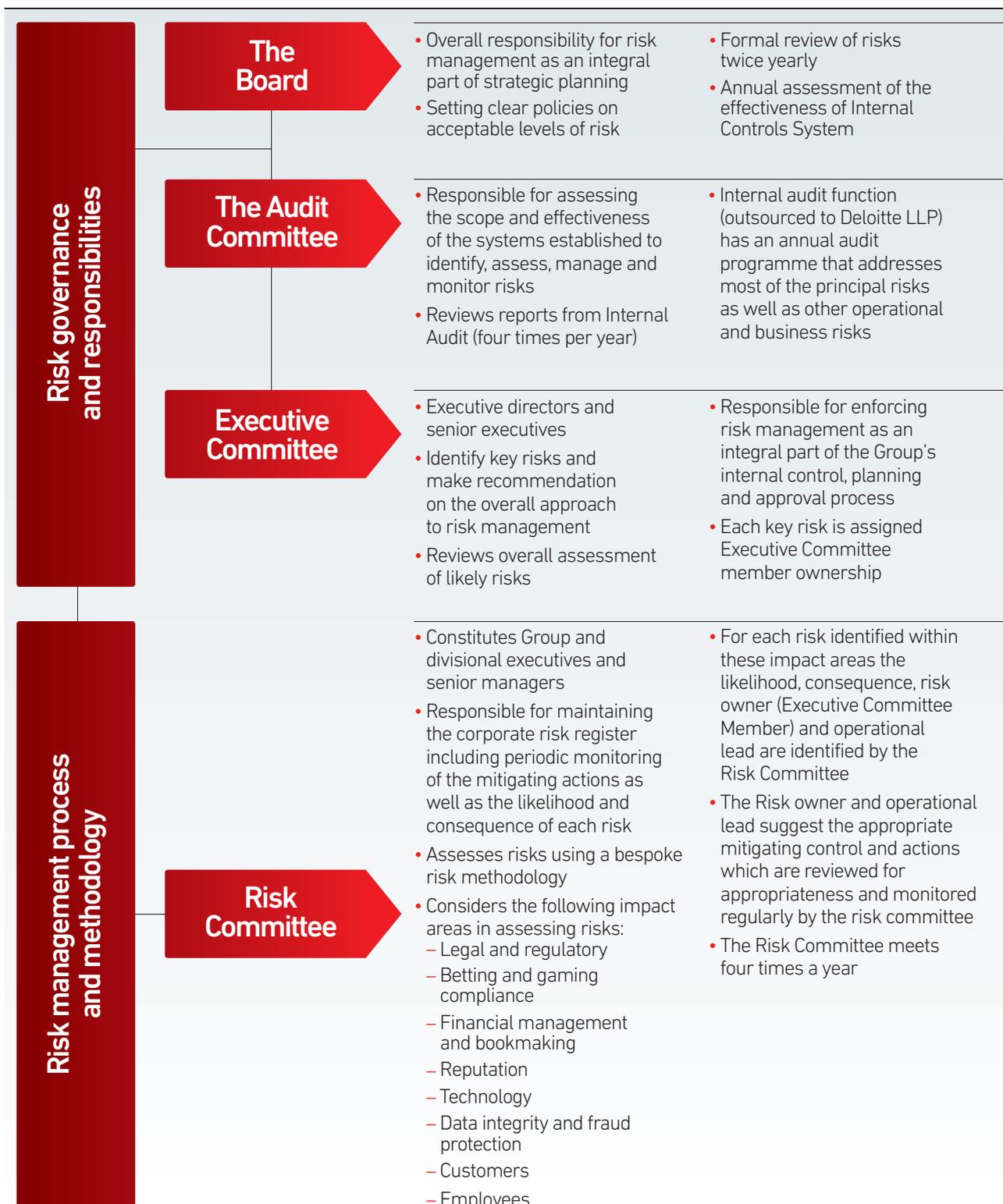


Risks and how we manage them



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. General business risks include:

- Marketplace – changes in the economic environment, weakening of the Eurozone and 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 and management of key projects and international expansion.

In addition, there are more specific risks which are either unique to Ladbrokes or apply to the industry in which we operate. 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.

Specific risks that are material to Ladbrokes are:

Risks	Mitigation
<p>Marketplace</p> <p>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 chooses not to operate (because of legal reasons or otherwise).</p>	<p>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.</p>
<p>Betting and gaming industry</p> <p>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.</p>	<p>Regulatory, legislative and fiscal developments in key markets are monitored closely (see page 19 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.</p>
<p>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. A number of these are under negotiation at any one time.</p>	<p>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.</p>
<p>Operational and bookmaking</p> <p>Trading, liability management and pricing 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.</p>	<p>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.</p>

Risks and how we manage them continued

Risks	Mitigation
Operational and bookmaking continued	
<p>High fixed cost base Ladbrokes has a relatively high fixed cost base as a proportion of its total costs, consisting primarily of employee, rental and content 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.</p>	<p>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 reduce the proportion of the Company's fixed costs.</p>
<p>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 online betting and gaming operations are based.</p>	<p>Existing business continuity plans and arrangements for offsite data storage, alternate system availability and remote working for key operational and senior management continue to be developed as part of an ongoing process.</p>
Information technology and communications	
<p>Technology changes The market for online and mobile 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.</p>	<p>Ladbrokes has invested and 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 that a continued high quality of product offerings and services are maintained.</p>
<p>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.</p>	<p>Ladbrokes has a level of resilience in place which seeks to eliminate single points of failure within key technology locations.</p>
<p>Data management 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.</p>	<p>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.</p>
<p>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 Ladbrokes' operations.</p>	<p>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 includes key supplier alternatives.</p>