Director has failed to solve, or for which such contact is inappropriate.

A report on investor relations, which includes updates on meetings with major institutional shareholders, is given at each Board meeting. The Company's brokers also present to the Board annually. Principles of ownership, corporate governance and voting guidelines issued by the Company's major institutional shareholders, their representative bodies and advisory organisations are circulated to, and considered by, the Board.

The Company corresponds regularly on a range of subjects with its individual shareholders who have an opportunity to question the Board at the Annual General Meeting. Further information on our relations with shareholders is contained in Shareholder information.

Rights attaching to the shares and restrictions on voting and transfer

The Company's share capital consists of ordinary shares of 28⅓p each. Subject to any suspension or abrogation of rights pursuant to relevant law or the Company's articles of association, the ordinary shares confer on their holders (other than the Company in respect of its treasury shares):

(a) the right to receive out of profits available for distribution such dividends as may be agreed to be paid (in the case of a final dividend in an amount not exceeding the amount recommended by the Board as approved by shareholders in general meeting or in the case of an interim dividend in an amount determined by the Board). All dividends unclaimed for a period of 12 years after having become due for payment are forfeited automatically and cease to remain owing by the Company;

(b) the right, on a return of assets on a liquidation, reduction of capital or otherwise, to share in the surplus assets of the Company remaining after payment of its liabilities pari passu with the other holders of ordinary shares; and

Corporate governance continued

(c) the right to receive notice of and to attend and speak and vote in person or by proxy at any general meeting of the Company. On a show of hands every member present (or in the case of a corporation, represented) and voting has one vote and every proxy present who has been appointed by one or more members present has one vote (and a second vote where the proxy has been appointed by more than one member and has been instructed by one or more members to vote for the resolution and by one or more other members to vote against the resolution). On a poll every member present (or represented) in person or by proxy has one vote for every share of which that member is the holder. The appointment of a proxy must be received not less than 48 hours before the time of the holding of the relevant meeting or adjourned meeting or in the case of a poll taken otherwise than at or on the same day as the relevant meeting or adjourned meeting be received after the poll has been demanded and not less than 24 hours before the time appointed for the taking of the poll.

These rights can be suspended. If the member, or any other person appearing to be interested in shares held by that member, has failed to comply with a notice pursuant to section 793 of the Companies Act 2006 (notice by company requiring information about interests in its shares) the Company can suspend (until one week after the default ceases) the right to attend and speak and vote at a general meeting and if the shares represent at least 0.25% of their class the Company can withhold any dividend or other money payable in respect of the shares and refuse to accept certain transfers of the relevant shares. In addition, following certain action by a gambling industry regulator (as more specifically set out in the Company's articles of association), the Company may suspend all or some of the rights attaching to all or some of the shares held by any relevant shareholder to attend and to speak at meetings and to vote, to receive any dividend or other money payable in respect of the shares, and to the issue of further shares or other securities in respect of the shares.

Shareholders, either alone or with other shareholders, have other rights as set out in the Company's articles of association and in company law (principally the Companies Act 2006).

The Trustee of the Ladbrokes Share Ownership Trust, which is used in connection with certain of the Company's employee share ownership plans, held 1,426,077 ordinary shares in the Company at 31 December 2010 which are not voted by plan members and which it can vote in its absolute discretion.

A member may choose whether his or her shares are evidenced by share certificates (certificated shares) or held in electronic (uncertificated) form in CREST (the UK electronic settlement system). Any member may transfer all or any of his or her shares subject in the case of certificated shares to the rules set out in the Company's articles of association or in the case of uncertificated shares the regulations governing the operation of CREST (which allow the directors to refuse to register a transfer as therein set out); the transferor remains the holder of the shares until the name of the transferee is entered in the register of members. The directors may refuse to register a transfer of certificated shares in favour of more than four persons jointly or where there is no adequate evidence of ownership or the transfer is not duly stamped (if so required). The directors may also refuse to register a share transfer if it is in respect of a certificated share which is not fully paid up or on which the Company has a lien provided that, where the share transfer is in respect of any share admitted to the Official List maintained by the UK Listing Authority, any such discretion may not be exercised so as to prevent dealings taking place on an open and proper basis, or if in the opinion of the directors (and with the concurrence of the UK Listing Authority) exceptional circumstances so warrant provided that the exercise of such power will not disturb the market in those shares. Whilst there are no squeeze-out and sell out rules relating to the shares in the Company's articles of association, shareholders are subject to the compulsory acquisition provisions in sections 974 to 991 of the Companies Act 2006 and can be required by the Company to transfer their shares following certain action by a gambling industry regulator (as more specifically set out in the Company's articles of association).

Significant agreements that take effect, alter or terminate upon a change of control following a takeover bid
The agreements between Ladbrokes Group Finance plc ("LGF"), a wholly owned subsidiary of the Company, and 14 separate banks for the provision by the banks of revolving credit facilities of up to £866 million on a committed basis provide that the banks may give notice of cancellation if a change of control occurs. On cancellation the amounts drawn would be immediately repayable. In the context of a takeover bid, the acquirer would normally arrange substitute facilities. In addition, LGF issued a bond in March 2010. The bond has a "Put Event" that allows bondholders to exercise a put option when a change of control occurs. The put option allows the bondholders to require LGF to purchase the bonds at a price of 101 pence.

The agreement between Ladbrokes International Limited ("LI"), a wholly owned subsidiary of the Company, and Prima Poker Limited ("PP"), pursuant to which PP granted to LI a non-exclusive licence to use an interactive gaming system and supplies various poker related services to LI, states that PP may give notice of termination if LI or any affiliate of LI is acquired by a competitor of PP. On termination (in these circumstances), LI must pay a termination fee (calculated by reference to the monthly fees otherwise payable to PP for the remainder of the term subject to a maximum of 24 months). The payment is effectively reduced by the 150 days' notice required to be served by PP.

The agreement between LI and Microgaming Systems Anstalt ("MGS"), pursuant to which MGS granted to LI a non-exclusive licence to use an interactive casino system and supplies various casino related services to LI, states that MGS may give notice of termination if LI or any affiliate of LI is acquired by a competitor of MGS. On termination (in these circumstances), LI must pay a termination fee (calculated by reference to the monthly fees otherwise payable to MGS for the remainder of the period up to 30 November 2011). The payment is effectively reduced by the 90 days' notice required to be served by MGS.

Amendment of the Company's articles of association
The Company's articles of association may be amended by the members of the Company by special resolution (requiring a majority of at least 75% of the persons voting on the relevant resolution).

Directors' report

A review of the Group's activities and future developments, which fulfils the requirements of the business review, including the financial performance during the year, key performance indicators and a description of the principal risks and uncertainties facing the Group is given on pages 16 to 29 and forms part of this report. The description of the Group's corporate governance arrangements on pages 32 to 36 also forms part of this report. A description of the Group's financial risk management objectives and policies and its exposure to price, credit liquidity and cash flow risk is contained in note 25 to the consolidated financial statements and forms part of this report. Other matters material to the appreciation of the Group's position are contained in the Chairman's statement and the Chief Executive's review.

Results
The results for the year are shown in the consolidated income statement.

Dividends
The directors recommend the payment of a final dividend of 3.75 pence on each of the ordinary shares entitled thereto, making a total of 7.60 pence for the year. Subject to shareholders' approval at the Annual General Meeting to be held on 13 May 2011, the final dividend is expected to be paid on 1 June 2011 to shareholders registered on 25 February 2011.

Annual General Meeting
This year's Annual General Meeting will be held at the Queen Elizabeth II Conference Centre on 13 May 2011 at 11.00am.

Directors
The directors during the year were those listed on page 31 together with C Bell, N M H Jones and H E Staunton who each resigned on 14 May 2010 and J P O'Reilly who resigned on 5 November 2010. Biographical details of all the directors are on page 31.

Details of directors' service contracts, their share interests and other details of their remuneration by the Company are contained in the Directors' remuneration report. Pursuant to section 175 of the Companies Act 2006 and the Company's articles of association, the Board has authorised situations of potential conflict arising out of J F Jarvis being a non-executive director of Sandown Park and a member of The Jockey Club and S Bailey being a director of Trinity Mirror plc.

Auditor and disclosure of information to the auditor
Each of the directors in office as of the date of approval of this report confirms that, so far as he/she is aware, there is no relevant audit information (being information needed by the auditor in connection with preparing its report) of which the auditor is unaware and that he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Share capital
At 16 February 2011, the Company had been notified of the following holdings of voting rights attaching to the Company's shares in accordance with the Disclosure and Transparency Rules: BlackRock, Inc – 5.27%; Deutsche Bank AG – 3.74%; Eminence Capital, LLC – 5.96%; Ignis Investment Services Limited – 3.10%; Legal & General Group PLC – 7.58%; and Schroders plc – 5.06%.

The Trustee of the Ladbrokes Share Ownership Trust, which is used in connection with certain of the Company's employee share ownership plans, waives dividends on shares in the Trust not allocated to plan members.

Further details in respect of the share capital are shown in note 28 to the consolidated financial statements which forms part of this report.

Branch registration
The Company is registered as a foreign company in Australia.

Corporate responsibility
A report on Corporate Responsibility (CR) is on the Company's website (www.ladbrokesplc.com) and highlights, with which the following should be considered in conjunction, are given on pages 27 to 29.

The processes described in the section "Internal control and risk management systems" on pages 34 and 35 applied to CR, as did the practices described on page 32 for ensuring the Board is supplied with appropriate and timely information and for assisting the directors to update their knowledge. In addition to business presentations regularly made to the Board at which CR was considered as appropriate, the Board conducts an annual CR review and Board members regularly receive CR updates. CR performance is included in divisional accountability systems and remuneration arrangements. The Remuneration Committee in determining executive remuneration takes into account CR matters as described in the Directors' remuneration report.

The risks and opportunities relating to CR in 2010 primarily revolved around the reputation of the Group and the quality of its brands.

Directors' report
continued

Of particular importance was the promotion of responsible gambling and the protection of children and the vulnerable. CR also impacted (i) the performance of the Group's employees on whom the Group relies for the provision of high quality services to customers and (ii) the health and safety of these employees and the customers they serve.

Performance indicators continued to be developed in accordance with Group-wide CR. No breaches of CR policies and procedures material to the Group were identified by the Board in 2010.

The identification and management of CR issues, the CR reporting framework and accuracy of any associated data has been reviewed by the Company's CR adviser, Acona Limited.

Employee policies
The Board values two-way communication between senior management and employees on all matters affecting the welfare of the business. As well as regular management roadshows and visits to operating units, conferences and meetings, communication is via the intranet and other multimedia formats.

Throughout the Group via the Staff Council, opinion surveys and feedback programmes, employees are encouraged to be involved in the running of the business. The Company's Annual Report is made available to employees and, together with regular staff magazines, provides employees with a greater awareness of the Group's performance as well as the financial and economic factors that affect it.

In addition, those employees who are eligible are also encouraged to become involved in the Group's performance through participation in share schemes.

Throughout the Group, the principles of equal opportunities are recognised in the formulation and development of employment policies.

It is the Company's policy to give full and fair consideration to applications from people with disabilities, having regard to their particular aptitudes and abilities. If an employee becomes disabled, the Company's objective is the continued provision of suitable employment, either in the same or an alternative position, with appropriate adjustments being made if necessary. Employees with disabilities share equally in the opportunities for training, career development and promotion.

Directors' indemnities and insurance
The Company continues to maintain directors' and officers' liability insurance. In accordance with the Company's articles of association, the Company has entered into a deed of indemnity to the extent permitted by law with each of the directors.

Charitable donations
During 2010, in addition to donations made to overseas charities, Group companies donated £945,557 to UK charitable organisations for charitable purposes.

Supplier payment policy
The Company agrees payment terms for its business transactions when goods and services are ordered. It ensures that suppliers are aware of the terms of payment and the relevant terms are included in contracts where appropriate. Subject to satisfactory performance by the supplier, arrangements are adhered to when making payments. At the year end, the Company had no trade creditors.

Going concern
In assessing the going concern basis, the directors considered the Group's business activities and the financial position of the Group as described in pages 4 to 29 and the Group's financial risk management objectives and policies as included in note 25 to the consolidated financial statements.

The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing its financial statements.

By order of the Board

M J Noble
Secretary
17 February 2011

Directors' remuneration report

Dear Shareholder
In 2010 the Ladbrokes business underwent significant operational change. The recruitment of a new Chief Executive with the ambition to restore Ladbrokes to a position of leadership within the industry led to a strategic review which included a restructuring of the management team to support the new business priorities.

In parallel the Remuneration Committee (the "Committee") reviewed the remuneration arrangements across the organisation. Our goal was to take a fresh look at the basis on which we set fixed and variable pay. We wanted to ensure pay policy was aligned with Ladbrokes' new strategic objectives and that a competitive base pay regime was complemented by performance pay that handsomely rewarded exceptional performance but did not over pay for average outcomes.

The result is a new pay framework in which annual cash potentials have been moderated; award levels under the annual bonus have been reduced; one third of the annual bonus must be deferred into shares for a period of three years and pension and company car costs have been contained.

We have kept performance share awards, but introduced lower levels of grants and required the Chief Executive to grade individual contributions to the strategic development of the Company when setting proposed award levels.

As time progresses we expect to see differentiation in grant levels whilst maintaining demanding vesting criteria based on relative Total Shareholder Return performance and stretching Earnings Per Share growth targets.

The centrepiece is the introduction of the one-off Ladbrokes Growth Plan. Participants have to hold significant personal investments in Ladbrokes shares to qualify. They receive up to four times that holding in matched shares but performance conditions are truly demanding. Performance is measured over a five year period. No shares vest until the share price reaches £2.00 at which only 25% of the shares are allocated. Maximum vesting will only occur if a share price of £2.97 is achieved. This creates real value for employees, but only if they have created between £400 million and £1.3 billion of shareholder value.

We are committed to transparent reporting of remuneration arrangements and do not believe the proposed arrangements raise environmental, social or governance issues or inadvertently motivate irresponsible behaviours.

Further details of all the changes to Ladbrokes' remuneration arrangements are provided within this report.

The Committee appreciates all feedback from shareholders and hopes to receive your support at the forthcoming AGM.

Christopher J Rodrigues
Chairman of the Remuneration Committee

Remuneration Committee remit, composition and activities
The Ladbrokes Board entrusts the Committee with the responsibility for remuneration policy in respect of the executive directors and senior executives. In setting the remuneration for these groups, the Committee takes into account the pay and conditions of the wider workforce as a matter of course.

The Remuneration Committee comprises independent non-executive directors and the non-executive Chairman of the Board, namely:

	Appointment date	Committee role
Christopher J Rodrigues	29 October 2003	Chairman
Henry E Staunton (resigned from the Committee 14 May 2010)	18 May 2007	Member
John F Jarvis	19 July 2006	Member
Peter Erskine	18 February 2009	Member
Sly Bailey	14 May 2010	Member

Directors' remuneration report continued

Remuneration Committee remit, composition and activities continued
Appointments to the Committee are made by the Board at the recommendation of the Nomination Committee, which consults with the Chairman of the Remuneration Committee.

The Committee normally invites the Chief Executive, the Group HR director and the HR director – Reward & Resourcing to attend committee meetings concerning proposals relating to the remuneration of the executive directors, other than when their personal remuneration is discussed. The Company Secretary acts as secretary to the Committee.

The Committee met nine times in 2010. P Erskine and H E Staunton did not attend one meeting each during the year due to other business commitments. The Committee retained independent remuneration consultants (Deloitte LLP) and has taken advice during the year from them in relation to executive remuneration matters. Deloitte LLP also provides the Company with outsourced internal audit and miscellaneous tax and consulting services. SJ Berwin LLP, one of the Company's corporate lawyers, has also provided material assistance.

In forming the remuneration policy, the best practice provisions set out in the UK Corporate Governance Code have been followed and the Guidelines issued by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF) have been noted.

During 2010 the Committee, amongst other items, considered the following:

- remuneration arrangements for the new Chief Executive;
- design and approval of the Ladbrokes Growth Plan;
- base salary and pension review for executive directors; and
- review of the structure, quantum and calibration of the annual bonus and performance share plans for 2011 onwards.

Remuneration policy
The principles that guided the remuneration review were that the compensation arrangements should:

- be aligned with and support the business strategy;
- enable the Company to attract, retain and motivate key individuals; and
- be strongly aligned with shareholder value creation.

Summary of fixed remuneration arrangements for 2011 onwards

Base salary

- Policy is set at a competitive level.
- Salaries are reviewed annually with reference to market practice in companies of a similar size and complexity, taking into account business and personal performance.

Pension

- Aim is to provide market competitive arrangements.
- Executives can opt upon appointment to join the defined contribution scheme or take a cash supplement equivalent to 22.5% of base salary.
- For longer serving executives in the legacy defined benefit plan, a cash supplement of 22.5% of base salary is provided above the earnings cap.

Summary of variable remuneration arrangements for 2011 onwards

Element	Purpose	Framework	Performance Conditions
Annual Bonus	Incentivise executive performance on an annual basis – measured against the key financial metrics of the business and a set of demanding individual objectives.	■ Maximum awards of 170% of base salary for the Chief Executive and 130% for other executive directors. ■ One third of any bonus awarded is deferred into shares for a period of three years.	■ Measured annually. ■ 70% of total bonus opportunity based on financial performance. ■ 30% based on individual performance objectives approved by the Committee at the start of the financial year.
Performance Share Plan	Recognise and reward executives for the creation of shareholder value over the longer term.	■ Maximum awards of up to 175% of base salary for the Chief Executive and 150% for the other executive directors. ■ Award levels will be determined by reference to individual performance prior to grant. ■ Awards of up to 250% of base salary may be made in exceptional circumstances (e.g. recruitment or retention) at the Committee's discretion.	■ Performance is assessed over three financial years. ■ 50% of the award is based on Total Shareholder Return (TSR) of the Company against a select group of industry peers. 25% of this element of the award vests for median performance and 100% for upper quartile performance. ■ The remaining 50% of the award is based on the achievement of stretching absolute EPS growth targets. 25% of this element of the award vests for absolute EPS growth of 6% per annum and 100% for growth of 10% per annum.
Ladbrokes Growth Plan	A one-off long term plan to support the revitalisation of the business and reward the creation of substantial value for shareholders.	■ Executive directors will be required to invest up to 150% of base salary and will receive up to a four times matching award. ■ In the case of the Chief Executive he was required to invest in circa one million Ladbrokes shares and received a four times matching award.	■ Performance is assessed over a five year period. ■ The award is subject to stretching share price performance conditions. Any share price target must be attained throughout a period of 30 consecutive dealing days. ■ 25% of the award will vest if a share price of £2.00 is achieved. ■ 100% of the award will vest if a share price of £2.97 is achieved.

Remuneration mix
In support of the remuneration philosophy, the mixture of fixed and variable reward is heavily weighted towards the performance related elements. In particular, there is an emphasis on long term share based incentives i.e. the Performance Share Plan and Ladbrokes Growth Plan.

The mixture of fixed and variable remuneration is broken down as follows:

- at target performance – 35% is fixed and 65% is variable remuneration; and
- at maximum performance – 15% is fixed and 85% is variable remuneration.

For the purposes of the analysis above, fixed remuneration represents base salary but excludes pension (or cash equivalent) and benefits. Variable remuneration represents annual bonus, Performance Share Plan and Ladbrokes Growth Plan awards (on an annualised basis).

Directors' remuneration report
continued

Base salary
In January 2010, in line with the policy for all other employees, the annual salaries of the executive directors were not increased.

Again, in 2011, no increases to executive directors' salaries occurred generally as part of the annual pay review. Base salaries have been frozen across the business.

Exceptionally, the base salary of R J Ames was increased. On his appointment to the Board in January 2009, his base salary was positioned significantly below the market. As outlined in last year's Remuneration report the Committee undertook to review his base salary in 2010.

In April 2010, the Committee increased his base salary to market levels to reflect his strong performance as an executive director since his appointment to the Board. With effect from 1 April 2010, his base salary was increased from £275,000 to £320,000 per annum.

Following the appointment of R I Glynn and the restructuring of the Board, R J Ames' role has changed from Managing Director – UK and Ireland Retail to Managing Director – Consumer Operations. As a result of the increased scope and responsibility of this role, he received a further salary increase effective from 1 January 2011 to £370,000 per annum. This was outside the annual pay review process.

Executive	Base salary with effect from 1 January 2011
R I Glynn	£580,000
B G Wallace	£494,400
R J Ames	£370,000

Annual bonus
Executive directors participate in the annual bonus plan and the Deferred Bonus Plan ("DBP").

For 2011, the maximum bonus opportunity is 170% of base salary for the Chief Executive and 130% for other executive directors. This is a reduction in bonus opportunity from previous years when other executive directors received a maximum bonus opportunity of 150% of base salary.

70% of the total bonus opportunity is based on financial performance, assessed by reference to profit, and the remaining 30% on individual performance objectives which are agreed and approved by the Remuneration Committee at the beginning of each financial year.

The minimum threshold below which no payment is made is 95% of the profit target and the maximum awards will be delivered for achieving 107% of the profit target.

From 2011 onwards, high roller profits will be excluded from the profit calculations for annual bonus purposes. Going forward, high rollers will only form part of the individual performance elements of the bonus for those directly responsible for this area of the business.

This change is designed to ensure that the bonuses reflect underlying business performance. It also ensures that only those individuals who can directly influence high roller performance are subject to its outcome.

One third of any annual bonus earned will be delivered in shares under the DBP and will only vest subject to continued employment after a three year vesting period.

Performance Share Plan ("PSP")
Following the introduction of the Ladbrokes Growth Plan, the Remuneration Committee considered it appropriate to reduce the normal maximum PSP opportunity for executive directors excluding the Chief Executive from 175% of salary to 150% of salary in 2011. This moves award levels more towards general market practice in companies of a similar size and reduces the overall quantum of the ongoing package. The Chief Executive's normal PSP opportunity will remain at 175% of base salary.

From 2011 onwards, annual award levels will be determined based on an assessment of individual performance prior to grant and will not normally be made at the maximum levels set out above. Awards of up to 250% of salary may be made in exceptional circumstances (e.g. recruitment or retention) at the Committee's discretion.

Vesting of awards is subject to the achievement of performance targets over a three year performance period and continued employment. 50% of the award will be based on the Total Shareholder Return (TSR) performance of the Company relative to a select group of industry peers. The comparator group for the 2011 awards remains unchanged and is as follows:

888 Holdings	Paddy Power
Bwin	PartyGaming
Boyd Gaming	Punch Taverns
Enterprise Inns	Rank Group
Lottomatica	Sportingbet
Mitchells and Butlers	Whitbread
OPAP	William Hill

The remaining 50% of the award will be subject to the achievement of an absolute Earnings Per Share ("EPS") growth target.

Using TSR and EPS performance conditions is consistent with market practice. TSR has been selected as a performance condition to support the drive for long term shareholder value. EPS has been chosen as it is the key financial metric of the business.

Performance criteria for 2011 PSP awards

TSR

Performance Level	TSR % vesting levels
Below median	0
Median	25
Upper quartile	100

Vesting will be on a straight line basis between median and upper quartile.

EPS

Performance Level	EPS growth % vesting levels
Below 6% per annum	0
6% per annum	25
10% per annum	100

Vesting will be on a straight line basis between minimum and maximum EPS targets.

Ladbrokes Growth Plan ("LGP")

R I Glynn and the Board are committed to revitalising the business and engaging every team member in the common aim of reshaping the business. In May 2010, shareholders approved a one-off long term incentive plan designed to incentivise key senior executives to create significant long term shareholder value.

The first award under the plan was made to R I Glynn in June 2010. He is required to hold 1,008,946 Ladbrokes shares for the duration of the plan, in order to strongly align his interests with those of shareholders. He received a four times matching award on his investment shares, which is subject to very stretching share price growth performance targets.

The Committee considers that it is important that all key senior executives of the business are incentivised on a consistent basis. Therefore it intends to make awards under the plan to key members of the senior management team as soon as practicable in 2011 on similar terms to the award made to R I Glynn.

Executive directors will be required to invest up to 150% of base salary in Ladbrokes shares and will receive up to a four times matching award, subject to performance targets considered similarly demanding.

The extent to which LGP matching awards will vest will be dependent on the achievement of extremely stretching share price growth performance targets over a five year period. Any share price targets must be attained for a period of 30 consecutive dealing days to be deemed to have been met. The following share price targets apply to the LGP:

Share Price

Performance Level	% vesting levels
Below £2.00 per share	0
£2.00 per share	25
£2.97 per share	100

Vesting will be on a straight line basis between minimum and maximum share price targets (i.e. between £2.00 and £2.97).

If a share price of £2.97 is achieved, approximately £1.3 billion of value will have been created for shareholders through share price growth since R I Glynn's appointment.

Up to one third of the award may vest at the end of year three if the targets have been achieved at that time. A further third may vest at the end of year four if the targets have been met at that time. The remainder of the award may vest at the end of year five, subject to the achievement of the performance targets.

The Committee is mindful that absolute share price targets must demand a real stretch in performance to ensure significant value creation for shareholders. In particular, the Committee will retain responsibility to amend the targets if it is necessary to take account of exceptional factors including, for example, corporate events or exceptional market or industry factors which would otherwise render the targets inappropriate.

Restricted Share Plan ("RSP")

The RSP is used from time to time as an attraction and retention vehicle for key management positions. However, executive directors are not eligible to participate in this plan.

All-employee incentive arrangements

There are two share plans currently in operation in which all UK employees, subject to minimum service requirements, are eligible to participate.

The share plans are operated to strengthen and widen employee share ownership. These are summarised below.

Savings Related Share Option Scheme

The Company offers a Savings Related Share Option Scheme, which is approved by HMRC ("the 1983 Scheme"), and is linked to a Save-As-You-Earn contract under which participants save a regular monthly sum by deducting from earnings up to £250 per month for either three or five years. Subject to common service criteria, the 1983 Scheme is open to all UK employees (including executive directors).

Options are normally exercisable during a period of six months following the expiry of three and five years (as previously selected by the participant) from the dates of grant and there are no performance conditions. Option prices are calculated by reference to the average mid-market quotation of shares are shown by the Stock Exchange Daily Official List for the five business days immediately preceding the date of grant, discounted by up to 20% per share.

Share Incentive Plan

The Share Incentive Plan which is approved by HMRC is open to all UK employees (including executive directors) who have completed at least 12 months' service. To encourage employee participation, the Company provides a match of one bonus share for every two shares purchased by employees. The bonus shares are held conditionally upon satisfaction of a one-year service requirement. The maximum monthly contribution by employees has been set at £75 per month.

Pension

As part of the Committee's desire to manage fixed costs, it reviewed pension arrangements during the year.

The policy for executive directors joining Ladbrokes after 2007 has been to offer the choice between:

- membership of Ladbrokes' defined contribution scheme; or
- a cash supplement of up to 30% of base salary.

In 2010, the Committee decided to reduce the level of cash supplement from 30% of base salary to 22.5% of base salary with effect from 1 January 2011. This brings arrangements in line with market practice in companies of a similar size and complexity.

Ladbrokes has historically operated a defined benefit plan, the Ladbrokes Pension Plan ("LPP"). For members of the LPP, they accrue benefits on base salary up to the LPP-specific Earnings Cap (2010/2011 £123,600), and receive a cash supplement of 22.5% of base salary above the Earnings Cap (previously 30% of base salary above the Earnings Cap).

Further details of the retirement benefits for individual executive directors are set out on page 50.

Benefits

The Company also offers benefits including private healthcare, life assurance and a cash allowance in respect of a company car from 1 January 2011 (legacy vehicles will be retained until lease expiration).

Directors' remuneration report
continued

Executive directors' shareholding guidelines
Shareholding guidelines require executive directors to build up over time personal shareholdings equivalent in value to at least one year's base salary. It is intended that the specified ownership level will be achieved through the retention of shares earned under the Company's incentive plans.

Incentives – performance periods ended 31 December 2010

Annual bonus
Approximately 75% of the 2010 annual bonus was based on profit performance and the remaining 25% on individual performance objectives. In respect of the profit plan:

- it was set by the Board at the beginning of 2010 by reference to internal projections and the prevailing economic conditions at the time;
- the minimum threshold below which no payments are made is 95% of the profit plan; and
- maximum awards would be delivered for achieving 105% of the profit plan.

The maximum bonus opportunity for 2010 was 150% of base salary for executive directors and 170% for the Chief Executive. One third of any annual bonus earned will be delivered in shares under the DBP and will only vest subject to continued employment after a three year vesting period.

The Company has performed well during the last financial year despite challenging economic conditions and bonuses have been determined as follows to the executive directors:

Executive	Financial and Individual Objectives – Achievement % of base salary	Cash Bonus – £000	DBP – number of shares to be delivered in 2014	Total value of 2010 annual bonus – £000	Cash and DBP shares award – % of maximum bonus
R I Glynn	129%	347	132,842	520	76%
B G Wallace	113%	373	143,061	560	76%
R J Ames	113%	233	89,413	350	76%

PSP
The performance period for 2008 PSP awards ended on 31 December 2010. The structure of the 2008 PSP was the same as outlined on page 42 for the 2011 awards.

50% of the award was based on TSR performance against select industry peers, using the same comparator group as outlined on page 42 for the 2011 awards (with the exception of Harrahs Entertainment which delisted during 2008). The Company was positioned below median and therefore this element of the award did not vest.

The remaining 50% of the award was subject to EPS performance and the same performance targets applied as outlined on page 42 for the 2011 awards. The minimum threshold was not attained and therefore this element of the award also did not vest.

Service contracts
In line with Company's policy, all executive directors are employed on conventional one year rolling contracts, with the exception of R I Glynn.

Executive	Date of Contract	Company Notice Period	Director Notice Period
R J Ames	1 January 2009	1 year	6 months
C Bell	20 December 2006	1 year	6 months
R I Glynn	30 March 2010	1 year*	1 year
J P O'Reilly	1 January 2007	1 year	6 months
B G Wallace	5 March 2007	1 year	6 months

*R I Glynn's appointment is subject to notice of 12 months on either side save that such notice may not expire prior to the end of April 2012.

New appointments to the Board will normally be made on a one year rolling contract.

The Company normally expects executive directors upon departure to mitigate their loss. In any specific case that may arise, the Committee will carefully consider any compensatory payments having regard to performance, age, service, health or other circumstances that are relevant.

The Company may terminate employment by making a payment in lieu of notice equivalent to the value of base salary and benefits in respect of the notice period.

Matters relating to Board changes

R I Glynn
R I Glynn's remuneration arrangements were fully disclosed at the time of his appointment and are outlined in this report.

Prior to his appointment, he had a number of existing remuneration and equity interests which he was required to relinquish when accepting the Ladbrokes Chief Executive role. In recognition of him doing so, he was entitled to receive an interest in Ladbrokes shares with a value of £1.75 million on appointment. He is required to hold this interest in Ladbrokes shares for a minimum of three years forming the basis of a long term holding in the Company. This one-off compensatory share award was also disclosed at the time of his appointment.

C Bell
As disclosed in last year's remuneration report, the Company announced on 12 January 2010 that C Bell was to step down as a director of the Company. In accordance with his contract C Bell received salary, pension contributions and benefits for the duration of his 12 month notice period which commenced on 1 February 2010. Payments were made on a phased basis, subject to mitigation. He was only eligible for a pro-rata bonus in respect of the period worked in 2010 subject to performance.

All outstanding awards under the PSP lapsed upon cessation of employment. All share awards under the DBP vested in accordance with the scheme rules. Share awards under all other share plans will be treated in accordance with the relevant scheme rules.

J P O'Reilly
The Company announced on 5 August 2010 that J P O'Reilly was to step down as a director of the Company. In accordance with his contract J P O'Reilly received salary, pension contributions and benefits for the duration of his 12 month notice period which commenced on 5 November 2010. Payments will be made on a phased basis subject to mitigation. He was eligible for a payment in respect of bonus for the 2010 financial year subject to the achievement of performance objectives.

J P O'Reilly's 2010 PSP award lapsed upon his cessation of employment. 2008 and 2009 awards will vest at the end of the original performance period, subject to the performance conditions being met and time pro-rating to reflect the proportion of the performance period in which he remained in employment. All share awards under the DBP vested in accordance with the scheme rules. Share awards under all other share plans will be treated in accordance with the relevant scheme rules.

A S Ross
A S Ross did not seek re-election at the May 2009 AGM but retained his executive director terms and conditions until 20 July 2009. Thereafter, as disclosed in last year's remuneration report, he was engaged by the Company three days a week until 19 July 2010. He received a daily rate of £1,061 plus benefits of a mobile phone, company car and private medical cover.

B G Wallace
Following the departure of C Bell, it was essential to maintain continuity in the business during a critical transition period for the Company. Therefore the Committee decided to offer a special one-off incentive of 70% of base salary to B G Wallace. This will become payable in March 2011, subject to continued employment.

Non-executive directors
Non-executive directors are retained on terms set out in their letters of appointment. They do not have service contracts with either the Company or any of its subsidiaries. The appointment of a non-executive director is terminable without notice.

The standard letter of appointment for non-executive directors is available for inspection on request.

The Committee determines the fees of the Chairman of the Board and the Board as a whole determines the remuneration of each of the non-executive directors. Non-executive directors receive fees set relative to median market practice and are regularly reviewed. There was no increase in the remuneration of the Chairman or other non-executive directors as at 1 January 2011.

Non-executive directors are not eligible for annual bonus, share incentives, pension or other benefits.

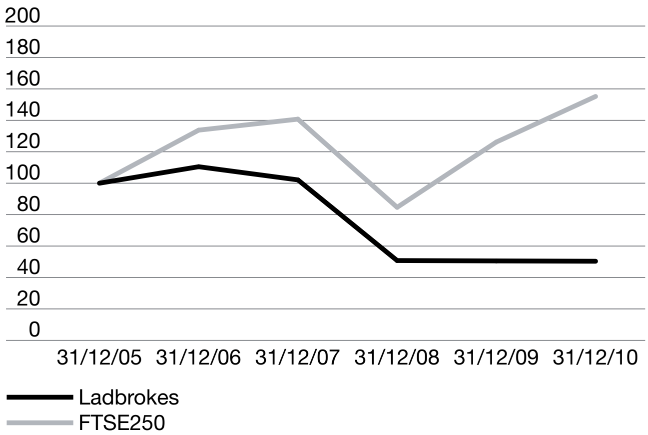
The annual fees are payable as follows:

Role	Fee
Chairman	£250,000
Senior Independent Director	£60,000
Board member	£43,000
Audit Committee Chairman	£10,000
Remuneration Committee Chairman	£10,000
Member of one or both of Audit/ Remuneration Committee(1)	£7,000

(1) Excludes the Chairman and the Senior Independent Director.

Performance graph
As the Company is a constituent company of the FTSE 250, the FTSE 250 index provides an appropriate indication of market movements against which to benchmark the Company's performance. The chart below summarises the Company's TSR performance against the FTSE 250 index over the five year period ended 31 December 2010.

Growth in value of a hypothetical £100 holding over five years:



Governance

Directors' remuneration report
continued

Directors' remuneration and interests

Audited information
The following table shows the emoluments of the executive directors and non-executive directors for the year ended 31 December 2010 excluding gains from the exercise of share options and contributions to money purchase schemes.

Name	Base salary £000	Annual bonus £000	Benefits in kind £000	Pension supplement £000	Performance share plan £000	Outgoing executive payments £000	**2010 Total £000**	2009 Total[i] £000
Executive directors								
R J Ames	309	350	6	56	–	–	**721**	327
C Bell	271	365	12	66	–	648	**1,362**	837
R I Glynn	402	520	7	91	–	–	**1,020**	–
J P O'Reilly	426	316	18	96	–	364	**1,220**	634
B G Wallace[ii]	494	560	27	148	–	–	**1,229**	672
Total	**1,902**	**2,111**	**70**	**457**	**–**	**1,012**	**5,552**	**2,583**
Non-executive directors	Fees							
P Erskine	250	–	–	–	–	–	**250**	202
J F Jarvis	50	–	–	–	–	–	**50**	50
C Rodrigues	60	–	–	–	–	–	**60**	60
H E Staunton	22	–	–	–	–	–	**22**	55
C P Wicks	50	–	–	–	–	–	**50**	50
N M H Jones	22	–	–	–	–	–	**22**	60
S Bailey	47	–	–	–	–	–	**47**	5
D M Shapland	55	–	–	–	–	–	**55**	5
J M Kelly	20	–	–	–	–	–	**20**	–
Total	**576**	**–**	**–**	**–**	**–**	**–**	**576**	**478**

[i] No bonus was earned in respect of 2009.
[ii] In addition, B G Wallace will receive £350,000 as a special one-off incentive, which will become payable in March 2011, subject to continued employment.

The following executive directors served elsewhere as non-executive directors and retained fees in 2010 as follows: C Bell £21,561; (up to 14 May 2010); J P O'Reilly £38,125 (up to 5 November 2010); R I Glynn £1,236; and B G Wallace £84,043.

In respect of C Bell, his payment on cessation of employment includes the value of his company car which he retained following cessation of his employment. Full details of the treatment upon cessation of employment can be found on page 45.

In respect of J P O'Reilly, full details of the treatment upon cessation of employment can be found on page 45.

H E Staunton and N M H Jones were non-executive directors until 14 May 2010 and the fees noted in the table reflect this.

Share schemes
Awards and options granted in 2010 under the Company's share schemes, together with the number of shares and options outstanding as at 31 December 2010 (or earlier date of cessation) are detailed in the following tables.

Plan	Name	Number of options at 31 Dec 09 (or later date of appointment)	Options granted during the year	Options exercised/ lapsed during the year	Number of options at 31 Dec 10 (or earlier date of cessation)	Date of grant	Exercise price (pence)	Date from which exercisable	Expiry date
1978 Share Option Scheme	R J Ames	11,839	–	–	11,839	08.04.05	253.37	08.04.08	08.04.15
	Total	**11,839**	**–**	**–**	**11,839**				
	C Bell	11,839	–	–	11,839	08.04.05	253.37	08.04.08	08.04.15
	Total	**11,839**	**–**	**–**	**11,839**				
	J P O'Reilly	8,333	–	–	8,333	25.04.06	359.97	25.04.09	25.04.16
	Total	**8,333**	**–**	**–**	**8,333**				

Share schemes continued

Plan	Name	Number of options at 31 Dec 09 (or later date of appointment)	Options granted during the year	Options exercised/ lapsed during the year	Number of options at 31 Dec 10 (or earlier date of cessation)	Date of grant	Exercise price (pence)	Date from which exercisable	Expiry date
International Share Option Scheme	R J Ames	49,478	–	–	49,478	01.09.06	325.14	01.09.09	01.09.16
		46,981	–	–	46,981	25.04.06	359.97	25.04.09	25.04.16
		11,651	–	–	11,651	08.04.05	253.37	08.04.08	08.04.15
	Total	**108,110**	**–**	**–**	**108,110**				
	C Bell	305,580	–	–	305,580	25.04.06	359.97	25.04.09	25.04.16
		106,561	–	–	106,561	08.04.05	253.37	08.04.08	08.04.15
		121,241	–	–	121,241	03.09.04	221.52	03.09.07	03.09.14
		144,111	–	–	144,111	25.03.04	186.37	25.03.07	25.03.14
		79,548	–	–	79,548	16.09.03	157.04	16.09.06	16.09.13
		310,858	–	–	310,858	04.04.03	120.55	04.04.06	04.04.13
		183,023	–	–	183,023	11.09.02	151.25	11.09.05	11.09.12
		100,059	–	–	100,059	17.04.02	210.55	17.04.05	17.04.12
	Total	**1,350,981**	**–**	**–**	**1,350,981**				
	J P O'Reilly	61,509	–	–	61,509	01.09.06	325.14	01.09.09	01.09.16
		158,346	–	–	158,346	25.04.06	359.97	25.04.09	25.04.16
		46,981	–	–	46,981	08.04.05	253.37	08.04.08	08.04.15
		46,981	–	–	46,981	03.09.04	221.52	03.09.07	03.09.14
		46,981	–	–	46,981	25.03.04	186.37	25.03.07	25.03.14
		29,363	–	–	29,363	16.09.03	157.04	16.09.06	16.09.13
	Total	**390,161**	**–**	**–**	**390,161**				
1983 Savings Related Share Option Scheme	C Bell	5,501	–	–	5,501	25.06.07	297.61	01.08.12	31.01.13
	Total	**5,501**	**–**	**–**	**5,501**				
	J P O'Reilly	2,199	–	–	2,199	25.06.07	297.61	01.08.12	31.01.13
		3,646	–	–	3,646	28.06.06	264.85	01.08.11	31.01.12
	Total	**5,845**	**–**	**–**	**5,845**				
	B G Wallace	7,020	–	–	7,020	22.06.09	130.33	01.08.12	31.01.13
	Total	**7,020**	**–**	**–**	**7,020**				
2010 Share Award Plan	R I Glynn	–	1,177,103	–	1,177,103	28.04.10	–	28.04.13	28.04.20
	Total	**–**	**1,177,103**	**–**	**1,177,103**				

(1) All options granted to executive directors have either met the applicable performance conditions or have lapsed in accordance with the plan rules.
(2) The mid-market price of the Company's shares on 31 December 2010 was 122.70 pence (31 December 2009: 137.50 pence). The highest price of the shares during the financial year was 162.70 pence (2009: 244.50 pence). The lowest price of the Company's shares during the financial year was 122.70 pence (2009: 119.60 pence).
(3) C Bell resigned from the Board on 15 May 2010 and the table above details his options up to this date. He has 12 months following the date of his departure to exercise his options under the International Share Option Scheme. His option held under the 1983 Savings Related Share Option Scheme for 5,501 shares lapsed six months after his resignation.
(4) J P O'Reilly resigned from the Board on 5 November 2010 and the table above details his options to this date. He has 12 months following the date of his departure to exercise his options under the International Share Option Scheme and has six months following the date of his departure to exercise his options held under the 1983 Savings Related Share Option Scheme.
(5) R I Glynn was awarded a nil cost option over 1,177,103 shares as a one-off compensatory award under the 2010 Share Award Plan as outlined on pages 45 and 93.

Directors' remuneration report
continued

Share schemes continued

Plan	Name	Outstanding awards at 31 Dec 09 (or later date of appointment)	Awards made during the year (or period to cessation)	Awards vested during the year (or period to cessation)	Awards lapsed during the year (or period to cessation)	Outstanding awards at 31 Dec 10 (or earlier date of cessation)	Date of award	Share price on date of award (pence)	Performance period end
Performance Share Plan	R J Ames	–	350,076	–	–	350,076	19.02.10	151.00	31.12.12
		331,580	–	–	–	331,580	20.02.09	178.00	31.12.11
		111,274	–	–	–	111,274	29.02.08	304.25	31.12.10
		59,287	–	–	59,287	–	21.05.07	416.25	31.12.09
	Total	**502,141**	**350,076**	**–**	**59,287**	**792,930**			
	C Bell	783,737	–	–	783,737	–	20.02.09	178.00	31.12.11
		331,779	–	–	331,779	–	29.02.08	304.25	31.12.10
		288,199	–	–	288,199	–	21.05.07	416.25	31.12.09
	Total	**1,403,715**	**–**	**–**	**1,403,715**	**–**			
	R I Glynn	–	637,242	–	–	637,242	29.04.10	157.00	31.12.12
	Total	**–**	**637,242**	**–**	**–**	**637,242**			
	J P O'Reilly	–	636,502	–	636,502	–	19.02.10	151.00	31.12.12
		602,874	–	–	231,806	371,068	20.02.09	178.00	31.12.11
		284,300	–	–	14,528	269,772	29.02.08	304.25	31.12.10
		209,599	–	–	209,599	–	21.05.07	416.25	31.12.09
	Total	**1,096,773**	**636,502**	**–**	**1,092,435**	**640,840**			
	B G Wallace	–	629,373	–	–	629,373	19.02.10	151.00	31.12.12
		596,122	–	–	–	596,122	20.02.09	178.00	31.12.11
		281,116	–	–	–	281,116	29.02.08	304.25	31.12.10
		244,192	–	–	244,192	–	21.05.07	416.25	31.12.09
	Total	**1,121,430**	**629,373**	**–**	**244,192**	**1,506,611**			
Deferred Bonus Plan	R J Ames	43,147	–	–	–	43,147	24.02.09	182.50	24.02.12
		9,774	–	–	–	9,774	29.02.08	304.25	28.02.11
		8,282	–	8,282	–	–	29.02.08	304.25	28.02.10
	Total	**61,203**	**–**	**8,282**	**–**	**52,921**			
	C Bell	219,757	–	–	–	219,757	24.02.09	182.50	24.02.12
		102,919	–	–	–	102,919	29.02.08	304.25	28.02.11
	Total	**322,676**	**–**	**–**	**–**	**322,676**			
	J P O'Reilly	162,948	–	–	–	162,948	24.02.09	182.50	24.02.12
		41,498	–	–	–	41,498	29.02.08	304.25	28.02.11
	Total	**204,446**	**–**	**–**	**–**	**204,446**			
	B G Wallace	170,320	–	–	–	170,320	24.02.09	182.50	24.02.12
		72,780	–	–	–	72,780	29.02.08	304.25	28.02.11
	Total	**243,100**	**–**	**–**	**–**	**243,100**			
Bonus and Free shares	R J Ames	560	319	–	–	879	See note (4)	–	–
	Total	**560**	**319**	**–**	**–**	**879**			
	C Bell	945	125	–	–	1,070	See note (4)	–	–
	Total	**945**	**125**	**–**	**–**	**1,070**			
	J P O'Reilly	945	289	–	–	1,234	See note (4)	–	–
	Total	**945**	**289**	**–**	**–**	**1,234**			
	B G Wallace	448	319	–	–	767	See note (4)	–	–
	Total	**448**	**319**	**–**	**–**	**767**			
Restricted Share Plan	R J Ames	8,564	–	8,564	–	–	30.04.07	409.25	30.04.10
	Total	**8,564**	**–**	**8,564**	**–**	**–**			
Ladbrokes Growth Plan	R I Glynn	–	4,035,784	–	–	4,035,784	30.06.10	127.20	30.06.15
	Total	**–**	**4,035,784**	**–**	**–**	**4,035,784**			

[1] Conditional Performance Share Plan Awards made on 21 May 2007 lapsed in their entirety on 18 February 2010 as the performance conditions were not achieved.
[2] The performance measures for the 2008, 2009 and 2010 PSP awards are the same as those outlined for the 2011 awards on page 42.
[3] Awards were made under the Deferred Bonus Plan to R J Ames on 29 February 2008 based on an award price of 361.49 pence. Awards vested on 1 March 2010.
[4] Bonus shares were awarded under the Share Incentive Plan on a monthly basis on award dates between 5 January and 6 December 2010. Share prices on the award dates ranged from 126.80 pence to 160.70 pence.
[5] C Bell resigned from the Board on 14 May 2010. Any outstanding awards under the Deferred Bonus Plan vested 31 days following his cessation of employment. Bonus and Free shares were sold by the trust on C Bell's behalf following his cessation of employment.
[6] J P O'Reilly resigned from the Board on 5 November 2010. The outstanding award under the 2009 PSP will vest at the end of the original performance period, subject to the performance conditions being met and have been time pro-rated to reflect the proportion of the performance period he remained in employment. Any outstanding awards under the Deferred Bonus Plan vested 31 days following his cessation of employment. Bonus and Free shares were transferred into J O'Reilly's name following his cessation of employment.
[7] An award under the Restricted Share Plan was made to R J Ames in 2007 before he was appointed to the Board. The remaining shares under this award vested during the year.
[8] R I Glynn's Ladbrokes Growth Plan award comprises the following:
- a restricted interest in a share held jointly with the Trustees of the Employee Benefit Trust; and
- a nil cost option, which together entitle him to the value of a whole share. Details of the restricted interest in shares is provided in the previous table. On 30 June 2010, an option was granted which would entitle R I Glynn to acquire at nil cost such number of shares that have an aggregate market value of £6,901,190.64 on the date of exercise, subject to achievement of the performance conditions outlined on page 43. The option expires on 30 June 2020.

Rights issue

Adjustments to share option/awards
To take account of the effects of the rights issue completed in October 2009, adjustments were made at that time to awards and options held under the Company's employee share schemes.

For the PSP, RSP and DBP, the number of shares under award were appropriately adjusted. In the case of the share options plans (1978 Scheme, International Scheme and 1983 Scheme), both the number of options under award and the exercise price were adjusted.

Under the Share Incentive Plan, all participants received the right to buy one new share for every two shares already held in the plan. All of the executive directors took up their rights under the rights issue, and as a result, new shares were allotted to each individual. Ladbrokes shares previously held under the Share Incentive Plan will continue to be held in the plan on the same terms.

The treatment outlined above was in accordance with the relevant scheme rules. Adjustments in respect of the 1978 Scheme and the 1983 Scheme were approved by HMRC.

Review of performance conditions under the PSP and other share option schemes
In January 2010, the performance conditions under the PSP and the other share option schemes were reviewed by the Committee and appropriate adjustments were made to reflect the dilutive effect of the rights issue.

In relation to awards within an EPS performance condition under the PSP and the other share option schemes (1978 Scheme and International Scheme), the relevant EPS target has been appropriately adjusted in accordance with IAS33 for awards outstanding at the time of the rights issue.

For the TSR performance condition under the PSP, historic share prices prior to the rights issue were reduced by a factor of 1.17454, determined by dividing the closing share price on the last trading day before the rights issue (£1.7140) by the theoretical ex-rights price (£1.4593).

Retirement provision during 2010
R I Glynn has received a cash supplement of 22.5% of base salary since he was appointed to the Board on 22 April 2010.

B G Wallace has received a cash supplement of 30% of base salary since he re-joined the Group on 5 March 2007. The pension benefits accrued during his previous employment with the Group were transferred to non-Group pension arrangements in 2006 and are not included in these disclosures.

R J Ames is a member of the LPP, details of which are set out on page 50. He also received a cash supplement of 30% of base salary above the LPP-specific Earnings Cap.

C Bell and J P O'Reilly were also members of the LPP. In respect of their base salary above the LPP-specific Earnings Cap, both received 30% of base salary in the form of a cash supplement for the period of 2010 during which they were in employment.

The transfer value figures below have been provided by the independent actuarial advisers appointed by the Trustees of the LPP, calculated in accordance with the LPP's agreed transfer value policy. The accrued pension benefit is an annual figure. The transfer value represents the amount that would be paid to another pension scheme if this accrued pension benefit were to be transferred away from the LPP (although C Bell is no longer able to make such a transfer as he is in receipt of a pension from the LPP). A transfer value represents a liability of the LPP but not a sum paid or due to the individual.

Listing rules and Schedule 7A disclosure
Set out below are details of the pension benefits, payable on retirement at age 60 (age 65 in the case of R J Ames), to which each of the directors shown is entitled at 31 December 2010. The figures shown overleaf, including the accrued pensions, are the total pension entitlements in respect of all pensionable service with the Company including any service with Ladbrokes prior to becoming a director.

Directors' remuneration report continued

The transfer value increase over the year includes the effect of any increase in pensionable salary, completing further service, being a year closer to their nominal pension retirement date and changes in market conditions. For C Bell, the transfer value increase over the year also includes the effect of moving from the transfer value assumptions for non-pensioner members to those for pensioners.

Listing rules and Schedule 7A

Name	Accrued pension at 31 December 2009 £000	**Accrued pension at 31 December 2010 £000**	Increase in accrued pension over 2010 £000	Increase, excluding inflation, in accrued pension over 2010 £000	Transfer value of increase, excluding inflation, less director's contributions over 2010 £000	Transfer value at 31 December 2009 £000	**Transfer value at 31 December 2010 £000**	Increase in transfer value over 2010 £000	Increase in transfer value, less director's contributions, over 2010 £000
R J Ames	13	**16**	3	3	12	99	**127**	28	22
C Bell[i]	58	**59**	1	1	10	931	**1,056**	125	122
J P O'Reilly[ii]	47	**50**	3	3	31	719	**810**	91	82

[i] C Bell ceased accrual and took early retirement from the LPP on 31 March 2010. The pension figure shown above as at 31 December 2010 is a notional accrued pension before allowing for the early retirement reduction applied and commutation of part of his pension for a cash lump sum. The transfer value of C Bell's LPP benefits calculated at 31 December 2010 allows for his early retirement and includes the benefits paid out during 2010. His LPP benefits were reduced for the period between the date he started to receive his pension and his 60th birthday to reflect early payment. The reduction used early retirement factors which apply to all members of the LPP, and were set by the Trustees of the Plan (not Ladbrokes) to be broadly financially neutral.

[ii] J P O'Reilly ceased accrual in the LPP from 5 November 2010.

Directors' interests in shares

The interests of the directors in the Company's shares, excluding interests under share options, the PSP and the 2010 Share Award Plan, at the dates stated, are shown in the table below:

Name	**Ordinary shares at 31 December 2010 (or earlier date of cessation)**	Ordinary shares at 31 December 2009 (or later date of appointment)
P Erskine	**75,000**	75,000
R I Glynn	**–**	–
R J Ames	**71,829**	78,596
S Bailey	**–**	–
J F Jarvis	**15,000**	15,000
J M Kelly	**–**	–
C J Rodrigues	**22,646**	2,646
D M Shapland	**25,000**	–
B G Wallace	**303,337**	302,324
C P Wicks	**1,384**	1,384

(1) All the share interests above were beneficial.

(2) Under the Share Incentive Plan, R J Ames holds 2,691 shares (31 December 2009: 1,665 shares) and B G Wallace holds 2,259 shares (31 December 2009: 1,246 shares). Under the Deferred Bonus Plan, R J Ames holds 52,921 (31 December 2009: 61,203) and B G Wallace holds 243,100 (31 December 2009: 243,100).

(3) The following changes have occurred to the directors' share interests since the year end: 172 shares were purchased by/awarded under the Share Incentive Plan to R J Ames (90 on 5 January 2011 and 82 on 7 February 2011) and 174 to B G Wallace (90 on 5 January 2011 and 84 on 7 February 2011). No other changes to directors' share interests have taken place between 31 December 2010 and 17 February 2011.

(4) R I Glynn was entitled to receive an interest in Ladbrokes shares with a value of £1.75 million on appointment. He is required to hold this interest for a minimum of three years forming the basis of a long term holding in the Company.

Except for service contracts on page 44, none of the directors was materially interested during the year in any contract of significance in relation to the Company's business entered into by the Company or its subsidiaries or, other than is shown in this report, has any interest in the shares or debentures of the Company or its subsidiaries.

By order of the Board

C J Rodrigues
17 February 2011

Consolidated financial statements contents

Consolidated income statement

For the year ended 31 December	Note	2010 Before non-trading items(1) £m	2010 Total £m	2009 Before non-trading items(1) £m	2009 Total £m
Continuing operations					
Amounts staked(2)		**15,011.7**	**15,011.7**	15,027.7	15,027.7
Revenue	5	**980.1**	**980.1**	1,032.2	1,032.2
Cost of sales before depreciation and amortisation		**(639.7)**	**(639.7)**	(668.9)	(670.2)
Administrative expenses		**(82.9)**	**(92.0)**	(75.5)	(79.4)
Share of results from joint venture and associates		**3.3**	**3.3**	1.1	1.1
EBITDA		**260.8**	**251.7**	288.9	283.7
Depreciation and amounts written off non-current assets		**(53.5)**	**(72.9)**	(53.5)	(64.5)
Profit before tax and finance costs	8	**207.3**	**178.8**	235.4	219.2
Finance costs	9	**(34.6)**	**(53.1)**	(46.7)	(103.5)
Finance income(3)	9	**20.6**	**21.4**	2.6	58.4
Profit before taxation		**193.3**	**147.1**	191.3	174.1
Income tax expense	11	**(35.6)**	**(33.6)**	(28.6)	(27.7)
Income tax settlement credit(3)	11	**261.9**	**261.9**	–	–
Profit for the year – continuing operations		**419.6**	**375.4**	162.7	146.4
Discontinued operations					
Loss for the year from discontinued operations	14	**(8.7)**	**(27.1)**	(10.5)	(72.0)
Profit for the year		**410.9**	**348.3**	152.2	74.4
Attributable to:					
Equity holders of the parent		**410.9**	**348.3**	152.2	74.4
Earnings per share from continuing operations					
– basic	13	**46.4p**	**41.5p**	21.7p	19.5p
– diluted	13	**46.3p**	**41.4p**	21.6p	19.4p
Earnings per share on profit for the year					
– basic	13	**45.4p**	**38.5p**	20.3p	9.9p
– diluted	13	**45.3p**	**38.4p**	20.2p	9.9p
Proposed dividends(4)	12	**3.75p**	**3.75p**	–	–

(1) Non-trading items are profits or losses on disposal or impairment of non-current assets or businesses; unrealised gains and losses on derivative financial instruments; business restructuring costs and litigation and transaction costs. Details of the non-trading items are given in note 7, and of discontinued operations in note 14, to the consolidated financial statements.

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

(3) In April 2010 the Group announced that it had reached a settlement with HMRC which covered substantially all outstanding items in respect of tax years to 31 December 2007. The settlement has resulted in the recognition within the tax charge of a £261.9 million tax credit in relation to prior years (note 11). Finance income has also increased by £20.0 million to reflect the interest consequences of the settlement (note 9).

(4) A final dividend of 3.75 pence (2009: nil) per share, amounting to £33.8 million (2009: nil), was declared by the directors on 17 February 2011. These financial statements do not reflect the dividend payable. The 2010 interim dividend of 3.85 pence per share (£34.7 million) was paid in 2010.

Consolidated statement of comprehensive income

For the year ended 31 December	Note	£m	2010 £m	£m	2009 £m
Profit for the year			**348.3**		74.4
Currency translation differences		**(7.5)**		(14.3)	
Recycling of currency translation differences	14	**(10.8)**		–	
Net investment hedges		**–**		10.4	
Tax on net investment hedges		**–**		(2.9)	
Total foreign currency translation expense, net of tax			**(18.3)**		(6.8)
Actuarial gains/(losses) on defined benefit pension scheme	31	**15.6**		(9.4)	
Tax on actuarial gains/(losses) on defined benefit pension scheme		**(4.2)**		2.6	
Total actuarial gains/(losses) on defined benefit pension scheme, net of tax			**11.4**		(6.8)
Net (losses)/gains on cash flow hedges		**(0.4)**		2.0	
Tax on net (losses)/gains on cash flow hedges		**0.1**		(0.5)	
Total net (losses)/gains on cash flow hedges, net of tax			**(0.3)**		1.5
Recycling of losses on cash flow hedges	25	**9.1**		–	
Tax on recycling of losses on cash flow hedges		**(2.5)**		–	
Total recycling of losses on cash flow hedges, net of tax			**6.6**		–
Total other comprehensive loss for the year			**(0.6)**		(12.1)
Total comprehensive income for the year			**347.7**		62.3
Attributable to:					
Equity holders of the parent			**347.7**		62.3

Consolidated balance sheet

At 31 December	Note	2010 £m	2009 £m
Assets			
Non-current assets			
Goodwill and intangible assets	15	**610.1**	614.2
Property, plant and equipment	17	**207.4**	230.3
Interest in joint venture	18	**3.0**	2.6
Interest in associates and other investments	19	**14.5**	10.5
Other financial assets		**5.6**	6.9
Deferred tax assets	11	**69.3**	28.7
Retirement benefit asset	31	**34.5**	15.0
		944.4	908.2
Current assets			
Trade and other receivables	20	**84.6**	104.5
Derivatives	26	**–**	0.4
Cash and short-term deposits	21	**17.9**	24.8
		102.5	129.7
Assets of disposal group classified as held for sale	14	**–**	44.9
Total assets		**1,046.9**	1,082.8
Liabilities			
Current liabilities			
Interest bearing loans and borrowings	24	**(108.3)**	(26.1)
Derivatives	26	**–**	(0.1)
Trade and other payables	22	**(134.4)**	(126.9)
Corporation tax liabilities		**(26.2)**	(147.0)
Other financial liabilities	26	**(1.1)**	(1.7)
Provisions	23	**(1.3)**	(2.8)
		(271.3)	(304.6)
Non-current liabilities			
Interest bearing loans and borrowings	24	**(401.6)**	(689.3)
Derivatives	26	**–**	(9.2)
Other financial liabilities	26	**(10.8)**	(12.0)
Deferred tax liabilities	11	**(93.3)**	(100.5)
Provisions	23	**(12.9)**	(13.7)
		(518.6)	(824.7)
Liabilities of disposal group classified as held for sale	14	**–**	(13.9)
Total liabilities		**(789.9)**	(1,143.2)
Net assets/(liabilities)		**257.0**	(60.4)
Equity			
Issued share capital	28	**266.1**	264.6
Share premium account		**194.1**	189.5
Treasury and own shares		**(114.4)**	(112.5)
Retained earnings		**(99.7)**	(430.8)
Foreign currency translation reserve		**10.5**	28.8
Equity shareholders' funds/(deficit)		**256.6**	(60.4)
Non-controlling interests		**0.4**	–
Total equity		**257.0**	(60.4)

Approved by the Board of Directors on 17 February 2011.

R I Glynn
B G Wallace
Directors

Consolidated statement of changes in equity

	Issued share capital £m	Share premium account £m	Treasury and own shares £m	Retained earnings[1] £m	Foreign currency translation reserve[2] £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2009	**179.2**	**2,135.8**	**(114.3)**	**(2,564.3)**	**35.6**	**(328.0)**	–	**(328.0)**
Profit for the year	–	–	–	74.4	–	74.4	–	74.4
Other comprehensive loss	–	–	–	(5.3)	(6.8)	(12.1)	–	(12.1)
Total comprehensive income	–	–	–	69.1	(6.8)	62.3	–	62.3
Issue of shares	0.1	0.3	–	–	–	0.4	–	0.4
Share-based payment awards	0.1	1.4	–	(1.5)	–	–	–	–
Cost of share-based payments	–	–	–	3.9	–	3.9	–	3.9
Rights issue[3]	85.2	200.4	–	–	–	285.6	–	285.6
Rights issue costs	–	(11.0)	–	–	–	(11.0)	–	(11.0)
Share premium cancellation[4]	–	(2,137.4)	–	2,137.4	–	–	–	–
Net decrease in shares held in ESOP trusts	–	–	1.8	–	–	1.8	–	1.8
Equity dividends	–	–	–	(75.4)	–	(75.4)	–	(75.4)
At 31 December 2009	**264.6**	**189.5**	**(112.5)**	**(430.8)**	**28.8**	**(60.4)**	–	**(60.4)**
At 1 January 2010	**264.6**	**189.5**	**(112.5)**	**(430.8)**	**28.8**	**(60.4)**	**–**	**(60.4)**
Profit for the year	**–**	**–**	**–**	**348.3**	**–**	**348.3**	**–**	**348.3**
Other comprehensive gain/(loss)	**–**	**–**	**–**	**17.7**	**(18.3)**	**(0.6)**	**–**	**(0.6)**
Total comprehensive income	**–**	**–**	**–**	**366.0**	**(18.3)**	**347.7**	**–**	**347.7**
Issue of shares	**1.5**	**4.6**	**–**	**–**	**–**	**6.1**	**–**	**6.1**
Cost of share-based payments	**–**	**–**	**–**	**3.8**	**–**	**3.8**	**–**	**3.8**
Net increase in shares held in ESOP trusts	**–**	**–**	**(1.9)**	**(4.0)**	**–**	**(5.9)**	**–**	**(5.9)**
Equity dividends	**–**	**–**	–	**(34.7)**	**–**	**(34.7)**	**–**	**(34.7)**
Non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**0.4**	**0.4**
At 31 December 2010	**266.1**	**194.1**	**(114.4)**	**(99.7)**	**10.5**	**256.6**	**0.4**	**257.0**

(1) At 31 December 2010, there was £0.5 million (2009: £9.2 million) of deferred losses on cash flow hedges within retained earnings.
(2) The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and arising on the Group's net investment hedges.
(3) In October 2009, the Company raised £274.6 million, net of issue costs of £11.0 million, through a fully underwritten 1 for 2 rights issue at a price of 95.0 pence, with a nominal value of 28 1/3 pence each.
(4) Following shareholder approval at the Annual General Meeting on 15 May 2009 and court approval on 31 July 2009, the Company cancelled its share premium account, transferring £2,137.4 million to retained earnings.

Consolidated statement of cash flows

For the year ended 31 December	Note	2010 £m	2009 £m
Net cash flows from operating activities	30	**277.0**	132.5
Cash flows from investing activities			
Interest received		**12.2**	3.2
Dividends received from associates	19	**–**	3.3
Payments for intangible assets		**(15.9)**	(13.0)
Purchase of property, plant and equipment		**(32.9)**	(38.3)
Proceeds from the sale of property, plant and equipment		**1.4**	1.4
Proceeds from sale of intangible assets	14	**4.3**	–
Costs of disposal of discontinued operations	14	**(2.7)**	(1.3)
Cash consideration in respect of sale of discontinued operations	14	**(0.9)**	–
Cash disposed of with discontinued operations	14	**(3.1)**	–
Purchase of interest in joint venture	18	**(0.8)**	(4.1)
Purchase of interest in associates and other investments	19	**(0.2)**	(0.4)
		(38.6)	(49.2)
Cash flows from financing activities			
Proceeds from issue of shares		**–**	0.3
Proceeds from rights issue		**–**	274.6
Proceeds from borrowings, net of issue costs	25	**221.1**	73.7
Purchase of ESOP shares		**–**	(1.2)
Repayment of borrowings		**(435.1)**	(351.6)
Dividends paid	12	**(34.7)**	(75.4)
		(248.7)	(79.6)
Net (decrease)/increase in cash and cash equivalents		**(10.3)**	3.7
Net foreign exchange difference		**–**	(0.7)
Cash and cash equivalents at beginning of the year		**28.0**	25.0
Cash and cash equivalents at end of the year	21	**17.7**	28.0
Cash and cash equivalents comprise:			
Cash at bank and in hand	21	**17.9**	30.1
Bank overdraft	21	**(0.2)**	(2.1)
		17.7	28.0
Analysed as:			
Continuing operations		**17.7**	22.7
Discontinued operations		**–**	5.3
		17.7	28.0

Notes to the consolidated financial statements

1 Corporate information
Ladbrokes plc (the Company) is a limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded. The address of its registered office and principal place of business is disclosed in the corporate information section of the Annual Report.

The consolidated financial statements of the Company and its subsidiaries (together, 'the Group') for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 17 February 2011.

The principal activities of the Group are described in note 6.

2 Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union.

The consolidated financial statements are presented in sterling. All values are in millions (£m) rounded to one decimal place except where otherwise indicated.

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

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

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

3 Changes in accounting policies
The Group has adopted the following new standards and interpretations for the year ended 31 December 2010:

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) were issued in January 2008.

IFRS 3R has introduced a number of changes in the accounting for non-controlling interests, business combinations achieved in stages, contingent consideration and transaction costs.

IAS 27 requires that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such changes will have no impact on goodwill, nor will it give rise to a gain or a loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

There were no significant acquisitions or changes in the ownership interest of subsidiaries during the period to which these standards would have been relevant.

IFRIC 12 Service Concession Agreements, IFRIC 17 Distribution of Non-Cash Assets to Owners and IFRIC 18 Transfers of Assets from Customers were all adopted for the year, but have not had an impact on the Group.

The International Accounting Standards Board's Second Annual Improvements Project was published in May 2009, with the majority of changes being applicable from 1 January 2010. The project made minor amendments to a number of standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments to these standards did not have any impact on the accounting policies, financial position or performance of the Group.

4 Summary of significant accounting policies
Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiaries at 31 December each year. The underlying financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intercompany transactions, balances, income and expenses are eliminated on consolidation.

Subsidiaries are consolidated, using the purchase method of accounting, from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred from the Group.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at fair value at the date of acquisition. Any excess of the cost of acquisition over the fair values of the separately identifiable net assets acquired is recognised as goodwill. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group.

Use of assumptions, estimates and judgements
The preparation of financial information requires the use of assumptions, estimates and judgements about future conditions. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those reported. In this regard, management believes that the accounting policies where judgement is necessarily applied are those that relate to: the measurement and impairment of indefinite life intangible assets; the measurement of pension and other post employment benefit obligations; the determination of the initial fair value of betting and gaming transactions; the recoverable amount of trade receivables; income tax and the valuation of financial guarantee contracts.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Further information about key assumptions concerning the future and other key sources of estimation uncertainty are set out below.

Indefinite life intangible assets
The Group has determined that betting shop licences and a customer relationship intangible asset have indefinite lives.

The Group determines whether indefinite life intangible assets are impaired at least on an annual basis. This requires an estimation of the 'value in use' of the cash generating units to which the intangible assets are allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in notes 15 and 16.

Pension and other post employment benefit obligations
The cost of defined benefit pension plans and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in note 31.

Notes to the consolidated financial statements continued

4 Summary of significant accounting policies continued

Betting and gaming transactions

Betting and gaming transactions are measured at the fair value of the consideration received or receivable from customers. This is normally the nominal amount of the consideration but on certain occasions, the fair value is estimated using valuation techniques, taking into account the credit profile of customers in determining the collectability of the consideration. In addition, where there are indicators that any trade receivable is impaired at the balance sheet date, management makes an estimate of the asset's recoverable amount. Further details are given in note 20.

Income tax

The Group is subject to tax in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes due to uncertainty of the amount of income tax that may be payable, and in respect of determining the level of the future taxable profits of the Group that support the recoverability of deferred tax assets. Further details are given in note 11.

Financial guarantee contracts

The valuation of financial guarantee contracts and related indemnities requires use of assumptions of the risks of default of the guaranteed entities and the credit profiles of the counterparties. Further details are given in note 26.

Investments in joint ventures

A joint venture is an entity in which the Group holds an interest on a long-term basis and which is jointly controlled by the Group and one or more other venturers under a contractual agreement.

The Group's share of results of joint ventures is included in the Group consolidated income statement using the equity method of accounting. Investments in joint ventures are carried in the Group consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity less any impairment in value. The carrying value of investments in joint ventures includes acquired goodwill.

If the Group's share of losses in the joint venture equals or exceeds its investment in the joint venture, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture.

Investments in associates

Associates are those businesses in which the Group has a long-term interest and is able to exercise significant influence over the financial and operational policies but does not have control or joint control over those policies.

The Group's share of results of associates is included in the Group consolidated income statement using the equity method of accounting. Investments in associates are carried in the Group consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity less any impairment in value. The carrying value of investments in associates includes acquired goodwill.

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the separately identifiable assets, liabilities and contingent liabilities of a subsidiary or associate at the date of acquisition. In accordance with IFRS 3 Business Combinations, goodwill is not amortised but reviewed annually for impairment and as such, is stated at cost less any provision for impairment of value. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed. On acquisition, any goodwill acquired is allocated to cash generating units for the purpose of impairment testing. Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Intangible assets

Intangible assets acquired separately are capitalised at cost and those acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. The costs relating to internally generated intangible assets, principally software costs, are capitalised if the criteria for recognition as assets are met. Other expenditure is charged against profit in the year in which the expenditure is incurred. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the consolidated income statement through the 'depreciation and amounts written off non-current assets' line item. Useful lives are reviewed on an annual basis.

Intangible assets with indefinite useful lives are tested for impairment annually, either individually, or at the cash generating unit level.

A summary of the policies applied to the Group's intangible assets is as follows:

	Licences	Software	Customer relationships
Useful lives	indefinite	finite	indefinite
Method used	not depreciated or revalued	3-5 years straight line	not depreciated or revalued
Internally generated or acquired	acquired	acquired and internally generated	acquired
Impairment testing/ recoverable amount testing	annually and where an indicator of impairment exists	useful lives reviewed at each financial year end	annually and where an indicator of impairment exists

An intangible asset is derecognised upon disposal, with any gain or loss arising (calculated as the difference between the net disposal proceeds and the carrying amount of the item) included in the consolidated income statement in the year of disposal.

4 Summary of significant accounting policies continued

Property, plant and equipment

Land is stated at cost less any impairment in value. Buildings, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Buildings – 50 years or estimated useful life of the building, or lease, whichever is less, to estimated residual value.

Fixtures, fittings and equipment – four to 10 years as considered appropriate to write down cost to estimated residual value.

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Impairment losses are recognised in the consolidated income statement in the 'depreciation and amounts written off non-current assets' line item.

An item of property, plant and equipment is derecognised upon disposal, with any gain or loss arising (calculated as the difference between the net disposal proceeds and the carrying amount of the item) included in the consolidated income statement in the year of disposal.

Leases

Leases that transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains substantially all the benefits and risks of ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Cash and cash equivalents

Cash and cash equivalents consists of cash at bank and in hand and short-term deposits with an original maturity of less than three months, net of outstanding bank overdrafts.

Financial assets

Financial assets are recognised when the Group becomes party to the contracts that give rise to them.

The Group classifies financial assets at inception as either loans and receivables or as financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are measured at fair value net of transaction costs. Subsequently, the fair values are measured at amortised cost, using the effective interest method, less any allowance for impairment.

Financial assets at fair value through profit or loss comprise derivative financial instruments and guarantees provided to the Group. Financial assets through profit or loss are measured initially at fair value with transaction costs taken directly to the consolidated income statement. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in the consolidated income statement.

Trade receivables are generally accounted for at amortised cost. The Group reviews indicators of impairment on an ongoing basis and where such indicators exist, the Group makes an estimate of the asset's recoverable amount.

Financial guarantees provided to the Group are classified as financial assets and are measured at fair value by estimating the probability of the guarantees being called upon and the related cash inflows to the Group.

Financial liabilities

Financial liabilities comprise interest bearing loans and borrowings, derivative financial instruments, ante post bets and guarantees given to third parties. On initial recognition, financial liabilities are measured at fair value plus transaction costs where they are not categorised as financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss include derivative financial instruments and guarantees.

Financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs taken directly to the consolidated income statement. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the consolidated income statement.

All interest bearing loans and borrowings are initially recognised at fair value net of issue costs associated with the borrowing. After initial recognition, fixed rate interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

The Group has provided financial guarantees to third parties in respect of lease obligations of certain of the Group's former subsidiaries within the disposed hotels division. Financial guarantee contracts are classified as financial liabilities and are measured at fair value by estimating the probability of the guarantees being called upon and the related cash outflows from the Group.

Notes to the consolidated financial statements continued

4 Summary of significant accounting policies continued

Derecognition of financial assets and liabilities

Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Group has transferred its contractual right to receive the cash flows from the financial assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as cross currency swaps, foreign exchange swaps and interest rate swaps, to hedge its risks associated with interest rate and foreign currency fluctuations. Derivative financial instruments are recognised initially and subsequently at fair value. The gains or losses on remeasurement are taken to the consolidated income statement except where the derivative is designated as a cash flow hedge or a net investment hedge. Fair values of Over the Counter derivatives are obtained using valuation techniques, including discounted cash flow models and option pricing models.

Derivative financial instruments are classified as assets where their fair value is positive, or as liabilities where their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

The derivative financial instruments taken out as hedges were designated and documented as hedges on the date that the relevant derivative contract was committed to, as one of the following:

- a hedge of the fair value of an asset and liability (fair value hedge);
- a hedge of the income/cost of a highly probable forecasted transaction or commitment (cash flow hedge); or
- a hedge of a net investment in a foreign entity (net investment hedge).

In relation to fair value hedges that meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the consolidated income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the consolidated income statement.

In relation to cash flow hedges that meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the consolidated income statement.

For all cash flow hedges, the gains or losses that are recognised in equity are transferred to the consolidated income statement in the same year in which the hedged cash flow affects the consolidated income statement.

In relation to net investment hedges, the post-tax gains or losses on the translation at the spot exchange rate of the hedged instrument are recognised in equity. The portion of the post-tax gains or losses on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the consolidated income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, no longer qualifies for hedge accounting or as a result of a management decision to cease hedging. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until, in the case of a hedge of a forecast transaction, the transaction occurs or, in the case of net investment hedging, until the Group disposes of its investment in the foreign entity being hedged. Where a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated income statement for the year.

For derivative financial instruments that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the consolidated income statement for the year.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Foreign currency translation

The presentation and functional currency of Ladbrokes plc and the functional currencies of its UK subsidiaries is sterling (£).

Transactions in foreign currencies are initially recorded in sterling at the foreign currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the balance sheet date.

All foreign currency translation differences are taken to the consolidated income statement with the exception of differences on foreign currency borrowings that provide a post-tax hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

The main functional currency of overseas subsidiaries is the Euro. At the reporting date, the assets and liabilities of these overseas subsidiaries are translated into sterling at the rate of exchange ruling at the balance sheet date and their income statements are translated at the average exchange rates for the year. The post-tax exchange differences arising on the retranslation, since the date of transition to IFRSs, are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign entity is recognised in the consolidated income statement.

4 Summary of significant accounting policies continued

Income tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the tax profit; and
- associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences and carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the tax profit; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax balances are not discounted.

Income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement.

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- where the sales tax incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated balance sheet.

Pensions and other post employment benefits

The defined benefit pension fund holds assets separately from the Group. The pension cost relating to this fund is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method.

Actuarial gains or losses are recognised in the consolidated statement of comprehensive income in the period in which they arise.

Any past service cost is recognised immediately to the extent that the benefits have already vested and otherwise is amortised on a straight line basis over the average period until the benefits vest. The retirement benefit asset recognised in the balance sheet represents the fair value of scheme assets less the value of the defined benefit obligations as adjusted for unrecognised past service cost.

The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which the contributions relate.

For defined benefit schemes, management makes annual estimates and assumptions in respect of discount rates, future changes in salaries, employee turnover, inflation rates and life expectancy. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in equity. Refer to note 31 for details of the values of assets and obligations and key assumptions used.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

ESOP trusts

Where the Group holds its own equity shares through ESOP trusts these shares are shown as a reduction in equity. Any consideration paid or received for the purchase or sale of these shares is shown in the reconciliation of movements in shareholders' funds and no gain or loss is recognised within the consolidated income statement or the statement of comprehensive income on the purchase, sale, issue or cancellation of these shares.

Dividends

Dividends proposed by the Board of Directors and unpaid at the year end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting.

Revenue

Continuing operations

Revenue is measured at the fair value of the consideration received or receivable from customers for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

For licensed betting offices, on course betting, Core Telephone Betting, High Rollers, Digital Sportsbook businesses and online Casino operations (including games and other number bets), revenue represents gains and losses, being the amounts staked and fees received, less total payouts and the fair value of reward points issued from betting activity in the period. Open betting positions are carried at fair market value and gains and losses arising on these positions are recognised in revenue.

When a bet is placed and reward points are issued under the OddsOn! loyalty scheme, the fair value of the reward points is deferred and recorded as a liability. The deferred revenue is recognised when the reward points are used or when they expire.

Notes to the consolidated financial statements continued

4 Summary of significant accounting policies continued
Revenue from the online Poker business reflects the net income (rake) earned from Poker games completed by the period end.

In the case of the greyhound stadia, revenue represents income arising from the operation of the greyhound stadia in the period, including sales of refreshments.

Discontinued operations
Italy Retail and Casino revenue represented gains and losses, being the amount staked less total payouts, from betting activity in the period.

Finance costs and income
Finance costs and income arising on interest bearing financial instruments carried at amortised cost are recognised in the consolidated income statement using the effective interest rate method. Finance costs include the amortisation of fees that are an integral part of the effective finance cost of a financial instrument, including issue costs, and the amortisation of any other differences between the amount initially recognised and the redemption price.

Net gains and losses in respect of mark-to-market adjustments on financial instruments carried at fair value, fair value adjustments to the carrying value of hedged items that form part of fair value hedges and foreign exchange adjustments are included in non-trading items in the consolidated income statement.

Net gains and losses on financial guarantees are included in discontinued non-trading items.

Share-based payment transactions
Certain employees (including directors) of the Group receive remuneration in the form of equity settled share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity settled transactions).

The cost of equity settled transactions is measured by reference to the fair value at the date on which they are granted. The fair value is determined using a binomial model, further details of which are given in note 32. In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Ladbrokes plc (market conditions).

The cost of equity settled transactions is recognised together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments, will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share as shown in note 13.

The Group has an employee share incentive plan and an employee share trust for the granting of non-transferable options to executives and senior employees. Shares in the Group held by the employee share trust are treated as treasury shares and presented in the balance sheet as a deduction from equity. Refer to consolidated statement of changes in equity.

The Group has taken advantage of the transitional provisions of IFRS 2 Share-based Payment in respect of equity settled awards and has applied IFRS 2 only to equity settled awards granted after 7 November 2002 that had not vested on 1 January 2006.

Future accounting developments
IAS 24 Related Party Disclosures (Revised) was issued in November 2009. The Group is required to adopt this standard for the year ended 31 December 2011. IAS 24R simplifies the identification of related party relationships, particularly in relation to significant influence and joint control. These changes must be applied retrospectively with earlier application being permitted, with disclosure of such fact.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment) was issued in October 2009. The Group is required to adopt this standard for the year ended 31 December 2011. The definition of a financial liability has been amended to classify rights issues (and certain options or warrants) as equity instruments. This amendment is to be applied retrospectively with early application permitted, with disclosure of such fact.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment) was issued in November 2009. The Group is required to adopt this amendment for the year ended 31 December 2011. The amendment to IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset and permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is required to be applied retrospectively to the beginning of the earliest period presented in the first financial statements in which the entity applied the original interpretation.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments was issued in November 2009. The Group is required to adopt this amendment for the year ended 31 December 2011. IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. If the amendment results in a change in accounting policy, this is applied retrospectively. Earlier application is permitted and must be disclosed.

IFRS 9 Financial Instruments was reissued in October 2010. The Group is required to adopt this standard for the year ended 31 December 2013. The first phase of IFRS 9 addresses the classification and measurement of financial assets. The key requirements of IFRS 9 are that at initial recognition, all financial assets are measured at fair value with different requirements for subsequent measurement for debt and equity instruments. Phase 1 of IFRS 9 can be early adopted. The standard is to be applied retrospectively; however, early adopters get some transitional relief from restating comparative figures.

The Group has decided not to early adopt the above standards, and is currently assessing their impact on its financial statements.

There are no other IFRSs or IFRICs in issue but not yet effective that are expected to have a significant impact for the Group.

5 Revenue

An analysis of the Group's revenue for the year is as follows:

	2010 £m	2009 £m
Continuing operations		
UK Retail	**665.2**	656.7
Other European Retail	**125.8**	130.6
Digital	**169.4**	160.7
Core Telephone Betting	**16.2**	15.7
High Rollers	**3.5**	68.5
	980.1	1,032.2
Discontinued operations		
Italy Retail	**8.3**	26.9
Casino	**–**	4.6
	8.3	31.5
	988.4	1,063.7

6 Segment information

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

The Group's continuing businesses are organised and managed according to the nature of the services provided, which permits aggregation of the Group's operating segments into five reportable segments. The Group's reportable segments are:

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

The discontinued operations comprise Italy Retail and Hotels in 2010 and Italy Retail, Casino and Hotels in 2009.

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

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

Notes to the consolidated financial statements
continued

6 Segment information continued

2010	Continuing operations UK Retail £m	Other European Retail £m	Digital £m	Core Telephone Betting £m	High Rollers £m	Total £m	Discontinued operations Italy Retail £m	Casino £m	Hotels £m	Total £m	Group Total £m
Segment revenue	**665.2**	**125.8**	**169.4**	**16.2**	**3.5**	**980.1**	**8.3**	**–**	**–**	**8.3**	**988.4**
Segment profit/(loss) before non-trading items	**149.1**	**13.9**	**62.7**	**(0.4)**	**5.0**	**230.3**	**(9.1)**	**–**	**–**	**(9.1)**	**221.2**
Non-trading items[1]	**(13.5)**	**(5.6)**	**(4.5)**	**–**	**–**	**(23.6)**	**(18.6)**	**–**	**1.2**	**(17.4)**	**(41.0)**
Segment profit/(loss)	**135.6**	**8.3**	**58.2**	**(0.4)**	**5.0**	**206.7**	**(27.7)**	**–**	**1.2**	**(26.5)**	**180.2**
Corporate costs						**(27.9)**				**–**	**(27.9)**
Profit/(loss) before tax and finance costs						**178.8**				**(26.5)**	**152.3**
Net finance costs						**(31.7)**				**–**	**(31.7)**
Profit/(loss) before tax						**147.1**				**(26.5)**	**120.6**
Income tax credit/ (expense)						**228.3**				**(0.6)**	**227.7**
Profit for the year						**375.4**				**(27.1)**	**348.3**
Share of results from joint venture and associates	**3.8**	**(0.5)**	**–**	**–**	**–**	**3.3**	**–**	**–**	**–**	**–**	**3.3**
Depreciation and amortisation[1]	**49.2**	**5.5**	**5.3**	**0.5**	**–**	**60.5**	**–**	**–**	**–**	**–**	**60.5**
Capital expenditure[1]	**30.8**	**4.2**	**12.1**	**1.5**	**–**	**48.6**	**0.4**	**–**	**–**	**0.4**	**49.0**

[1] Non-trading items, depreciation and amortisation, and capital expenditure include amounts not allocated to reportable segments of £22.6 million, £0.1 million and £1.0 million, respectively.

2009	Continuing operations UK Retail £m	Other European Retail £m	Digital £m	Core Telephone Betting £m	High Rollers £m	Total £m	Discontinued operations Italy Retail £m	Casino £m	Hotels £m	Total £m	Group Total £m
Segment revenue	656.7	130.6	160.7	15.7	68.5	1,032.2	26.9	4.6	–	31.5	1,063.7
Segment profit/(loss) before non-trading items	134.5	8.3	46.1	(3.3)	66.9	252.5	(9.9)	(0.9)	–	(10.8)	241.7
Non-trading items[1]	(10.4)	(3.8)	–	(1.0)	–	(15.2)	(64.7)	(6.0)	(0.3)	(71.0)	(86.2)
Segment profit/(loss)	124.1	4.5	46.1	(4.3)	66.9	237.3	(74.6)	(6.9)	(0.3)	(81.8)	155.5
Corporate costs [2]						(18.1)				–	(18.1)
Profit/(loss) before tax and finance costs						219.2				(81.8)	137.4
Net finance costs						(45.1)				0.1	(45.0)
Profit/(loss) before tax						174.1				(81.7)	92.4
Income tax (expense)/ credit						(27.7)				9.7	(18.0)
Profit for the year						146.4				(72.0)	74.4
Share of results from joint venture and associates	3.2	(2.1)	–	–	–	1.1	–	–	–	–	1.1
Depreciation and amortisation[1]	42.9	4.7	4.6	0.7	–	52.9	1.3	–	–	1.3	54.2
Capital expenditure[1]	27.0	6.5	11.7	0.2	–	45.4	5.2	–	–	5.2	50.6

[1] Non-trading items; depreciation and amortisation; and capital expenditure include amounts not allocated to reportable segments of £0.3 million, £0.2 million and £4.1 million, respectively.
[2] In 2009, Corporate costs were shown separately as Corporate costs of £15.5 million and International development costs of £2.6 million.

6 Segment information continued

Geographical information
The following tables present revenue and non-current asset information on a geographical basis for the total of continuing and discontinued operations for the years ended 31 December 2010 and 31 December 2009.

The revenue information below is based on the location of the customer.

2010	United Kingdom £m	Rest of the world £m	Total £m
Revenue	**840.8**	**147.6**	**988.4**
Total non-current assets[1]	**719.6**	**121.0**	**840.6**

2009	United Kingdom £m	Rest of the world £m	Total £m
Revenue	816.1	247.6	1,063.7
Total non-current assets[1]	736.0	128.5	864.5

[1] Non-current assets excluding deferred tax assets and retirement benefit assets.

7 Non-trading items (continuing operations)

	2010 £m	2009 £m
Business restructuring costs[1]	**(7.4)**	(3.9)
Impairment loss[2]	**(9.2)**	(6.1)
Termination of machines contract[3]	**(8.1)**	–
Loss on closure of UK Retail shops[4]	**(3.0)**	(4.1)
Loss on closure of Other European Retail shops	**(0.1)**	(2.1)
Litigation and transaction costs	**(0.7)**	–
Bond termination costs and termination of interest rate swaps[5]	**(17.7)**	–
Net unrealised losses on derivative financial instruments (note 9)	**–**	(1.0)
Total non-trading items	**(46.2)**	(17.2)
Non-trading tax credit	**2.0**	0.9
Non-trading items after taxation	**(44.2)**	(16.3)

[1] Business restructuring costs in 2010 relate to costs associated with a strategic review resulting in changes to senior executives and operational structures within Corporate costs of £4.8 million, UK Retail of £0.5 million, Digital of £1.9 million and Other European Retail of £0.2 million. Business restructuring costs in 2009 related to the closure of the Liverpool call centre within the Core Telephone Betting segment (£1.0 million) and changes to the management structure within UK Retail (£1.9 million) and Corporate costs (£1.0 million).
[2] The impairment loss relates to UK Retail shops £2.0 million (2009: £4.4 million), Ireland shops £5.3 million (2009: £1.7 million) and £1.9 million losses in relation to the withdrawal from the French joint venture with Groupe Canal+.
[3] The £8.1 million termination of machines contract cost includes accelerated depreciation of £7.1 million and related contract costs of £1.0 million.
[4] The £3.0 million (2009: £4.1 million) loss on closure of UK Retail shops consists of loss on disposal of intangible assets of £2.6 million (2009: £0.9 million), loss on disposal of property, plant and equipment of £0.4 million (2009: £1.9 million) and cost accruals of £nil (2009: £1.3 million).
[5] During the year the Group repurchased £118.6 million of the £250 million 7.125% bonds due 2012 and issued £225 million 7.625% bonds maturing in 2017. The early repayment premium on the 2012 bonds of £8.6 million and £9.1 million of recycled losses relating to the early termination of interest rate swaps are reported as non-trading items.

Non-trading items relating to discontinued operations are shown in note 14.

Notes to the consolidated financial statements
continued

8 Profit before tax and finance costs
Profit before tax and finance costs has been arrived at after charging:

	Continuing operations		Discontinued operations		Total	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Betting duty, gross profits tax, horse and dog levy	**104.5**	124.9	**1.3**	3.9	**105.8**	128.8
Depreciation of property, plant and equipment[1]	**54.9**	46.8	**–**	1.3	**54.9**	48.1
Amortisation of intangible assets	**5.7**	6.7	**–**	–	**5.7**	6.7
Staff costs (note 10)	**272.6**	276.6	**5.8**	20.8	**278.4**	297.4
Foreign exchange	**0.3**	–	**–**	–	**0.3**	–
Audit fees						
– audit of Group financial statements	**0.4**	0.4	**–**	–	**0.4**	0.4

(1) After non-trading items.

Fees for other services to Ernst & Young LLP amount to £1.0 million (2009: £1.0 million). Services provided in the year were auditing of accounts of Group companies, £0.4 million (2009: £0.4 million), taxation advice, £0.1 million (2009: £0.2 million), corporate finance services, £0.4 million (2009: £0.3 million) and other assurance services, £0.1 million (2009: £0.1 million).

Analysis of expense by function is:

	Continuing operations	
	2010 £m	2009 £m
Cost of sales after depreciation and amounts written off non-current assets	**712.6**	734.7
Administrative expenses	**92.0**	79.4

9 Finance costs and income

	Continuing operations		Discontinued operations			Total
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Bank loans and overdrafts[1]	**(2.8)**	(9.4)	**–**	–	**(2.8)**	(9.4)
Bonds and private placements at amortised cost[1]	**(28.4)**	(32.9)	**–**	–	**(28.4)**	(32.9)
Fee expenses	**(3.4)**	(4.4)	**–**	–	**(3.4)**	(4.4)
Finance costs before non-trading items	**(34.6)**	(46.7)	**–**	–	**(34.6)**	(46.7)
– Losses on derivatives not in a hedging relationship	**–**	(56.5)	**–**	–	**–**	(56.5)
– Recycling of losses on cash flow hedges	**(9.1)**	–	**–**	–	**(9.1)**	–
– Bond early repayment costs	**(8.6)**	–	**–**	–	**(8.6)**	–
– Losses on retranslation of foreign currency borrowings held at amortised cost	**(0.8)**	(0.3)	**–**	–	**(0.8)**	(0.3)
Total finance costs	**(53.1)**	(103.5)	**–**	–	**(53.1)**	(103.5)
Interest receivable[1] [2]	**20.6**	2.6	**–**	0.1	**20.6**	2.7
Finance income before non-trading items	**20.6**	2.6	**–**	0.1	**20.6**	2.7
– Gains on derivatives not in a hedging relationship	**0.8**	1.9	**–**	–	**0.8**	1.9
– Gains on retranslation of foreign currency borrowings held at amortised cost	**–**	53.9	**–**	–	**–**	53.9
Total finance income	**21.4**	58.4	**–**	0.1	**21.4**	58.5
Net finance costs before non-trading items	**(14.0)**	(44.1)	**–**	0.1	**(14.0)**	(44.0)
Non-trading net gains and losses	**(17.7)**	(1.0)	**–**	–	**(17.7)**	(1.0)
Net finance costs after non-trading items	**(31.7)**	(45.1)	**–**	0.1	**(31.7)**	(45.0)

(1) Calculated using the effective interest rate method.
(2) In 2010, £20.0 million interest income is in relation to the HMRC tax settlement.

There were no gains/(losses) on derivatives that were part of fair value hedges (2009: £7.7 million). Gains/(losses) on the hedged items, attributable to the hedged risks, were £nil (2009: £(7.7) million).

10 Staff costs

The average weekly number of employees (including executive directors) was:

	Continuing operations	
	2010 Number	2009 Number
UK Retail	**12,877**	13,145
Other European Retail	**1,515**	1,486
Digital	**522**	506
Telephone Betting	**304**	489
Central services	**71**	65
	15,289	15,691

	Discontinued operations	
	2010 Number	2009 Number
Italy Retail	**154**	411
Casino	**–**	106
	154	517

Notes to the consolidated financial statements continued

10 Staff costs continued

	Continuing operations		Discontinued operations		Total	
	2010 £m	2009 £m	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Wages and salaries	**244.2**	246.1	**5.3**	17.0	**249.5**	263.1
Social security costs	**20.9**	22.2	**0.2**	3.1	**21.1**	25.3
Pension costs	**3.7**	4.4	**0.3**	0.7	**4.0**	5.1
Expense of share-based payments	**3.8**	3.9	**–**	–	**3.8**	3.9
	272.6	276.6	**5.8**	20.8	**278.4**	297.4

In addition to salary, employees may qualify for various benefit schemes operated by the Group. Eligibility for benefits is normally determined primarily according to an employee's length of service and level of responsibility. The amounts of some benefits are proportionate to individual salary.

Benefits may include paid leave for holidays, maternity and illness, as well as insured benefits. The latter can cover private healthcare for the employee and their immediate family, long-term disability, personal accident and death in service cover. Company cars, including fuel benefits, are provided predominantly to meet job requirements but also to certain executives.

The principal benefit schemes are:

(i) Pensions

(a) Ladbrokes Group Stakeholder Pension Plan
New employees in the UK are offered membership of Ladbrokes Group Stakeholder Pension Plan, a defined contribution pension scheme. Subject to meeting certain eligibility and employment grade criteria, the Group matches employees' contributions up to a maximum of 15% of base salary.

(b) Ladbrokes Pension Plan (LPP)
Members contribute on average six per cent of pensionable salary per annum. Benefit generally accrues to provide a target pension of two thirds (for joiners after June 2002: half) of final pensionable salary for an employee attaining age 65 with at least 40 years' membership. A spouse's pension is payable following death.

LPP – Executive Section
Members contribute on average seven per cent of pensionable salary per annum. Benefit accrues to provide a target pension from all sources of two thirds of final pensionable salary for an executive attaining age 60 with at least 20 years' membership (for joiners after June 2002, employees attaining age 65 with at least 26.7 years' service). A spouse's and children's pensions are payable following death.

Senior executives subject to the Earnings Cap:
Following the A-Day pensions review, the pre-A-Day Revenue limits regime has been maintained as the framework for the LPP, including a LPP-specific Earnings Cap. Executive directors and senior executives have a choice between:

(i) membership of the Executive Section of the LPP plus a cash supplement of up to 30% of base salary above the Earnings Cap; or

(ii) a cash supplement of up to 30% of base salary in lieu of membership of the LPP.

(ii) Share-based payments

Details of employee share schemes operated by the Group are shown in the Directors' Remuneration Report on pages 39 to 50 that forms part of the Annual Report 2010.

Details of options granted in 2010 and outstanding at 31 December 2010 are shown in note 32.

Details of directors' remuneration and the policies adopted in determining it can be found in the Directors' Remuneration Report on pages 39 to 50.

11 Income tax

Major components of income tax expense for the years ended 31 December 2010 and 31 December 2009 are:

	2010 £m	2009 £m
Consolidated income statement		
Current income tax		
– current income tax charge		
UK corporation tax	**29.4**	27.1
Overseas tax	**2.0**	0.6
– adjustments in respect of previous years[1]	**(203.7)**	(0.1)
Deferred income tax		
– relating to origination and reversal of temporary differences	**3.7**	18.7
– tax rate reduction	**(0.6)**	–
– adjustments in respect of previous years[1]	**(58.5)**	(28.3)
Income tax (credit)/expense	**(227.7)**	18.0
Consolidated statement of changes in equity		
Deferred income tax	**6.6**	0.8
Income tax reported in equity	**6.6**	0.8

A reconciliation of income tax expense applicable to accounting profit before income tax at the UK statutory income tax rate to the income tax expense for the years ended 31 December 2010 and 31 December 2009 is as follows:

	2010 £m	2009 £m
Accounting profit before income tax		
– continuing operations	**147.1**	174.1
– discontinued operations	**(26.5)**	(81.7)
At UK statutory income tax rate of 28.0% (2009: 28.0%)	**33.8**	25.9
Lower effective tax rates on overseas earnings	**(11.8)**	(5.1)
Recognition of tax losses	**(7.0)**	–
Non-deductible expenses	**3.2**	5.3
Non-deductible expenses included in discontinued operations and non-trading items	**19.0**	17.1
Tax rate reduction	**(0.6)**	–
Adjustments in respect of prior periods[1]	**(262.2)**	(28.5)
Other	**(2.1)**	3.3
Income tax (credit)/expense	**(227.7)**	18.0
Reported as:		
– continuing operations in consolidated income statement (before non-trading items)	**(226.3)**	28.6
– continuing operations in consolidated income statement (tax on non-trading items) (note 7)	**(2.0)**	(0.9)
Total continuing operations	**(228.3)**	27.7
– discontinued operations (note 14)	**0.6**	(9.7)
Income tax (credit)/expense	**(227.7)**	18.0

[1] In 2010, the adjustment in respect of prior periods of £262.2 million includes £261.9 million as a result of the HMRC tax settlement.

In April 2010, the Group announced that it had reached a settlement with HMRC which covered substantially all outstanding items in respect of tax years to 31 December 2007. The settlement has resulted in the recognition within the tax charge of a £261.9 million tax credit in relation to prior years. The settlement included £46.2 million relating to the recognition of a deferred tax asset. The asset primarily reflected the recognition of tax losses available for offset in future periods. The settlement resulted in a cash repayment of £80.0 million of corporation tax by HMRC, which is offset by current year payments of £28.1 million. There was also interest income of £20.0 million in respect of an interest rebate following the HMRC tax settlement.

Notes to the consolidated financial statements continued

11 Income tax continued

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated balance sheet 2010 £m	Consolidated balance sheet 2009 £m	Consolidated income statement 2010 £m	Consolidated income statement 2009 £m
Deferred income tax liabilities				
Accelerated depreciation for tax purposes	**2.2**	8.1	**(5.9)**	0.6
Betting licences	**81.8**	88.2	**(6.4)**	(6.1)
Retirement benefit asset	**9.3**	4.2	**0.9**	1.0
Deferred income tax liabilities	**93.3**	100.5		
Deferred income tax assets				
Retirement benefit obligation	**–**	(0.5)	**0.5**	3.8
Losses	**(45.9)**	(9.8)	**(36.1)**	4.9
Fair value adjustments to revenue	**(22.3)**	(13.8)	**(8.5)**	(13.8)
Other temporary differences	**(1.1)**	(4.6)	**0.1**	–
Deferred income tax assets	**(69.3)**	(28.7)		
Deferred income tax credit			**(55.4)**	(9.6)
Net deferred income tax liability	**24.0**	71.8		

The Group has further tax losses at 31 December 2010 of £71.3 million (2009: £74.2 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as there is insufficient certainty that there will be suitable taxable profits from which the future reversal of temporary differences may be deducted. There are no significant taxable temporary differences associated with investments in subsidiaries, associated undertakings and joint ventures.

The Chancellor, in the Budget on 22 June 2010, announced reductions in the main rate of corporation tax and rates of capital allowances. The standard rate of UK Corporation Tax will be reduced from 28% to 27% from 1 April 2011, and there will be progressive annual reductions of a further 1% until a rate of 24% is reached with effect from 1 April 2014. The Finance Act (No 2) 2010 received Royal Assent on 27 July 2010, with the first of the rate reductions being substantively enacted from 21 July 2010.

The deferred tax assets and liabilities at the balance sheet date are calculated at the substantively enacted rate of 27%. Whilst detailed calculations have not been prepared at this stage, it is estimated that the impact of the remaining annual corporation tax rate reductions would be to reduce the value of the group's deferred tax liabilities at the balance sheet date by approximately £13.0 million, and to reduce the value of the group's deferred tax assets at the balance sheet date by approximately £12.0 million.

12 Dividends paid and proposed

Pence per share	2010 pence	2009 pence
Interim	**3.85**	2.98
Final	**3.75**	–
	7.60	2.98

A final dividend of 3.75 pence (2009: £nil) per share, amounting to £33.8 million (2009: £nil) in respect of the year ended 31 December 2010 was declared by the directors on 17 February 2011. These financial statements do not reflect the dividend payable. The 2010 interim dividend of 3.85 pence per share (£34.7 million) was paid in 2010.

13 Earnings per share

Basic earnings per share has been calculated by dividing the profit for the year attributable to shareholders of the Company of £348.3 million (2009: £74.4 million) by the weighted average number of shares in issue during the year of 904.6 million (2009: 751.4 million).

At 31 December 2010, there were 907.4 million 28¹/₃ pence ordinary shares in issue excluding treasury shares (939.1 million including treasury shares). At 31 December 2009, there were 902.0 million 28¹/₃ pence ordinary shares in issue excluding treasury shares (933.8 million including treasury shares).

At 31 December 2010, 12.7 million (2009: 15.5 million) shares were deemed anti-dilutive for the purpose of calculating adjusted 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. Non-trading items are defined in note 2, and disclosed in notes 7, 11 and 14.

	2010 £m	2009 £m
Continuing operations		
Profit attributable to shareholders	**375.4**	146.4
Non-trading items net of tax	**44.2**	16.3
Adjusted profit attributable to shareholders	**419.6**	162.7
Discontinued operations		
Loss attributable to shareholders	**(27.1)**	(72.0)
Non-trading items net of tax	**18.4**	61.5
Adjusted loss attributable to shareholders	**(8.7)**	(10.5)
Group		
Profit attributable to shareholders	**348.3**	74.4
Non-trading items net of tax	**62.6**	77.8
Adjusted profit attributable to shareholders	**410.9**	152.2

Weighted average number of shares (millions)

	2010	2009
Shares for basic earnings per share	**904.6**	751.4
Potentially dilutive share options and contingently issuable shares	**2.5**	1.9
Shares for diluted earnings per share	**907.1**	753.3

Earnings per share (pence)

	Before non-trading items		**After non-trading items**	
	2010	2009	**2010**	2009
Continuing operations				
Basic earnings per share	**46.4**	21.7	**41.5**	19.5
Diluted earnings per share	**46.3**	21.6	**41.4**	19.4
Discontinued operations				
Basic earnings per share	**(1.0)**	(1.4)	**(3.0)**	(9.6)
Diluted earnings per share	**(1.0)**	(1.4)	**(3.0)**	(9.5)
Group				
Basic earnings per share	**45.4**	20.3	**38.5**	9.9
Diluted earnings per share	**45.3**	20.2	**38.4**	9.9

Notes to the consolidated financial statements continued

14 Discontinued operations

On 31 May 2010, the Group completed the sale of its Italian operations. The net cash consideration was finalised in the year. The effect of the disposal is as follows:

	31 December 2010 £m
Initial cash consideration	**4.4**
Working capital adjustment	**(5.3)**
Final cash consideration	**(0.9)**
Net assets sold	**(24.5)**
Cost of disposal	**(2.7)**
Currency translation difference reclassified on disposal	**10.8**
Loss on disposal	**(17.3)**

The Group's Casino operation was closed on 12 November 2009 and the licence was sold for £4.3 million on 22 January 2010.

Loss for discontinued operations comprises the following:

	2010			2009			
	Italy Retail £m	**Hotels £m**	**Total £m**	Italy Retail £m	Casino £m	Hotels £m	Total £m
Revenue	**8.3**	**–**	**8.3**	26.9	4.6	–	31.5
Expenses	**(17.4)**	**–**	**(17.4)**	(36.8)	(5.5)	–	(42.3)
Loss before tax, finance costs and non-trading items	**(9.1)**	**–**	**(9.1)**	(9.9)	(0.9)	–	(10.8)
Net finance income	–	**–**	–	0.1	–	–	0.1
Loss before tax and non-trading items	**(9.1)**	**–**	**(9.1)**	(9.8)	(0.9)	–	(10.7)
Loss on disposal of business/assets	**(17.3)**	**–**	**(17.3)**	(0.6)	–	–	(0.6)
Litigation costs	**(1.3)**	**–**	**(1.3)**	–	–	–	–
Gain/(loss) on financial guarantee contracts	**–**	**1.2**	**1.2**	–	–	(0.3)	(0.3)
Impairment loss	**–**	**–**	**–**	(64.1)	–	–	(64.1)
Loss on closure of Casino	**–**	**–**	**–**	–	(6.0)	–	(6.0)
Loss/(profit) before tax	**(27.7)**	**1.2**	**(26.5)**	(74.5)	(6.9)	(0.3)	(81.7)
Taxation credit on trading items	**0.4**	**–**	**0.4**	–	0.2	–	0.2
Taxation (charge)/credit on non-trading items	**(1.0)**	**–**	**(1.0)**	9.1	0.4	–	9.5
Loss for the year from discontinued operations	**(28.3)**	**1.2**	**(27.1)**	(65.4)	(6.3)	(0.3)	(72.0)
Loss for the year from discontinued operations before non-trading items	**(8.7)**	**–**	**(8.7)**	(9.8)	(0.7)	–	(10.5)

14 Discontinued operations continued

Following the sale of Italy Retail and the closure of the Casino, the Group has no assets or liabilities classified as held for sale. The major classes of assets and liabilities of Italy Retail sold on 31 May 2010 and of Italy Retail and the Casino held for sale at 31 December 2009 were as follows:

	31 May 2010 Total £m	31 December 2009 Total £m
Assets		
Non-current assets		
Goodwill and intangible assets	**6.8**	11.5
Property, plant and equipment	**21.2**	21.4
Other financial assets	**–**	1.1
	28.0	34.0
Current assets		
Trade and other receivables	**2.4**	5.6
Cash and short-term deposits	**3.1**	5.3
	5.5	10.9
Total assets sold/held for sale	**33.5**	44.9
Liabilities		
Current liabilities		
Trade and other payables	**(9.0)**	(8.6)
Corporation tax liabilities	**–**	(0.4)
	(9.0)	(9.0)
Non-current liabilities		
Other financial liabilities	**–**	(4.9)
Total liabilities sold/held for sale	**(9.0)**	(13.9)
Net assets sold/held for sale	**24.5**	31.0

Cash flows relating to discontinued operations were:

	2010 £m	2009 £m
Net cash flows from operating activities	**(9.1)**	(9.8)
Investing activities	**(0.4)**	(5.0)
Net cash consideration	**(0.9)**	–
Cost of disposal of discontinued operations	**(2.7)**	(1.3)
Cash disposed of with discontinued operations	**(3.1)**	–
Cash flows relating to discontinued operations	**(16.2)**	(16.1)

Notes to the consolidated financial statements continued

15 Goodwill and intangible assets

	Goodwill £m	Licences £m	Software £m	Customer Relationships £m	Total £m
Cost					
At 1 January 2009	54.4	600.8	54.1	40.5	749.8
Exchange rate movements	(0.7)	(8.9)	(0.2)	–	(9.8)
Additions	–	4.3	9.5	–	13.8
Assets included in disposal group	(4.5)	(63.1)	(4.6)	–	(72.2)
Disposals	(0.6)	(1.2)	(0.1)	–	(1.9)
At 1 January 2010	**48.6**	**531.9**	**58.7**	**40.5**	**679.7**
Exchange rate movements	**(0.1)**	**(1.6)**	**–**	**–**	**(1.7)**
Additions	**–**	**2.0**	**13.8**	**–**	**15.8**
Disposals	**–**	**(3.4)**	**(13.1)**	**–**	**(16.5)**
At 31 December 2010	**48.5**	**528.9**	**59.4**	**40.5**	**677.3**
Amortisation					
At 1 January 2009	–	21.8	34.5	–	56.3
Exchange rate movements	–	0.1	0.1	–	0.2
Amortisation	–	–	6.7	–	6.7
Impairment loss(1)	–	31.0	–	–	31.0
Assets included in disposal group	–	(28.2)	(0.5)	–	(28.7)
At 1 January 2010	**–**	**24.7**	**40.8**	**–**	**65.5**
Exchange rate movements	**–**	**–**	**–**	**–**	**–**
Amortisation	**–**	**–**	**5.7**	**–**	**5.7**
Disposals	**–**	**(0.4)**	**(12.1)**	**–**	**(12.5)**
Impairment loss(1)	**–**	**8.5**	**–**	**–**	**8.5**
At 31 December 2010	**–**	**32.8**	**34.4**	**–**	**67.2**
Net book value					
At 31 December 2009	48.6	507.2	17.9	40.5	614.2
At 31 December 2010	**48.5**	**496.1**	**25.0**	**40.5**	**610.1**

(1) In 2010, the impairment loss of £8.5 million includes £3.4 million in respect of UK Retail and £5.1 million for Ireland. In 2009, the impairment loss of £31.0 million included £27.8 million in respect of Italy Retail prior to its classification as held for sale, £2.3 million for UK Retail and £0.9 million for Ireland.

Goodwill and intangible assets included in continuing operations
Goodwill relates to the consideration exceeding the fair value of net assets of business combinations including the deferred tax liability arising on statutory licence acquisitions.

Licences comprises the cost of acquired betting shop licences. The acquired betting shop licences are not amortised as they are considered to have an indefinite life for a combination of reasons:

- Ladbrokes is a leading operator in well-established markets;
- there is a proven, sustained demand for bookmaking services; and
- existing law acts to restrict entry.

Ladbrokes has a very strong track record of renewing its betting permits and licences at minimal cost.

Software relates to the cost of software acquisition and the capitalised costs in respect of internally generated software.

The customer relationship relates to the Group's acquisition of its former partner in the Nordic region. The existing arrangement constituted an intangible right, which was valued at the acquisition date. Having considered the Group's long term business plans for the Nordics, the Group concluded that the relationship had an indefinite life as there was no foreseeable limit to the period over which the asset was expected to generate net cash inflows.

16 Impairment testing of goodwill and indefinite life intangible assets

The Group tests annually for impairment and at each reporting date if there are indications that goodwill and indefinite life intangible assets are impaired, by comparing the carrying amounts of these assets with their recoverable amounts (being the higher of fair value less costs to sell and value in use).

Goodwill

Goodwill is tested for impairment by allocating its carrying amount to groups of cash generating units (CGUs) expected to benefit from the synergies of the combination. If the recoverable amount of a group of CGUs exceeds its carrying amount, the group and any goodwill allocated to that group would be regarded as not impaired. Goodwill has been allocated as follows:

	2010 £m	2009 £m
Goodwill		
UK Retail	**35.4**	35.4
Other European Retail	**13.1**	13.2
	48.5	48.6

No impairments were identified in 2010.

Licences

Licences have been allocated to the individual UK and Other European Retail CGUs that are expected to benefit from the assets. Each CGU represents the lowest level within the Group at which the licences are monitored for internal management purposes which in the majority of instances is an individual shop. The carrying value of licences at 31 December 2010 was £496.1 million (2009: £507.2 million) allocated as £322.9 million to UK Retail (2009: £326.7 million) and £173.2 million to Other European Retail (2009: £180.5 million).

Basis on which recoverable amount has been determined

The recoverable amounts of the CGUs are determined from value in use calculations. These are based on budgets approved by management for the next three years extrapolated thereafter using a 2.5% growth rate (2009: 2.5%). This rate does not exceed the average long-term growth rate for the relevant markets.

Key assumptions used in value in use calculations

The key assumptions taken into account by management are the amounts staked, the gross win margin and the discount rate applied. The estimated amounts staked and gross win margin are based upon historic experience, management's best estimate of future trends and performance taking account of industry sources. The discount rate applied to cash flow projections is 11.0% (2009: 10.5%).

The recoverable amounts of certain individual UK and Other European Retail CGUs were below their carrying amounts at 31 December 2010 and accordingly an impairment loss of £8.5 million has been recognised in the consolidated income statement for the year ended 31 December 2010 (2009: £3.2 million) within the non-trading 'Depreciation and amounts written off non-current assets' line item, allocated as £3.4 million to UK Retail and £5.1 million to Other European Retail.

The recoverable amount of individual CGUs is sensitive to changes in cash flows or discount rate. Change in the cash flow projections or the discount rate would trigger a further impairment loss. For example, an increase of 0.5% in the discount rate would have resulted in a further impairment loss of approximately £0.5 million for UK Retail and £5.9 million for Other European Retail, or a reduction in projected cashflows of 5% would have resulted in a further impairment loss of approximately £0.9 million for UK Retail and £7.5 million for Other European Retail.

Customer relationships

Customer relationships of £40.5 million (2009: £40.5 million) have been allocated to a CGU within the Digital operating segment.

The recoverable amount of the CGU is considerably in excess of the carrying amount of the customer relationships and accordingly no impairment charge was required.

Notes to the consolidated financial statements continued

17 Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost			
At 1 January 2009	118.7	366.1	484.8
Exchange rate movements	(0.8)	(5.9)	(6.7)
Additions	13.8	23.6	37.4
Assets included in disposal group	(2.1)	(22.9)	(25.0)
Disposals	(4.8)	(12.9)	(17.7)
At 1 January 2010	**124.8**	**348.0**	**472.8**
Exchange rate movements	**(0.4)**	**(1.6)**	**(2.0)**
Additions	**4.0**	**29.8**	**33.8**
Disposals	**(5.6)**	**(26.3)**	**(31.9)**
At 31 December 2010	**122.8**	**349.9**	**472.7**
Depreciation			
At 1 January 2009	51.2	158.4	209.6
Exchange rate movements	(0.4)	(2.1)	(2.5)
Depreciation charge for the year	9.5	38.6	48.1
Impairment charge	0.8	2.1	2.9
Assets included in disposal group	–	(3.6)	(3.6)
Disposals	(2.6)	(9.4)	(12.0)
At 1 January 2010	**58.5**	**184.0**	**242.5**
Exchange rate movements	**(0.3)**	**(0.7)**	**(1.0)**
Depreciation charge for the year(1)	**9.5**	**45.4**	**54.9**
Net reversal of impairment	**(0.6)**	**(0.6)**	**(1.2)**
Disposals	**(5.1)**	**(24.8)**	**(29.9)**
At 31 December 2010	**62.0**	**203.3**	**265.3**
Net book value			
At 31 December 2009	66.3	164.0	230.3
At 31 December 2010	**60.8**	**146.6**	**207.4**

(1) The depreciation charge for the year includes accelerated depreciation of £7.1 million recorded in non-trading items (note 7).

At 31 December 2010, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.2 million (2009: £1.3 million).

The recoverable amounts of certain property, plant and equipment within individual UK and Other European Retail CGUs were assessed as at 31 December 2010 and accordingly an impairment reversal of £1.4 million in UK Retail and an impairment loss of £0.2 million in Other European Retail have been recognised in the consolidated income statement for the year ended 31 December 2010 (2009: £2.9 million charge) within the non-trading 'Depreciation and amounts written off non-current assets' line item.

18 Interest in joint venture

	Share of joint venture's net assets £m
Cost	
At 1 January 2009	0.7
Exchange rate movements	(0.1)
Additions	4.1
Share of loss after tax	(2.1)
At 1 January 2010	**2.6**
Exchange rate movements	**0.1**
Additions	**0.8**
Share of loss after tax	**(0.5)**
At 31 December 2010	**3.0**

During the year, the Group entered into a 50:50 joint venture with Groupe Canal+ in a bid to launch an online sportsbook in France. Subsequently the Group has agreed to terminate the joint venture partnership. Total costs of £1.9 million, including the write-off of the investment, have been presented as a non-trading item in the year (note 7).

Summarised financial information in respect of the Group's share of the joint venture's net assets is set out below:

	2010 £m	2009 £m
Non-current assets	**4.4**	3.8
Current assets	**0.8**	0.9
Current liabilities	**(2.2)**	(2.1)
Share of joint venture's net assets	**3.0**	2.6

	2010 £m	2009 £m
Group's share of joint venture's revenue for the year	**7.1**	3.7
Group's share of joint venture's loss for the year	**(0.5)**	(2.1)

Further details of the Group's joint venture are included in note 34.

19 Interest in associates and other investments

	Share of associates' net assets £m	Other investments £m	Total £m
Cost			
At 1 January 2009	9.5	0.8	10.3
Exchange rate movements	–	(0.1)	(0.1)
Additions	0.4	–	0.4
Share of profit after tax	3.2	–	3.2
Dividend received	(3.3)	–	(3.3)
At 1 January 2010	**9.8**	**0.7**	**10.5**
Additions	**0.2**	**–**	**0.2**
Share of profit after tax	**3.8**	**–**	**3.8**
At 31 December 2010	**13.8**	**0.7**	**14.5**

Notes to the consolidated financial statements continued

19 Interest in associates and other investments continued

Associates

Summarised financial information in respect of the Group's associates is set out below:

	2010 £m	2009 £m
Total share of associates' assets	**39.1**	23.8
Total share of associates' liabilities	**(25.3)**	(14.0)
Share of associates' net assets	**13.8**	9.8

	2010 £m	2009 £m
Group's share of associates' revenue for the year	**64.7**	33.3
Group's share of associates' profit for the year	**3.8**	3.2

Further details of the Group's principal associates are listed in note 34.

The financial year end of Satellite Information Services (Holdings) Limited (SIS), an associate of the Group, is 31 March. The Group has included the results for SIS for the 12 months ended 31 December 2010.

Other investments

Other investments consists of investments in ordinary shares, which therefore have no fixed maturity rate or coupon rate.

20 Trade and other receivables

	2010 £m	2009 £m
Trade receivables	**3.4**	13.7
Other receivables	**22.5**	32.5
Prepayments and accrued income	**58.7**	58.3
	84.6	104.5

Trade receivables are non-interest bearing and are generally on 30-90 day terms. Trade receivables are reviewed for impairment on an ongoing basis, taking account of the ageing of outstanding amounts and the credit profile of customers. Impaired receivables, including all trade receivables that are a year old, are provided for in an allowance account. Impaired receivables are derecognised when they are assessed as unrecoverable.

At 31 December 2010, trade receivables with an initial fair value of £4.2 million (2009: £4.1 million) were provided for in full. Movements in the provision for impairment of trade receivables were as follows:

	2010 £m	2009 £m
At 1 January	**4.1**	3.7
Charge in the year	**0.2**	0.6
Unused amounts reversed	**(0.1)**	(0.2)
At 31 December	**4.2**	4.1

At 31 December, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired			
	Total £m	Neither past due nor impaired £m	< 30 days £m	30-60 days £m	60-90 days £m	90+ days £m
2010	**3.4**	**0.5**	**1.8**	**0.4**	**0.1**	**0.6**
2009	13.7	1.1	1.7	3.2	0.3	7.4

21 Cash and short-term deposits

Cash and short-term deposits in the balance sheet comprises:

	2010 £m	2009 £m
Continuing operations		
Cash at bank and in hand	**17.9**	24.8
Discontinued operations		
Cash at bank and in hand	**–**	5.3
Total Group		
Cash at bank and in hand	**17.9**	30.1

Cash and cash equivalents in the consolidated statement of cash flows comprises cash at bank with a maturity of three months or less and overdrafts:

	2010 £m	2009 £m
Continuing operations		
Cash at bank and in hand	**17.9**	24.8
Bank overdrafts (included in current liabilities)	**(0.2)**	(2.1)
	17.7	22.7
Discontinued operations		
Cash at bank and in hand	**–**	5.3
Total Group	**17.7**	28.0

22 Trade and other payables

	2010 £m	2009 £m
Trade payables	**14.5**	11.6
Other payables	**34.1**	36.1
Other taxation and social security	**17.4**	11.4
Accruals and deferred income	**68.4**	67.8
	134.4	126.9

23 Provisions

	Vacant property provision		
	Current £m	Non-current £m	Total £m
At 1 January 2010	**2.8**	**13.7**	**16.5**
Provided	**0.6**	**0.5**	**1.1**
Utilised	**(2.5)**	**(0.9)**	**(3.4)**
Reclassified	**0.4**	**(0.4)**	**–**
At 31 December 2010	**1.3**	**12.9**	**14.2**

The periods of vacant property commitments range from one to 13 years (2009: one to 13 years).

Financial statements

Notes to the consolidated financial statements
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24 Interest bearing loans and borrowings

	2010 £m	2009 £m
Current		
Unsecured		
Bank loans	**108.0**	7.5
Overdrafts	**0.2**	2.1
Loan notes	**0.1**	16.5
	108.3	26.1
Non-current		
Unsecured		
Bank loans	**49.0**	440.2
7.125% bonds due 2012	**131.0**	249.1
7.625% bonds due 2017	**221.6**	–
	401.6	689.3
Total interest bearing loans and borrowings	**509.9**	715.4

The Group's borrowings are denominated in the following currencies:

2010	**GBP £m**	**Euro £m**	**Other £m**	**Total £m**
Bank loans	**157.0**	**–**	**–**	**157.0**
Loan notes	**0.1**	**–**	**–**	**0.1**
Overdrafts	**0.2**	**–**	**–**	**0.2**
7.125% bonds due 2012	**131.0**	**–**	**–**	**131.0**
7.625% bonds due 2017	**221.6**	**–**	**–**	**221.6**
Total	**509.9**	**–**	**–**	**509.9**

2009	GBP £m	Euro £m	Other £m	Total £m
Bank loans	447.7	–	–	447.7
Loan notes	0.1	–	16.4	16.5
Overdrafts	0.9	1.2	–	2.1
7.125% bonds due 2012	249.1	–	–	249.1
Total	697.8	1.2	16.4	715.4

The Group has undrawn committed borrowing facilities of £718.6 million at 31 December 2010 (2009: £428.1 million). The expiry profile of these is as follows:

	2010 £m	2009 £m
In less than one year	**217.0**	–
In more than one year but not more than two years	**–**	3.8
In more than two years but not more than five years	**501.6**	424.3
Total undrawn committed facilities	**718.6**	428.1

25 Financial risk management objectives and policies
The Group's treasury function provides a centralised service for the provision of finance and the management and control of liquidity, foreign exchange rates and interest rates. The function operates as a cost centre and manages the Group's treasury exposures to reduce risk in accordance with policies approved by the Board.

The Group's principal financial instruments comprise bank loans, overdrafts, loan notes, bonds, financial guarantee contracts, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments such as trade receivables, trade payables and accruals that arise directly from its operations.

The Group enters into derivative transactions, such as forward foreign exchange contracts, currency swaps and interest rate swaps. The purpose of these transactions is to assist in the management of the Group's financial risk and to generate the desired effective currency and interest rate profile. At 31 December 2010, the Group had no such derivatives.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken other than betting and gaming transactions. The Group's exposure to ante post betting and gaming transactions is not significant.

The Group has a £2.0 billion Euro Medium Term Note (EMTN) programme that it uses to increase the flexibility of funding with regards to source, cost, size and maturity. At 31 December 2010, one public Eurobond issue remained under this programme, being the remainder of the £250 million 7.125% bond, maturing July 2012. During the year the Group repurchased £118.6 million of the 7.125% Sterling bond due 2012. At 31 December 2010, the remaining amount under this bond was £131.0 million. Funds raised via the EMTN programme have been used to repay bank debt.

In addition, in March 2010, the Group issued a £225 million 7.625% Sterling bond due 2017 which was fully subscribed, with issue costs of £3.9 million.

The main financial risks for the Group are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. The Group also monitors the market price risk arising from all financial instruments.

Interest rate risk
The Group is exposed to interest rate risk on interest bearing loans and borrowings and on cash and cash equivalents.

The Group's policy for the year ended 31 December 2010 was to maintain a minimum of 25% (2009: 25%) of net debt at fixed interest rates to reduce its sensitivity to movements in variable short-term interest rates. At 31 December 2010, £352.6 million or 69.2% (2009: £457.3 million or 63.9%) of the Group's gross borrowings were at fixed rates.

Interest on financial instruments at floating rates is re-priced at intervals of less than six months. Interest on financial instruments at fixed rates is fixed until the maturity of the instrument.

Interest rate sensitivity
The table below demonstrates the sensitivity to reasonably possible changes in interest rates on income and equity for the year when this movement is applied to the carrying value of financial assets and liabilities.

	Profit before tax		Equity	
Effect on:	**2010 £m**	2009 £m	**2010 £m**	2009 £m
100 basis points increase	**(0.8)**	(1.6)	**–**	0.3
200 basis points increase	**(1.7)**	(3.3)	**–**	0.7
100 basis points decrease	**0.7**	1.6	**–**	(0.3)
200 basis points decrease	**1.4**	3.0	**–**	(0.7)

The sensitivity has been estimated by applying the basis points movement to the carrying value of the financial assets and liabilities, subject to interest at floating rates, held by the Group at the year end.

Foreign currency risk
The Group carries out operations through a number of foreign enterprises and has foreign exchange exposure to the Euro, arising from foreign currency assets. The Group's exposure to currency risk at a transactional level is monitored and reviewed regularly.

Until 30 June 2009, the Group sought to mitigate the effect of its structural currency exposure arising from the translation of foreign currency assets through Euro drawings under its committed facilities. The Group ceased formal net investment hedging on 30 June 2009.

The total carrying value of the Group's foreign currency borrowings at 31 December 2010 was £nil (2009: £17.6 million), of which £nil (2009: £16.4 million) was swapped into sterling.

Notes to the consolidated financial statements
continued

25 Financial risk management objectives and policies continued
Exchange rate sensitivity
The impact of 10% and 20% movements in the exchange rates between sterling and the Euro is shown below:

	Profit before tax		Equity	
Effect on:	**2010 £m**	2009 £m	**2010 £m**	2009 £m
Euro				
10% increase in the exchange rate	**0.1**	0.3	**(7.8)**	(9.8)
20% increase in the exchange rate	**0.2**	0.5	**(14.2)**	(18.0)
10% decrease in the exchange rate	**(0.1)**	(0.3)	**9.5**	12.0
20% decrease in the exchange rate	**(0.3)**	(0.7)	**21.4**	27.0

The impact on equity relates primarily to unhedged foreign exchange exposure arising on translation of foreign currency assets and liabilities.

These sensitivities have been calculated before adjusting for tax and have been estimated by applying the percentage movement to the carrying value of financial assets and liabilities denominated in Euros at the year end.

Credit risk
The Group is not subject to significant concentration of credit risk, with exposure spread across a large number of counterparties and customers.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Any changes to credit terms are assessed and authorised by senior management on an individual basis.

The Group's High Rollers division consists of individuals who place sizeable stakes. The Group manages this activity and the associated risk exposure by utilising senior management expertise to manage the levels of stakes placed. Of the £3.4 million (2009: £13.7 million) trade receivables balance, £2.8 million (2009: £12.6 million) relates to the Group's Core Telephone Betting and High Rollers divisions.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and a loan to a joint venture, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk in respect of cash and cash equivalents is managed by restricting those transactions to banks that have a defined minimum credit rating and by setting an exposure ceiling per bank.

The Group also has exposure to credit risk arising from the financial guarantee contracts provided by the Group. This risk is partly mitigated by the indemnity received from Hilton Hotels Corporation for any loss incurred in connection with these guarantees. For further detail of these guarantees refer to note 26.

Liquidity risk
The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of borrowings with a range of maturities. The Group's policy on liquidity is to ensure that there are sufficient medium-term and long-term committed borrowing facilities to meet the medium-term funding requirements. At 31 December 2010, there were undrawn committed borrowing facilities of £718.6 million (2009: £428.1 million). Total committed facilities had an average maturity of 2.5 years (2009: 2.6 years).

25 Financial risk management objectives and policies continued

The total gross contractual undiscounted cash flows of financial liabilities, including interest payments, fall due as follows:

2010	On demand or within 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Interest bearing loans and borrowings	**136.1**	**158.4**	**100.5**	**259.3**	**654.3**
Other financial liabilities	**1.7**	**1.0**	**3.8**	**21.3**	**27.8**
Trade and other payables	**134.4**	**–**	**–**	**–**	**134.4**
Total	**272.2**	**159.4**	**104.3**	**280.6**	**816.5**

2009	On demand or within 1 year £m	1-2 years £m	2-5 years £m	> 5 years £m	Total £m
Interest bearing loans and borrowings	51.5	343.7	389.1	–	784.3
Derivatives	8.7	6.9	1.3	–	16.9
Other financial liabilities	0.9	1.3	3.3	21.4	26.9
Trade and other payables	126.9	–	–	–	126.9
Total	188.0	351.9	393.7	21.4	955.0

The total gross contractual undiscounted cash inflows in relation to derivative financial instrument assets used to hedge the risks associated with interest bearing loans and borrowings are £nil (2009: £1.4 million) within one year and £nil (2009: £nil) within one to two years.

Hedging activities

Hedging of net investments in foreign operations

The Group ceased to designate its committed Euro borrowings as a partial hedge of the net investments in its European subsidiaries from 30 June 2009. Pre-tax losses of £nil (2009: £10.4 million) (post-tax losses of £nil (2009: £7.5 million)) arising on the translation of these borrowings have been deferred in reserves during the year.

Fair value hedges

The Group uses interest rate and cross currency swaps to manage its fair value exposure to interest rate movements on its borrowings by swapping borrowings from fixed rates to floating rates in accordance with the policy of the Group. Contracts with nominal values of £nil (2009: £16.2 million) have fixed interest receipts and floating interest payments based on LIBOR. The fair value of the swaps at 31 December 2010 is £nil (2009: asset of £0.4 million).

Cash flow hedges

The Group previously used interest rate swaps to manage its cash flow exposure. At 31 December 2009, the Group had contracts for interest rate swaps with nominal values of £199.0 million maturing between January 2011 and January 2012. The fair value at 31 December 2009 was a liability of £9.2 million which was deferred in equity in retained earnings. During the year the Group terminated these interest rate swaps, as the underlying interest cash flows were no longer expected to occur. As a result, £9.1 million of losses deferred to equity have been reclassified to the consolidated income statement as a non-trading finance cost, and £0.5 million remains deferred in equity until the forecast cash flows occur in the period to August 2011.

There is no ineffectiveness recognised in the consolidated income statement arising from cash flow hedges.

Derivatives not designated as hedging instruments

The Group continued to hold cross currency swaps until their maturity in July 2009. These swaps did not qualify as net investment hedges under IAS 39 but were economic hedges of the Group's foreign currency borrowings. The fair value of the Group's foreign exchange swaps at 31 December 2010 was a liability of £nil (2009: £0.1 million).

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a credit rating that enables the Group to raise funds at an economic interest rate and to maintain healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure (net debt and equity – see note 27 and the consolidated statement of changes in equity for further details) and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a net debt to EBITDA ratio. The target range is less than 3.0 (2009: less than 3.0) times net debt to EBITDA ratio. The ratio at 31 December 2010 was 1.9 (2.0 adjusted to remove profit from High Rollers) and at 31 December 2009 was 2.5 (3.3 adjusted to remove profit from High Rollers).

Notes to the consolidated financial statements
continued

26 Financial instruments
The table below analyses the Group's financial instruments into their relevant categories:

31 December 2010	Loans and receivables £m	Loans at amortised cost £m	Assets/ (liabilities) at fair value through profit or loss £m	Derivatives in a hedging relationship £m	Total £m
Assets					
Non-current					
Other financial assets	5.0	–	–	–	5.0
Current					
Trade and other receivables	17.4	–	–	–	17.4
Cash and short-term deposits	17.9	–	–	–	17.9
Total	40.3	–	–	–	40.3
Liabilities					
Current					
Interest bearing loans and borrowings	–	(108.3)	–	–	(108.3)
Trade and other payables	–	(128.4)	(6.0)	–	(134.4)
Other financial liabilities	–	–	(1.1)	–	(1.1)
Non-current					
Interest bearing loans and borrowings	–	(401.6)	–	–	(401.6)
Other financial liabilities	–	(2.7)	(8.1)	–	(10.8)
Total	–	(641.0)	(15.2)	–	(656.2)
Net financial assets/(liabilities)	40.3	(641.0)	(15.2)	–	(615.9)

26 Financial instruments continued

31 December 2009	Loans and receivables £m	Loans at amortised cost £m	Assets/(liabilities) at fair value through profit or loss £m	Derivatives in a hedging relationship £m	Total £m
Assets					
Non-current					
Other financial assets	5.5	–	–	–	5.5
Current					
Trade and other receivables	38.0	–	–	–	38.0
Derivatives	–	–	–	0.4	0.4
Cash and short-term deposits	24.8	–	–	–	24.8
Total	68.3	–	–	0.4	68.7
Liabilities					
Current					
Interest bearing loans and borrowings	–	(26.1)	–	–	(26.1)
Derivatives	–	–	(0.1)	–	(0.1)
Trade and other payables	–	(122.3)	(4.6)	–	(126.9)
Other financial liabilities	–	–	(1.7)	–	(1.7)
Non-current					
Interest bearing loans and borrowings	–	(689.3)	–	–	(689.3)
Derivatives	–	–	–	(9.2)	(9.2)
Other financial liabilities	–	(2.7)	(9.3)	–	(12.0)
Total	–	(840.4)	(15.7)	(9.2)	(865.3)
Net financial assets/(liabilities)	68.3	(840.4)	(15.7)	(8.8)	(796.6)

Fair value of financial instruments

Derivatives used for hedging and assets and liabilities designated as at fair value through profit or loss are carried at fair value.

The fair value of cash at bank and in hand approximates to book value due to its short-term maturity. The fair value of the £250 million 7.125% bond at 31 December 2010, of which £131.0 million remained outstanding, was £138.3 million (2009: £261.6 million). The fair value of the £225 million 7.625% bond at 31 December 2010 was £228.0 million. The amortised cost of interest bearing loans and borrowings, with the exception of the £250 million 7.125% bond and £225 million 7.625% bond and the carrying value of all other assets and liabilities, approximates to fair value.

The hierarchy of the Group's financial instruments carried at fair value is as follows:

				2010
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Liabilities measured at fair value				
Financial guarantee contracts	**–**	**–**	**(8.1)**	**(8.1)**
Trade and other payables	**–**	**–**	**(6.0)**	**(6.0)**
Other current financial liabilities	**–**	**–**	**(1.1)**	**(1.1)**
Total	**–**	**–**	**(15.2)**	**(15.2)**

Notes to the consolidated financial statements continued

26 Financial instruments continued

	Level 1 £m	Level 2 £m	Level 3 £m	2009 Total £m
Assets measured at fair value				
Derivatives	–	0.4	–	0.4
Liabilities measured at fair value				
Derivatives	–	(9.3)	–	(9.3)
Financial guarantee contracts	–	–	(9.3)	(9.3)
Trade and other payables	–	–	(4.6)	(4.6)
Other current financial liabilities	–	–	(1.7)	(1.7)
Total	–	(8.9)	(15.6)	(24.5)

The Group classifies all derivatives as level 2 financial instruments, as their fair value is determined based on techniques for which all significant inputs are observable, either directly or indirectly.

Financial guarantee contracts, included within other non-current financial liabilities, are classified as level 3 financial instruments, as their fair value is measured using techniques where the significant inputs are not based on observable market data. Further information about financial guarantee contracts, including sensitivities, and a reconciliation of changes in fair value in the year, is included below.

Other current financial liabilities are deferred revenues associated with the fair value of reward points issued. Included in trade and other payables are £6.0 million of antepost liabilities (2009: £4.6 million); both are classified as level 3 financial instruments as their fair value is measured using techniques where the significant inputs are not based on observable market data. Changes in the fair value of these instruments are recorded in the consolidated income statement.

No financial instruments are classified as level 1, for which fair value is based on quoted prices in active markets for identical assets or liabilities. During the year ended 31 December 2010, there were no transfers between level 1 and level 2 fair value measurements.

Financial guarantee contracts

The Group has given guarantees to third parties in respect of lease liabilities of former subsidiaries within the disposed hotels division. The Group received an indemnity from Hilton Hotels Corporation (HHC), at the time of the hotels disposal, in relation to any loss the Group may subsequently incur under these third party guarantees. The guarantees expire between 2011 and 2042 and the lease liabilities comprise a combination of minimum contractual and turnover based elements.

The undiscounted maximum liability exposure in respect of the guarantees for all periods up to 2042 is £901.2 million (31 December 2009: £933.0 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £505.9 million (31 December 2009: £517.2 million) in relation to the turnover based element of the hotel rentals and £395.3 million (31 December 2009: £415.8 million) in relation to the minimum contractual based element. The undiscounted maximum liability represents the total of all guaranteed rentals under the non-cancellable agreements into which the Group has entered.

The net present value of the maximum exposure at 31 December 2010 is £385.9 million (31 December 2009: £407.7 million). Included in the net present value of the maximum exposure is £193.4 million (31 December 2009: £201.0 million) in relation to the turnover based element of the hotel rentals and £192.5 million (31 December 2009: £206.7 million) in relation to the minimum contractual based element.

The Group monitors its exposure under these guarantees on a regular basis and seeks, where appropriate, to novate its obligations.

The financial guarantees liability has been valued using a probability based model to estimate the net present value of the liabilities payable in the event of a default by the hotels covered by the guarantees, and the probability of such a default and new tenants being identified.

At 31 December 2010 the Group has recognised a financial liability of £8.1 million (31 December 2009: £9.3 million) in respect of these guarantees.

Fair value of guarantees liability

	2010 £m	2009 £m
At 1 January	**9.3**	9.0
Change in fair value attributable to hotels default risk	**–**	0.6
Change in fair value attributable to time lapse	**(1.2)**	(0.3)
At 31 December	**8.1**	9.3

The change in the year in the fair value of the financial guarantees liability has been recognised in the consolidated income statement and classified in discontinued operations.

No asset has been recognised in respect of the indemnity at 31 December 2010 (2009: £nil).

The key assumption in the probability model is the hotels default rate. A rate of 2.2% has been used at 31 December 2010 (2009: 2.2%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.5 million.

27 Net debt

The Group's net debt is as follows:

	2010			2009		
	Continuing £m	**Discontinued £m**	**Total £m**	Continuing £m	Discontinued £m	Total £m
Current assets						
Derivatives	**–**	**–**	**–**	0.4	–	0.4
Cash and short-term deposits	**17.9**	**–**	**17.9**	24.8	5.3	30.1
Current liabilities						
Bank overdrafts	**(0.2)**	**–**	**(0.2)**	(2.1)	–	(2.1)
Interest bearing loans and borrowings	**(108.1)**	**–**	**(108.1)**	(24.0)	–	(24.0)
Derivatives	**–**	**–**	**–**	(0.1)	–	(0.1)
Non-current liabilities						
Interest bearing loans and borrowings	**(401.6)**	**–**	**(401.6)**	(689.3)	–	(689.3)
Derivatives	**–**	**–**	**–**	(9.2)	–	(9.2)
Net debt	**(492.0)**	**–**	**(492.0)**	(699.5)	5.3	(694.2)

28 Share capital

	Number of 28⅓p ordinary shares	£m
Issued and fully paid		
At 1 January 2009	632,399,274	179.2
Rights issue[(1)]	300,658,239	85.2
During the year	708,984	0.2
At 31 December 2009	933,766,497	264.6
Issued and fully paid		
At 1 January 2010	**933,766,497**	**264.6**
During the year[(2)]	**5,371,735**	**1.5**
At 31 December 2010	**939,138,232**	**266.1**

(1) On 8 October 2009 the Group announced a fully underwritten 1 for 2 rights issue at a price of 95.0 pence per share, with a nominal value of 28⅓ pence each. The Company raised proceeds of £274.6 million, net of issue costs of £11.0 million.
(2) During the year, the following fully paid shares of 28⅓ pence each were issued: 4,035,784 shares under the Ladbrokes Growth Plan, 1,177,103 shares under the 2010 Share Award Plan, 149,782 shares under the OWN Plan, 7,340 shares on exercise of options under the International Share Option Scheme and 1,726 shares on exercise of options under the 1983 Savings Related Share Option Scheme.

At the Annual General Meeting held on 14 May 2010, shareholders authorised the Company to purchase up to 90,200,592 of its ordinary shares in the market. At 17 February 2011, no purchases have been made pursuant to such authority.

	Number of 28⅓p ordinary shares
Shares issued at 31 December 2009	933,766,497
Treasury shares	(31,760,568)
Shares issued at 31 December 2009 excluding treasury shares	902,005,929
Shares issued at 31 December 2010	**939,138,232**
Treasury shares	**(31,760,568)**
Shares issued at 31 December 2010 excluding treasury shares	**907,377,664**

Notes to the consolidated financial statements
continued

29 Employee share ownership plans
The Ladbrokes Share Ownership Trust ('LSOT') is used in connection with the Company's Deferred Bonus Plan, the Ladbrokes Growth Plan, the Restricted Share Plan and the 2010 Share Award Plan (together 'the Plans') (refer to note 32 for further details of the Plans and the various performance conditions). The LSOT may also be used in connection with the Company's other share-based plans, including the 1978 Share Option Scheme and the International Share Option Scheme. The trustee of the LSOT, Computershare Trustees (CI) Limited, subscribes for the Company's shares or purchases them in the open market, as required, on the basis of regular reviews of the anticipated commitments of the Group, with financing provided by the Company.

The Ladbrokes Share Incentive Plan ('LSIP') is currently used in connection with the Company's OWN share plan ('the OWN plan') and Freeshare share plan ('Freeshare') (refer to note 32 for further details). The trustee of the LSIP, Computershare Trustees Limited, purchases the Company's shares in the open market, as required, using: (i) deductions made from the salaries of participants in the OWN plan; (ii) dividends paid on the shares held by the LSIP and (iii) financing provided by the Company to make awards of Freeshares to employees with more than one year's service. Under the OWN plan, to match those shares acquired using participants' salary deductions, one additional share is allotted by the Company to the LSIP for every two held per employee.

All expenses of the LSOT and LSIP are settled directly by the Company and charged in the financial statements as incurred.

The following table shows the number of shares held in trust that have not yet vested unconditionally and the associated reduction in shareholders' funds.

	LSOT		LSIP		Total	
	Shares held Number	Cost of shares £m	Shares held Number	Cost of shares £m	Shares held Number	Cost of shares £m
At 31 December 2009	**2,726,511**	**5.5**	**1,055,597**	**1.8**	**3,782,108**	**7.3**
Shares purchased/allotted(1)	**5,391,264**	**6.2**	**275,285**	**0.2**	**5,666,549**	**6.4**
Vested in year	**(1,327,888)**	**(3.7)**	**(201,053)**	**(0.5)**	**(1,528,941)**	**(4.2)**
Sold in year	**(258,362)**	**(0.3)**	–	–	**(258,362)**	**(0.3)**
At 31 December 2010	6,531,525	7.7	1,129,829	1.5	7,661,354	9.2
Market value of shares in trusts		8.0		1.4		9.4
Unallocated shares in trusts	–		–		–	

(1) Includes an award of 4,035,784 shares allotted by the Company and held jointly between the participant and Computershare Trustees (CI) Limited under the Ladbrokes Growth Plan (refer to the Directors' remuneration report).

30 Notes to the statement of cash flows

Reconciliation of profit to net cash inflow from operating activities:

	2010 £m	2009 £m
Profit before tax and finance costs – continuing[1]	**207.3**	235.4
Loss before tax and finance costs – discontinued[1]	**(9.1)**	(10.8)
Profit before tax and finance costs[1]	**198.2**	224.6
Depreciation – continuing	**47.8**	46.8
Depreciation – discontinued	**–**	1.3
Amortisation of intangible assets	**5.7**	6.7
Cost of share-based payments	**3.8**	3.9
Decrease/(increase) in other financial assets	**1.2**	(3.2)
Decrease/(increase) in trade and other receivables	**21.7**	(17.2)
(Decrease)/increase in other financial liabilities	**(7.9)**	3.5
Increase/(decrease) in trade and other payables	**20.5**	(36.4)
(Decrease)/increase in provisions	**(2.3)**	1.1
Contribution to retirement benefit scheme	**(6.7)**	(7.0)
Share of results from joint venture	**0.5**	2.1
Share of results from associates	**(3.8)**	(3.2)
Other items	**(5.8)**	3.0
Cash generated by operations	**272.9**	226.0
Income taxes received/(paid)	**51.9**	(37.1)
Finance costs paid	**(47.8)**	(56.4)
Net cash inflow from operating activities	**277.0**	132.5

(1) Before non-trading items.

31 Retirement benefit schemes

Defined contribution schemes

The total cost charged to the consolidated income statement of £0.9 million for continuing operations (2009: £1.0 million) and £nil for discontinued operations (2009: £0.7 million) represents contributions payable to these schemes by the Group at rates specified in the rules of the scheme.

Defined benefit plans

The Group's only significant defined benefit retirement plan is the Ladbrokes Pension Plan, which is a final salary pension plan for UK employees. Assets are held separately from those of the Group. Although the Group is responsible for the operation of this arrangement, professional advisers are appointed to assist the trustees in running it.

The last formal actuarial valuation of the Ladbrokes Pension Plan was carried out with an effective date of 30 September 2007, with the next valuation as at 30 June 2010 currently in process.

The latest actuarial valuation was updated to 31 December 2010 by an independent qualified actuary in accordance with IAS 19 Employee Benefits. The value of the defined benefit obligation and current service cost have been measured using the projected unit credit method, as required by IAS 19.

In July 2010, the Government announced that in future statutory indexation for pensions would be linked to the Consumer Prices Index (CPI) rather than the, historically, higher Retail Prices Index. On the basis of legal advice, the Group has assessed that this change will act to reduce the Group's pension liabilities. To reflect this, in 2010 the Group has recognised an actuarial gain of £8.6 million outside profit and loss through other comprehensive income.

The amounts recognised in the balance sheet are as follows:

	2010 £m	2009 £m
Present value of funded obligations	**(228.6)**	(227.4)
Fair value of plan assets	**263.1**	242.4
Net asset	**34.5**	15.0
Amounts in the balance sheet		
Asset	**34.5**	15.0

Notes to the consolidated financial statements continued

31 Retirement benefit schemes continued

The amounts recognised in the consolidated income statement are as follows:

	2010 £m	2009 £m
Analysis of amounts charged to staff costs (continuing operations)		
Current service cost (excluding employee element)	**3.5**	2.8
Interest on obligation	**13.0**	12.4
Expected return on plan assets	**(13.7)**	(11.8)
Total expense recognised in the consolidated income statement in staff costs	**2.8**	3.4

The actual return on plan assets over the year was a gain of £24.5 million (2009: a gain of £25.9 million).

The amount recognised in the consolidated statement of comprehensive income for 2010 is a gain of £15.6 million (2009: loss of £9.4 million). The cumulative amount of actuarial gains and losses recognised in the consolidated statement of comprehensive income at 31 December 2010 is a loss of £25.1 million (2009: loss of £40.7 million).

	2010 £m	2009 £m
Actual return on assets	**24.5**	25.9
Less: Expected return on assets	**(13.7)**	(11.8)
	10.8	14.1
Actuarial gains/(losses) on defined benefit obligation	**4.8**	(23.5)
	15.6	(9.4)

Changes in the present value of the defined benefit obligation are as follows:

	2010 £m	2009 £m
Opening defined benefit obligation	**(227.4)**	(196.5)
Current service cost (excluding employee element)	**(3.5)**	(2.8)
Employee contributions	**(1.3)**	(1.4)
Interest cost	**(13.0)**	(12.4)
Actuarial gains/(losses)	**4.8**	(23.5)
Benefits paid	**11.8**	9.2
Closing defined benefit obligation	**(228.6)**	(227.4)

Changes in the fair value of plan assets are as follows:

	2010 £m	2009 £m
Opening defined benefit asset	**242.4**	217.3
Expected return on plan assets	**13.7**	11.8
Actuarial gains	**10.8**	14.1
Contributions by sponsoring companies	**6.7**	7.0
Employee contributions	**1.3**	1.4
Benefits paid	**(11.8)**	(9.2)
Closing defined benefit asset	**263.1**	242.4

The Group expects to contribute £6.6 million to its defined benefit plan in 2011. The 30 June 2010 valuation is expected to be completed in the first half of 2011 and, as a result of this, the contributions required from the Group may change.

31 Retirement benefit schemes continued

The major categories of plan assets as a percentage of total plan assets are as follows:

	2010	2009
Equity instruments (%)	**42.0**	41.0
Debt instruments (%)	**58.0**	59.0
	100.0	100.0

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages where appropriate):

		2010 % pa	2009 % pa
Discount rate		**5.5**	5.8
Expected return on plan assets		**5.8**	6.0
Future salary growth		**0% in 2011 and 4.5% pa thereafter, plus promotional scale**	0% in 2010, 2.5% in 2011 and 4.6% pa thereafter, plus promotional scale
Price inflation		**2.8**	3.6
Future pension increases	– LPI 5%	**2.8**	3.5
	– LPI 3%	**2.7**	2.7
	– LPI 2.5%	**2.1**	2.3

The overall expected return on plan assets was derived as an average of the long-term expected rates of return on each of the major asset classes invested in, weighted by the allocations of assets among the classes over the long term. The sources used to determine the best estimate of long-term returns include bond yields, inflation and investment market expectations derived from market data and analysts' or government's expectations. At 31 December 2010, the long-term expected rates of return on equity instruments and debt instruments were assumed to be 8.0% pa and 4.4% pa, respectively, for the plan. The equivalent assumptions at 31 December 2009 were 8.2% pa and 4.6% pa respectively.

The post retirement mortality assumed for most members is based on the standard SAPS mortality table with the CMI 2009 projections, which takes into account future improvements, adjusted to reflect plan specific experience. The assumption used implies that the expected future lifetime of members aged 65 in 2010 is 86.6 years for males and 87.6 years for females. For members with large pensions a longer lifetime is assumed (89.9 for males and 90.4 for females). The post retirement mortality assumption has been updated since 2009 when expected future lifetimes were generally assumed to be 85.8 years for males aged 65 and 87.8 years for females, with longer lifetimes assumed for members with large pensions of 89.2 years for males and 91.0 years for females.

Notes to the consolidated financial statements continued

31 Retirement benefit schemes continued

Changes to the assumptions will impact the amounts recognised in the consolidated balance sheet and the consolidated income statement in respect of the plan. For the significant assumptions, the following sensitivity analysis provides an indication of the impact for the year ended 31 December 2010, excluding the impact on the associated deferred tax items:

	2010 £m	2009 £m
– 0.5% pa decrease in the discount rate would have the following approximate effect:		
Increase in the current service cost (excluding employee element)	**0.6**	0.5
Decrease in the balance sheet asset at 31 December	**18.7**	18.1
This ignores the potential positive impact that a general fall in bond yields may have on the value of the bond assets held by the plan.		
– 1.0% pa decrease in the expected return on plan assets would have the following approximate effect:		
Increase in the amount charged to staff costs	**2.4**	2.2
– one year increase in life expectancy would have the following approximate effect:		
Increase in the current service cost (excluding employee element)	**0.1**	0.1
Decrease in the balance sheet asset at 31 December	**5.5**	5.7
– 0.5% pa increase in price inflation would have the following approximate effect:		
Increase in the current service cost (excluding employee element)	**0.3**	0.3
Decrease in the balance sheet asset at 31 December	**9.8**	8.8

Amounts for the current year and the prior four years are as follows:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Defined benefit obligation	**(228.6)**	(227.4)	(196.5)	(208.5)	(208.1)
Plan assets	**263.1**	242.4	217.3	242.1	230.7
Surplus	**34.5**	15.0	20.8	33.6	22.6
Experience gain/(loss) on plan liabilities	**4.0**	3.5	(1.7)	(5.8)	(3.0)
Experience gain/(loss) on plan assets	**10.8**	14.1	(37.5)	(3.0)	8.9

32 Share-based payments

Ladbrokes plc has the following share-based payment plans, all of which are settled by equity: the Deferred Bonus Plan, the Performance Share Plan, the Ladbrokes Growth Plan, the International Share Option Scheme, the 1978 Share Option Scheme, the Restricted Share Plan, Sharesave, the OWN Plan, Freeshare and the 2010 Share Award Plan. The plans and the various performance conditions are discussed in more detail below.

(i) Deferred Bonus Plan

For certain senior executives, one third of the gross annual bonus (changed from half of the gross annual bonus in respect of the bonus year 2007) is delivered in shares that vest after three years. For other employees, one third of the gross annual bonus (changed from half of the gross annual bonus in respect of the bonus year 2007) is delivered in shares that vest after two years.

(ii) Performance Share Plan

An award under the Performance Share Plan consists of a conditional allocation of shares that will vest, subject to the achievement of performance conditions, at the end of the three year period. The awards have two separate performance conditions; half of the award vests based on TSR and half of the award vests based on EPS.

(iii) Ladbrokes Growth Plan

Awards are subject to share price growth performance conditions. Any share price target must be attained throughout a period of 30 consecutive dealing days and performance is assessed over a five year period. Up to one third of the award may vest at the end of year three if the performance targets have been achieved at that time. A further third may vest at the end of year four if the targets have been met at that time. The remainder of the award may vest at the end of year five, subject to the achievement of the performance targets.

The award can take the form of a restricted interest in a share held jointly with Computershare Trustees (CI) Limited, the trustee of the Ladbrokes Share Ownership Trust and a nil cost option, which together will entitle the executive to the value of a whole share.

(iv) International Share Option Scheme and the 1978 Share Option Scheme

The share options granted are all market value options with a three year vesting period. Vested options lapse if they have not been exercised within ten years of the date of grant. All options have an EPS growth based performance condition. No options were granted in 2010 and there is no present intention to grant options in the future.

32 Share-based payments continued

(v) Restricted Share Plan

Awards under the Restricted Share Plan will vest in their entirety after three years. However, for awards granted prior to May 2010, employees can elect for 50% of the award to vest after two years. Awards are not subject to performance conditions.

(vi) 1983 Savings Related Share Option Scheme ('Sharesave')

Under Sharesave, options are granted at a 20% discount to market value. The scheme operates with a savings period of either three or five years, at the end of which the option may be exercised.

(vii) OWN Plan

Under the OWN Plan, employees can contribute up to £75 per month to acquire shares. For every two shares purchased, the Group provides a match of one additional share.

(viii) Freeshare

Under Freeshare, an award of up to £250 in value was made to participating employees on reaching one year's service. No new awards will be made from 2011 onwards.

(ix) 2010 Share Award Plan

An award under the 2010 Share Award Plan consists of a one-off compensatory share award to the Chief Executive in the form of a nil cost option. The award is not subject to performance conditions and will vest after three years.

For a more detailed description of each of the above plans, refer to the Directors' remuneration report.

The following table illustrates the number of shares outstanding at the beginning of the year, the number of shares granted, lapsed and vested during the year together with the outstanding share balances as at the end of the year in respect of the Restricted Share Plan, Deferred Bonus Plan, Performance Share Plan, Ladbrokes Growth Plan and 2010 Share Award Plan.

	Restricted Share Plan	Deferred Bonus Plan	Performance Share Plan	Ladbrokes Growth Plan	2010 Share Award Plan	Total
Outstanding at the beginning of the year	**401,180**	**2,132,230**	**6,360,566**	**–**	**–**	**8,893,976**
Granted during the year	**176,604**	**–**	**3,369,375**	**4,035,784**	**1,177,103**	**8,758,866**
Lapsed during the year	**(19,716)**	**–**	**(3,563,452)**	**–**	**–**	**(3,583,168)**
Vested during the year	**(265,322)**	**(1,062,566)**	**–**	**–**	**–**	**(1,327,888)**
Outstanding at the end of the year	**292,746**	**1,069,664**	**6,166,489**	**4,035,784**	**1,177,103**	**12,741,786**

The following table shows the number and weighted average exercise prices of share options granted, exercised and lapsed during the year in respect of the 1978 and International Share Option Schemes and also Sharesave.

	1978 and International Schemes	Sharesave	2010 Number	2010 WAEP – £	2009 Number	2009 WAEP – £
Outstanding at the beginning of the year	**13,258,763**	**3,447,738**	**16,706,501**	**2.27**	14,751,417	2.53
Granted during the year	**–**	**1,456,780**	**1,456,780**	**1.10**	4,295,463	1.38
Exercised during the year	**(7,340)**	**(1,726)**	**(9,066)**	**1.22**	(74,869)	1.28
Lapsed during the year	**(2,239,432)**	**(1,303,772)**	**(3,543,204)**	**2.52**	(2,265,510)	2.33
Outstanding at the end of the year[1][2]	**11,011,991**	**3,599,020**	**14,611,011**	**2.09**	16,706,501	2.27
Exercisable at the end of the year	**6,363,065**	**350,677**	**6,713,742**	**2.57**	7,443,293	2.56

[1] Included within this balance are options over 903,980 shares that have not been recognised in accordance with IFRS 2 as the options were granted on or before 7 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

[2] Of the 14,611,011 share options outstanding at 31 December 2010 12,686,675 (2009: 13,512,929) are at a price above the year end share price of 122.7 pence (31 December 2009: 137.5 pence). The total value of these shares is £28.4 million (2009: £33.8 million).

Notes to the consolidated financial statements
continued

32 Share-based payments continued
The weighted average share price at the date of exercise for share options exercised during the year was £1.52 (2009: £1.73).
The weighted average fair value of options granted during the year was 24.9 pence (2009: 33.0 pence). The weighted average remaining contractual life for the share options outstanding at 31 December 2010 is between three and eight years (2009: between two and eight years). The range of exercise prices for options outstanding at the end of the year was £1.10 – £3.60 (2009: £1.21 – £3.60).

At 31 December 2010, there were 8,622,081 options outstanding with an exercise price between £1.10 and £2.00, 3,416,505 options outstanding with an exercise price between £2.01 and £3.00, and 2,572,425 options outstanding with an exercise price between £3.01 and £3.60.

At 31 December 2009, there were 8,505,615 options outstanding with an exercise price between £1.21 and £2.00, 3,298,801 options outstanding with an exercise price between £2.01 and £3.00, and 4,902,085 options outstanding with an exercise price between £3.01 and £3.60.

The inputs into the binomial model are as follows:

	2010	2009
Weighted average share price (£)	**1.40**	1.44
Weighted average exercise price (£)	**1.10**	1.38
Expected volatility (%)	**25.0**	33.0
Expected life (years)	**4.19**	4.24
Risk free rate (%)	**3.63**	3.12
Expected dividends (%)	**7.41**	5.71

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous four years.
The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised an expense of £3.8 million (2009: £3.9 million) relating to equity settled share-based payment transactions.

Share awards granted during the year in respect of the Performance Share Plan:

	2010	2009
Number	**3,369,375**	3,768,163
Weighted average fair value	**£1.34**	£1.38

The fair value of share awards was measured by calculating the present value of the dividends receivable between the grant date and the vesting date and valuing the market related performance conditions through the use of a closed-form model, similar to a Monte Carlo simulation.

33 Commitments and contingencies

Operating lease commitments – Group as lessee

The Group has a number of lease agreements that, pursuant to their economic substance, qualify as non-cancellable operating lease agreements. These primarily relate to rents payable on land and buildings. The terms of the leases vary significantly but can broadly be summarised as follows:

Lease terms

Shop leases are typically 15 years with a tenant only break clause at 10 years and rent reviews every five years. Other leases are typically between three and 10 years.

Determination of rent payments

Rent payments are based on the amount specified in the agreement.

Terms of renewal

The agreements are not terminated automatically after expiry of the lease term and in the majority of cases, lease extension options have been agreed upon and in many other cases, there will be an opportunity to negotiate lease extensions with the lessor.

Restrictions

There are no restrictions imposed upon the Group, concerning dividends, additional debt or further leasing under any of the existing lease arrangements.

Subleases

The Group does sublease areas of leased properties and receives sublease payments from third parties.

Lease payments recognised as an expense for the year:

	2010 £m	2009 £m
Minimum lease payments	**61.6**	64.3

Analysis of minimum lease payments by division:

	2010 £m	2009 £m
UK Retail	**50.0**	48.8
Other European Retail	**11.3**	11.3
Digital	**0.3**	0.3
Total – Continuing	**61.6**	60.4
Total – Discontinued	**–**	3.9
Total	**61.6**	64.3

Future minimum rentals payable under non-cancellable operating leases at 31 December are as follows:

	2010 £m	2009 £m
Within one year	**56.9**	58.9
After one year but not more than five years	**158.3**	163.3
More than five years	**108.6**	121.7
	323.8	343.9

Notes to the consolidated financial statements continued

33 Commitments and contingencies continued

Operating lease commitments – Group as lessor

The Group has entered into sublease agreements for unutilised space in the UK shop estate. These non-cancellable leases have remaining lease terms of between one and 10 years.

Lease receipts recognised as income for the period:

	2010 £m	2009 £m
Minimum lease receipts	**3.7**	3.5

Future minimum rentals receivable under non-cancellable operating leases at 31 December are as follows:

	2010 £m	2009 £m
Within one year	**2.4**	2.3
After one year but not more than five years	**3.9**	4.8
More than five years	**1.9**	2.3
	8.2	9.4

Contingent liabilities

Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £513.4 million (2009: £715.4 million). In addition, subsidiaries have guaranteed loans of £0.1 million (2009: £0.2 million) given in the normal course of business to other subsidiary companies.

Bank guarantees have been issued on behalf of subsidiaries and joint venture with a value of £24.0 million (2009: £42.7 million).

34 Related party disclosures

The consolidated financial statements include the financial statements of Ladbrokes plc and its subsidiaries. The principal subsidiaries, all of which are wholly owned by the Group, are listed in the following table.

		% equity interest	
	Country of incorporation	2010	2009
Betting and Gaming			
Ladbrokes Betting & Gaming Limited	United Kingdom	**100.0**	100.0
Ladbroke (Ireland) Limited	Ireland	**100.0**	100.0
Ladbrokes Leisure (Ireland) Limited	Ireland	**100.0**	100.0
Ladbrokes International Limited	Gibraltar	**100.0**	100.0
Ladbrokes Sportsbook Limited Partnership	Gibraltar	**100.0**	100.0
Tiercé Ladbroke SA(1)	Belgium	**100.0**	100.0
Central services			
Ladbrokes Group Finance plc(1)	United Kingdom	**100.0**	100.0

(1) Directly owned by Ladbrokes plc.

During the year, the Group purchased a 60% interest in Main Street 684 (Proprietary) Limited, a venture with Kai Ro (International) Holdings Limited to launch an online sportsbook in South Africa. The results of the venture are consolidated in full in the Group financial statements with a deduction for the non-controlling interest.

The following table provides details of the Group's joint venture:

		% equity interest	
	Country of incorporation	2010	2009
Sportium Apuestas Deportivas SA	Spain	**50.0**	50.0

34 Related party disclosures continued

The following table provides details of the Group's associates:

	Country of incorporation	% equity interest 2010	2009
Satellite Information Services (Holdings) Limited	United Kingdom	**23.4**	23.4
Asia Gaming Technologies Limited	Hong Kong	**49.0**	49.0

A full list of subsidiary and other related undertakings will be annexed to the next annual return of Ladbrokes plc to be filed with the Registrar of Companies.

Other than its associates and joint venture, significant related parties of the Group are the executive and non-executive directors of the Group.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates and joint venture and other related parties are disclosed below.

Trading transactions

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

	2010 £m	2009 £m
Equity investment		
– Joint venture[(1)]	**0.8**	4.1
– Associates[(2)]	**0.2**	0.4
Additional loans provided		
– Joint venture partner	**0.8**	2.9
Dividends received		
– Associates	**–**	3.3
Sundry expenditure		
– Associates[(3)]	**35.7**	35.7

(1) Equity investment in Sportium Apuestas Deportivas SA.
(2) Equity investment in Asia Gaming Technologies Limited.
(3) Payments in the normal course of business made to Satellite Information Services (Holdings) Limited.

Details of related party outstanding balances

	2010 £m	2009 £m
Loan balances outstanding		
– Joint venture partner	**5.0**	5.5
Other receivables outstanding		
– Associates	**3.4**	2.3

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made at normal market prices and in the ordinary course of business. Outstanding balances at 31 December 2010 are unsecured and settlement occurs in cash. For the year ended 31 December 2010, the Group has not raised any provision (2009: £nil) for doubtful debts relating to amounts owed by related parties as the payment history has been good. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Notes to the consolidated financial statements
continued

34 Related party disclosures continued

Compensation of key management personnel of the Group

The remuneration of the key management personnel is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Following the senior executive and operational structure changes in 2010, key management personnel comprise executive directors, non-executive directors and members of the Operations Board. Further information about the remuneration of individual directors is provided in the audited part of the Directors' remuneration report on pages 39 to 50.

	2010 £m	2009 £m
Short-term employee benefits	**6.9**	2.7
Retirement benefits	**0.8**	0.5
Termination benefits	**1.8**	–
Share-based payments	**1.7**	0.9
Total compensation paid to key management personnel	**11.2**	4.1

Directors' interests in the employee share incentive plan and employee share trust are disclosed within the Directors' remuneration report.

35 Events after the balance sheet date

The directors propose a final dividend of 3.75 pence per share in respect of the year ended 31 December 2010.

Statement of directors' responsibilities in relation to the Consolidated financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained by the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules
Each of the directors, whose names and functions are listed in pages 30 and 31 of this Annual Report, confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face.

By order of the board

R I Glynn
B G Wallace
Directors

Independent auditor's report to the members of Ladbrokes plc

We have audited the Group financial statements of Ladbrokes plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities set out on page 99, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion, the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 32 to 36 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made;
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 38, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matter
We have reported separately on the parent Company financial statements of Ladbrokes plc for the year ended 31 December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

R W Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
17 February 2011

Company financial statements contents

Company balance sheet

At 31 December	Note	2010 £m	2009 £m
Fixed assets			
Investments	6	**4,760.5**	4,690.5
Current assets			
Debtors	7	**274.7**	307.3
Cash at bank and in hand		**3.0**	9.4
		277.7	316.7
Creditors – amounts falling due within one year	8	**(2,575.6)**	(2,293.8)
Net current liabilities		**(2,297.9)**	(1,977.1)
Total assets less current liabilities		**2,462.6**	2,713.4
Creditors – amounts falling due after more than one year	9	**(149.7)**	(159.3)
Provisions for liabilities and charges	10	**(0.8)**	(6.6)
Net assets excluding pension asset		**2,312.1**	2,547.5
Net pension asset	15	**25.2**	10.8
Net assets		**2,337.3**	2,558.3
Capital and reserves			
Called up share capital	12	**266.1**	264.6
Share premium account	13	**194.1**	189.5
Treasury and own shares	13	**(114.4)**	(112.5)
Capital reserve	13	**0.1**	0.1
Profit and loss account	13	**1,991.4**	2,216.6
Total equity		**2,337.3**	2,558.3

Approved by the Board of Directors on 17 February 2011.

R I Glynn
B G Wallace
Directors

Notes to the company financial statements

1 Basis of accounting
The financial statements have been prepared under the historical cost convention except as otherwise stated. They have been drawn up to comply with applicable UK accounting standards.

The Company has taken advantage of the exemption from preparing a cash flow statement under the provisions of FRS 1 (revised). The required consolidated cash flow statement has been included within the consolidated financial statements of the Group.

2 Change in accounting policies
There have been no changes in accounting policies during the year.

3 Summary of significant accounting policies
Investments
Investments held as fixed assets are stated at cost less provision for impairment.

The Company assesses these investments for impairment wherever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

Financial assets
Financial assets are recognised when the Company becomes party to the contracts that give rise to them.

The Company classifies financial assets at inception as either financial assets at fair value or loans and receivables. On initial recognition, loans and receivables are measured at fair value. Financial assets at fair value comprise guarantees provided to the Company. Financial assets at fair value through profit or loss are measured initially at fair value, with transaction costs taken directly to the profit and loss account. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the profit and loss account.

Financial guarantees provided to the Company are classified as financial assets and are measured at fair value by estimating the probability of the guarantees being called upon and the related cash inflows to the Company.

Financial liabilities
Financial liabilities comprise guarantees given to third parties. On initial recognition, financial liabilities are measured at fair value plus transaction costs where they are not categorised as financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs taken directly to the profit and loss account. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the profit and loss account.

Financial guarantee contracts
The Company has provided financial guarantees to third parties in respect of lease obligations of certain of the Company's former subsidiaries within the disposed hotels division.

Financial guarantee contracts are classified as financial liabilities and are measured at fair value by estimating the probability of the guarantees being called upon and the related cash outflows from the Company.

Derecognition of financial assets and liabilities
Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Company has transferred its contractual right to receive the cash flows from the financial assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expires.

Taxation
Deferred tax is recognised as an asset or liability, at appropriate rates, in respect of transactions and events recognised in the financial statements of the current and previous periods that give the entity a right to pay less, or an obligation to pay more, tax in future periods. Deferred tax assets are only recognised to the extent it is probable that there will be suitable taxable profits from which they can be recovered.

No provision is made for any taxation on capital gains that would arise from the future disposal of any fixed assets shown in the financial statements at valuation, except to the extent that at the balance sheet date there is a binding sale agreement.

Deferred tax balances are not discounted.

Foreign currency translation
The presentation and functional currency of the Company and the functional currencies of its UK subsidiaries, is sterling.

Transactions in foreign currencies are initially recorded in sterling at the foreign currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign currency rate of exchange ruling at the balance sheet date.

All foreign currency translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings that provide a post-tax hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the profit and loss account. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Pensions
The Company is the principal employer of the Ladbrokes Pension Plan, a funded defined benefit group plan. The pension cost relating to the plan is assessed in accordance with the advice of independent qualified actuaries using the projected unit credit method.

Any actuarial gains or losses are taken to equity in the period in which they arise. Any past service costs are recognised immediately to the extent that benefits have already vested and, otherwise, are amortised on a straight line basis over the average period until the benefits vest.

The defined benefit asset recognised in the balance sheet represents the fair value of plan assets less the present value of defined benefit obligations as adjusted for unrecognised past service cost. If necessary, the net defined benefit surplus is limited to the amount that can be recovered through reduced Company contributions in the future plus any refunds that have been agreed at the balance sheet date.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

Notes to the company financial statements
continued

3 Summary of significant accounting policies continued

Share-based payments

The cost of equity settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using a binomial model, further details of which are given in note 32 of the consolidated IFRSs financial statements. In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Ladbrokes plc (market conditions).

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Company at that date, based on the best available estimate of the number of equity instruments, will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

ESOP trusts

Where the Company holds its own equity shares through an ESOP trust these shares are shown as a reduction in equity.
Any consideration paid or received for the purchase or sale of these shares is shown in the reconciliation of movements in shareholders' funds and no gain or loss is recognised within the profit and loss account or the statement of total recognised gains and losses on the purchase, sale or cancellation of these shares.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

4 Profit and loss account of the parent Company

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the parent Company has not been separately presented in these financial statements. The parent Company loss for the year was £206.2 million (2009: loss of £532.4 million).

5 Dividends paid and proposed

Proposed dividends

Pence per share	**2010 pence**	2009 pence
Interim	**3.85**	2.98
Final	**3.75**	–
	7.60	2.98

A final dividend of 3.75 pence (2009: nil) per share amounting to £33.8 million (2009: nil) in respect of the year ended 31 December 2010 was declared by the directors on 17 February 2011. These financial statements do not reflect the dividend payable. The 2010 interim dividend of 3.85 pence per share (£34.7 million) was paid in 2010.

6 Fixed asset investments

	Shares in Group companies £m	Unlisted investments at cost £m	Total £m
Cost			
At 1 January 2010	7,985.3	6.8	7,992.1
Additions	17.8	–	17.8
At 31 December 2010	**8,003.1**	**6.8**	**8,009.9**
Provision			
At 1 January 2010	3,301.6	–	3,301.6
Amounts written back during the year	(52.2)	–	(52.2)
At 31 December 2010	**3,249.4**	**–**	**3,249.4**
Net book value			
At 1 January 2010	4,683.7	6.8	4,690.5
At 31 December 2010	**4,753.7**	**6.8**	**4,760.5**

The reversal of the provision during the year was determined by preparing discounted cash flow projections from the Company's investments at a discount rate of 11.0% (2009: 10.5%).

Principal subsidiaries are listed in note 34 of the consolidated IFRSs financial statements.

7 Debtors

	2010 £m	2009 £m
Amounts falling due within one year:		
Amounts due from Group companies	**232.5**	264.7
Other debtors	**0.5**	0.4
Deferred tax asset	**–**	0.5
	233.0	265.6
Amounts falling due after more than one year:		
Amounts due from Group companies	**41.7**	41.7
	41.7	41.7
	274.7	307.3

8 Creditors – amounts falling due within one year

	2010 £m	2009 £m
Other creditors	**1.0**	0.1
Corporate taxation	**21.6**	12.4
Accruals and deferred income	**0.3**	1.3
Amounts due to Group companies	**2,552.7**	2,280.0
	2,575.6	2,293.8

9 Creditors – amounts falling due after more than one year

	2010 £m	2009 £m
Amounts due to Group companies	**138.9**	147.3
Other financial liabilities	**10.8**	12.0
	149.7	159.3

Financial guarantee contracts
The Company has given guarantees to third parties in respect of lease liabilities of former subsidiaries within the disposed hotels division. The Company received an indemnity from Hilton Hotels Corporation (HHC), at the time of the hotels disposal, in relation to any loss the Company may subsequently incur under these third party guarantees. The guarantees expire between 2010 and 2042 and the lease liabilities comprise a combination of minimum contractual and turnover based elements.

The undiscounted maximum liability exposure in respect of the guarantees for all periods up to 2042 is £901.2 million (31 December 2009: £933.0 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £505.9 million (31 December 2009: £517.2 million) in relation to the turnover based element of the hotel rentals and £395.3 million (31 December 2009: £415.8 million) in relation to the minimum contractual based element. The undiscounted maximum liability represents the total of all guaranteed rentals under the non-cancellable agreements into which the Company has entered.

The net present value of the maximum exposure at 31 December 2010 is £385.9 million (31 December 2009: £407.7 million). Included in the net present value of the maximum exposure is £193.4 million (31 December 2009: £201.0 million) in relation to the turnover based element of the hotel rentals and £192.5 million (31 December 2009: £206.7 million) in relation to the minimum contractual based element.

The Company monitors its exposure under these guarantees on a regular basis and seeks, where appropriate, to novate its obligations.

The financial guarantees liability has been valued using a probability based model to estimate the net present value of the liabilities payable in the event of a default by the hotels covered by the guarantees, and the probability of such a default and new tenants being identified.

At 31 December 2010 the Company has recognised a financial liability of £8.1 million (31 December 2009: £9.3 million) in respect of these guarantees.

No asset has been recognised in respect of the indemnity at 31 December 2010 (2009: £nil).

The key assumption in the probability model is the hotels default rate. A rate of 2.2% has been used at 31 December 2010 (2009: 2.2%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.5 million.

10 Provisions for liabilities and charges

	Deferred taxation £m
At 31 December 2009	6.6
Amounts credited to the profit and loss account for the year	(5.8)
At 31 December 2010	**0.8**

Notes to the company financial statements
continued

10 Provisions for liabilities and charges continued

Analysis of deferred tax by type of timing difference:

	2010 £m	2009 £m
Deferred tax liability on pension asset	**(9.3)**	(4.2)
Capital allowances	**(0.8)**	(6.6)
Other timing differences	**–**	0.5
	(10.1)	(10.3)

	2010 £m	2009 £m
Reported as:		
Deferred tax liability on pension asset	**(9.3)**	(4.2)
Deferred tax assets	**–**	0.5
Other deferred tax liabilities	**(0.8)**	(6.6)
	(10.1)	(10.3)

Analysis of movements in deferred tax:

	2010 £m	2009 £m
Opening balance	**(10.3)**	(5.0)
Amounts credited/(charged) to the profit and loss account for the year	**5.5**	(6.9)
Tax on items recognised directly in equity	**(5.3)**	1.6
Closing balance	**(10.1)**	(10.3)

11 Financial risk management objectives and policies

The financial risk management objectives and policies applied by the Company are in line with those of the Group as disclosed in note 25 to the IFRSs consolidated financial statements.

The Company has exposure to credit risk arising from guarantees, given to subsidiary companies of its former hotels division, in respect of rent liabilities. Details of this risk are given in the consolidated IFRSs financial statements in note 26.

12 Share capital

	Number of 28⅓p ordinary shares	£m
Issued and fully paid		
At 1 January 2009	632,399,274	179.2
Rights issue[1]	300,658,239	85.2
During the year	708,984	0.2
At 31 December 2009	933,766,497	264.6
Issued and fully paid		
At 1 January 2010	**933,766,497**	**264.6**
During the year	**5,371,735**	**1.5**
At 31 December 2010	**939,138,232**	**266.1**

	Number of 28⅓p ordinary shares
Shares issued at 31 December 2009	933,766,497
Treasury shares	(31,760,568)
Shares issued at 31 December 2009 excluding treasury shares	902,005,929
Shares issued at 31 December 2010	**939,138,232**
Treasury shares	**(31,760,568)**
Shares issued at 31 December 2010 excluding treasury shares	**907,377,664**

[1] On 8 October 2009 the Company announced a fully underwritten 1 for 2 rights issue at a price of 95.0 pence per share, with a nominal value of 28⅓ pence each. The Company raised proceeds of £274.6 million, net of issue costs of £11.0 million.

13 Reconciliation of shareholders' funds and movements on reserves

	Called up share capital £m	Share premium account £m	Other reserves £m	Treasury and own shares £m	Capital reserve £m	Profit and loss account £m	Total £m
At 1 January 2009	**179.2**	**2,135.8**	**–**	**(114.3)**	**0.1**	**692.4**	**2,893.2**
Loss for the year	–	–	–	–	–	(532.4)	(532.4)
Issue of shares	0.1	0.3	–	–	–	–	0.4
Share-based payment awards	0.1	1.4	–	–	–	(1.5)	–
Cost of share-based payments	–	–	–	–	–	3.9	3.9
Rights issue(1)	85.2	200.4	–	–	–	–	285.6
Rights issue costs	–	(11.0)	–	–	–	–	(11.0)
Share premium cancellation(2)	–	(2,137.4)	–	–	–	2,137.4	–
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	(9.4)	(9.4)
Net decrease in shares held in ESOP trusts	–	–	–	1.8	–	–	1.8
Tax on items taken directly to equity	–	–	–	–	–	1.6	1.6
Equity dividends	–	–	–	–	–	(75.4)	(75.4)
At 31 December 2009	**264.6**	**189.5**	**–**	**(112.5)**	**0.1**	**2,216.6**	**2,558.3**
At 1 January 2010	**264.6**	**189.5**	**–**	**(112.5)**	**0.1**	**2,216.6**	**2,558.3**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(206.2)**	**(206.2)**
Issue of shares	**1.5**	**4.6**	**–**	**–**	**–**	–	**6.1**
Cost of share-based payments	**–**	**–**	**–**	**–**	**–**	**3.8**	**3.8**
Actuarial gains on defined benefit pension schemes	**–**	**–**	**–**	**–**	**–**	**15.6**	**15.6**
Net increase in shares held in ESOP trusts	**–**	**–**	**–**	**(1.9)**	**–**	**1.6**	**(0.3)**
Tax on items taken directly to equity	**–**	**–**	**–**	**–**	**–**	**(5.3)**	**(5.3)**
Equity dividends	**–**	**–**	**–**	**–**	**–**	**(34.7)**	**(34.7)**
At 31 December 2010	**266.1**	**194.1**	**–**	**(114.4)**	**0.1**	**1,991.4**	**2,337.3**

(1) Refer to note 12, for details of the rights issue in 2009.
(2) Following shareholder approval at the Annual General Meeting on 15 May 2009 and court approval on 31 July 2009, the Company cancelled its share premium account, transferring £2,137.4 million to the profit and loss account within reserves.

The profit and loss account includes no non-distributable reserves (2009: none).

14 Employee share ownership plans

Details of the employee share ownership plans of the Company are given in note 29 of the consolidated IFRSs financial statements.

The following table shows the number of shares held in trust that have not yet vested unconditionally and the associated reduction in shareholders' funds.

	LSOT		LSIP		Total	
	Shares held Number	Cost of shares £m	Shares held Number	Cost of shares £m	Shares held Number	Cost of shares £m
At 31 December 2009	**2,726,511**	**5.5**	**1,055,597**	**1.8**	**3,782,108**	**7.3**
Shares purchased/allocated(1)	**5,391,264**	**6.2**	**275,285**	**0.2**	**5,666,549**	**6.4**
Vested in year	**(1,327,888)**	**(3.7)**	**(201,053)**	**(0.5)**	**(1,528,941)**	**(4.2)**
Sold in year	**(258,362)**	**(0.3)**	–	–	**(258,362)**	**(0.3)**
At 31 December 2010	**6,531,525**	**7.7**	**1,129,829**	**1.5**	**7,661,354**	**9.2**
Market value of shares in trusts		**8.0**		**1.4**		**9.4**
Unallocated shares in trusts	**–**		**–**		**–**	

(1) Includes an award of 4,035,784 shares allotted by the Company and held jointly between the participant and Computershare Trustees (CI) Limited under the Ladbrokes Growth Plan (refer to the Directors' remuneration report).

Notes to the company financial statements
continued

15 Pensions
The Company's main pension plan is the Ladbrokes Pension Plan.

The last formal actuarial valuation of the plan was carried out with an effective date of 30 September 2007, with the next valuation as at 30 June 2010 currently in process.

The latest actuarial valuation was updated to 31 December 2010 by an independent qualified actuary in accordance with FRS 17. The defined benefit obligations and current service cost have been measured using the projected unit credit method.

In July 2010, the Government announced that in future statutory indexation for pensions would be linked to the Consumer Prices Index (CPI) rather than the, historically, higher Retail Prices Index (RPI). On the basis of legal advice, the Company has assessed that this change will act to reduce the Company's pension liabilities. To reflect this, in 2010 the Company has recognised an actuarial gain of £8.6 million outside profit and loss through the statement of total recognised gains and losses.

The following table sets out the key FRS 17 assumptions used for the plan. The table also sets out at 31 December 2010, 31 December 2009 and 31 December 2008, the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities, the surplus (or deficit) of assets compared to the FRS 17 liabilities, the related deferred tax liability (or asset) and the net pension asset (or liability).

	2010	2009	2008
Assumptions:			
Inflation	**2.8% pa**	3.6% pa	2.8% pa
Pension increases:			
– LPI 5%	**2.8% pa**	3.5% pa	2.6% pa
– LPI 3%	**2.7% pa**	2.7% pa	2.4% pa
– LPI 2.5%	**2.1% pa**	2.3%pa	2.1% pa
Salary growth	**0% in 2011 and 4.5% pa thereafter, plus promotional scale**	0% in 2010, 2.5% in 2011 and 4.6% pa thereafter, plus promotional scale	3.8% pa plus promotional scale
Discount rate	**5.5% pa**	5.8% pa	6.4% pa
Life expectancy for males/females aged 65 now	**86.6/87.6**	85.8/87.8	85.7/87.7
(members with higher pensions have a different assumption)	**(89.9/90.4)**	(89.2/91.0)	(89.1/90.9)
Expected long-term return for:			
– Equities	**8.0% pa**	8.2% pa	7.4% pa
– Bonds	**4.4% pa**	4.6% pa	4.1% pa
– Other	**–**	–	3.8% pa
Fair value of assets	**£263.1m**	£242.4m	£217.3m
Composed of:			
– Equities	**42.0%**	41.0%	39.0%
– Bonds	**58.0%**	59.0%	61.0%
Present value of liabilities	**£(228.6)m**	£(227.4)m	£196.5m
Surplus	**£34.5m**	£15.0m	£20.8m
Related deferred tax liability	**£(9.3)m**	£(4.2)m	£(5.8)m
Net pension asset	**£25.2m**	£10.8m	£15.0m

The overall expected return on plan assets was derived as an average of the expected rates of return on each of the major asset classes invested in, weighted by the allocations of assets among the classes at the balance sheet date, using the figures shown above. The sources used to determine the expected rates of return include: bond yields, inflation and investment market expectations derived from market data and analysts' or government's expectations.

The contributions made by the employers in 2009, in respect of the Ladbrokes Pension Plan, were £6.7 million (2009: £7.0 million).

The currently agreed level of employer contributions is 20.5% of pensionable payroll, plus an additional £133,333 per month to remove the shortfall in funding identified at 30 September 2007 and £62,500 per month towards the regular expenses of maintaining the plan. These lead to an expected contribution of £6.6 million in 2011. As the plan is closed to new entrants and, under the method used to calculate pension costs in accordance with FRS 17, the service cost as a percentage of covered pensionable payroll will tend to increase over time as the average age of the membership increases.

15 Pensions continued

The following table sets out the amounts charged to the profit and loss account and directly in equity for the year ended 31 December 2010 in accordance with the requirements of FRS 17, together with the prior year comparatives.

	2010 £m	2009 £m
Analysis of amounts charged to operating profit:		
Current service cost (excluding employee element)	**3.5**	2.8
Analysis of the amount charged/(credited) to other finance income:		
Expected return on plan assets	**(13.7)**	(11.8)
Interest on plan liabilities	**13.0**	12.4
Net return	**(0.7)**	0.6
Total expense included in profit and loss	**2.8**	3.4

	2010 £m	2009 £m
Changes in the present value of the defined benefit obligation during the year		
Opening defined benefit obligation	**(227.4)**	(196.5)
Movement in year:		
Employer's part of current service cost	**(3.5)**	(2.8)
Interest cost	**(13.0)**	(12.4)
Contributions by plan members	**(1.3)**	(1.4)
Actuarial gain/(loss)	**4.8**	(23.5)
Benefits paid	**11.8**	9.2
Closing defined benefit obligation	**(228.6)**	(227.4)

	2010 £m	2009 £m
Changes in the fair value of plan assets during the year		
Opening fair value of plan assets	**242.4**	217.3
Movement in year:		
Expected return on plan assets	**13.7**	11.8
Actuarial gain	**10.8**	14.1
Contributions by the employer	**6.7**	7.0
Contributions by plan members	**1.3**	1.4
Benefits paid	**(11.8)**	(9.2)
Closing fair value of plan assets	**263.1**	242.4

The actual return on the plan's assets over the year was a gain of £24.5 million (2009: a gain of £25.9 million).

Notes to the company financial statements
continued

15 Pensions continued
The amount recognised in the consolidated statement of comprehensive income for 2010 is a gain of £15.6 million (2009: loss of £9.4 million). The cumulative amount recognised outside profit and loss at 31 December 2010 is a loss of £81.6 million (2009: loss of £97.2 million).

	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m	31 December 2007 £m	31 December 2006 £m
Present value of defined benefit obligation	**(228.6)**	(227.4)	(196.5)	(208.5)	(208.1)
Fair value of plan assets	**263.1**	242.4	217.3	243.8	232.5
Surplus	**34.5**	15.0	20.8	35.3	24.4

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Experience adjustments on plan assets:					
Amount of gain/(loss) (£m)	**10.8**	14.1	(39.2)	(3.1)	8.5
Percentage of plan assets (%)	**4.1%**	5.8%	18.0%	1.3%	4.0%
Experience adjustments on plan liabilities					
Amount of gain/(loss) (£m)	**4.0**	3.5	(1.7)	(5.8)	(3.0)
Percentage of present value of plan liabilities (%)	**1.7%**	1.5%	0.9%	2.8%	1.4%

16 Share-based payments
Details of share-based payments are given in note 32 of the consolidated IFRSs financial statements.

17 Contingencies
Guarantees have been given in the ordinary course of business in respect of loans and derivative contracts granted to subsidiaries amounting to £513.4 million (2009: £715.4 million). In addition, subsidiaries have guaranteed loans of £0.1 million (2009: £0.2 million) given in the normal course of business to other subsidiary companies and companies in which they hold minority equity investments.

Bank guarantees have been issued on behalf of subsidiaries and joint ventures with a value of £24.0 million (2009: £42.7 million).

For UK corporation tax purposes, the Company has made collective payment arrangements with other undertakings in the Group. Under these arrangements the Company has a joint and several liability for amounts owed by those undertakings to HM Revenue & Customs.

18 Events after the balance sheet date
The directors propose a final dividend of 3.75 pence per share (2009: nil) in respect of the year ended 31 December 2010.

Statement of directors' responsibilities in relation to the Company financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained by the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed in pages 30 and 31 of this Annual Report, confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board

R I Glynn
B G Wallace
Directors

Independent auditor's report to the members of Ladbrokes plc

We have audited the parent Company financial statements of Ladbrokes plc for the year ended 31 December 2010 which comprise the Company Balance Sheet and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the statement of directors' responsibilities set out on page 111, the directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view.
Our responsibility is to audit the parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter
We have reported separately on the Group financial statements of Ladbrokes plc for the year ended 31 December 2010.

R W Wilson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
17 February 2011

Five year financial record

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Revenue					
Continuing operations	**980.1**	1,032.2	1,151.2	1,221.3	947.4
Discontinued operations	**8.3**	31.5	27.5	30.5	283.0
	988.4	1,063.7	1,178.7	1,251.8	1,230.4
Profit before tax and finance costs[1]					
Continuing operations:					
UK Retail	**149.1**	134.5	187.9	187.8	199.8
Other European Retail	**13.9**	8.3	24.4	22.4	17.0
Digital	**62.7**	46.1	55.1	55.0	44.3
Core Telephone Betting	**(0.4)**	(3.3)	3.1	4.6	7.1
High Rollers	**5.0**	66.9	80.1	179.0	10.2
	230.3	252.5	350.6	448.8	278.4
Corporate costs[2]	**(23.0)**	(17.1)	(19.8)	(26.5)	(16.2)
	207.3	235.4	330.8	422.3	262.2
Discontinued operations	**(9.1)**	(10.8)	(8.0)	3.7	17.1
	198.2	224.6	322.8	426.0	279.3
Net finance costs	**(14.0)**	(44.0)	(65.8)	(69.2)	(22.0)
Profit before taxation[1]	**184.2**	180.6	257.0	356.8	257.3
Income tax credit/(expense)[1]	**226.7**	(28.4)	(39.4)	(56.2)	(47.7)
Profit for the year[1]	**410.9**	152.2	217.6	300.6	209.6
Minority interests	**–**	–	–	–	–
Profit attributable to equity holders of the parent[1]	**410.9**	152.2	217.6	300.6	209.6
Non-trading items	**(63.6)**	(88.2)	(18.0)	38.2	412.5
Tax credit/(charge) on non-trading items	**1.0**	10.4	1.1	2.0	(4.9)
Profit attributable to equity holders of the parent	**348.3**	74.4	200.7	340.8	617.2
Dividends	**(34.7)**	(75.4)	(85.0)	(84.6)	(4,208.4)
Non-current assets	**944.4**	908.2	1,034.2	873.7	738.5
Equity shareholders' funds/(deficit)	**256.6**	(60.4)	(328.0)	(450.8)	(626.9)
Dividend per share	**7.60p**	2.98p	12.05p	11.83p	11.24p
Basic earnings per share[1]	**45.4p**	20.3p	30.8p	40.9p	19.4p
Basic earnings per share	**38.5p**	9.9p	28.4p	46.3p	57.2p

(1) Before non-trading items.
(2) In the published consolidated financial statements for the years 2009, 2008, 2007 and 2006, Corporate costs were shown separately as International development costs and Corporate costs.

Shareholder information

Shareholder enquiries – The Registrar
Computershare Investor Services PLC
For address – see the next page
Telephone: 0870 702 0127
Website: www.investorcentre.co.uk/contactus
Email: web.queries@computershare.co.uk

Investor Centre is a free, secure share management website provided by our Registrar. This service allows you to view your share portfolio and see the latest market price of your shares, check your dividend payment and tax information, change your address, update payment instructions and receive your shareholder communications online. To take advantage of this service, please log in at www.investorcentre.co.uk and enter your Shareholder Reference Number and Company Code. This information can be found on your last dividend voucher or share certificate.

Other shareholder enquiries
For any other shareholder enquiries, please contact the Head of Investor Relations: Matt Sharff. Email: investor.relations@ladbrokes.co.uk; Telephone: +44 (0) 20 8515 5730; Fax: +44 (0) 20 8868 5273; Ladbrokes plc, Investor Relations, Imperial House, Imperial Drive, Rayners Lane, Harrow, Middlesex HA2 7JW.

Share dealing service
A share dealing service for Ladbrokes' shares is available through The Share Centre Ltd, a member of the London Stock Exchange, which is authorised and regulated by the Financial Services Authority.

For further details, please contact: The Share Centre Ltd, PO Box 2000, Aylesbury, Bucks HP21 8ZB; Telephone: 01296 414141.

Dividend information
This year, the directors are recommending the payment of a final dividend of 3.75 pence per share. If you add this to the interim dividend of 3.85 pence per share (paid on 1 December 2010), the total dividend recommended for 2010 will be 7.60 pence per share (2009: 3.50 pence).

Ladbrokes is keen to encourage all its shareholders to have their dividends paid directly into a bank or building society account. If you wish dividends to be paid directly into your bank account through the BACSTEL-IP (Bankers Automated Clearing Services) system, you should apply online at www.investorcentre.co.uk or contact our Registrar for a dividend mandate form.

The table below details the interim, final and total dividends declared in the last five years. Please note that these dividend figures have not been adjusted for the rights issue in October 2009.

	Interim dividend pence	Final dividend pence	Total pence
2010	3.85	3.75	7.60
2009	3.50	–	3.50
2008	5.10	9.05	14.15
2007	4.85	9.05	13.90
2006	4.60	8.60	13.20

Dividend reinvestment plan
Ladbrokes provides a dividend reinvestment plan, which enables shareholders to apply all of their cash dividends to buy additional shares in the Company. To obtain more information and a mandate to join the plan, you should apply online at www.investorcentre.co.uk or contact our Registrar.

Annual Report
A copy of our Annual Report is available to download as a pdf or can be viewed as an html version at http://investors.ladbrokesplc.com/reports.

We actively encourage shareholders to play their part in reducing our impact on the environment and elect to be notified by email when your communications are available online. Sign up to receive eCommunications at www.investorcentre.co.uk. By providing your email address you will no longer receive paper copies of annual reports or any other shareholder communications that are available electronically. Instead you will receive emails advising you when and how to access documents online. Alternatively, if you would like a hard copy of the Annual Report please send an email to investor.relations@ladbrokes.co.uk or phone +44 (0) 20 8515 5730.

UK tax on capital gains
A leaflet for UK capital gains tax purposes, which includes details of rights and capitalisation issues which have occurred since 31 March 1982, is available from the Company Secretary whose address is given on the next page.

American depositary receipts (ADRs)
An ADR is a receipt that is issued by a depositary bank representing ownership of the company's underlying ordinary shares. ADRs are quoted in US Dollars and trade just like any other US security.

Ladbrokes has a sponsored level 1 ADR programme for which Deutsche Bank Trust Company Americas acts as depositary. The ADRs are traded on the Over the Counter market in the US under the symbol LDBKY, where one ADR is equal to one ordinary share.

When dividends are paid to shareholders, the depositary makes the equivalent payment in US Dollars to ADR holders. For enquiries, brokers may contact the Deutsche Bank Trust Company Americas Broker Service Desk on +44 20 7547 6500 or +1 212 250 9100. Registered ADR holders may contact the Ladbrokes ADR shareholder services line on +1 866 249 2593. Further information, including an ADR share price quote, is available at www.adr.db.com

2011 Financial calendar

Event	Date
2010 full year results announcement	17 February 2011
Ex-dividend date for 2010 final dividend	23 February 2011
Record date for 2010 final dividend	25 February 2011
Annual General Meeting and Interim Management Statement	13 May 2011
Payment date for 2010 final dividend	1 June 2011
Half year results and 2011 interim dividend to be announced	4 August 2011
Ex-dividend date for 2011 interim dividend	10 August 2011
Record date for 2011 interim dividend	12 August 2011
Payment date for 2011 interim dividend	1 December 2011

Corporate information

Registered number
England 566221

Secretary and registered office
Mike Noble
Ladbrokes plc
Imperial House, Imperial Drive
Rayners Lane
Harrow
Middlesex HA2 7JW
Telephone: +44 (0) 20 8868 8899
Fax: +44 (0) 20 8868 8767
www.ladbrokesplc.com

Registrar
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0870 702 0127
Email: web.queries@computershare.co.uk

Auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF

Corporate stockbrokers
Deutsche Bank AG, London
UBS Investment Bank

Solicitors
SJ Berwin LLP
Slaughter and May

Principal UK bankers
Barclays Bank PLC
The Royal Bank of Scotland plc

Divisional offices

UK – Retail and Telephone Betting
Imperial House, Imperial Drive
Rayners Lane
Harrow
Middlesex HA2 7JW
Telephone: +44 (0) 20 8868 8899
Fax: +44 (0) 20 8868 8767 Customer enquiries: 0800 731 4171
www.ladbrokes.com

Belgium – Retail Betting
Chaussée de / Steenweg op Waterloo 715/3
1180 Brussels
Belgium
Telephone: (00) 322 349 1611
Fax: (00) 322 349 1615

Gibraltar – Digital
Suite 6-8, Fifth Floor
Europort
Gibraltar
Telephone: (00) 350 200 45375
Fax: (00) 350 200 520 27

Republic of Ireland – Retail Betting
First Floor, Otter House, Naas Road
Dublin 22
Republic of Ireland
Telephone: (00) 353 1403 6500
Fax: (00) 353 1403 6501

Spain – Retail Betting
Sportium Apuestas Deportivas SA
C/ Santa Maria Magdalena, 10-12, 4º
28016 Madrid
Spain
Telephone: (00) 34 91 790 00 00
Fax: (00) 34 91 345 35 67

Glossary

ABB
Association of British Bookmakers.

Adjusted Cost per Acquisition
Total of all online and offline recruitment marketing spend (including promotions and bonuses netted from revenue), all affiliate expenses relating to deals where affiliates are paid a one-off fee for each sign-up and all bonus costs (except those relating to sign-ups from revenue share affiliates) divided by the aggregate number of real money sign-ups from non-affiliate sources and the number of real money sign-ups through affiliates that are paid a one-off fee.

AMLD (amusement machine licence duty)
An annual duty payment relating to gaming machines. The rate of duty payable varies according to machine category.

Average Monthly Active Player Days
The sum of, for all Unique Active Players in the period, the number of days they have played during the period.

Bet in Play
Betting-in-Play allows bettors the opportunity to bet on outcomes during a live event.

Category B2 gaming machine
Gaming machine with maximum stake of £100 and maximum prize of £500.

Category B3 gaming machine
Gaming machine with maximum stake of £1 and maximum prize of £500.

Cost per Acquisition
Total of all online and offline marketing spend (including promotions and bonuses netted from revenue), all affiliate expenses relating to deals where affiliates are paid a one-off fee for each sign-up and all bonus costs (except those relating to sign-ups from revenue share affiliates) divided by the aggregate of the number of real money sign-ups from non-affiliate sources and the number of real money sign-ups through affiliates that are paid a one-off fee.

EBITDA
Earnings before interest, tax, depreciation and amortisation.

FOBTs or Fixed Odds Betting Terminals
Computerised machines which allow players to bet on the outcome of various games and events with fixed odds, including roulette. Also referred to as B2 machines.

Gambling Act
The Gambling Act 2005 is the primary piece of legislation governing gambling regulations in Great Britain.

GamCare
A charitable organisation which provides counselling to those with gambling-related problems.

Gambling Commission
Set up under the Gambling Act 2005, the Gambling Commission regulates casinos, bingo, gaming machines and lotteries. It is also responsible for the regulation of betting and remote gambling, as well as helping to protect children and vulnerable people.

Gaming Machines
Betting shops can operate machines with B2 content (including old FOBT content) and B3 content, as defined by the 2005 Gambling Act.

GREaT Foundation (GREaT)
A charity that funds treatment, education and research related to problem gambling.

Gross Win
Total customer stakes less customer winnings plus commission i.e. the amount of money left behind by the customer.

Net Revenue
Gross win less fair value adjustments (e.g. fair value of reward points, free bets and promotional bonuses), VAT and associate income.

OddsOn!
Ladbrokes' Loyalty scheme which awards customers with a point for every amount staked Over the Counter. These points are then accumulated and can be redeemed for free bets, odds enhancements or win bonuses.

Operating profit
Profit before finance costs and tax.

Operating margin
Operating profit expressed as a percentage of net revenue.

OTC
Over the Counter.

Real Money Sign-up
A new player who has registered and deposited funds into an account with the Company. To address the issues posed by shared wallets, customers are categorised between lines of business according to where they first register on the gaming site.

SIS (Satellite Information Services)
Ladbrokes owns 23.4% of SIS, a leading supplier of television programming and sports data to licensed betting offices in the UK, Ireland, Isle of Man and Channel Islands.

Unique Active Player
A player who has contributed to rake and/or placed a wager in the period.

Yield per Unique Active Player
Net Gaming Revenue divided by the number of Unique Active Players in the period.

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Ladbrokes PLC
Imperial House
Imperial Drive
Rayners Lane
Harrow
Middlesex HA2 7JW
Telephone: +44 (0)20 8868 8899
www.ladbrokesplc.com