

Chief Executive's review

Richard Glynn examines business performance in 2012 and expands on our performance objectives for 2013.



Richard Glynn
Chief Executive Officer

2012 has been an important year for Ladbrokes. We have increased revenues in every major division of the business, grown underlying earnings, further strengthened our balance sheet by reducing net debt and also increased our dividend to shareholders by 14.1%. However, 2012 has been important not only because of a strong financial performance, but because of the significant progress we have continued to make in developing the business.

Growing on the UK high street

The performance of UK Retail in 2012 further demonstrates the continuing appeal of betting on the high street. 2012 was a record year for shop revenues and it is pleasing to see growth driven by Over the Counter (OTC) and machines. Operating profit growth in UK Retail has been strong with profit per shop ahead for the third

year in succession assisted by our strong control of costs.

During the year we strengthened our position as the clear market leader in machines. Only two years ago, our performance placed us third or fourth in the market. Since that time through a determination to create the best possible offer for our customers we have added a further £84 million of machines net revenue.

Our competitors are not standing still and the machines market is constantly developing; we will be working hard to develop our offer further in order to maintain our market leading position. In 2013 we will start the rollout of a new, advanced machine cabinet which offers customers more interactive features through improved technology. We will also continue to offer the broadest and most exciting range of content, introducing new and exclusive games throughout the year.

Revenue growth in our OTC business during 2012 was in spite of a significant reduction in UK horseracing meetings, with the calendar affected by the British weather throughout the year. We are encouraged that the number of customers coming into Ladbrokes shops to place a bet has remained broadly flat during the year, showing that the popularity of retail bookmaking endures, alongside growth in online and mobile.

We face several specific headwinds within UK Retail in 2013. The introduction of Machine Games Duty and ongoing operational cost pressures, particularly regarding horseracing picture rights are significant and we will address them as part of a clear and focused growth agenda. This includes an improved sports experience with more broadcast events, an increased retail Bet in Play offer via more self service betting, new video walls and the trial of new shop formats designed to create a more interactive environment for staff and customers. With our investment in

new shops paying back on average in around 2.5 years, we are confident in further opportunities to grow the estate. Next year we plan to open 100 new shops on a net basis, targeting areas that are currently under supplied.

Enhancing trading capability

Increased OTC profitability in 2012 was driven largely by a strengthening of our horseracing and football margins. Sporting results are a key factor in determining the performance of any betting business and there is no doubt that results in 2012, particularly across football during the second half of the year, have been favourable when compared with 2011.

Results however are only part of the equation. More significant is whether the business is well placed to maximise returns and minimise losses consistently. In that respect, we have taken great strides this year to leverage the investment in our new trading platform. Better technology, increased automation and the continual evolution of monitoring tools and algorithms are enabling our trading teams to develop more control; decreasing volatility, whilst still ensuring a competitive product. In short we are improving the quality of our earnings.

This has benefited all parts of the business, with tangible improvements in our Digital and Retail gross win margins. We expect to be able to develop this further in the year ahead with more innovation continuing throughout 2013.

Developing customer value

Over the past two years we have invested in technology to enable us to deliver the best products and customer experiences to our Digital customers. We have redefined our core IT architecture, increased the flexibility of core supplier relationships, significantly expanded the range of products offered to customers and developed a new proprietary trading platform. By the end of March 2013

we will have launched a new Digital sportsbook, with a new mobile platform to follow in Q2.

The focus for the business can now turn to growing net revenue per customer. The ongoing development of our new Active Data Warehouse, which is beginning to enable more effective insight into customer behaviour is the foundation for this. In parallel, we have begun to improve our Customer Relationship Management capabilities, refining the way in which customers are segmented, developed and rewarded as well as working closer with key suppliers and product experts. This has started to show some positive

outcomes and we will continue to explore opportunities which will help us accelerate this process going forward. We expect this to lead to improving metrics as the year progresses, with growth in net revenue and Digital profits, particularly during the second half of 2013.

Aiming to lead in mobile

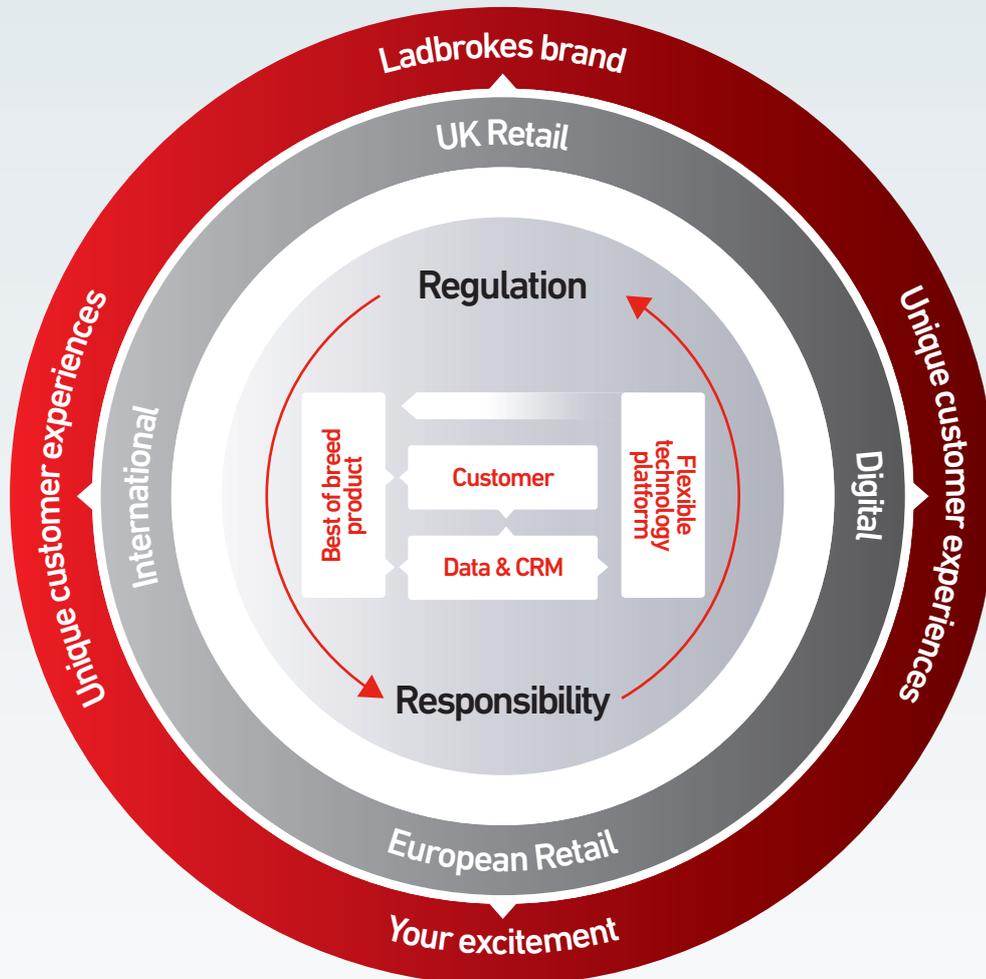
Mobile is the key driver of growth in the digital market. Mobile devices are portable, convenient and increasingly popular. They are driving a trend towards more spontaneous consumption of betting and gaming opportunities. Over 33% of our Digital customers bet via a mobile device,

with the number of mobile customers growing up to five times quicker than those using traditional digital means.

During the year we have continued to develop the Ladbrokes Sports Betting app, improving functionality and usability as well as adding more innovative features. We have also delivered more gaming product, particularly on tablet with a new live dealer casino and several exclusive slots games.

Our new mobile platform will be live during the first half of 2013. It has been developed in parallel with new Application Programming Interface (API) technology, which enables us to

Our business model



Ladbrokes is in the business of providing excitement to customers. We deliver the excitement of sports betting and gaming in retail, online, via tablet, mobile and on the telephone. We are building on our brand leadership and heritage in the UK, Ireland and Belgium by expanding into new markets like Spain, and by establishing a presence in markets with significant future potential like China and the USA. In developing our product offer in each market we are governed not only by regulatory frameworks, but by a commitment to corporate and social responsibility. Our approach is to put the customer at the heart of what we do, develop best of breed products utilising a newly invested flexible technology platform to deliver unique customer experiences.

Chief Executive's review continued

adopt a flexible approach to launching apps, allowing the simultaneous development of a variety of products all targeted to meet the needs of different groups of customers. The ability to release new products quickly will be a real advantage in a market which is evolving rapidly. We expect to launch multiple new apps during 2013.

Growing our international business

Our retail businesses in Ireland, Belgium and Spain contributed more than £20 million operating profit during 2012, an increase of over 50%. Despite tough economic conditions in Ireland our business there has been resilient. We expect legislation allowing extended shop opening hours in the Republic of Ireland to be introduced during the second half of 2013. In Belgium we expect further growth to be driven by the anticipated introduction of machines to shops. In Spain, our joint venture business, Sportium is now generating positive cash flow in Madrid and Aragon, regions where the business remains the clear market leader. During 2013

we will roll out new Self Service Betting Terminals, increase our presence in Valencia and expect to confirm opportunities for expansion into further regions. We also continue to develop our nascent businesses in the USA and China, both of which offer great potential for future growth.

Investing in our people

We are investing in making Ladbrokes a great place to work for our 15,000 people. Employee engagement is critical to this, and we have rolled out several development programmes during 2012, aimed at giving people the motivation to go above and beyond to help Ladbrokes succeed.

Our Vision & Values programme is a long term initiative designed to give absolute clarity on how all of our people can make faster, better decisions using a common framework. It has been rolled out during the year through a series of roadshows, publications, videos and team development sessions, specifically with the aim of raising awareness and understanding of the company's

Our strategic priorities

1

Retail excellence



Retail betting has evolved to become a genuine leisure experience over recent years in both our core UK market and overseas. We strive to continually innovate, providing customers with a differentiated product offer, whilst optimising both margin and operational efficiency.

- UK profit per shop was up 16% in 2012, the third consecutive year of growth (see KPIs on page 11)
- Clear market leader in machines in the UK. Gross win per machine week £946 (see KPIs on page 11)
- 51% operating profit growth across our European Retail businesses

2

Digital capability



The digital betting and gaming market continues to grow and is becoming increasingly competitive. We have made good progress in developing flexible technology which allows us to deliver the broadest range of products to customers, which will be showcased on our new sportsbook website and mobile platform.

- Net revenue growth of 9% driven by strength in sportsbook (see KPIs on page 11)
- 15% growth in Active players to in excess of 1 million (see KPIs on page 11)
- Focus on product range drives 150% increase in Bet in Play events and 34% increase in amounts staked

strategic direction, and the behaviours and core values required to take us there faster.

We have also this year launched a new talent development programme to identify, nurture and stretch our high-potential employees, which is essential for succession planning. By fostering an internal culture of excellence, we believe we will deliver an even better experience for our customers and in turn become a more successful business.

UK regulatory update

We are currently facing an active and often misleading media and lobbying campaign in the UK targeted at both shops and in particular gaming machines. We continue to work both as a company and alongside industry organisations like the ABB to tackle the myths propagated by this well funded campaign. We aim to ensure that Government, MPs and Local Councillors are fully aware of the facts regarding betting shops.

Ladbrokes is a responsible business and we continually develop our

approach to tackling issues like problem gambling. To further restrict regulated and licensed high street betting shops whether in terms of shop numbers or availability of product would merely drive people to online or mobile services which are freely available, or would give rise to an illegal gaming machine market. It would also have a significant economic impact on high street employment. We will play a full part in the forthcoming Triennial Review of stakes and prizes consultation and we are reassured that the Government's current position is to maintain the status quo.

Other regulatory matters in the UK include the introduction of Machine Games Duty and the draft bill to regulate offshore gambling operators. We continue to engage with Treasury on the latest data supporting our case that Machine Games Duty is in fact a tax increase on the industry and we await the Culture, Media and Sport Select Committee's pre-legislative scrutiny of the bill to regulate remote gambling operators, where our key concerns are both the rate of tax and

perhaps even more critical, how the tax will be enforced to prevent unregulated operators from targeting the UK market.

Outlook

We have continued to make good progress throughout the Group during 2012. The investments we have made over the past two years to reinvigorate the business are starting to drive performance. In 2013 we will invest further in our retail businesses and expect to see underlying benefits from our development of trading. With the launch of our new website and mobile services on track, our focus in Digital is on enhancing our customer relationship management capabilities. We expect all of these to drive increasing customer appeal and continued improvements in our operational and financial performance.



Richard Glynn
Chief Executive Officer

3 Pricing, trading and liability management 

The development of a new proprietary trading platform, enhancement of algorithms and increasing use of automated trading tools, has enabled us to improve liability management and reduce earnings volatility.

- Investment in trading team and technology driving improved quality of earnings across all channels
- Digital sportsbook gross win margin up 100 basis points
- New trading platform facilitates expansion of sportsbetting offer

4 Customer and Brand 

Ladbrokes is still the most recognised betting brand in the UK. Over the last year we have invested to evolve the brand with an increasing emphasis on excitement. The development of our offer, be it in Digital or Retail, is centred around improving the experience of customers.

- Spontaneous brand awareness⁽¹⁾ ahead of competitors and growing following new marketing
- Odds On, our customer loyalty scheme, rolled out to machines
- New shop designs will enable us to increase interaction with customers

⁽¹⁾ Based on TNS Omnibus survey of 2,084 18+ adults.

5 Regulatory leadership 

The continued evolution of tax and regulation is a key influence on the development of our business. Ladbrokes plays a lead role in ensuring that the Government and all regulatory authorities fully understand our industry and its significant contribution to the economy, employment and taxes.

- Continually developing our approach to responsible gambling with a new staff training programme
- Working to ensure the industry's contribution to the economy and communities is recognised
- Contributing to communities through the Ladbrokes in the Community Charitable Trust and Ladbrokes Community Fund