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 parent Company profit for the year was £562.1 million (2011: £12.9 million).

The Company has taken advantage of the exemption from preparing a cash flow statement under the provisions of FRS 1 (revised 1996) Cash flow statements. The Ladbrokes plc consolidated financial statements for the year ended 31 December 2012 contain a consolidated statement of cash flows.

2 Change in accounting policies
The amendment to FRS 29 Disclosures – Transfers of Financial Assets was adopted by the Company in the year. Adoption had no effect on the results or financial position of the Company or its disclosures.

The Financial Reporting Council recently issued changes to the UK financial reporting framework, which will result in companies reporting either under the principles of EU-adopted IFRS or a new set of UK financial reporting standards. In certain cases companies will be able to report reduced disclosures.

This new financial reporting framework is effective for the year ending 31 December 2015, and is required to be applied retrospectively. The Company has taken the decision not to adopt the new requirements for the year ended 31 December 2012.

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.

An undertaking is regarded as a subsidiary undertaking if the Company has control over its operating and financial policies.

An undertaking is regarded as an associate if the Company holds a participating interest and has significant influence, but not control, over its operating and financial policies.

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.

Deferred tax
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 pounds 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 into pounds sterling at the rates of exchange ruling at the balance sheet date (the closing rate).

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Notes to the Company financial statements
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3 Summary of significant accounting policies continued

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 any unrecognised past service costs. 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.

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 30 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 disclosures

As permitted by section 408 of the Companies Act 2006, the profit and loss account and the statement of total recognised gains and losses of the parent Company have not been separately presented in these financial statements.

5 Dividends

Pence per share	**2012 pence**	2011 pence
Interim dividend paid	**4.30**	3.90
Final dividend proposed[1]	**4.60**	3.90
	8.90	7.80

[1] A final dividend of 4.60 pence (2011: 3.90 pence) per share, amounting to £41.8 million (2011: £35.2 million) in respect of the year ended 31 December 2012 was declared by the directors on 21 February 2013. The total amount payable in respect of the final dividend is based on the expected number of shares in issue on 22 March 2013 and includes the shares issued in respect of the Betdaq acquisition (note 18). The 2012 interim dividend of 4.30 pence per share (£38.8 million) was paid on 25 October 2012.

6 Fixed asset investments

	Shares in Group companies £m	Unlisted investments at cost £m	Total £m
Cost			
At 1 January 2012	8,107.1	6.8	8,113.9
Additions	181.3	–	181.3
Disposals	(277.7)	–	(277.7)
At 31 December 2012	**8,010.7**	**6.8**	**8,017.5**
Provision			
At 1 January 2012 and 31 December 2012	**3,249.4**	**–**	**3,249.4**
Net book value			
At 1 January 2012	4,857.7	6.8	4,864.5
At 31 December 2012	**4,761.3**	**6.8**	**4,768.1**

Principal subsidiaries are listed in note 32 of the consolidated IFRSs financial statements.

7 Debtors

	2012 £m	2011 £m
Amounts due from Group companies	**18.7**	277.7
Corporation tax recoverable	**3.1**	24.0
Deferred tax (note 10)	**23.8**	7.1
Other debtors	**0.1**	–
	45.7	308.8

8 Creditors – amounts falling due within one year

	2012 £m	2011 £m
Amounts due to Group companies	**2,063.8**	2,875.9
Accruals and deferred income	**0.3**	0.3
Other financial liabilities	**–**	35.1
Other creditors	**–**	0.1
	2,064.1	2,911.4

9 Creditors – amounts falling due after more than one year

	2012 £m	2011 £m
Other financial liabilities	**10.0**	10.4

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Notes to the Company financial statements
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9 Creditors – amounts falling due after more than one year continued

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 2017 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 £827.9 million (2011: £860.6 million), with a maximum indemnity receivable of the same amount. Included in the maximum liability exposure is £475.5 million (2011: £490.7 million) in relation to the turnover based element of the hotel rentals and £352.4 million (2011: £369.9 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 2012 is £351.6 million (2011: £357.1 million). Included in the net present value of the maximum exposure is £182.1 million (2011: £183.3 million) in relation to the turnover based element of the hotel rentals and £169.5 million (2011: £173.8 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 2012 the Company has recognised a financial liability of £7.7 million (2011: £7.7 million) in respect of these guarantees.

No asset has been recognised in respect of the indemnity in both years.

The key assumption in the probability model is the hotels default rate. A rate of 2.2% has been used at 31 December 2012 (2011: 2.2%). A 0.5 percentage point increase in the default rate would increase the financial liability by £1.3 million.

10 Deferred tax assets

	£m
At 31 December 2011	7.1
Amounts credited to the profit and loss account for the year	16.7
At 31 December 2012	**23.8**

Analysis of deferred tax by type of timing difference:

	2012 £m	2011 £m
Deferred tax liability on pension asset	**(8.4)**	(9.3)
Capital allowances	**2.7**	5.4
Losses	**17.5**	–
Share-based payments	**3.6**	1.7
	15.4	(2.2)

	2012 £m	2011 £m
Reported as:		
Deferred tax liability on pension asset	**(8.4)**	(9.3)
Deferred tax assets	**23.8**	7.1
	15.4	(2.2)

Analysis of movements in deferred tax:

	2012 £m	2011 £m
At 1 January	**(2.2)**	(10.1)
Amounts credited to the profit and loss account for the year	**16.6**	7.9
Tax on items recognised directly in equity	**1.0**	–
At 31 December	**15.4**	(2.2)

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 23 to the IFRSs consolidated financial statements.

12 Share capital

	Number of 28 1/3p ordinary shares	£m
Issued and fully paid:		
At 1 January 2011	939,138,232	266.1
During the year	509,572	0.1
At 31 December 2011	939,647,804	266.2
During the year(1)	782,823	0.2
At 31 December 2012	**940,430,627**	**266.4**

(1) During the year, the following fully paid shares of 28 1/3 pence each were issued: 104,077 shares under the OWN Plan, 236,798 shares on exercise of options under the International Share Option Scheme, 43,534 shares on exercise of options under the 1978 Share Option Scheme and 398,414 shares on exercise of options under the 1983 Savings Related Share Option Scheme.

	Number of 28 1/3p ordinary shares
Shares issued at 31 December 2011	939,647,804
Treasury shares	(31,760,568)
Shares issued at 31 December 2011 excluding treasury shares	907,887,236
Shares issued at 31 December 2012	**940,430,627**
Treasury shares	**(31,760,568)**
Shares issued at 31 December 2012 excluding treasury shares	**908,670,059**

13 Reconciliation of shareholders' funds and movements on reserves

	Called up share capital £m	Share premium account £m	Treasury and own shares £m	Capital reserve £m	Profit and loss account £m	Total £m
At 1 January 2011	**266.1**	**194.1**	**(114.4)**	**0.1**	**1,991.4**	**2,337.3**
Profit for the year	–	–	–	–	12.9	12.9
Issue of shares	0.1	0.5	–	–	–	0.6
Share-based payments charge	–	–	–	–	6.6	6.6
Actuarial loss on defined benefit pension schemes	–	–	–	–	(3.7)	(3.7)
Net movement in shares held in ESOP trusts	–	–	1.1	–	(3.2)	(2.1)
Equity dividends	–	–	–	–	(69.0)	(69.0)
At 31 December 2011	**266.2**	**194.6**	**(113.3)**	**0.1**	**1,935.0**	**2,282.6**
Profit for the year	**–**	**–**	**–**	**–**	**562.1**	**562.1**
Issue of shares	**0.2**	**0.9**	**–**	**–**	**–**	**1.1**
Share-based payments charge	**–**	**–**	**–**	**–**	**9.2**	**9.2**
Tax on items taken directly to equity	**–**	**–**	**–**	**–**	**1.0**	**1.0**
Actuarial loss on defined benefit pension schemes	**–**	**–**	**–**	**–**	**(9.6)**	**(9.6)**
Net movement in shares held in ESOP trusts	**–**	**–**	**(1.6)**	**–**	**(0.4)**	**(2.0)**
Equity dividends	**–**	**–**	**–**	**–**	**(74.0)**	**(74.0)**
At 31 December 2012	**266.4**	**195.5**	**(114.9)**	**0.1**	**2,423.3**	**2,770.4**

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Notes to the Company financial statements
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14 Employee share ownership plans
Details of the employee share ownership plans of the Company are given in note 27 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 1 January 2012[1]	**6,587,360**	**7.6**	**940,824**	**0.4**	**7,528,184**	**8.0**
Shares purchased/allocated	**1,274,024**	**2.0**	**256,948**	**0.3**	**1,530,972**	**2.3**
Vested in year	**(287,500)**	**(0.4)**	**(289,081)**	**(0.3)**	**(576,581)**	**(0.7)**
At 31 December 2012	**7,573,884**	**9.2**	**908,691**	**0.4**	**8,482,575**	**9.6**
Market value of shares in trusts		**15.0**		**1.8**		**16.8**
Unallocated shares in trusts	**187,321**		**–**		**187,321**	

[1] Includes an award of 4,035,784 shares allotted by the Company in 2010 and held jointly between the participant and Computershare Trustees (CI) Limited under the Ladbrokes Growth Plan.

15 Pensions
The Company's main pension plan is the Ladbrokes Pension Plan. This was closed to new employees on 1 August 2007.

The last formal actuarial valuation of the plan was carried out with an effective date of 30 June 2010. The latest actuarial valuation was updated to 31 December 2012 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.

The following table sets out the key FRS 17 principle assumptions used for the plan. The table also sets out at 31 December 2012 and 31 December 2011, 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).

	2012	2011
Assumptions:		
RPI inflation	**3.0% pa**	3.1% pa
CPI inflation	**2.0% pa**	2.1% pa
Pension increases:		
– LPI 5%	**2.0% pa**	2.1% pa
– LPI 3%	**2.4% pa**	2.4% pa
– LPI 2.5%	**1.7% pa**	1.8% pa
Salary growth	**4% pa, plus promotional scale**	3% in 2012 and 4.1% pa thereafter, plus promotional scale
Discount rate	**4.5% pa**	4.9% pa
Life expectancy for males/females aged 65 now	**86.8/88.4**	86.7/88.4
(members with higher pensions have a different assumption)	**(90.1/90.5)**	(90.0/90.4)
Expected long-term return for:		
– Equities	**7.3% pa**	7.3% pa
– Bonds	**3.3% pa**	3.4% pa
Fair value of plan assets	**£300.8m**	£280.7m
Composed of:		
– Equities	**38%**	36%
– Bonds	**62%**	64%
Present value of liabilities	**£(264.3m)**	£(243.3m)
Surplus	**£36.5m**	£37.4m
Related deferred tax liability	**£(8.4m)**	£(9.3m)
Net pension asset	**£28.1m**	£28.1m

15 Pensions continued

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 2012, in respect of the Ladbrokes Pension Plan, were £10.1 million (2011: £7.9 million).

The currently agreed level of employer contributions is 22.2% of pensionable payroll, plus an additional £441,667 per month to remove the shortfall in funding identified at 30 June 2010 and £62,500 per month towards the regular expenses of maintaining the plan. These lead to an expected contribution of £9.6 million in 2013. 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.

The following table sets out the amounts charged to the profit and loss account and directly in equity for the year ended 31 December 2012 in accordance with the requirements of FRS 17, together with the prior year comparative.

Analysis of amounts charged to operating profit:

	2012 £m	2011 £m
Current service cost (excluding employee element)	**3.0**	3.3
Analysis of the amount charged/(credited) to other finance income:		
Expected return on plan assets	**(13.3)**	(14.4)
Interest on plan liabilities	**11.7**	12.4
Net return	**(1.6)**	(2.0)
Total expense included in profit and loss	**1.4**	1.3

Reconciliation of the present value of the defined benefit obligation during the year:

	2012 £m	2011 £m
At 1 January	**(243.3)**	(228.6)
Employer's part of current service cost	**(3.0)**	(3.3)
Interest cost	**(11.7)**	(12.4)
Contributions by plan members	**(1.0)**	(1.1)
Actuarial loss	**(16.4)**	(8.6)
Benefits paid	**11.1**	10.7
At 31 December	**(264.3)**	(243.3)

Reconciliation of the fair value of plan assets during the year:

	2012 £m	2011 £m
At 1 January	**280.7**	263.1
Expected return on plan assets	**13.3**	14.4
Actuarial gain	**6.8**	4.9
Contributions by the employer	**10.1**	7.9
Contributions by plan members	**1.0**	1.1
Benefits paid	**(11.1)**	(10.7)
At 31 December	**300.8**	280.7

The actual return on the plan's assets over the year was a gain of £20.1 million (2011: £19.3 million).

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15 Pensions continued
The amount recognised in the statement of total recognised gains and losses for 2012 is a loss of £9.6 million (2011: £3.7 million).
The cumulative amount recognised outside profit and loss at 31 December 2012 is a loss of £94.9 million (2011: £85.3 million).

	31 December 2012 £m	31 December 2011 £m	31 December 2010 £m	31 December 2009 £m	31 December 2008 £m
Present value of defined benefit obligation	**(264.3)**	(243.3)	(228.6)	(227.4)	(196.5)
Fair value of plan assets	**300.8**	280.7	263.1	242.4	217.3
Surplus	**36.5**	37.4	34.5	15.0	20.8

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience adjustments on plan assets:					
Gain/(loss)	**6.8**	4.9	10.8	14.1	(39.2)
Percentage of plan assets (%)	**2.3%**	1.7%	4.1%	5.8%	18.0%
Experience adjustments on plan liabilities					
Gain/(loss)	**0.4**	–	4.0	3.5	(1.7)
Percentage of present value of plan liabilities (%)	**0.2%**	–	1.7%	1.5%	0.9%

16 Share-based payments
Details of share-based payments are given in note 30 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 £408.8 million (2011: £483.3 million). There have been no loans guaranteed by subsidiary companies.

Bank guarantees have been issued on behalf of subsidiaries and joint ventures with a value of £13.7 million (2011: £22.1 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 Post balance sheet events
On 24 January 2013, the Company agreed to acquire 100% of the issued share capital of Global Betting Exchange Alderney Limited, a company registered in Alderney which operates the Betdaq exchange business, for an initial consideration of €30.0 million (£25.6 million: 50% in cash and 50% in the Company's shares). The transaction is subject to certain conditions, including regulatory approvals. The transaction also includes the payment of contingent consideration, linked to the performance of the business over a four year period and capped at €535.0 million. Management's current expectation is that the contingent consideration is likely to be significantly less than this.

In connection with the acquisition described above, on 24 January 2013 the Company also agreed to acquire 10% of the issued share capital of TBH Guernsey Limited, a company registered in Guernsey, for cash consideration of €4.0 million (£3.2 million) with a call option to acquire the remaining shares after four years at a discount to the fair value at that point. The transaction also includes a put option to recover the purchase consideration of €4 million in full.