



Financial Results

5 March 2007



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- Introduction** - **David Harding**
- Results** - **Simon Lane**
- Updates** - **David Harding**



Simon Lane
Finance Director

Financial Highlights

- EBIT up 19% at £292.2m
- Ex-Stanley LBOs EBITDA at £48.1m
- EPS up 24% at 45.5 pence
- Final dividend up 19% at 14.5 pence

Summary of Financial Results

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Change</u>
	<u>£m</u>	<u>£m</u>	<u>%</u>
⁽¹⁾ Gross win	931.3	807.7	+ 15%
GPT, VAT, duties, levies, royalties and related costs	<u>(197.4)</u>	<u>(176.5)</u>	<u>+ 12%</u>
Gross profit	733.9	631.2	+ 16%
Net operating expenses	<u>(445.3)</u>	<u>(388.8)</u>	<u>+ 15%</u>
Associate income	3.6	2.6	+ 38%
EBIT (excluding exceptionals)	<u>292.2</u>	<u>245.0</u>	<u>+ 19%</u>
EBITDA (excluding exceptionals)	<u>322.0</u>	<u>269.8</u>	<u>+ 19%</u>

⁽¹⁾ Includes casino drop, AWP and FOBT cash in box including VAT

Group Summary of Earnings and Dividends

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Change</u>
	<u>£m</u>	<u>£m</u>	<u>%</u>
EBIT (excluding exceptionals)	292.2	245.0	+ 19%
Net interest payable	(56.8)	(41.1)	+ 38%
Profit before taxation	235.4	203.9	+ 15%
Taxation	(68.6)	(60.9)	+ 13%
PAT (pre-exceptionals)	166.8	143.0	+ 17%
Earnings per share (pence) Basic ⁽¹⁾	45.5	36.6	+ 24%
Diluted ⁽¹⁾	44.9	36.1	+ 24%
FY dividend per share	21.75	18.3	+ 19%

⁽¹⁾ Basic and undiluted earnings per share based upon 366.7m and 371.4m shares respectively

The number of shares that are applicable for the basic EPS calculation at 26 December 2006 are 352.9m

Summary of Financial Results (excl. Stanley)

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Change</u>
	<u>£m</u>	<u>£m</u>	<u>%</u>
⁽¹⁾ Gross win	779.6	737.0	+ 6%
GPT, VAT, duties, levies, royalties and related costs	<u>(166.8)</u>	<u>(161.5)</u>	<u>+ 3%</u>
Gross profit	612.8	575.5	+ 6%
Net operating expenses	<u>(369.1)</u>	<u>(348.7)</u>	<u>+ 6%</u>
Associate income	3.6	2.6	+ 38%
EBIT (excluding exceptionals)	<u>247.3</u>	<u>229.4</u>	<u>+ 8%</u>
EBITDA (excluding exceptionals)	<u>273.9</u>	<u>251.9</u>	<u>+ 9%</u>

⁽¹⁾ Includes casino drop, AWP and FOBT cash in box including VAT

Analysis of Group Gross Win (excl. Stanley)

		<u>FY 2006</u>	<u>FY 2005</u>	<u>Change</u>
		<u>£m</u>	<u>£m</u>	<u>%</u>
Retail	OTC	378.5	378.4	+ 0%
	FOBTs/AWPs	205.8	174.3	+ 18%
	Total	584.3	552.7	+ 6%
Telephone		57.5	53.4	+ 8%
Interactive	Sportsbook/arcade	58.6	55.3	+ 6%
	Casino/poker	71.9	68.0	+ 6%
	Total	130.5	123.3	+ 6%
Other	⁽¹⁾	7.3	7.6	- 4%
Total gross win (excl Stanley)		779.6	737.0	+ 6%

⁽¹⁾ Includes greyhound stadia, course and group promotions

Duty, Levies and Other Cost of Sales (excl. Stanley)

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Change</u>
	<u>£m</u>	<u>£m</u>	<u>%</u>
Gross win	779.6	737.0	+ 6%
GPT/VAT	(104.9)	(99.4)	+ 6%
Levies	(24.7)	(27.3)	- 10%
Royalties and other costs	(37.2)	(34.8)	+ 7%
Gross profit	<u>612.8</u>	<u>575.5</u>	<u>+ 6%</u>

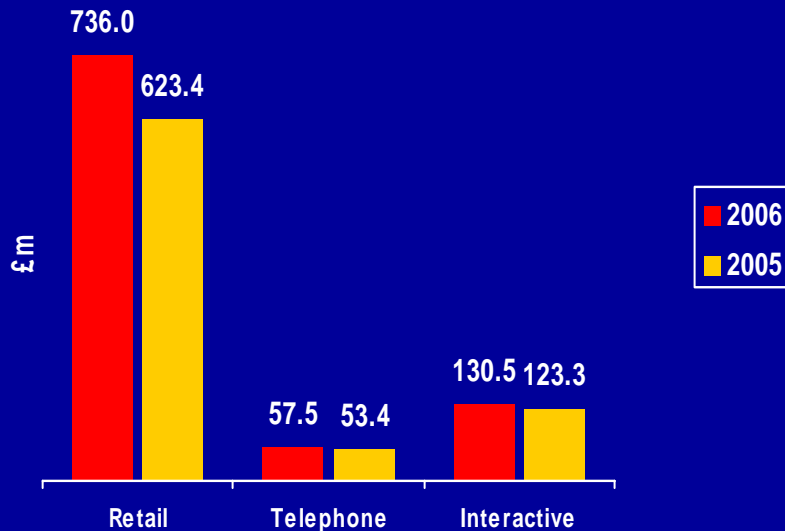
Net Operating Expenses (excl. Stanley)

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Change</u>
	<u>£m</u>	<u>£m</u>	<u>%</u>
Staff costs	179.5	168.0	+ 7%
Property costs	61.6	54.9	+ 12%
Depreciation	26.6	19.3	+ 38%
Pictures and data	23.1	21.6	+ 7%
Advertising and sponsorship: General	23.1	20.8	+ 11%
World Cup	2.2	-	-
AWP/FOBT rental	1.3	3.1	- 58%
Finance charges (incl chargebacks)	7.4	7.4	-
Communications	7.1	7.4	- 4%
Other	⁽¹⁾ 37.2	46.2	- 19%
Operating expenses	369.1	348.7	+ 6%
Less: costs allocated to divisions	(354.2)	(335.4)	+ 6%
Central costs	14.9	13.3	+ 12%

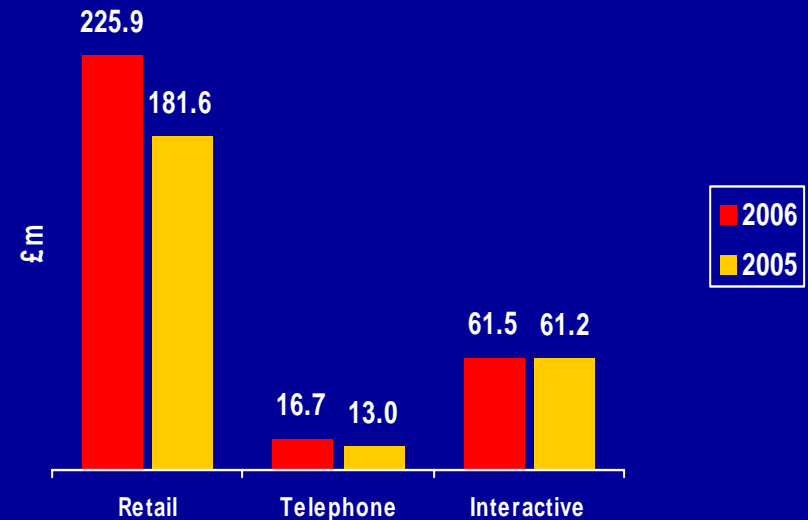
⁽¹⁾ Includes printing and stationery, legal, consultancy, cleaning and other miscellaneous costs

Results by channel (incl. Stanley)

Gross win by channel

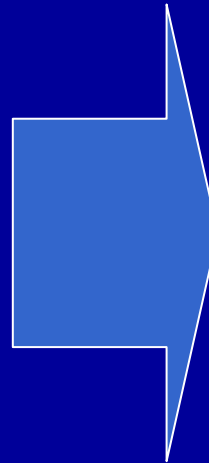


Operating profit by channel



Stanley overview

- 560 shops acquired (net)
- EBITDA 2006 at £48.1m
- Net investment of £495m
- 180 development opportunities



2006 ROI = 10%

Capex spend and forecast

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
EPOS/Text	10.9	1.5	1.0
Retail development	37.6	49.5	48.0
Retail acquisitions	-	30.5	-
Core bookmaking systems	13.1	15.0	3.0
International JVs	-	6.0	19.0
Other	6.3	9.0	9.0
Total	67.9	111.5	80.0

Cash flow

	<u>FY 2006</u>	<u>FY 2005</u>	<u>Change</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
EBITDA	322.0	269.8	52.2
Pension contribution	(9.4)	(9.4)	-
Stanley integration costs	(7.5)	(16.8)	9.3
Working capital/other	14.6	1.2	13.4
Capital expenditure	(67.9)	(54.5)	(13.4)
Cash from operations	251.8	190.3	61.5
Cash taxes	(53.9)	(49.4)	(4.5)
Net interest	(52.3)	(33.4)	(18.9)
Equity dividends	(70.9)	(66.6)	(4.3)
Free cashflow	74.7	40.9	33.8
Acquisitions	-	(466.1)	466.1
Share buybacks/SAYE redemptions	(177.4)	(74.1)	(103.3)
Net cashflow	(102.7)	(499.3)	396.6
Net debt	(1,043.4)	(939.5)	(103.9)



David Harding
Chief Executive

2006 – additional colour

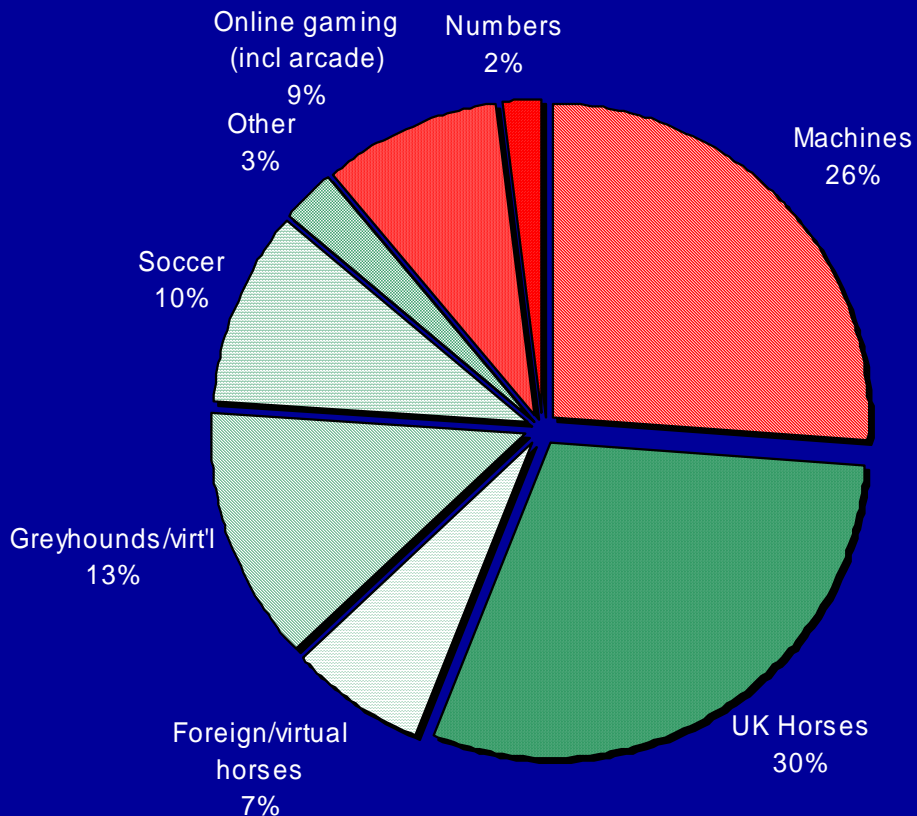
- **Product profitability**
- **Stanley acquisition**
- **Interactive profitability and growth**

2007 – considerations

- **Remote initiatives**
- **Retail estate development**
- **International (Spain & Italy)**
- **Gambling Commission**
- **Current trading**

Gross win by product

Gaming 37%



Betting 63%

H1 vs. H2

£m	H1	H2	
Group	478	453	- 5%
UK Horses	151	128	- 15%
Online gaming	43	37	- 14%

Overround per runner – trend



FOBT/AMLDD update

- **Installed machines end of 2005 – 7,691 (6,078 WH; 1,613 SLY)**
- **Average weekly net profit/terminal 2005 – £379 (£402 WH; £293 SLY)**
- **Installed machines end of 2006 – 7,715**
- **Average weekly net profit/terminal 2006 – £463**
- **Average weekly net profit/terminal post AMLD – £448**

Stanley acquisition update

<u>SLY % WH</u>	<u>H1 2005</u>	<u>H2 2005</u>	<u>H1 2006</u>	<u>H2 2006</u>
EBIT/LBO	47.5	61.9	74.9	86.6

HO costs

FOBT & mgt costs

Revenue synergies
Initial development



Estate development

Interactive profitability and growth

- **Sportsbook** – legacy database, performance issues Q4
- **Poker** – US decision, international slowdown
– performance issues Q4, competitive marketing
- **Casino** – recruitment via sportsbook/poker
- **Arcade** – healthy growth driven by new product launches
- **Skill games** – launches delayed until January due to Q4 performance issues
- **WHTV** – closed October 2006
- **H2 underperformance in Interactive**

Remote initiatives

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
* Sportsbook		New web site		New back-end
* Casino	Poker window Seamless log-in	Boss CRM Enhancements	Cryptologic upgrade	
* Poker	Improved rakeback	Ring-fence Player education		Instant play
* Arcade	Slots reskill	Bonus system WAP games	Sportsbook mini-games	
* Skill	Tournament blackjack Backgammon Gin rummy Bingo			

Retail estate development

* Trading units at end of 2005	2,184	
* 2006 developments		
- 5 acquisitions		
- 15 closures		
- 50 new licences		
- 40 resites		
- 30 extensions		
- 113 other shop fit		
* Trading units at end of 2006	2,224	
* Average trading units 2006	2,196	} +2.6%
* Net additional 2007 YTD	29	
* Current trading units	2,253	

International strategy

- * Internet only
 - Risk based
 - Generally passive marketing

- * In country
 - Robust tax/regulation
 - Core competency fit
 - Technology/model reuse - scale economics
 - Local partner
 - Spain/Italy (+ 1 or 2)

Spain

- 2 regions deregulated - Madrid – process announced
- Basque – awaiting tender
- Other regions anticipated to follow
- Sports betting in Madrid allowed in bingo halls, casinos, arcades and dedicated LBOs
- 4 gaming machines in dedicated betting outlets, 2 in bars
- Internet licence
- 10% profit based tax
- Average initial investment €10m per region
- At ½x UK LBO profitability, achieves over 15% ROI
- Business model improves with multiple regions (central costs)

Italy

- 16,000 licences tendered in addition to existing 1000 LBOs
- Outlets effectively agents for AAMs
- Mixture of dedicated outlets (sports/horses LBOs) and “corners” in bars
- 24 gaming machines in LBOs
- Separate internet licence
- Betting duty on sports betting 3% stakes (singles), 7% multiples – limits product range
- Initial investment €10m
- Business model improves with scale (central costs)
- At 1½ x UK LBO profitability, achieves over 15% ROI
 - Reflects different nature of shops (size, 24 machines, density)
- Currently 55 licences in Rome, Milan, Bologna and Turin

Gambling Commission

- 01 September 2007 – GC assume responsibility for regulation
- Compliance team in place and preparation for new regime underway
- Leading involvement in over 25 DCMS and GC consultations
- Significant consultations outstanding:
 - Remote technical standards – due to be finalised June 2007
 - Machine standards and regulations – ongoing
- Timetable for technical changes – subject to further discussion with GC
- Licence applications being progressed
- Continued emphasis on responsible gambling – building on existing industry policies
- Self exclusions during 2006
 - Retail 401 (2005- 285); Remote 1,010 (2005 – 693)
- Costs circa £3m
- Benefits – extended opening/jackpot machines

Current trading

In the nine weeks to 27 February 2007

- Group gross win up 11%

Appendix

Revenue under IFRS

➤ **Definition of Revenue**

- **IFRS = gains and losses from betting net of VAT**
- **UK GAAP = amounts wagered**

➤ **Reconciliation between IFRS and UK GAAP:-**

	<u>£m</u>	<u>£m</u>
Amounts wagered = UK GAAP turnover	13,235.9	10,746.1
Gross win	931.3	807.7
Machine VAT	(37.1)	(2.4)
IFRS revenue	894.2	805.3