GALA CORAL
GROUP

Annual Report and Accounts

Gala Coral Group Limited

For the year ended 29 September 2012

Registered Number: 07254686

Gala Coral Group Limited
Directors and Advisors

DIRECTORS

R W Templeman (Non Executive Chairman)
C A Leaver (Chief Executive Officer)
P Bowtell (Chief Financial Officer)
A Hornby
C Attwood (Non Executive Director)
D R Kornstein (Non Executive Director)
G B C Hardy (Non Executive Director)
W T Walsh (Non Executive Director)

SECRETARY

H A Willits

INDEPENDENT AUDITORS

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Gala Coral Group Limited
Directors' Report
For the year ended 29 September 2012

The directors present their annual report and the audited financial statements of Gala Coral Group Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 29 September 2012. The Group prepares its financial statements to the last Saturday in September. As a result of this the Group benefits from an additional 53rd week of trading in certain years (last 53 week year was 2006). This also results in a 13 week final trading quarter, as opposed to the typical 12 week final trading quarter.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 29 September 2012 are set out on page 26 and show an operating profit for the year before other operating income and exceptional items, of £189.5 million (2011: £156.9 million). No dividends have been paid or proposed (2011: £nil). The loss for the year after taxation was £123.2 million (2011: £643.4 million) including £78.4 million of exceptional costs, including gains and losses on the sale of properties and exceptional interest payable and receivable (2011: £576.6 million) (see note 5).

PRINCIPAL ACTIVITIES

The principal activities of the Group are the operation of licensed betting offices (LBOs), bingo clubs, casinos and an online betting and gaming business. More information on the activities of the Group is provided in the Business Review below. The principal activity of the Company is that of a holding company.

HIGHLIGHTS – FULL YEAR

The key financial highlights over the 53 weeks ended 29 September 2012 were:

- Turnover of £1,189.5 million, an increase of £72.5 million (6%) over the prior year.
- Group EBITDA (pre-exceptionals) of £280.2 million, an increase of £19.2 million (7%) over the prior year (£13.6 million excluding the impact of week 53).
- Full year cash outflow of £5.8 million (2011: £118.7 million), including capital investment in the business of £107.8 million (2011: £54.3 million) as well as £4.7 million (2011: £190.1 million) of net debt repayments.

The key trading highlights for the year ended 29 September 2012 were:

- EBITDA (pre-exceptionals and pre-bonus) was £29.4 million or 11% ahead of the prior year. Excluding the impact of the 53rd week of trading, EBITDA (pre-exceptionals and pre-bonus) was 9% ahead of the prior year.
- Coral over the counter (OTC) gross win was 6% ahead year on year excluding week 53 and Euro 2012, driven by stable amounts staked and a strong gross win margin.
- Coral machines gross win was 7% ahead of the prior year excluding week 53, with gross win per machine per week of £920 (3% ahead year on year).
- Bingo gross profit was 8% ahead excluding week 53, driven by a strong performance in interval bingo and machines.
- Interactive gross profit was 9% ahead of the prior year excluding week 53, with significant increases in active customers across all sites.
- Italy EBITDA (pre-exceptionals) grew by 23% year on year (excluding week 53 and Euro 2012), driven by strong performances in both sports betting and online gaming.
- Launch of the new Interactive websites; galacasino.com in May, galabingo.com in July and the new coral.co.uk site launched shortly after the year end on 11 October.
- Strong cash-flow performance having invested over £100m of Capital Expenditure

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 29 September 2012

OVERVIEW OF THE YEAR BY DIVISION

During the year the group developed and launched 3 new online gaming websites, galabingo.com, galacasino.com and coral.co.uk (coral.co.uk launched shortly after the year end). The new betting platforms are run out of newly established statutory entities based in Gibraltar. For the purposes of the group financial statements these new sites form part of the group's Interactive division along with their predecessor online gaming division, Remote Gambling.

Coral

	53 weeks ended [4] 29 September 2012	FY12 adj [5] 2012	52 weeks ended 24 September 2011	Year on Year variance [6] 52 week
Turnover [1] [2]	608.0	594.2	559.7	6%
EBITDA [1] [3]	186.5	181.5	172.7	5%
KPI's [1]				
OTC				
Amounts staked (£m)	1,840.4	1,789.3	1,784.2	-%
Gross win margin (%)	17.2%	17.3%	16.4%	0.9pp
Average number of LBO's	1,721	1,721	1,660	4%
Machines				
Average number of machines	6,867	6,867	6,551	5%
Gross win/machine/week (£)	920	920	896	3%

[1] Results are for the total estate, i.e non like-for-like

[2] Turnover is defined as gross win minus free bets and VAT

[3] EBITDA is stated pre-exceptional items and excludes rental income of £2.2m which for statutory purposes is classed as 'Other Operating Income' in the accounts. EBITDA includes an additional 53rd week of trading in the year ended 29 September 2012 due to the timing of the Group's year end in 2012

[4] Includes 53rd week and Euro 2012

[5] Excludes the impact of the 53rd week of trading and Euro 2012

[6] Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Turnover has increased from £559.7 million in the year to 24 September 2011 to £608.0 million in the current year, an increase of 9% (6% increase excluding week 53 and Euro 2012). EBITDA (pre-exceptionals) for the year of £186.5 million was £13.8 million or 8% ahead of the prior year (£8.8 million or 5% ahead excluding week 53 and Euro 2012).

OTC gross win was 6% ahead year on year excluding the impact of week 53 and Euro 2012. OTC stakes were level with the prior year, with growth driven by an improved margin which was 90bps ahead of the prior year.

Machines gross win was 7% ahead of the prior year excluding week 53, with underlying growth in both amounts staked and gross win margin. Gross win per machine per week has increased by 3% over the prior year to £920.

Operating costs, before depreciation and amortisation, were 6% higher in the current year on a 52 week basis as a result of increased payroll, property and content costs due to estate growth, increased opening hours and contractual and inflationary cost increases.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 29 September 2012

OVERVIEW OF THE YEAR BY DIVISION (continued)

Bingo

	53 weeks ended [4] 29 September 2012	FY12 adj [5] 2012	52 weeks ended 24 September 2011	Year on Year variance [6] 52 week
Turnover [1] [2]	308.7	303.1	303.0	-
EBITDA [1] [3]	78.1	76.6	64.8	18%
KPI's [1]				
Admissions ('000)	19,074	18,744	19,046	(2%)
Spend per head (£)	32.92	32.91	31.62	4%
EBITDA/club/week (£'000)	10.5	10.5	8.8	19%

[1] Results are for the total estate, i.e non like-for-like

[2] Turnover is defined as net income

[3] EBITDA is stated pre-exceptional items and excludes rental income of £0.8m which for statutory purposes is classed as 'Other Operating Income' in the accounts. EBITDA includes an additional 53rd week of trading in the year ended 29 September 2012 due to the timing of the Group's year end in 2012

[4] Includes 53rd week

[5] Excludes the impact of the 53rd week of trading

[6] Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Bingo turnover for the year was £5.7 million higher than the prior year at £308.7 million, and flat year on year excluding week 53. During FY12 there was a change in the prize mix in interval Bingo which has reduced current year turnover (on a comparable basis) by £12.2 million. This change has no adverse impact on gross profit. Excluding the impact of this change (and week 53), turnover increased by 4% year on year. EBITDA (pre-exceptionals) of £78.1 million was £13.3 million or 21% ahead of the prior year (£11.8 million or 18% ahead excluding week 53).

On a 52 week basis admissions were 2% lower than the prior year. This is mainly due to the removal of free bingo in certain clubs which is estimated to have reduced overall admission levels by approximately 3%.

Spend per head has continued to show strong year on year growth and is 4% ahead of the prior year, with growth in interval bingo (Party Xtra) and machines. Divisional gross profit was 8% ahead of the prior year (excluding week 53).

Operating costs, before depreciation and amortisation, were £3.7 million higher year on year excluding week 53.

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Directors' Report (continued)
For the year ended 29 September 2012

OVERVIEW OF THE YEAR BY DIVISION (continued)

Casino

	53 weeks ended [4] 29 September 2012	FY12 adj [5] 2012	52 weeks ended 24 September 2011	Year on Year variance [6] 52 week
Turnover [1] [2]	139.9	137.6	134.4	2%
EBITDA [1] [3]	26.4	26.2	26.7	(2%)
KPI's [1]				
Admissions ('000)	3,247	3,190	3,558	(10%)
Gaming drop per head (£)	182.65	182.63	162.72	12%
Cash Drop (£'m)	593.2	582.6	579.0	1%
Gaming gross win margin (%)	17.2%	17.3%	16.5%	0.8pp

[1] Results are for the total estate, i.e non like-for-like
[2] Turnover is defined as net income minus complimentary sales
[3] EBITDA is stated pre-exceptional items and excludes rental income of £0.2m which for statutory purposes is classed as 'Other Operating Income' in the accounts. EBITDA includes an additional 53rd week of trading in the year ended 29 September 2012 due to the timing of the Group's year end in 2012
[4] Includes 53rd week
[5] Excludes the impact of the 53rd week
[6] Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Turnover has increased by 4% to £139.9 million (2% increase excluding week 53), driven primarily by improvements in gaming income. EBITDA (pre-exceptionals) of £26.4 million was £0.3 million behind the prior year (£0.5 million lower excluding week 53).

The continued focus on more valuable players has resulted in a reduction in admissions, although increased drop per head has resulted in growth in gaming cash drop of 1% (excluding week 53). Gaming gross win margin was 0.8pp ahead of the prior year at 17.3%, resulting in the overall growth in turnover. Machines income was marginally down on FY11 and food and beverage income was 4% ahead excluding week 53.

Operating costs, before depreciation and amortisation, have increased by 6% over the prior year excluding week 53, following investment in payroll costs in order to drive customer service, focused promotional expenditure, property costs and utility costs.

Interactive

	53 weeks ended [4] 29 September 2012	FY12 adj [5] 2012	52 weeks ended 24 September 2011	Year on Year variance [6] 52 week
Turnover [1] [2]	72.5	70.6	68.7	3%
EBITDA [1] [3]	35.0	34.1	32.2	6%
KPI's [1]				
Amounts staked – Gala	982.8	961.0	899.4	7%
Amounts staked – Coral	704.1	686.0	555.7	23%
Sportsbook gross win margin (%)	6.6%	6.6%	6.0%	0.6pp

[1] Gala Interactive consists of the galabingo.com and galacasino.co.uk websites. Coral Interactive consists of the coral.co.uk website and the telephone betting operation (Telebet). In FY11 this also included eurobet.com, which was closed in Q4 FY11
[2] Turnover is defined as gross win minus free bets
[3] EBITDA is stated pre-exceptional items
[4] Includes 53rd week and Euro 2012
[5] Excludes the impact of the 53rd week of trading and Euro 2012
[6] Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Gala Coral Group Limited
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OVERVIEW OF THE YEAR BY DIVISION (continued)

Interactive (continued)

Turnover for the year was £3.8 million or 6% ahead of the prior year (3% ahead excluding week 53 and Euro 2012), driven by strong growth in actives and revenues by coral.co.uk and the introduction of the new Gala Interactive websites later in the year. EBITDA (pre-exceptionals) of £35.0 million was £2.8 million or 9% ahead of the prior year (£1.9 million or 6% ahead excluding week 53 and Euro 2012).

Gala Interactive has shown strong growth in active customer levels following the launch of the new websites and an improved marketing focus around acquisition, retention and reactivation of customers. On a 52 week basis amounts staked on the site have increased by 7% year on year, with gross win 3% ahead.

Coral Interactive delivered strong growth in active customer levels on coral.co.uk. Sports betting amounts staked were 26% ahead year on year (excluding week 53 and Euro 2012). Combined with a sports betting gross win margin 60bps ahead of the prior year, sportsbook gross win was 38% ahead year on year on a 52 week basis, and excluding Euro 2012. Gaming amounts staked also grew strongly over the period, with gaming gross win 31% ahead (excluding week 53).

Operating costs, before depreciation and amortisation, were 12% higher than in the prior year as a result of increased marketing and promotional activity.

Italy

	53 weeks ended {4} 29 September 2012	FY12 adj{5} 2012	52 weeks ended 24 September 2011	Year on Year variance {6} 52 week
Turnover {1}{2}	60.4	58.2	51.2	14%
EBITDA {1}{3}	11.9	11.2	9.2	22%
KPI's {1}				
LBO sports stakes	147.4	136.6	130.0	5%
Online sports stakes	69.9	65.7	53.9	22%
LBO sports gross win margin (%)	19.8%	20.4%	21.1%	(0.7pp)
Online sports gross win margin (%)	13.2%	13.3%	13.4%	(0.1pp)
Total sports gross win margin (%)	17.7%	18.1%	18.8%	(0.7pp)

{1} Results are for the total estate, i.e non like-for-like
{2} Turnover is defined as gross win
{3} EBITDA is stated pre-exceptional items
{4} Includes 53rd week and Euro 2012
{5} Excludes the impact of the 53rd week of trading and Euro 2012
{6} Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Turnover for the year was 18% ahead of the prior year (14% ahead excluding week 53 and Euro 2012), driven by increased staking levels offset by a lower year on year sports gross win margin. EBITDA (pre-exceptionals) of £11.9 million was £2.7 million or 29% ahead of the prior year (£2.0 million or 23% excluding week 53 and Euro 2012).

Gala Coral Group Limited
Directors' Report (continued)
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OVERVIEW OF THE YEAR BY DIVISION (continued)

Italy (continued)

Excluding week 53 and Euro 2012 total sports betting amounts staked were 10% ahead of the prior year. Sports results, however, have not been as favourable as in FY11, particularly in quarter 4, resulting in sports gross win up 6% on the same basis. Combined with the additional online gaming revenue generated in the year, this resulted in total gross win 15% ahead of FY11 (excluding week 53 and the Euros).

On a 52 week basis operating costs, before depreciation and amortisation, were £1.1 million higher year on year, mainly associated with the launch and ongoing marketing of the new online gaming content.

Casino transaction

On 20 August 2012 the Office of Fair Trading announced that it had referred the proposed disposal of 23 UK casinos to Rank Group PLC to the Competition Commission. Accordingly, the disposal did not become unconditional by 19 September 2012 and therefore the agreement relating to the disposal ceased to be formally binding on the parties. The parties are currently engaged with the Competition Commission, and the Commission's preliminary findings will be issued in December.

Group

Turnover of £1,189.5 million, represents an increase of £72.5 million or 6% over the prior year. Excluding the impact of the change in Bingo prize mix, Euro 2012 and week 53, turnover increased by 5%.

Group EBITDA (pre-exceptionals) increased from £261.0 million in the prior year to £280.2 million in the current year, with £7.9 million of the increase attributable to week 53 and Euro 2012.

General administrative expenses include central function costs and non-cash amortisation of the Eurobet Italia sports betting licences and goodwill relating to Interactive. These costs have decreased from £75.0 million in the prior year to £74.1 million in 2012 driven primarily by a reduction in the amortisation on the Interactive goodwill, netted off against increases in costs relating to the incremental bonus accrual.

A net charge of £74.2 million (2011: £579.9 million) relating to exceptional items has been incurred in the year, including costs associated with vacant lease provisions, redundancies, costs associated with the launch of our new websites in the Interactive division and an FRS 20 Share Based Payment charge. The current year also included costs associated with the proposed disposal of our Casino business. The prior year included an impairment of goodwill in the Coral and Interactive segments of £550.0 million (see note 5) as well as VAT refunds received from HMRC.

OVERVIEW OF THE YEAR (continued)

	2012 £m	2011 £m
Exceptional profit and loss charge:		
Impairment	2.1	552.4
Interactive launch	11.3	7.7
Casino disposal	4.6	-
Other restructuring costs	2.3	12.6
Net gain of VAT refunds and duty paid	-	(2.9)
FRS 20 Share Based Payment charge	51.6	-
Onerous leases [1]	2.3	10.1
	74.2	579.9
Exceptional cashflows:		
Interactive launch	(12.4)	(2.5)
Casino disposal	(4.3)	-
Other restructuring costs	(9.6)	(11.7)
Net gain of VAT refunds and duty paid	-	(0.3)
Onerous leases	(10.0)	(10.7)
	(36.3)	(25.2)
Movement in working capital relating to exceptional items [2]	(15.8)	2.3

[1] The profit and loss charge for the year to date for onerous leases of £2.3 million (2011: £10.1 million) is net of £7.3 million (2011: £9.2 million) of releases from provisions.

[2] Negative figure denotes cash outflow.

The loss on the disposal of fixed assets of £2.8 million for the year (2011: profit of £21.9 million) includes the profit and loss on disposal of freehold properties. The prior year profit relates to properties which were sold and subsequently leased back.

As a result of the above, profit before interest and tax increased to £116.0 million (2011: loss of £397.9 million).

Interest payable has increased from £226.2 million in 2011 to £229.9 million in 2012, primarily reflecting increased funding costs following the refinancing in May 2011, the higher GCGL loan notes balance in 2012, in addition to the extra trading week in 2012 compared to the prior year. Key elements of the interest charge include loan interest of £136.2 million (2011: £124.1 million), of which £22.1 million relates to the Gala Propco Three Limited loan (2011: £22.1 million) and non-cash interest on GCGL loan notes of £82.4 million (2011: £70.9 million). The GCGL loan notes were issued as part of the 2010 financial restructuring. These notes are subordinated to the Group's senior secured debt and its senior notes. Interest is non-cash and rolls up annually. The notes mature in October 2020. Interest payable also includes £9.9 million of costs (2011: £9.7 million) associated with the amortisation and write off of debt issue premia.

Exceptional interest payable includes £1.4 million (2011: £2.7 million) of costs associated with changing certain hedging arrangements in the year. The prior year also included £18.8 million of exceptional costs associated with the write off of debt issuance costs on the senior loan and waiver fees following the refinancing in May 2011 and break fees on the early repayment of a portion of the Gala Propco Three Limited loan following certain property disposals.

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OVERVIEW OF THE YEAR (continued)

Interest receivable in the year was £0.6 million (2011: £1.4 million), representing interest earned on the investment of cash. The prior year included exceptional interest receivable of £2.9 million on net VAT refunds from HMRC (note 5).

Other finance costs in the year were £5.7 million (2011: £5.9 million) associated with the unwinding of discount on provisions and finance costs in relation to the pension scheme.

The tax charge for the year amounted to £4.2 million (2011: £17.7 million).

The overall result for the 2012 financial year after taxation is a loss of £123.2 million, compared to a loss of £643.4 million in 2011.

Cash generated from operations in the year

Net cash inflow from operations was £244.7 million (2011: £238.0 million). This included cash outflows of £36.3 million associated with restructuring and reorganisations (2011: £24.9 million). The prior year also included £0.3 million associated with VAT refunds.

Of the cash inflows, £107.8 million (2011: £54.3 million) was reinvested in the Group to fund capital expenditure and acquisitions. The principal areas of spend were estate development (acquisitions, new s hops and shop upgrades) in Coral, investment in gaming machines and gaming zones in Bingo clubs, the purchase of a Bingo club in Bradford, the development of a new concept Bingo club ('Genesis') in Gateshead, development and refurbishment costs, machine acquisitions in Casinos and investment in the launch of our new Interactive division.

The Group received £1.7 million (2011: £47.7 million) in net receipts from the sale of tangible assets in the year. The prior year receipts primarily related to the sale and leaseback of freehold Coral properties which resulted in net receipts of £35.7 million. Other disposals in the prior year included the sale of two bingo clubs with net receipts of £7.4 million, the sale of an old casino site in Gibraltar for £1.9 million and the sale of sundry other Coral properties and assets.

A further £135.7 million of cash was utilised to meet net interest costs (2011: £156.8 million, including £41.0 million paid in issuance costs). During the year an additional £3.3 million was paid as a result of the purchase of new hedging arrangements (2011: charge of £1.9 million in relation to the cancellation of certain hedging arrangements).

Total loan repayments in the year amounted to £4.7 million (2011: £3.9 million) in relation to scheduled loan repayments of the Gala Propco Three Limited loan. The prior year included additional repayments of £5.8 million of the same loan following the disposal of two properties. In addition to this, the prior year also included additional long term loan repayments of £1,623.4 million, including £1,537.2 million in relation to the refinancing which took place in May 2011 and £86.2 million in early repayments, in addition to required repayments following the disposal of certain fixed assets.

Total cash outflow for the year was £5.8 million (2011: £118.7 million).

Unlevered cashflow for the period (cash available to pay net cash interest costs and service financing) was £137.9 million (2011: £230.1 million).

OVERVIEW OF THE YEAR (continued)

Net Debt and Liquidity

At 29 September 2012 total net debt (including GCGL loan notes and the Gala Propco Three Limited loan, net of cash balances and issue costs) was £2,241.2 million, compared with £2,149.0 million at 24 September 2011. £1,322.1 million (2011: £1,323.0 million) of this relates to net debt for covenant purposes (net of issue costs), with £919.1 million (2011: £826.0 million) of other net debt consisting of the non-recourse Gala Propco Three Limited loan and GCGL loan notes from the ultimate holding company, offset by non-covenant cash and issue costs.

HIGHLIGHTS – FINAL QUARTER

The key financial highlights in the 13 weeks ended 29 September 2012 were:

- Turnover of £277.1 million, an increase of £28.1 million (11%) from the prior year.
- Group EBITDA (pre-exceptionals) of £65.8 million was £10.8 million (20%) ahead of the prior year.
- Cash inflow for the quarter of £30.3 million, including cash inflow from operations of £71.2 million and payments of £21.3 million to acquire fixed assets which included the acquisition of a number of LBOs.

The key trading highlights in the 13 weeks ended 29 September 2012 were:

- EBITDA (pre-exceptionals and pre-bonus) was £12.5 million or 22% ahead of the prior year. Excluding the impact of the 53rd week of trading, EBITDA (pre-exceptionals and pre-bonus) was £6.9 million or 12% ahead of the prior year.
- Coral over the counter (OTC) gross win was 6% ahead year on year excluding week 53, driven by a strong gross win margin which was 2.9pp ahead.
- Coral machines gross win was 6% ahead of the prior year excluding week 53, with gross win per machine per week of £901 (3% up year on year).
- Bingo gross profit was 3% ahead excluding week 53, driven by the continued strong performance in interval bingo and machines.
- Interactive benefited from the launch of the new Gala Interactive websites, with total gross profit 21% ahead of the prior year (excluding week 53).
- Italy sports stakes were 17% ahead year on year excluding week 53, but sports gross win was 60% lower year on year following a poor sports margin which was 12.9pp adverse.

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Directors' Report (continued)
For the year ended 29 September 2012

OVERVIEW OF THE FINAL QUARTER BY DIVISION

Coral

	13 weeks ended {2} 29 September 2012	Adj 12 weeks {3} 2012	12 weeks ended 24 September 2011	Year on Year variance {4} 12 week
KPI's {1}				
OTC				
Amounts staked (£m)	413.1	379.2	427.2	(11%)
Gross win margin (%)	17.5%	17.7%	14.8%	2.9pp
Average number of LBO's	1,732	1,732	1,658	4%
Machines				
Average number of machines	6,906	6,906	6,615	4%
Gross win/machine/week (£)	901	901	877	3%

{1} Results are for the total estate, i.e non like-for-like
{2} Includes 53rd week
{3} Excludes the impact of the 53rd week of trading
{4} Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Turnover in the quarter increased by 15% to £142.6 million (6% excluding the 53rd week), with strong underlying growth in both OTC and machines. EBITDA (pre-exceptionals) of £41.6 million was £7.2 million (21%) ahead of the prior year (£4.2 million (12%) ahead excluding week 53).

The public focus on the Olympic and Paralympic Games during the quarter impacted footfall in our UK retail businesses throughout August and September. The quarter also experienced a higher number of race cancellations compared to the prior year as a result of wet weather, which affected total staking levels. These factors, coupled with a higher than normal margin reducing recycling, resulted in OTC stakes being 11% below prior year levels (excluding week 53). At a gross win level, this was offset by the strong margin, which was 2.9pp ahead of the prior year, resulting in OTC gross win being 6% ahead of the prior year (excluding week 53).

Machines amounts staked were 2% lower year on year (excluding week 53). Margins remain strong following investment in machine content over the year, which resulted in year on year growth in gross win of 6% (excluding week 53). Gross win per machine per week grew by 3% to £901.

Operating costs, before depreciation and amortisation, were £2.2 million or 3% higher in Q4 2012 excluding week 53. These cost increases were as a result of payroll, property and content costs due to estate growth, increased opening hours and contractual and inflationary cost increases.

OVERVIEW OF THE FINAL QUARTER BY DIVISION (continued)

Bingo

	13 weeks ended {2} 29 September 2012	Adj 12 weeks {3} 2012	12 weeks ended 24 September 2011	Year on Year variance {4} 12 week
KPI's {1}				
Admissions ('000)	4,485	4,155	4,511	(8%)
Spend per head (£)	32.95	32.93	31.61	4%
EBITDA/club/week (£'000)	11.6	11.6	10.6	9%

{1} Results are for the total estate, i.e non like-for-like
{2} Includes 53rd week
{3} Excludes the impact of the 53rd week of trading
{4} Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Turnover for the quarter was 6% ahead of the prior year at £73.3 million, but was 2% lower excluding the impact of week 53. Whilst the withdrawal of free bingo continues to impact year on year admissions, as with Coral Retail, Gala Bingo has suffered from reduced footfall over the fourth quarter, in part due to the disruption to normal retail caused by the Olympics and Paralympic Games and the late holiday season in August. Overall this resulted in admissions being 8% lower year on year (on a 52 week basis). EBITDA (pre-exceptionals) of £21.2 million was £5.6 million ahead of the prior year (£4.1 million excluding week 53).

Spend per head improved over FY11 by 4%, which as in previous quarters was driven primarily by increased spend on Party Xtra (interval bingo) and machines. This increase follows the investment in automated game and caller technology for interval bingo and the roll out of new formats for machines areas, including server based gaming machines. Continued strong margins across all product lines have resulted in gross profit growth of 3% (excluding week 53).

Operating costs, before depreciation and amortisation, were in line with the prior year and 8% lower excluding week 53, mainly due to timing of costs in FY11 and savings in FY12.

Casino

	13 weeks ended {2} 29 September 2012	Adj 12 weeks {3} 2012	12 weeks ended 24 September 2011	Year on Year variance {4} 12 week
KPI's {1}				
Admissions ('000)	741	684	761	(10%)
Gaming drop per head (£)	189.37	189.77	171.14	11%
Cash Drop (£'m)	140.4	129.8	130.2	-
Gaming gross win margin (%)	18.0%	18.3%	17.1%	1.2pp

{1} Results are for the total estate, i.e non like-for-like
{2} Includes 53rd week
{3} Excludes the impact of the 53rd week of trading
{4} Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Turnover for the quarter increased by 10% to £34.0 million (3% increase excluding week 53), driven primarily by improvements in gaming income. This increase in turnover was particularly positive given the ongoing disruption caused by the proposed sale of the business to Rank, the timing of Ramadan and the impact of the Olympic and Paralympic Games on our London clubs during the quarter (many of our high value players stayed away from the capital throughout most of the quarter). EBITDA (pre-exceptionals) of £5.6 million was £0.7 million behind that of the prior year (£0.9 million lower excluding week 53).

OVERVIEW OF THE FINAL QUARTER BY DIVISION (continued)

Casino (continued)

Cash drop was level year on year (excluding week 53). The gaming gross win margin of 18.3% in the quarter was 1.2pp ahead of the prior year, resulting in gaming gross win 3% ahead (excluding week 53).

Early results from the new 'Sabre' machine terminals have been promising with machine stakes in the fourth quarter up 6% year on year. The incremental margin anticipated from these new terminals is also starting to be realised.

Divisional gross profit increased by 2% over the prior year (excluding week 53).

Operating costs, before depreciation and amortisation, have increased by £1.3 million (7%) excluding week 53, due to higher payroll, promotions, property costs and utility costs.

Interactive

	13 weeks ended [2] 29 September 2012	Adj 12 weeks [3] 2012	12 weeks ended 24 September 2011	Year on Year variance [4] 12 week
KPI's [1]				
Sportsbook gross win margin (%)	7.8%	8.0%	6.6%	1.44pp

[1] Gala Interactive consists of the galabingo.com and galacasino.co.uk websites. Coral Interactive consists of the coral.co.uk website and the telephone betting operation (Telebet). In FY11 this also included eurobet.com, which was closed in Q4 FY11

[2] Includes 53rd week

[3] Excludes the impact of the 53rd week of trading

[4] Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Turnover for the quarter was 29% ahead of the prior year at £19.2 million (19% ahead excluding week 53), driven by strong performances from both Interactive businesses. Total amounts staked were 14% ahead year on year (excluding week 53), with gross win 26% on the same basis. This was partially offset by higher bonus costs associated with driving the significant increase in active customers across all brands. EBITDA (pre-exceptionals) for the quarter of £9.9 million was £2.6 million ahead of FY11, with week 53 contributing £0.8 million of the increase.

Gala Interactive has shown strong growth in the final quarter and is benefitting from the launch of the new bingo and casino websites. Staking levels were 22% ahead of the prior year excluding week 53 and gross win was 28% ahead. The launch of both of the new websites has gone well and the trends being observed in real money players, staking levels and margin are encouraging.

Coral Interactive has also performed well in the quarter, with amounts staked 2% ahead of the prior year excluding week 53. Combined with a year on year improvement in the sportsbook margin of 1.4pp, this resulted in gross win 24% up year on year. The new coral.co.uk website was launched on 11 October.

The results for FY11 include the performance of eurobet.com which was closed in the fourth quarter of the last financial year. During the fourth quarter of the prior year eurobet.com delivered stakes of £18.4 million, gross win of £0.6 million and an EBITDA loss of £0.3 million.

Operating costs, before depreciation and amortisation, were £1.3 million higher than the prior year (excluding week 53), primarily due to increased marketing spend following the launch of the new sites and the focus on growing the active customer base.

OVERVIEW OF THE FINAL QUARTER BY DIVISION (continued)

Italy

	13 weeks ended [2] 29 September 2012	Adj 12 weeks [3] 2012	12 weeks ended 24 September 2011	Year on Year variance [4] 12 week
KPI's [1]				
LBO sports stakes	28.5	24.1	22.7	6%
Online sports stakes	14.8	13.0	9.1	43%
LBO sports gross win margin (%)	6.3%	5.8%	21.7%	15.9pp
Online sports gross win margin (%)	8.9%	8.5%	14.4%	5.9pp
Total sports gross win margin (%)	7.2%	6.7%	19.6%	12.9pp

[1] Results are for the total estate, i.e non like-for-like
[2] Includes 53rd week
[3] Excludes the impact of the 53rd week of trading
[4] Compares Adj 52 week figures for FY12 against the 52 weeks ended 24 September 2011

Gross win decreased by 20% to £8.0 million (31% lower excluding week 53) following an extremely poor sports margin throughout Q4 which was 12.9pp down year on year excluding week 53. EBITDA (pre-exceptionals) of £0.4 million for the quarter was £2.0 million or 83% lower than the prior year as a result of the poor sports margin and £2.4 million lower excluding week 53.

Sports betting amounts staked in Licensed Betting Offices (LBOs) increased by 6% year on year (excluding week 53). However, with a sports margin of just 5.8% versus a prior year of 21.7%, this resulted in LBO sports gross win down £3.5 million or 71% on the prior year (excluding week 53). Online sports betting stakes showed another quarter of strong year on year growth, and were 43% ahead of FY11 excluding week 53. Similar to LBOs, online sports margin in the quarter was disappointing at only 8.5%, versus a prior year margin of 14.4%, which offset the strong growth in stakes and resulted in a 15% year on year reduction in gross win excluding week 53.

Other gross win grew by £0.6 million or 16% excluding week 53, primarily due to additional gross win generated by Abruzzo online games. New online products, to be permitted by further deregulation over the next financial year, are expected to grow the size of the online gaming market in FY13.

Operating costs, before depreciation and amortisation were 7% higher year on year (excluding week 53).

Group

Group turnover increased by 11% to £277.1 million (3% excluding week 53), with statutory gross profit growth up 13% to £216.1 million (4% excluding week 53).

Quarter 4 group EBITDA (pre-exceptionals) of £65.8 million was £10.8 million ahead of the prior year (£5.2 million ahead excluding the impact of week 53), resulting in full year EBITDA (pre-exceptionals) of £280.2 million, £19.2 million head of FY11 (£13.6 million ahead excluding the impact of week 53).

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 29 September 2012

OVERVIEW OF THE FINAL QUARTER (continued)

General administrative expenses include central function costs and non-cash amortisation of goodwill regarding the Eurobet Italia sports betting licences and goodwill relating to Interactive. These costs have decreased from £18.1 million in the prior year quarter to £16.7 million in 2012, primarily as a result in the reduction of amortisation on the Interactive goodwill.

A depreciation charge of £17.1 million (2011: £12.4 million) and an amortisation charge of £4.0 million (2011: £7.5 million) is included in general administrative expenses for the quarter.

Central and divisionalised overhead costs (before depreciation and amortisation) were £2.0 million higher than the prior year at £13.7 million. This increase includes a £2.7 million central bonus provision (FY11: £1.0 million).

As a result profit before interest and tax decreased by £10.9 million in quarter 4 (2011: loss of £532.1 million).

Interest payable has increased from £51.5 million in the fourth quarter of 2011 to £56.4 million in the fourth quarter of 2012, primarily reflecting the increased average interest rate on the debt following the refinancing in May 2011, the higher GCGL loan notes balance in 2012 and the current quarter being a 13 week period compared to the prior year quarter being a 12 week quarter. Key elements of the interest charge include loan interest of £33.5 million (2011: £32.6 million), of which £5.4 million (2011: £5.0 million) relates to the Gala Propco Three Limited loan, and non-cash interest on GCGL loan notes of £20.4 million (2011: £16.5 million). Interest payable also includes £2.5 million of costs (2011: £2.0 million) associated with the amortisation of debt issue costs and amortisation costs of interest rate premia. In addition, the prior year quarter included exceptional interest of £0.4 million associated with break fees on repayment of part of the Gala Propco Three Limited loan following the sale of a Propco property.

Interest receivable in the quarter was £0.2 million (2011: £0.2 million), representing bank interest on cash.

Other finance costs in the quarter were £1.4 million (2011: £2.6 million) associated with the unwinding of discount on provisions and finance costs in relation to the pension scheme.

The overall result after taxation for the fourth quarter of 2012 is a loss of £68.0 million, compared to a loss of £581.5 million in the same quarter in 2011.

Cash generated from operations in the final quarter

During the quarter net cash inflow from operations was £71.2 million (2011: £45.6 million). This included cash outflows of £7.0 million associated with restructuring and reorganisations (2011: £6.9 million).

Of the cash inflows, £21.3 million (2011: £22.8 million) was reinvested in the Group to fund capital expenditure. The principal areas of spend were acquisition of LBOs and fit out of new LBOs in Cora, capital maintenance activity, investment in the new concept 'Genesis' clubs in Bingo and ongoing investment in product development in the Interactive division.

Of the cash inflows, £21.3 million (2011: £22.8 million) was reinvested in the Group to fund capital expenditure. The principal areas of spend were acquisition of LBOs and fit out of new LBOs in Coral, capital maintenance activity, investment in the new concept 'Genesis' clubs in Bingo and ongoing investment in product development in the Interactive division.

The Group received £1.5 million (2011: £10.7 million) in net receipts from the sale of tangible assets in the quarter. The prior year proceeds on disposal reflect the cash received on a number of sale and leaseback transactions in Coral.

£17.8 million of cash outflows was utilised to meet interest and other financing costs (2011: £23.3 million) with a further £1.3 million (2011: £4.5 million) repaid on the Gala Propco Three Limited loan.

OVERVIEW OF THE FINAL QUARTER (continued)

Cash generated from operations in the final quarter (continued)

Unlevered free cashflow for the quarter (cash available to pay net cash interest costs and service financing) was £51.3 million (2011: £33.1 million).

Total cash inflow for the quarter was £30.3 million (2011: £5.3 million).

Net Debt and Liquidity

Net debt for covenant purposes was £1,322.1 million (net of issue costs) versus £1,323.0 million in 2011.

Total net debt of £2,241.2 million (2011: £2,149.0 million) has increased since last year end primarily due to the rolling up of non-cash interest on subordinated loans from the ultimate parent company.

Cash at bank and in hand of £135.9 million (2011: £141.7 million) includes unrestricted cash balances for covenant purposes of £105.4 million (2011: £107.7 million).

CURRENT TRADING

Coral OTC staking levels have remained soft in the post summer period, and are 9% lower year on year. Part of this year on year shortfall is associated with the removal of concessions during FY12, which had the impact of reducing overall staking levels but has been a key factor in the improvement in margins. Furthermore, favourable results are driving a strong OTC win margin over the period, which is also impacting staking levels through reduced recycling of winnings. At 18.9% the OTC win margin is 4.5pp ahead year on year, driving overall OTC gross profit growth of 21% over the first eight weeks. Machines gross win per terminal is level year on year.

Similar to Coral retail, Bingo footfall has remained depressed following the summer, with admissions 7% lower year on year. Spend per head has remained level with the prior year, with improved margins across gaming products reducing the year on year shortfall at gross profit to 3%.

In Gala Casinos cash drop has improved by 2% as a result of increased drop per head year on year offsetting reduced admissions, following the strategy of focusing on higher value players. Gaming margin over the first eight weeks is 0.3pp below that of the prior year at 16.6%, resulting in gaming gross profit level year on year. Total gross profit is currently lower year on year as a result of slightly lower machines revenue.

Gala Interactive has shown strong growth over the first eight weeks of FY13, with galacasino.com gross profit (post bonuses) growth of 112% (albeit off a relatively low base) and growth in galabingo.com gross profit (post bonuses) of 21%. On a total gross profit (post bonuses) basis the Gala Interactive business is 28% ahead year on year.

Coral Interactive had some initial issues following the soft launch on 11 October, which have now been resolved. Actives over the period are 12% ahead year on year, with growth in gross win of 10%. Increased bonus costs associated with the launch have resulted in net gaming revenue and gross profit (post bonuses) currently level with the prior year. The first national TV campaign for the new site launched on 1 December.

Italy has had a strong start to the new year, with LBO sports stakes ahead by 24% after eight weeks, and online sports stakes 42% ahead. Results have been less favourable, however, with sports win margins 2.5pp and 2.2pp lower for LBOs and online respectively, resulting in overall sports gross win 15% ahead. Online gaming gross win is slightly down, with gross profit level year on year, due to lower poker revenues being offset by growth in other gaming.

Gala Coral Group Limited
Directors' Report (continued)
For the year ended 29 September 2012

FUTURE STRATEGY

Having delivered underlying growth in EBITDA of 9% in 2012, the Group has put in place plans for further growth in 2013. Each division has developed growth strategies relative to their particular markets, underpinned by the key strategic themes of increasing customer focus, greater operational intensity, new product development, portfolio management, multi-channel development and developing a performance culture.

Coral

The Coral business will continue to focus on competitive pricing and developing innovative products for the key growth markets, in particular football. The range of bet-in-play opportunities available to customers will be expanded, supported by the introduction of self-service betting terminals, which will also improve the range of other betting products and markets available.

2013 will benefit from the roll out of new machine cabinets across the estate to improve the customer gaming experience. This will be accompanied by improved zoning for machines areas. Coral will continue to focus on maximising the revenues from machines from effective yield management and targeted loyalty offers.

Estate development continues to be a focus for the business, with a net growth in the number of LBOs of 55 units targeted.

Bingo

After an excellent year of growth in the bingo business in 2012, growth in 2013 will be underpinned by capital investment, focused on product, systems development and further investment in our 'Genesis' concept, in addition to re-launching our Mainstage product, improving customer relationship management (CRM) capabilities and driving revenue through promotional activity.

Casino

A decision by the Competition Commission on the referral of the proposed sale of 23 UK casinos to The Rank Group plc is expected in February/March 2013. Pending this decision each casino has developed business plans to compete effectively in their local market.

Interactive

The focus for FY13 and beyond for each of the new Interactive sites is to establish themselves as market leading online betting platforms and grow market share. The investment made in FY12 will greatly improve CRM and business intelligence (BI) opportunities, along with delivering a compelling suite of gaming products. The websites have also been designed to be class leading in terms of functionality and ease of use. Throughout FY13 we are anticipating significant growth in active customers across all sites as well as strong EBITDA growth, supported by a substantial increase in marketing investment.

Italy

The Italian business is targeting growth across both retail and online operations in 2013. The retail business will benefit from changes in legislation which improve portability of licences and will allow the business to relocate poorer performing licences. The business is also participating in a tender for 2,000 new sports betting licences, the results of which are expected to be announced in December. The online business is targeting more direct customer acquisition to improve margins, and will benefit from the introduction of new slots products at the end of the first quarter, with legislation to allow new slots products and virtual racing products expected in the summer of 2013.

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Group's strategy are subject to a number of risks. The occurrence of any one of which may adversely impact the management of the Group and the execution of its growth strategies.

The following are the principal risks and uncertainties facing the Group. The risks shown are not necessarily all those associated with the Group and are not listed in priority order.

AREA	RISK	MITIGATION
Legal/Compliance	A serious breach of gaming regulations and legislation may result in the loss of the Group's operator's licenses.	- Appropriate policies, processes and controls are in place in order to minimise the risk of any legal/compliance failure or breach; - Staff are made aware of requirements and given appropriate training; - Legislative and regulatory developments in the main markets in which the Group operates are monitored and assessed so that the Group can adapt to any changes and minimise any impact.
Information Security	Data loss, unauthorised intrusion or theft of data could damage the Group's reputation and customer confidence.	- Policies have been introduced including mandatory security awareness training; - The Group has invested in industry-leading data monitoring tools and a Group-wide data backup solution; - Regular PCI audits and system penetration tests are undertaken.
Fraud	Significant loss from staff or customer fraud	- Experienced audit and security staff monitor trading outlets for any unusual payments or betting/gaming activity; - Controls and processes are in place to assist in preventing loss and theft.
Employee Safety	Serious injury or death of an employee as a result of robbery or other violent incident.	- The Group has undertaken the Exposure to Violence, Aggression and Conflict risk assessments and has implemented a programme of action in order to reduce the risk of violence to staff as far as possible.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

AREA	RISK	MITIGATION
Fire/Disaster	The Group could experience loss arising from fire or other major disaster.	- Fire and health and safety risk assessments are undertaken and any necessary resulting action is implemented to reduce the risk of a fire/incident; - Property and business interruption insurance is purchased annually.
Business Continuity/ Disaster Recovery	Risk of serious systems failure impairing the operation and efficiency of one or more areas of the business	- An enhanced business continuity plan is being developed around the Group's new data centre. Key production services are being migrated to the data centre. This will reduce vulnerability and further increase resilience.
Gaming Risk	With the exception of bingo, due to its pari-mutuel nature, the Group's products are exposed to a varying degree of risk whereby betting outcomes can go against the Group's interests.	- There are clear pricing policies across the casino and LBO estates which limit the maximum amounts which can be staked on individual casino table games or sporting events respectively; - The trading risk within the LBO estate is pro-actively monitored and managed by a dedicated and experienced trading team.
Contingencies	HMRC are currently appealing certain VAT rulings and, if successful, will require the Group to repay monies received to date on these claims totalling £51.5 million including related interest. Such an outcome would have a significant impact on the Group's cash resources and profit and loss reserves.	- The Group continues to actively monitor the case and takes external legal advice where necessary. - The Group takes this exposure into account in forecasting its future cash and liquidity requirements.

FINANCIAL RISK MANAGEMENT

The Group's financial risk management programme recognises the endemic unpredictability and volatility of financial markets and therefore seeks to appropriately minimise the potential risks and exposures to the Group. The Group's funding, liquidity and financial exposures with respect to interest rate and foreign exchange risk are managed by the Group's treasury team and are subject to rigorous internal control procedures. All significant financing and hedging transactions are authorised by the Board of Directors of the parent company. The most important components of financial risk impacting the Group are interest rate risk, credit risk, liquidity risk and, to a lesser extent, foreign currency risk.

Interest Rate Risk

The Group's trading income and operating cash flows are not directly linked to changes in interest rates. The Group primarily finances its operations through a variety of borrowing instruments, including senior secured notes, senior notes and senior secured credit facilities; a ring-fenced property backed loan facility (Gala Propco Three Limited loan) and subordinated preferred equity certificates at the ultimate parent company which are on-lent to the Group in the form of loan notes (GCGL loan notes). The Group's borrowings are denominated in sterling. The senior secured notes, the senior notes and the Gala Propco Three Limited loan bear a fixed rate of interest and the senior secured credit facilities a floating rate of interest. The Group utilises interest rate caps to manage its exposure to interest rate fluctuations and a proportion of its floating rate borrowings. At the year end approximately 79% of the Group's floating rate borrowings were hedged (2011: 85%).

Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full, when due. Surplus cash is invested in bank deposit accounts, money market deposits and 'AAA' rated money market funds. Counterparty risk exposures are minimised by dealing with only a limited range of financial institutions and in instruments which meet minimum credit rating criteria. Counterparty credit ratings are regularly monitored. Given the increased level of uncertainty within the financial system at the current time, counterparty exposure and analysis are a key priority within the Group's treasury management processes.

Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when they fall due. Cash forecasts identifying the liquidity requirements of the Group are produced regularly and are reviewed in detail to ensure that sufficient headroom exists for at least the forthcoming twelve month period. The Group maintains adequate borrowings which are long term with a range of maturity dates to mitigate the liquidity risk it may face.

Foreign Currency Risk

The Group has minimal exposure to foreign currency risk. The Group's functional reporting currency is sterling. All assets and liabilities are maintained in sterling, with the exception of our operations in Italy and a number of foreign currency denominated bank accounts to facilitate the international operations of the Group's Interactive division.

The functional currency of the Italian business is the euro. The Group has reviewed the net exposure to foreign currency risk and has concluded that no hedging is considered necessary at the current time due to the low level of actual exposure. This policy remains subject to periodic review.

See note 19 for further information on financial instruments.

CAPITAL STRUCTURE

The Group is owned by a number of private equity funds, the following parties hold shareholdings of greater than 5% of the ordinary share capital:

- Apollo Global Management, LLC.
- Cerberus Capital Management, L.P.
- Goldman Sachs International Bank.
- Park Square Capital, LLP.
- Anchorage Capital Partners.
- York Capital Management Global Advisors, LLC.
- Third Point Loan, LLC.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above in the business review. The key risks and uncertainties facing the Group along with its financial risk management objectives and processes are also set out above.

The directors have continued to review the Group's cash flow forecasts and trading budgets and after making appropriate enquiries, have formed the view that the Group is operationally and financially robust and will generate sufficient cash to meet its ongoing requirements for at least the next 12 months from the signing of this report. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

SUPPLIER PAYMENT POLICY

The Group's standard supplier payment terms are 56 days from receipt of invoice. At 29 September 2012, trade creditors outstanding represented approximately 45 days purchases from suppliers (2011: 39 days purchases).

DISABLED EMPLOYEES

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that all employees be given equal opportunities in respect of training, career development and promotion.

EMPLOYEE INVOLVEMENT

The Group places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. There are widely established arrangements involving briefings, staff consultancy committees and the publication of newsletters. In 2012 the Group undertook an employee engagement survey rather than focusing solely on employee opinion, as has been the case in previous years. The new survey has enabled the Group to understand the key issues driving engagement within the organisation and helped the Group to formulate a targeted approach to improving the working experience. The survey is carried out by a third party and responses from staff are received anonymously.

It is Group policy that there shall be no discrimination in respect of age, sex, colour, religion, race, nationality or ethnic origin and that equal opportunity shall be given to all employees.

POLITICAL AND CHARITABLE CONTRIBUTIONS

Charitable contributions in the year amounted to £0.8 million (2011: £0.8 million), of which £0.7 million was donated to the Responsible Gambling Trust (now replaced by The GREaT Foundation) (2011: £0.7 million), and the remaining donations were mainly to national charities and other industry-related charities. No political contributions were made (2011: £nil).

DIRECTORS

The following served as directors during the year and up to the date of signing the financial statements were:

R W Templeman

C A Leaver

G W Hughes (resigned 30 September 2011)

P Bowtell (appointed 3 October 2011)

A Hornby

C Attwood

D R Kornstein

G B C Hardy

W T Walsh

Further information on the biographies and other appointments of the directors are available on the Group website: www.galacoral.co.uk

DIRECTORS' INDEMNITIES AND INSURANCE

The Group maintains directors' and officers' liability insurance. All of the above named directors have received an indemnity to the extent permitted by law from the Company. Neither the indemnity nor the insurance provides cover in situations where a director has acted fraudulently or dishonestly.

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

For each of the directors at the time this report was approved, the following applies:

a) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

b) each director has taken all the steps that they ought to have taken as a director in order to make them aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

H A Willits
Company Secretary

6 December 2012

Gala Coral Group Limited
Statement of Directors' Responsibilities
For the year ended 29 September 2012

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 prepared the Group and parent 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 Group and the Company 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements: and
- 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 the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and 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. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

H A Willits
Company Secretary

6 December 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GALA CORAL GROUP LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Gala Coral Group Limited for the year ended 29 September 2012 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Reconciliation of Movement in Total Group Shareholders' Funds, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Reconciliation of Group Net Cash Flow to Movement in Group Net Debt and the related notes. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 23 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the 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 Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 and 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. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 29 September 2012 and of the group's loss and cash flows for the year then ended;
- 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 matter 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 financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GALA CORAL GROUP LIMITED (continued)

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 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.

Julian Jenkins (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

6 December 2012

Gala Coral Group Limited
Group Profit and Loss Account
For the year ended 29 September 2012

	Notes	2012 £m	2011 £m
Turnover	2	1,189.5	1,117.0
Cost of sales		(265.9)	(262.3)
Gross profit		923.6	854.7
Administrative expenses		(808.3)	(1,277.7)
Operating profit/(loss) before other operating income		115.3	(423.0)
Operating profit/(loss) before other operating income, analysed as:			
Before exceptional items		189.5	156.9
Impairments	5	(2.1)	(552.4)
Interactive launch	5	(11.3)	(7.7)
Casino disposal	5	(4.6)	-
Other restructuring costs	5	(2.3)	(12.6)
Net gain of VAT refunds and duty paid	5	-	2.9
FRS 20 Share Based Payment charge	5	(51.6)	-
Creation of onerous leases	5	(9.6)	(19.3)
Release of onerous leases	5	7.3	9.2
Operating profit/(loss) before other operating income		115.3	(423.0)
Other operating income	3	3.5	3.2
Operating profit/(loss)	2, 3	118.8	(419.8)
(Loss)/profit on disposal of fixed assets	5	(2.8)	21.9
Profit/(loss) before interest and tax		116.0	(397.9)
Interest receivable and similar income	7(a)	0.6	4.3
Interest payable and similar charges	7(a)	(229.9)	(226.2)
Other finance costs	7(b)	(5.7)	(5.9)
Loss on ordinary activities before tax		(119.0)	(625.7)
Tax on loss on ordinary activities	8	(4.2)	(17.7)
Loss for the financial year	23	(123.2)	(643.4)

All operations are continuing.

There are no material differences between the loss on ordinary activities before tax and the loss for the financial year and their historical cost equivalents.

Gala Coral Group Limited
Group Statement of Total Recognised Gains and (Losses) and Reconciliation of Movement in Total Group Shareholders' Funds
For the year ended 29 September 2012

Group Statement of Total Recognised Gains and (Losses)

	Notes	2012 £m	2011 £m
Loss for the financial year		(123.2)	(643.4)
Net foreign exchange adjustments offset in reserves	23	(3.5)	1.5
Actuarial (loss)/gain on pension schemes	27	(4.1)	31.3
Deferred tax credit/(charge) relating to pension scheme	21	0.5	(7.8)
Impact of change in tax rate	21	0.9	0.2
Current tax credit relating to pension scheme		0.5	-
Total recognised gains and (losses) for the year		(128.9)	(618.2)

Reconciliation of Movement in Total Group Shareholders' Funds

	2012 £m	2011 £m
Total recognised gains and (losses) for the year	(128.9)	(618.2)
FRS 20 Share Based Payment charge	51.6	-
Opening shareholders' funds	242.4	860.6
Closing shareholders' funds	165.1	242.4

Gala Coral Group Limited
Group Balance Sheet
As at 29 September 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Intangible assets	9	513.8	531.8
Tangible assets	10	2,062.0	2,023.3
		2,575.8	2,555.1
Current assets			
Stocks	13	3.6	3.3
Debtors	14	69.8	67.4
Cash at bank and in hand		135.9	141.7
		209.3	212.4
Creditors: amounts falling due within one year	15	(204.7)	(192.5)
Net current assets		4.6	19.9
Total assets less current liabilities		2,580.4	2,575.0
Creditors: amounts falling due after more than one year	16	(2,372.0)	(2,286.8)
Provisions for liabilities	21	(73.9)	(78.1)
Net assets excluding net pension asset		134.5	210.1
Net pension asset	27	30.6	32.3
Net assets including net pension asset		165.1	242.4
Capital and reserves			
Called up share capital	22	213.3	213.3
Merger reserve	23	1.6	1.6
Capital contribution reserve	23	1,723.5	1,723.5
Profit and loss account	23	(1,773.3)	(1,696.0)
Total shareholders' funds		165.1	242.4

The financial statements on pages 26 to 67 were approved by the Board of directors on 6 December 2012 and are signed on its behalf by:

P Bowtell
Director

Company Registered Number: 07254686

Gala Coral Group Limited
Company Balance Sheet
As at 29 September 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Fixed asset investments	11	261.6	210.0
Current assets			
Debtors: amounts due after more than one year	14	626.0	542.7
Net current assets		626.0	542.7
Total assets		887.6	752.7
Creditors: amounts falling due after more than one year	16	(621.6)	(538.7)
Net assets		266.0	214.0
Capital and reserves			
Called up share capital	22	213.3	213.3
Profit and loss account	23	52.7	0.7
Total shareholders' funds		266.0	214.0

The financial statements on pages 26 to 67 were approved by the Board of Directors on 6 December 2012 and are signed on its behalf by:

P Bowtell
Director

Gala Coral Group Limited
Group Cash Flow Statement
For the year ended 29 September 2012

	Notes	2012 £m	2011 £m
Net cash inflow from operating activities	24(a)	244.7	238.0
Returns on investments and servicing of finance			
Interest received		0.6	4.3
Interest paid and similar charges		(136.3)	(120.1)
Issue costs on new long-term borrowings		-	(41.0)
Purchase of new interest rate caps		(3.3)	-
Cancellation of certain interest rate hedging arrangements		-	(1.9)
Net cash outflow from returns on investments and servicing of finance		(139.0)	(158.7)
Taxation			
Overseas corporation tax paid		(0.7)	(1.3)
Capital expenditure and financial investment			
Payments to acquire intangible and tangible assets		(99.5)	(38.9)
Receipts from sales of tangible assets		1.7	47.7
Net cash (outflow)/inflow for capital expenditure and financial investment		(97.8)	8.8
Acquisitions			
Purchase of subsidiary undertakings/trade and assets		(8.4)	(16.3)
Cash acquired with subsidiary undertakings		0.1	0.9
Net cash outflow from acquisitions		(8.3)	(15.4)
Net cash (outflow)/inflow before financing		(1.1)	71.4
Financing			
Issue of senior notes		-	268.0
Issue of senior secured notes		-	350.0
New senior secured credit facilities		-	825.0
Repayment of former senior credit facilities		-	(1,623.4)
Repayment of the Gala Propco Three Limited loan		(4.7)	(9.7)
Net cash outflow from financing		(4.7)	(190.1)
Decrease in cash	24(b)	(5.8)	(118.7)

Gala Coral Group Limited
Reconciliation of Group Net Cash Flow to Movement in Group Net Debt
For the year ended 29 September 2012

	Notes	2012 £m	2011 £m
Decrease in cash	24(b)	(5.8)	(118.7)
Net repayment of long-term loans	24(b)	4.7	190.1
Issue costs on new long-term loans	24(b)	-	41.0
Change in net debt resulting from cash flows		(1.1)	112.4
Other non-cash movements	24(b)	(91.1)	(98.5)
Movement in net debt		(92.2)	13.9
Opening net debt	24(b)	(2,149.0)	(2,162.9)
Closing net debt	24(b)	(2,241.2)	(2,149.0)

Gala Coral Group Limited
Notes to the Accounts
For the year ended 29 September 2012

1. Accounting Policies

Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, the accounting policies set out below, and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006, except as regards the specific provisions of the Act relating to the amortisation of goodwill as explained below. The accounting policies have been consistently applied to both of the years presented in these financial statements.

The Group prepares its financial statements to the last Saturday in September. As a result of this the Group benefits from an additional 53rd week of trading in certain years (last 53 week year was 2006). This also results in a 13 week final trading quarter, as opposed to the typical 12 week final trading quarter.

The Group has utilised the exemption from disclosing intra-Group transactions which is offered by FRS 8 "Related Party Transactions".

Basis of Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries. Inter-company balances, transactions and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

No profit and loss account is presented for Gala Coral Group Limited as permitted by section 408 of the Companies Act 2006. The profit for the year of the Company was £0.4 million (2011: £0.6 million).

Turnover

Turnover results from the operation of bookmakers ("LBO's"), bingo clubs, online gaming and casinos and is stated as net win, which is calculated as bets placed less amounts won by customers. Turnover is stated net of any VAT, but before the deduction of gaming duty. Turnover from the sale of food and beverages is recorded net of VAT. Bingo turnover is stated net of customer contribution to prizes but gross of company contributed prizes which are disclosed within cost of sales.

The Group operates betting establishments in Italy via franchise partners. Under the terms of the franchise agreements, the Group bears the risks and rewards of the operations and therefore the Group acts as principal. As a result, the Group recognises the full net win generated from these operations in turnover.

Turnover is shown net of the cost of loyalty scheme points issued and redeemed. In respect of the Fortune loyalty scheme in the Casino business, as points are issued to customers, the retail value of those points expected to be redeemed is deferred. When the points are used by customers the retail value is recorded as turnover.

Income from open betting positions is held in deferred income in creditors until the event has occurred.

Cost of Sales

Cost of sales primarily comprises the costs of gaming duties and any company contribution to prizes offered within Bingo. Cost of sales also includes the revenue share payments to franchisees and machine rental costs.

Exceptional Items

Exceptional items are those items which, by their size or nature, are separately disclosed in order to give a full understanding of the Group's financial performance and to aid comparability of the Group's results between periods.

Gala Coral Group Limited
Notes to the Accounts
For the year ended 29 September 2012

1. Accounting Policies (continued)

Goodwill

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable net assets. Except as noted below, goodwill is capitalised and amortised over its estimated useful life of up to 20 years. Where a business is sold, the net book value of goodwill allocated to the business is charged through the profit and loss account as part of the profit or loss on disposal.

However, the directors have concluded that goodwill arising on the acquisition of its "bricks and mortar" gaming and LBO (Licensed Betting Office) businesses should not be amortised as it has an indefinite useful economic life. The goodwill is considered to have indefinite durability that can be demonstrated and its value can be readily measured.

The acquired businesses operate in longstanding and profitable market sectors. The Group has a strong position in the market and there are barriers to entry due to the requirement to demonstrate that the applicant is a fit and proper person with the "know-how" required to run such operations. The regulation of the industry also restricts the games that can be offered and consequently reduces the risk of product obsolescence.

Annual impairment reviews of this goodwill are carried out and any resulting write down is charged to the profit and loss account.

The non-amortisation of this goodwill constitutes a departure from the Companies Act 2006 404(5), for the purpose of giving a true and fair view of the Group's results for the reasons outlined above. If goodwill arising on these acquisitions had been amortised over a 20-year period, the operating profit would have decreased by £12.0 million for the year ended 29 September 2012 (2011: increase of £164.3 million). Cumulatively, goodwill would have been amortised by £877.9 million (2011: £865.9 million).

Trademarks

The Group capitalises trademarks at their fair value on acquisition. The Coral trademarks are not amortised as their useful life has been assessed as indefinite. An indefinite useful life has been chosen for the same reasons as detailed in the accounting policy for goodwill. If the Coral trademarks had been amortised over a 20-year period, the operating profit would have decreased by £8.3 million for the year ended 29 September 2012 (2011: £8.3 million). Cumulatively, trademarks would have been amortised by £58.1 million (2011: £49.8 million).

Licences

The Group capitalises Italian gaming licences at cost which are amortised over their initial term which is up to nine years.

Tangible Assets and Depreciation

Tangible assets are stated at historic purchase cost less accumulated depreciation.

For buildings that have been purchased as part of a business acquisition, the initial carrying value includes the trading potential of the properties, which reflects the benefit of the gaming licences attached to trading properties. Subsequent additions to tangible assets are stated at cost. Depreciation is provided on all tangible assets, with the exception of freehold land and trading potential, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	–	50 years
Leasehold land and buildings	–	shorter of 50 years and term of lease
Fixtures, fittings and office equipment	–	over three to ten years
Computer hardware and software	–	over three to ten years
Vehicles	–	over three to five years

1. Accounting Policies (continued)

Tangible Assets and Depreciation (continued)

The residual values of buildings are estimated on the following basis, having regard to the construction type and salvage values:

Listed buildings	–	80%
Buildings of traditional construction	–	50%
Steel framed buildings	–	0%

Impairment Reviews

Tangible assets: The need for any fixed-asset impairment provision is assessed by comparison of the carrying value of an income-generating unit, which normally comprises bingo clubs, casinos or LBOs which operate within a local market place, against the higher of the net realisable value or value in use. In addition, sites or groups of sites are considered separately where there have been exceptional circumstances impacting on their profitability that may indicate a material incremental impairment at that level.

The value in use is determined from the estimated discounted future cash flows of the income-generating unit.

Intangible assets: The need for any intangible asset impairment provision is assessed by comparison of the carrying value of the intangible assets with their value in use. The value in use is determined from the estimated discounted future cash flows.

For both tangible and intangible assets the future cash flows are based on the forecasts and budgets of the income-generating unit or business. The key assumptions within the budgets for the Bingo and Casino segments are the admissions levels, spend or drop per head, win percentage, wage increases and the fixed costs of the bingo club or casino. The key assumptions within the budgets for the Coral and Italy segments are the average number of machines per shop, gross win per shop per week, wage increases and the fixed costs of the licensed betting offices. The key assumptions within the budgets for the Interactive segment are the number of active customers, turnover per head, win percentage, revenue shares and operating costs.

Where goodwill has historically been allocated to a segment on acquisition, impairments are made firstly against goodwill, then to any capitalised intangible asset and then to tangible assets on a pro rata or more appropriate basis (which typically involves impairing any trading potential value included within properties).

Where more than one segment was acquired through a single investment and goodwill arising was not allocated between the businesses, the value in use is first compared with the carrying value of the net assets (excluding goodwill) of each segment, with any impairment made firstly against capitalised intangible assets and then tangible assets of the segment.

A secondary assessment is then made to compare the carrying values of all the segments acquired through a single investment against the value in use with any additional impairment then made against goodwill.

Fixed asset investments

Fixed asset investments are stated at cost less any necessary provision against their carrying value for diminution in value.

Stocks

Stocks are valued at the lower of cost and net realisable value.

1. Accounting Policies (continued)

Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date which will result in an obligation to pay more tax, or a right to pay less tax with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is calculated on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leasing and Hire Purchase Commitments

Rentals paid under operating leases are charged to income on a straight line basis up to the date of the next rental review. Rentals receivable under operating leases are recognised in the profit and loss account within other operating income when earned.

Lease incentives are spread over the period up to the first rent review where market rate rents are applied.

Property Provisions

Provision has been made for vacant, partly sub-let leasehold properties and onerous leases. Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

Any creation or release of these provisions is included within operating exceptionals. For the vacant and sub-let properties, provision has been made for the shorter of the remaining period of the lease and the period until, in the directors' opinion, the Group will be able to exit the lease commitment. The amount provided is based on the future rental obligations, together with other outgoings, net of any sub-lease income.

Provision has been made on a discounted cash flow basis for onerous leases based on the element of the rental payments which are considered to be onerous. In determining the provision for the properties, the cash flows have been discounted using a risk-free discount rate. Provision has been made for the cost of carrying out remedial works in respect of the Group's leasehold properties when the Group is legally obliged to rectify the matter.

1. Accounting Policies (continued)

Pensions

The Group operates the Gala Coral Pension Plan. The scheme has a defined benefit section and a defined contribution section. The assets of the scheme are managed separately from those of the Group. The defined benefit section of the scheme is closed to new entrants.

For the defined benefit pension scheme, the Group has adopted the provisions of FRS 17 amended "Retirement Benefits" in that the amounts charged to operating profit are the current service costs. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount within interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. The net pension scheme surplus recognised is restricted to the present value of the future expected pension contributions.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high-quality corporate bond of equivalent currency and term to the scheme liabilities. Actuarial valuations are obtained every three years and are updated at each balance sheet date.

For the defined contribution pension scheme, the amounts charged to the profit and loss account in respect of pension costs and other post-retirement benefits, represents the contributions payable in the period as per the payment certificates. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments.

Share based payments

The group operates an equity-settled share based payment plan under which the group receives services from employees as consideration for the ability to participate in the purchase of equity instruments from the group's parent. The fair value of the services received in exchange for the equity instrument is recognised as an expense. The total amount expensed is determined by reference to the fair value of the instruments granted:

- including any market performance conditions
- excluding the impact of any service and non-performance vesting conditions

The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied.

At the end of each reporting period, the group revises its estimates over the number of instruments which are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement with a corresponding adjustment to equity.

The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in subsidiary undertakings with a corresponding credit in equity in the parents accounts.

1. Accounting Policies (continued)

Financial Instruments

The Group uses financial instruments to hedge the risk associated with interest rates. Interest differentials on financial instruments are recognised by adjusting net interest payable in the period on an accruals basis. Realised gains or losses on the hedges are recognised in the period to which they relate.

Borrowings are carried at their issue proceeds net of finance costs (and in respect of the senior notes, also the discount to nominal value) less amounts repaid. Finance costs and discount are amortised over the life of the related borrowing.

Interest rate cap premia are carried at cost and are amortised over the life of the cap.

Foreign Currencies

Transactions denominated in foreign currencies are translated into sterling at the prevailing rate of exchange on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at period end rates of exchange. Exchange differences are taken to the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves.

Where the Group hedges net investments in foreign operations through currency borrowings the gains or losses on the translation of the borrowings are recognised in reserves.

2. Segmental Analysis

The Group operates five segments – Coral, Bingo, Casino, Interactive and Italy. The Interactive segment operates online sports betting, casinos and other gaming products. The Italy segment comprises betting shops and online sports betting in Italy.

The revenue of Coral and Bingo arises solely within the United Kingdom. The Casino revenue arises in the United Kingdom and Gibraltar. The revenue of the Interactive segments arises in Europe. Its customers are primarily located in the United Kingdom and mainland Europe. Due to the nature of the Interactive segment, it is not possible to split the net assets by geographical category. The revenue of the Italy segment arises solely in Italy.

The prior year divisional EBITDA (pre-exceptionals) has been restated to include an element of costs which were previously identified as central costs ("allocated divisional costs"). This restatement has been made to appropriately reflect the cost analysis of the current organisational structure and the way the business is managed. The current and prior year allocation of central costs has been undertaken on a consistent basis.

2. Segmental Analysis (continued)

Turnover, Group operating profit and net assets are analysed as follows:

2012

	Coral £m	Bingo £m	Casino £m	Interactive £m	Italy £m	Group £m
Turnover	608.0	308.7	139.9	72.5	60.4	1,189.5
Divisional EBITDA	**186.5**	**78.1**	**26.4**	**35.0**	**11.9**	**337.9**
Allocated divisionalised costs	(12.1)	(8.0)	(3.6)	(8.6)	-	(32.3)
EBITDA post divisionalised costs	**174.4**	**70.1**	**22.8**	**26.4**	**11.9**	**305.6**
Other operating income						3.5
Central costs						(17.7)
Bonus						(11.2)
Group EBITDA (pre-exceptionals)						**280.2**
Depreciation and amortisation						(87.2)
Exceptional items						(74.2)
Group operating profit						**118.8**

Segment operating profit by division for the year was:

	Coral £m	Bingo £m	Casino £m	Interactive £m	Italy £m	Group £m
Segment operating profit [1]	161.0	54.1	16.9	25.9	5.7	263.6

[1] Segment operating profit is stated before allocated divisionalised costs, other operating income, bonus, group amortisation and exceptional items.

Gala Coral Group Limited
Notes to the Accounts
For the year ended 29 September 2012

2. Segmental Analysis (continued)

2011

	Coral £m	Bingo £m	Casino £m	Interactive £m	Italy £m	Group £m
Turnover	559.7	303.0	134.4	68.7	51.2	1,117.0
Divisional EBITDA	**172.7**	**64.8**	**26.7**	**32.2**	**9.2**	**305.6**
Allocated divisionalised costs	(12.9)	(6.4)	(3.6)	(6.7)	-	(29.6)
EBITDA post divisionalised costs	**159.8**	**58.4**	**23.1**	**25.5**	**9.2**	**276.0**
Other operating income						3.2
Central costs						(17.2)
Bonus						(1.0)
Group EBITDA (pre-exceptionals)						**261.0**
Depreciation and amortisation						(100.9)
Exceptional items						(579.9)
Group operating profit						**(419.8)**

Segment operating profit by division for the year was:

	Coral £m	Bingo £m	Casino £m	Interactive £m	Italy £m	Group £m
Segment operating profit [1]	142.9	41.4	16.9	28.2	2.5	231.9

[1] Segment operating profit is stated before allocated divisionalised costs, other operating income, bonus, group amortisation and exceptional items.

2. Segmental Analysis (continued)

Geographical Area

	2012 £m	2011 £m
Turnover by origin		
United Kingdom	1,118.2	1,053.8
Europe	71.3	63.2
	1,189.5	1,117.0
Operating profit		
United Kingdom	253.7	226.4
Europe	9.9	5.5
Segment operating profit	263.6	231.9
Other operating income	3.5	3.2
Allocated divisionalised costs	(32.3)	(29.6)
Group administrative expenses	(17.7)	(17.2)
Bonus	(11.2)	(1.0)
Group amortisation	(12.9)	(27.2)
Exceptional items	(74.2)	(579.9)
Operating profit/(loss)	118.8	(419.8)

Net Assets by Segment

	2012 £m	2011 £m
Coral	1,453.7	1,455.1
Bingo	468.1	461.6
Casino	163.3	162.8
Interactive	36.6	27.3
Italy	28.9	35.2
	2,150.6	2,142.0
Non-operational net liabilities	(1,985.5)	(1,899.6)
Total net assets	165.1	242.4

2. Segmental Analysis (continued)

Net Assets by Geographical Area

	2012 £m	2011 £m
UK	2,090.3	2,097.1
Europe	60.3	44.9
	2,150.6	2,142.0
Non-operational net liabilities	(1,985.5)	(1,899.6)
Total net assets	165.1	242.4

Non-operational net liabilities comprise goodwill, certain accruals and prepayments, net debt and taxation.

3. Operating Profit/(Loss)

This is stated after charging:

	2012 £m	2011 £m
Depreciation of owned assets:		
Coral	25.5	29.8
Bingo	24.0	23.4
Casino	9.5	9.8
Interactive	9.1	4.0
Italy	1.6	1.5
Total depreciation	69.7	68.5
Amortisation	17.5	32.4
Impairment:		
Intangible assets	-	550.0
Tangible assets	2.1	2.4
Operating lease rentals:		
Land and buildings	62.6	59.7
Plant and machinery	35.8	36.9

Amortisation includes a charge of £12.9 million (2011: £27.2 million) in respect of Eurobet goodwill and a charge of £4.6 million (2011: £5.2 million) on Italian licences.

Other operating income comprises property rents receivable of £3.5 million (2011: £3.2 million).

During the year the Bingo and Casino businesses incurred costs of £23.6 million (2011: £23.1 million) and £4.0 million (2011: £3.8 million) respectively in relation to operating lease rentals from Gala Propco Three Limited. These amounts eliminate on consolidation within the Group accounts.

3. Operating Profit/(Loss)

Services Provided by the Group's Auditors

During the year the Group obtained the following services from the Group's auditors PricewaterhouseCoopers LLP and network firms as detailed below:

	2012 £m	2011 £m
Audit services		
Fees payable for the audit of the Company and Group accounts	0.1	0.1
Other services		
The audit of the Company's subsidiaries pursuant to legislation	0.3	0.3
Services relating to corporate finance transactions	-	0.5
Other assurance services	0.1	0.4
	0.5	1.3

4. Directors' Remuneration

	2012 £m	2011 £m
Aggregate emoluments	4.1	1.8
Compensation for loss of office	1.0	-
Company contributions to private pension schemes	0.2	0.1
	5.3	1.9

No directors (2011: none) accrue benefits under the Group's defined benefit pension scheme.

Emoluments of the highest paid director are as follows:

	2012 £m	2011 £m
Aggregate emoluments (excluding pension contributions)	1.5	0.5
Company contributions to private pension schemes	0.1	0.1
	1.6	0.6

No director exercised any share options during the year (2011: none).

Retirement benefits are accruing to three directors under the Group's money purchase scheme (2011: one).

No emoluments were paid to directors for services to the Company (2011: £nil).

5. Exceptional Items

Exceptional Items Charged/(Credited) to Operating Profit/(Loss)

	Notes	2012 £m	2011 £m
Impairments	a)	2.1	552.4
Interactive launch	b)	11.3	7.7
Casino disposal	c)	4.6	-
Other restructuring costs	d)	2.3	12.6
Net gain of VAT refunds and duty paid	e)	-	(2.9)
FRS 20 Share Based Payment charge	f)	51.6	-
Creation of onerous leases	21	9.6	19.3
Release of onerous leases	21	(7.3)	(9.2)
Total charged to administrative expenses within operating profit/(loss)		74.2	579.9

No tax credit (2011: £nil) has been claimed in relation to the exceptional charge as the Group is loss making.

a) Impairments reflect the write down of tangible assets on the closure of bingo clubs and casinos of £2.1 million (2011: £2.4 million).

Following a review in the prior year of the Group's underlying business an impairment charge of £550.0 million was recognised against the historic goodwill which arises on the consolidation of the Coral (£350.0 million) and Interactive (£200.0 million) businesses. The impairment represented a non-cash charge at the consolidated group level and did not affect the standalone statutory entities nor have an impact on performance in relation to financial covenants.

The current and prior year impairment reviews were performed in accordance with FRS 11 assessing the value in use through a discounted cash flow model. The cash flows are based on approved budgets for the underlying business, however they do not incorporate any increases in EBITDA or capital expenditure anticipated from expansionary or development related projects taking place throughout FY12 and beyond as prescribed by FRS 11.

b) Reflects the exceptional cost associated with the launch of our new Interactive websites.

c) Represents costs associated with the proposed disposal of our Casino division

d) Primarily relates to £1.9 million of costs associated with redundancies (2011: £2.7 million), In the prior year the Group also incurred exceptional restructuring costs of £5.6 million.

e) Net refunds in relation to main stage Bingo VAT refunds, Bingo participation fee VAT refunds netted off against the duty assessments that arise in relation to these VAT refunds (note 26).

f) Represents the FRS 20 'Share Based Payments Charge' detailed further in note 28. This charge is an accounting charge only and does not represent a cash commitment on the UK Group or any of its subsidiaries, either now or in the future. The ultimate cash obligation lies with the Group's parent company, GCG Manager S.A Luxco S.C.A and only in an exit event.

5. Exceptional Items (continued)

Exceptional Items Charged/(Credited) after Operating Profit/(Loss)

1) (Loss)/Profit on Disposal of Fixed Assets

The loss on disposal of £2.8 million (2011: £21.9 million profit) includes the profit and loss on disposal of freehold properties. The prior year profit relates to properties which were sold and subsequently leased back.

2) Exceptional Interest (see note 7)

During the year the Group terminated certain existing interest rate caps and purchased some new interest rate caps. The terminations resulted in an exceptional interest expense of £1.4 million due to the write off of unamortised cap premia.

During the prior year the Group paid £0.6 million of break fees on Gala Propco Three Limited loan repayments following the disposal of certain properties in Gala Propco Three Limited.

On 27 May 2011 the Group wrote off £18.2 million of issue costs on the repayment of the former senior secured credit facilities on completion of the refinancing. In addition, the Group terminated an interest rate swap and two interest rate caps to avoid being over-hedged following completion of the refinancing. This resulted in an exceptional interest expense of £2.7 million.

During the prior year the Group received £2.2 million of interest from HM Revenue and Customs in relation to the main stage Bingo VAT refund and recognised £0.7 million of interest receivable from HMRC in respect of the Bingo participation fee VAT claim which was settled in March 2010.

6. Staff Costs (including Directors)

	2012 £m	2011 £m
Wages and salaries (including redundancies)	311.2	248.5
Social security costs	24.6	20.6
Other pension costs	7.1	7.4
FRS 20 Share Based Payment charge	51.6	-
	394.5	276.5

The monthly average number of employees during the year was made up as follows:

	2012 Number	2011 Number
Coral	10,849	10,020
Bingo	4,801	4,609
Casino	2,776	2,583
Interactive	276	202
Italy	98	84
Support staff	374	627
	19,174	18,125

6. Staff Costs (including Directors) (continued)

All employees of Coral, Bingo and Casino, along with support staff are predominately based in the United Kingdom. The employees of the Italy division are primarily based in Italy. A number of Casino employees and associated support staff are based elsewhere in Europe. Following the launch of our new Interactive websites the majority of employees will be based outside the United Kingdom.

The Company did not have any employees during the year (2011: none) and incurred £nil (2011: £nil) employee costs.

7. Interest

a) Interest

	2012 £m	2011 £m
Loan interest and similar charges	(114.1)	(102.0)
Gala Propco Three Limited loan interest	(22.1)	(22.1)
GCGL loan note interest	(82.4)	(70.9)
Amortisation of debt issue costs and senior notes discount	(8.7)	(8.6)
Amortisation of interest rate cap premia	(1.2)	(1.1)
	(228.5)	(204.7)
Exceptional interest payable:		
Break fees on the Gala Propco Three Limited loan (note 5)	-	(0.6)
Write off of debt issue costs on repayment of loans (note 5)	-	(18.2)
Early termination of interest rate hedging arrangements (note 5)	(1.4)	(2.7)
	(1.4)	(21.5)
Interest payable and similar charges	(229.9)	(226.2)
Interest on deposits and money market funds	0.6	1.4
Exceptional interest receivable (note 5)	-	2.9
Interest receivable and similar income	0.6	4.3
Net interest payable	(229.3)	(221.9)

Loan interest payable and similar charges include amounts payable on the senior secured credit facilities, senior secured notes and senior notes. Actual amounts paid in the year in relation to the Gala Propco Three Limited loan interest payable amounted to £21.8 million (2011: £22.3 million).

Interest receivable include interest receivable on the Gala Propco Three Limited cash balance of £0.1 million (2011: £0.1 million). The Gala Propco Three Limited cash balance as at 29 September 2012 was £9.6 million (2011: £9.4 million).

7. Interest (continued)

On 16 April 2012, the Group, purchased £450.0 million (£450.0 million to the first quarter in 2014, £400.0 million to the first quarter in 2015 and £350.0 million to the fourth quarter in 2015) of interest rate caps at a strike rate of 1.25% and paid premia totalling £3.3 million. The Group retained £200.0 million of its existing interest rate caps with strike rates between 2.25% and 2.75%, maturing in the fourth quarter of 2013.

b) Other Finance Costs

	2012 £m	2011 £m
Unwinding of discount in provisions (note 21)	(3.5)	(4.2)
Other finance costs in relation to the pension scheme (note 27)	(2.2)	(1.7)
Other finance costs	(5.7)	(5.9)

8. Tax on Loss on Ordinary Activities

a) The Taxation Charge is made up as follows:

	2012 £m	2011 £m
Current tax		
UK Corporation tax at 25% (2011: 27%)	0.5	-
Overseas corporation tax	0.9	0.8
Total current tax	1.4	0.8
Deferred taxation:		
Origination and reversal of timing differences		
UK	0.5	15.2
Overseas	1.5	(0.4)
Impact of change in tax rate	0.8	2.1
Total deferred tax (note 21)	2.8	16.9
Tax charge on loss on ordinary activities	4.2	17.7

8. Tax on Loss on Ordinary Activities (continued)

b) Factors affecting Current Tax Charge

The tax for the year is higher (2011: higher) than the average standard rate of corporation tax in the UK for the year ended 29 September 2012 of 25% (2011: 27%). The differences are reconciled below:

	2012 £m	2011 £m
Loss on ordinary activities before tax	(119.0)	(625.7)
Loss on ordinary activities multiplied by the average standard rate of corporation tax in the UK for the period of 25% (2011: 27%)	(29.8)	(168.9)
Expenses not deductible for tax purposes	29.3	159.7
Capital allowances less than depreciation	3.2	9.9
Other timing differences	(0.7)	(0.3)
Difference in overseas tax rate	(0.6)	0.4
Current tax charge for the year	1.4	0.8
Deferred tax movement in year	2.8	16.9
Tax charge on loss on ordinary activities	4.2	17.7

c) Tax on Recognised Gains and Losses not included in the Profit and Loss Account

	2012 £m	2011 £m
Tax (credit)/charge relating to pension scheme recognised in the Group Statement of Total Recognised Gains and Losses	(1.9)	7.6

d) Factors that may affect future Taxation

A deferred tax asset in respect of the UK losses has been recognised to the extent that it offsets the deferred tax liability relating to the pension scheme. As at 29 September 2012, the Group has an unrecognised deferred tax asset of £92.2 million (2011: £97.5 million) (see note 21).

Legislation to reduce the main stream rate of corporation tax from 24% to 23% from 1 April 2013 was included in the Finance Act 2012. Both the recognised and unrecognised element of the deferred tax asset has therefore been disclosed at 23%. A further reduction to the main stream rate of corporation tax is proposed to reduce the rate to 22% from 1 April 2014. The further change had not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements.

The proposed reduction of the main stream rate of corporation tax to 22% from 1 April 2014 is expected to be enacted separately. The overall effect of the further change from 23% to 22%, if this applied to the deferred tax balance at the balance sheet date, would be to reduce the unrecognised deferred tax asset by £4.0 million to £88.2 million.

8. Tax on Loss on Ordinary Activities (continued)

No provision has been made for deferred tax on gains recognised on revaluing properties to fair values on acquisition or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the properties were sold without it being possible to claim rollover relief. The total amount unprovided for is £202.8 million (2011: £193.0 million). At present it is not envisaged that any such tax will become payable in the foreseeable future.

9. Intangible Assets

Group

	Italian Licences £m	Goodwill £m	Trademarks £m	Total £m
Cost:				
At 24 September 2011	37.7	1,378.5	166.0	1,582.2
Acquisitions	-	1.1	-	1.1
Exchange differences	(3.4)	(0.2)	-	(3.6)
At 29 September 2012	34.3	1,379.4	166.0	1,579.7
Amortisation:				
At 24 September 2011	21.5	1,028.9	-	1,050.4
Provided during the year	4.6	12.9	-	17.5
Exchange differences	(1.9)	(0.1)	-	(2.0)
At 29 September 2012	24.2	1,041.7	-	1,065.9
Net book value at 29 September 2012	**10.1**	**337.7**	**166.0**	**513.8**
Net book value at 24 September 2011	16.2	349.6	166.0	531.8

The impairment assessment was determined using cash flow projections that were taken from financial budgets approved by management covering a three year period. A key assumption within the cash flow projection is the future growth rate used to extrapolate cash flows after this three year period. The growth rate applied ranged from 2.0% to 2.5% per annum (2011: 2.0% to 2.5%) and is consistent with historic long term average growth rates for the UK. The pre-tax discount rate applied ranged from 11% to 11.5% for years beyond the three year period (2011: 11% to 11.5%).

In the prior year an impairment charge of £550.0 million was charged to exceptional administrative expenses. This related to the Coral and Interactive segments as explained in note 5.

10. Tangible Assets

Group

	Freehold Land and Buildings £m	Leasehold Land and Buildings £m	Fixtures, Fittings, Tools and Equipment £m	Total £m
Cost:				
At 24 September 2011	569.9	1,622.6	403.4	2,595.9
Additions	4.3	23.0	88.3	115.6
Exchange differences	-	-	(1.3)	(1.3)
Disposals	(4.1)	(1.8)	(1.5)	(7.4)
Assets fully depreciated	(0.6)	(3.9)	(28.0)	(32.5)
At 29 September 2012	569.5	1,639.9	460.9	2,670.3
Depreciation:				
At 24 September 2011	59.3	229.8	283.5	572.6
Provided during the year	5.8	11.3	52.6	69.7
Exchange differences	-	-	(0.7)	(0.7)
Closed club write down	-	2.1	-	2.1
Disposals	(0.8)	(0.8)	(1.3)	(2.9)
Assets fully depreciated	(0.6)	(3.9)	(28.0)	(32.5)
At 29 September 2012	63.7	238.5	306.1	608.3
Net book value at 29 September 2012	**505.8**	**1,401.4**	**154.8**	**2,062.0**
Net book value at 24 September 2011	510.6	1,392.8	119.9	2,023.3

A write down of tangible assets on the closure of bingo clubs and casinos of £2.1 million (2011: £2.4 million) was charged to exceptional administrative expenses during the year (see note 5).

The net book value of leasehold land and buildings comprises:

	2012 £m	2011 £m
Long leasehold	215.0	216.6
Short leasehold	1,186.4	1,176.2
	1,401.4	1,392.8

Included in freehold and leasehold land and buildings is land and trading potential at a value of £1,736.8 million (2011: £1,737.4 million) which is not depreciated.

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11. Fixed Asset Investments

Company

	Subsidiary Undertakings £m
Cost at 24 September 2011	210.0
Capital contribution relating to FRS 20 Share Based Payment	51.6
Net book value at 29 September 2012	261.6

The capital contribution relating to the FRS 20 Share Based Payment relates to the share based payment charge detailed in note 28.

The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affect the results or financial position of the Company (the "principal subsidiaries").

Name of Company	Nature of Business	Place of incorporation
Coral Racing Limited	Provision of leisure activities	Great Britain
Coral Stadia Limited	Provision of leisure activities	Great Britain
Eurobet (Gibraltar) Limited	Provision of leisure activities	Great Britain
Eurobet UK Limited	Provision of leisure activities	Great Britain
Gala (Alderney) Limited	Provision of leisure activities	Alderney
Gala Casinos Limited	Provision of leisure activities	Great Britain
Gala County Clubs Limited	Provision of leisure activities	Great Britain
Gala Leisure Limited	Provision of leisure activities	Great Britain
Patmor Limited	Provision of leisure activities	Great Britain
Gala Casinos (Gibraltar) Limited	Provision of leisure activities	Gibraltar
Romford Stadium Limited	Provision of leisure activities	Great Britain
Eurobet Italia SRL	Provision of leisure activities	Italy
Gala Interactive (Gibraltar) Limited	Provision of leisure activities	Gibraltar
Coral Interactive (Gibraltar) Limited	Provision of leisure activities	Gibraltar
Gala Electric Casinos plc	Holding Company	Great Britain
Gala Coral Interactive (Gibraltar) Limited	Holding Company	Gibraltar
Gala Group Finance plc	Finance Company	Great Britain
Gala Propco Three Limited	Finance Company	Great Britain

All of the principal subsidiaries are 100% owned with all voting rights held within the Group. Gala Group Electric Casinos plc is directly owned by the Company. The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length.

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12. Acquisitions

During the year the Group made a number of trade and asset purchases of LBOs and acquired a Bingo club for a total consideration of £8.4 million.

During the prior year the Group made a number of share and trade and asset purchases of LBOs and acquired two Bingo clubs. There have been no changes to the provisional fair values quoted in the prior year.

13. Stocks

Group

	2012 £m	2011 £m
Finished goods	3.6	3.3

14. Debtors

Group

	2012 £m	2011 £m
Trade debtors	2.7	3.1
Deferred tax asset (note 21)	9.1	12.2
Other debtors	23.0	18.2
Prepayments and accrued income	35.0	33.9
	69.8	67.4

Company

	2012 £m	2011 £m
Falling due after more than one year:		
Amounts owed by subsidiary undertakings	626.0	542.7

The amount owed relates to a loan note issued by Gala Electric Casinos plc which accrues interest at 15.0875% which is only payable on maturity on 27 October 2020. Interest accrued rolls up into the principal amount on 27 October each year until redemption. At 29 September 2012 rolled up interest was £172.7 million (2011: £89.4 million).

15. Creditors: Amounts Falling Due Within One Year

Group

	2012 £m	2011 £m
Current instalments due on loans (note 17)	5.8	4.7
Loan, senior secured notes and senior notes interest	25.5	26.1
Trade creditors	47.3	38.7
Corporation tax	0.7	0.2
Other taxation and social security	29.2	29.0
Other creditors	13.9	12.6
Accruals and deferred income	82.3	81.2
	204.7	192.5

Included in creditors falling due within one year are creditors of £7.7 million (2011: £15.8 million) relating to exceptional items.

16. Creditors: Amounts Falling Due After More Than One Year

Group

	2012 £m	2011 £m
Gala Propco Three Limited loan (note 17)	342.7	347.6
New senior secured credit facilities (note 17)	808.1	805.1
Senior secured notes (note 17)	341.8	340.4
Senior notes (note 17)	260.7	258.6
GCGL loan note (note 18)	618.0	534.3
Other creditors	0.7	0.8
	2,372.0	2,286.8

Company

	2012 £m	2011 £m
Amounts owed to subsidiary undertakings	0.5	-
GCGL loan note (note 18)	621.1	538.7
	621.6	538.7

The GCGL loan note represents amounts owed to GCG Manager S.A Luxco S.C.A.

17. Borrowings

Group

	2012 £m	2011 £m
Amounts falling due:		
In one year or less or on demand	5.8	4.7
In more than one year but not more than two years	343.7	5.8
In more than two years but not more than five years	-	343.7
After more than five years	1,450.0	1,450.0
	1,799.5	1,804.2
Less:		
Issue costs	(34.6)	(41.1)
Discount on nominal value of senior notes	(5.8)	(6.7)
	1,759.1	1,756.4
Less: included in creditors: amounts falling due within one year	(5.8)	(4.7)
	1,753.3	1,751.7

The Gala Propco Three Limited loan of £348.5 million (2011: £352.3 million), including amounts of £5.8 million (2011: £4.7 million) falling due within one year, is presented net of unamortised issue costs of £1.0 million (2011: £1.9 million). The loan is owed by Gala Propco Three Limited. The Gala Propco Three Limited loan matures in 2014, is secured on certain properties which it owns and carries a fixed rate of interest of 6.1672%.

On 27 May 2011 the Group completed a refinancing of its former senior secured credit facilities.

The principal terms of the current borrowings are as follows:

	Amount £m	Interest rate %	Maturity
Issued by Gala Group Finance plc:			
Senior secured credit facilities			
Term loan	825.0	LIBOR + 5	27 May 2018
Revolving credit facility	100.0	LIBOR + 4	27 May 2017
Senior secured notes	350.0	8.875	1 September 2018
Issued by Gala Electric Casinos plc:			
Senior notes	275.0	11.5	1 June 2019

17. Borrowings (continued)

The senior secured credit facilities and the senior secured notes are secured on the assets of the Group. In the prior year the Group incurred costs relating to the raising of borrowings of £41.0 million and the senior notes were issued at a £7.0 million discount to their nominal value. The issue costs and discount have been deferred and are being amortised over the term of the borrowings.

At 29 September 2012 the senior secured credit facilities, senior secured notes and senior notes are presented net of unamortised issue costs (and in respect of the senior notes, also the discount to nominal value) of £16.9 million (2011: £19.9 million), £8.2 million (2011: £9.6 million) and £14.3 million (2011: £16.4) million respectively.

In addition to the margin payable on the senior secured credit facilities, the Group pays a 1.5% (2011: 1.5%) facility fee in respect of the unused portion of the revolving credit facility. The revolving credit facility is available to finance working capital requirements and for general corporate purposes. Whilst no amounts have been drawn down on the revolving credit facility, £16.8 million (2011: £26.1 million) has been utilised through the issuance of letters of credit.

The senior secured credit facilities and the Gala Propco Three Limited loan agreements require the Group to comply with certain financial and non-financial covenants.

18. GCGL Loan Notes

Group

	2012 £m	2011 £m
Amounts falling due after more than 5 years including rolled up interest	621.1	538.7
Less: issue costs	(3.1)	(4.4)
	618.0	534.3

The GCGL loan notes have been issued to its parent company, GCG Manager SA Luxco SCA. The GCGL loan notes are unsecured, were issued with a duration of 10 years, accruing interest of 15.0625% only payable on maturity on 27 October 2020. Interest accrued rolls up into the principal amount on 27 October each year until redemption. At the year end rolled up interest amounted to £171.1 million (2011: £88.7 million).

Company

	2012 £m	2011 £m
Amounts falling due after more than 5 years including rolled up interest	621.1	538.7

The unamortised issue costs of £3.1 million (2011: £4.4 million) are held within Gala Group Finance plc.

19. Financial Instruments

For the purposes of the disclosures which follow in this note, short-term debtors and creditors which arise directly from the Group's operations have been excluded. The Group's lease provisions are included in the following disclosures because, in establishing the lease provisions, the cash flows have been discounted and the discount rate is reappraised at each year end to ensure that it reflects the current market assessment of the time value of money.

Interest Rate Risk Profile of Financial Liabilities

The interest rate risk profile of the Group's financial liabilities at 29 September 2012 and 24 September 2011, after taking account of the interest rate caps used to manage the interest rate profile of financial liabilities, was:

Fixed/Floating Rate Financial Liabilities

	Total £m	Floating Rate Financial Liabilities £m	Fixed Rate Financial Liabilities £m	Weighted Average Interest Rate %	Weighted Average Term of Fix Years
At 29 September 2012	**2,495.2**	**899.6**	**1,595.6**	**9.08**	**5.84**
At 24 September 2011	2,421.8	903.9	1,517.9	8.91	6.77

Interest Rate Risk Profile of Financial Assets

Cash held at bank is invested in accordance with the Group's Investment in Cash Policy to mitigate counterparty risk. During the year interest was earned on cash invested in the following forms of investment:

- Interest bearing current and deposit accounts with interest earned linked to the Bank of England base rate;
- Money market term deposits with interest earned linked to money market rates;
- 'AAA' rated money market funds with a changing daily yield based on the underlying investments.

The Gambling Commission, which regulates the gambling industry in Great Britain, previously required the Group to maintain a gaming reserve to cover potential gaming losses. As part of the gaming reserve arrangements the Group provided cash collateral of £nil (2011: £2.5 million). In total, the Group provided cash collateral of £0.4 million (2011: £4.7 million) as at the year end.

19. Financial Instruments (continued)

Maturity Profile of Financial Instruments

The maturity profile of the carrying amount of the Group's financial liabilities at 29 September 2012 and 24 September 2011 was as follows:

	Debt 2012 £m	Other Financial Liabilities 2012 £m	Total 2012 £m	Debt 2011 £m	Other Financial Liabilities 2011 £m	Total 2011 £m
Amounts falling due:						
In one year or less, or on demand	5.8	11.6	17.4	4.7	9.1	13.8
In more than one year but not more than two years	343.7	7.2	350.9	5.8	7.8	13.6
In more than two years but not more than five years	-	21.7	21.7	343.7	21.8	365.5
In more than five years	2,071.1	57.5	2,128.6	1,988.7	72.9	2,061.6
	2,420.6	98.0	2,518.6	2,342.9	111.6	2,454.5
Finance charges allocated to future periods	-	(23.4)	(23.4)	-	(32.7)	(32.7)
Total financial liabilities	2,420.6	74.6	2,495.2	2,342.9	78.9	2,421.8
Unamortised issue costs and discount	(43.5)	-	(43.5)	(52.2)	-	(52.2)
	2,377.1	74.6	2,451.7	2,290.7	78.9	2,369.6

The Group maintains loan facilities to mitigate any liquidity risk it may face. The Group has £83.2 million undrawn borrowing facilities available at 29 September 2012 (2011: £73.9 million). These facilities incur commitment fees at 1.5% (2011: 1.5%). The revolving credit facility is available until 27 May 2017.

Fair Value of Financial Instruments

	Book Value 2012 £m	Fair Value 2012 £m	Book Value 2011 £m	Fair Value 2011 £m
Derivative financial instruments held to manage interest rate exposure:				
Interest rate caps	3.3	1.4	2.8	0.2

19. Financial Instruments (continued)

The Group had interest rate caps covering £650.0 million (2011: £700.0 million) of its floating rate borrowings as at 29 September 2012.

20. Obligations Under Leases

Annual commitments under non-cancellable operating leases are as follows:

Group

	Land and Buildings 2012 £m	Other 2012 £m	Land and Buildings 2011 £m	Other 2011 £m
Operating leases which expire:				
within one year	2.5	1.3	4.3	2.6
between two and five years	8.6	6.3	11.7	3.7
over five years	45.1	-	45.7	0.1
	56.2	7.6	61.7	6.4

There are no operating leases in the Company (2011: none).

21. Provisions for Liabilities and Charges

Group

	Onerous Contract Provisions £m	Fortune Loyalty Scheme £m	Total £m
At 24 September 2011	78.0	0.1	78.1
Arising during the year	9.6	4.4	14.0
Utilised	(10.0)	(4.4)	(14.4)
Released	(7.3)	-	(7.3)
Unwinding of discount	3.5	-	3.5
At 29 September 2012	73.8	0.1	73.9

Onerous contract provisions include vacant, partly sub let leasehold properties, onerous leases and onerous contracts at the shorter of the remaining period of the lease, which at 29 September 2012 is an average of 15 years (2011: 16 years), and the period until, in the Directors' opinion, the Group will be able to exit the lease/contract. The amount provided is based on the future rental obligations, together with other fixed outgoings, net of any sub lease income. In determining the provision for the properties, the cash flows have been discounted using a risk free rate of return of 4.25% (2011: 4.25%).

Other provisions relate to dilapidations on vacant lease properties. The costs are expected to be incurred within the next year.

21 Provisions for Liabilities and Charges (continued)

In respect of the Fortune loyalty scheme, as points are issued to customers, provision is made for the fair value of points expected to be redeemed. These points are expected to be redeemed over the next twelve months.

Deferred Taxation

Group

Movements in the net deferred tax asset during the year were as follows:

	2012 £m	2011 £m
At 24 September 2011	1.4	25.9
Movement through the profit and loss account	(2.8)	(16.9)
Movement through the statement of total recognised gains and losses	1.4	(7.6)
At 29 September 2012	-	1.4

Deferred taxation in the accounts consists of:

	2012 £m	2011 £m
Depreciation in advance of capital allowances	52.3	47.3
Other timing differences	(7.8)	8.8
Losses	47.7	42.8
Deferred tax asset not recognised in the accounts (note 8d)	(92.2)	(97.5)
	-	1.4
Deferred tax asset shown in debtors (note 14)	9.1	12.2
Deferred tax liability recognised against pension asset (note 27)	(9.1)	(10.8)
Net deferred tax asset	-	1.4

A deferred tax asset of £2.1 million (2011: £3.3 million) in respect of capital losses is not recognised in these accounts.

A deferred tax asset is recognised to the extent that the asset is forecast to be utilised within the next three years. The applicable tax rate for the utilisation of the asset is 23% (2011: 25%) which is the rate enacted at the balance sheet date. No deferred tax asset is recognised on the basis of future taxable profit forecasts.

The brought forward deferred tax asset in respect of the Italian subsidiaries' losses has been fully utilised in the year.

22. Called Up Share Capital

Group and Company

	Number (000)	Ordinary shares of 1p each £m
As at 29 September 2012 and at 24 September 2011	21,326,531	213.3

23. Reserves

Group

	Capital Contribution Reserve £m	Merger Reserve £m	Profit and Loss Account £m	Total £m
At 24 September 2011	1,723.5	1.6	(1,696.0)	29.1
Loss for the financial year	-	-	(123.2)	(123.2)
Actuarial loss on pension scheme	-	-	(4.1)	(4.1)
Tax relating to pension scheme	-	-	1.9	1.9
Net foreign exchange adjustments offset in reserves	-	-	(3.5)	(3.5)
FRS 20 Share Based Payment charge	-	-	51.6	51.6
At 29 September 2012	1.723.5	1.6	(1,773.3)	(48.2)

Company

	Profit and Loss Account £m
At 24 September 2011	0.7
Profit for the financial year	0.4
FRS 20 Share Based Payment charge	51.6
At 29 September 2012	52.7

24. Notes to the Group Cash Flow Statement

a) Reconciliation of Operating Profit/(Loss) to Net Cash Inflow from Operating Activities

	2012 £m	2011 £m
Operating profit/(loss)	118.8	(419.8)
Depreciation, amortisation, impairment and write downs	89.3	653.3
(Increase)/decrease in debtors	(5.0)	1.3
(Increase)/decrease in stocks	(0.3)	0.9
Increase in creditors	0.9	6.3
Decrease in provisions	(7.7)	(1.0)
Pension contributions in excess of profit & loss charge	(2.9)	(3.0)
FRS 20 Share Based Payment charge	51.6	-
Net cash inflow from operating activities	244.7	238.0

b) Analysis of Net Debt

	At 24 September 2011 £m	Cash Flow £m	Transfers Between Categories £m	Other Non-cash Movements £m	At 29 September 2012 £m
Cash at bank and in hand	141.7	(5.8)	-	-	135.9
Debt due within one year	(4.7)	4.7	(5.8)	-	(5.8)
Debt due after one year	(2,286.0)	-	5.8	(91.1)	(2,371.3)
Total debt	(2,290.7)	4.7)	-	(91.1)	(2,377.1)
Net debt	(2,149.0)	(1.1)	-	(91.1)	(2,241.2)

Non-cash movements comprise amortisation and write off of debt issue costs and senior notes discount of £8.7 million and accrued interest on the GCGL loan notes of £82.4 million.

Cash at bank and in hand as at 29 September 2012 includes the Gala Propco Three Limited balance of £9.6 million (2011: £9.4 million), cash in hand balance of £20.5 million (2011: £19.9 million) and the cash provided as collateral of £0.4 million (2011: £4.7 million).

24. Notes to the Group Cash Flow Statement (continued)

c) Cash Flows relating to Exceptional Items (note 5)

	2012 £m	2011 £m
Included within operating cash flow:		
Restructuring and reorganisation costs	(36.3)	(24.9)
VAT refunds net of duty	-	(0.3)
	(36.3)	(25.2)
Disposal of fixed assets	1.7	47.7
Exceptional interest income	-	2.9
Exceptional break fees on the Gala Propco Three Limited loan	-	(0.6)
Early termination of interest rate caps and swaps	-	(1.9)
Net cash (outflow)/inflow	(34.6)	22.9

Included in restructuring and reorganisation costs is £nil (2011: £1.6 million) relating to the cash outflow from the financial restructuring of the group described in note 17.

Included in the disposal of fixed assets is £0.1 million of costs (2011: £6.4 million of proceeds) which are attributed to Gala Propco Three Limited.

25. Capital Commitments

Amounts contracted for but not provided in the accounts amounted to £13.2 million (2011: £9.9 million) for the Group and £nil (2011: £nil) for the Company.

26. Contingencies

Following another gaming operator's High Court ruling that the application of VAT to gaming machines contravened the European Union's principle of fiscal neutrality the Group has successfully lodged claims for and in prior years received repayment of £44.1 million (2011: £44.1 million) of VAT and £7.4 million (2011: £7.4 million) of associated interest.

HMRC is appealing this ruling and its cases were heard at the Court of Appeal and Upper Tribunal in April 2010 and the European Court of Justice ("ECJ") in June 2011. Whilst the ECJ judgement issued on 10 November 2011 was positive for the Group, the case still needs to be discussed and decided through the UK courts. If HMRC are successful they are entitled to recover the amounts received, plus associated interest.

In the opinion of the directors, having considered the facts and advice before them, no provision is required in the financial statements for the outcome of these appeals.

27. Pension Commitments

Defined Contribution Pension Scheme

The Group participates in the Gala Coral Group pension scheme, which is a defined contribution pension scheme with a contributory and a non contributory membership level. The pension charge for the year represents contributions paid by the Group to the scheme in respect of Group employees and amounted to £2.9 million (2011: £2.6 million).

27. Pension Commitments (continued)

Defined Benefit Pension Scheme

The Group operates the Gala Coral Pension Plan, a fully funded defined benefit pension scheme which is closed to new entrants.

The pension payable to an individual is based on their average earnings calculated over the period of pensionable service (career average revalued earnings or CARE).

A full actuarial valuation of the Gala Coral Pension Plan was undertaken at 5 April 2011.

An actuarial review of the scheme valuation was carried out by a qualified independent actuary as at 29 September 2012, in order to provide the following information required by FRS 17 amended "Retirement Benefits". The major assumptions used by the actuary were:

	2012	2011	2010
Rate of salary increases	3.8%	3.9%	4.2%
Rate of pension increases	2.8%	2.9%	3.2%
Discount rate	4.6%	5.1%	5.1%
CPI inflation assumption	2.1%	2.2%	-
RPI inflation assumption	2.8%	2.9%	3.2%

Mortality Assumptions

	2012 Years	2011 Years
Longevity at age 65 for current pensioners:		
– Men	22.4	22.0
– Women	23.9	23.1
Longevity at age 65 for future pensioners:		
– Men	24.5	24.3
– Women	25.8	24.7

27. Pension Commitments (continued)

Assets and Liabilities of the Scheme

	29 September 2012 £m	24 September 2011 £m	25 September 2010 £m	26 September 2009 £m	27 September 2008 £m
Total fair value of assets	307.3	283.6	260.2	241.1	230.4
Present value of scheme liabilities	(267.6)	(238.6)	(249.7)	(225.0)	(194.9)
Surplus in the scheme	39.7	45.0	10.5	16.1	35.5
Restriction of pension asset	-	(1.9)	-	-	-
Related deferred tax liability (note 21)	(9.1)	(10.8)	(2.9)	(4.5)	(9.9)
Net pension asset	30.6	32.3	7.6	11.6	25.6

Expected Rate of Return

	Expected Rate of Return %	Value 29 September 2012 £m	Expected Rate of Return %	Value 24 September 2011 £m	Expected Rate of Return %	Value 25 September 2010 £m
Equities	5.1%	34.7	5.8%	29.8	6.4%	41.6
Hedge funds	5.1%	22.1	5.8%	21.0	6.4%	10.4
Bonds	3.3%	78.4	4.4%	70.3	4.4%	67.6
Gilts	1.9%	171.2	2.5%	160.8	3.4%	140.6
Other (cash)	1.3%	0.9	1.3%	1.7	1.3%	-
Total value		307.3		283.6		260.2

27. Pension Commitments (continued)

Reconciliation of the Present Value of Scheme Liabilities

	2012 £m	2011 £m
Present value of scheme liabilities at the beginning of the year	238.6	249.7
Current service cost	4.2	4.8
Interest cost	12.2	12.7
Benefits paid	(9.0)	(9.2)
Employee contributions	1.5	1.7
Actuarial loss/(gain)	20.1	(21.1)
Present value of scheme liabilities at the end of the year	267.6	238.6

Reconciliation of the Fair Value of Scheme Assets

	2012 £m	2011 £m
Fair value of scheme assets at the beginning of the year	283.6	260.2
Expected return on scheme assets	10.0	11.0
Actuarial gain	14.1	12.1
Benefits paid	(9.0)	(9.2)
Employer contributions	7.1	7.8
Employee contributions	1.5	1.7
Fair value of scheme assets at the end of the year	307.3	283.6

Analysis of the Amount Charged to Operating Profit

	2012 £m	2011 £m
Current service cost	4.2	4.8

Analysis of the Amount Charged to Other Finance Costs

	2012 £m	2011 £m
Expected return on pension scheme assets	10.0	11.0
Interest on pension liabilities	(12.2)	(12.7)
Other finance costs	(2.2)	(1.7)

The cumulative actuarial loss recognised in the Group statement of total recognised gains and losses ("STRGL") is £2.9 million gain (2011: £7.0 million gain).

27. Pension Commitments (continued)

The actual return on plan assets was £24.1 million (2011: £23.1 million). To develop the assumption for the expected rate of return on assets, the Group considered the current level of expected return on risk free investments, the historical level of the risk premium associated with the other asset classes in the portfolio and expectations for future returns of each asset class. A weighted average rate of return on assets was calculated. This resulted in the selection of a 2.9% assumption for 2011/12 (2011: 3.6%).

Movement in Surplus during the Year

	2012 £m	2011 £m
Surplus in scheme at the beginning of the year	45.0	10.5
Current service cost	(4.2)	(4.8)
Contributions	7.1	7.8
Other finance costs	(2.2)	(1.7)
Actuarial (loss)/gain	(6.0)	33.2)
Surplus at the end of the year	39.7	45.0

Amounts for Current Year and Previous Four Years

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Experience adjustments on plan assets:					
Amount	14.1	12.1	9.6	(5.0)	(11.5)
Experience adjustments on plan liabilities:					
Amount	2.2	0.3	0.5	1.3	-
Total actuarial gains and losses recognised in the STRGL:					
Amount	(4.1)	31.3	(7.3)	(21.5)	(23.9)

A liability of £0.2 million (2011: £0.3 million) existed in respect of pension contributions at 29 September 2012.

28. Share Based Payments

On the 19 December 2011 a number of shares were granted to certain management under the Gala Coral Management Incentive Scheme. The share scheme was implemented by Gala Coral Group Limited's ultimate parent undertaking, GCG Manager S.A Luxco S.C.A, with shares in the parent being allocated to management. The shares were purchased by management at their fair value. A proportion of the shares issued vested immediately with additional shares vesting over a period of up to five years.

28. Share Based Payments (continued)

The realisation of the value attributed to the management shares only occurs on an exit event. Despite the fact that the shares awarded to management are shares of the ultimate parent company, GCG Manager S.A Luxco S.C.A, a charge has been recognised in the Gala Coral Group Limited consolidated accounts as prescribed by the guidelines of FRS 20 "Share Based Payments". The charge recorded in the current year of £51.6 million, represents an accounting recharge only rather than a commitment on the UK Group to pay cash. On exit and realisation of value of the UK Group the cash cost associated with this share scheme will be incurred by the ultimate parent company, not Gala Coral Group Limited or any of its UK subsidiaries.

	Class of share						
	B	C	D	E	F	G	H
Number of shares issued	1,264,471	7,485,669	13,201,922	1,390,918	2,528,942	632,236	632,236
Number of shares unissued	-	-	12,644	-	-	-	-
Vesting period (yrs)	0 to 2	0 to 5	0 to 5	0 to 5	0 to 5	0 to 5	0 to 5
Expected volatility	96%	96%	96%	96%	96%	96%	96%

The valuation of the scheme for FRS 20 was undertaken using the Black-Scholes pricing model with the expected volatility based on the historical volatility, over a 5 year period, of similar listed companies with appropriate adjustments made for the level of gearing within the Gala Coral Group. Dividend yields were assumed at 0% for all awards and the risk free rate at 0.92%. An exit assumption of 5 years from the grant date has been used in the valuation of the scheme.

The total fair value of the management incentive scheme over the life is calculated at £62.7 million with the scheme being accounted for as equity settled under FRS 20. The amounts paid to participants on an exit event depend on certain criteria, including good leaver/bad leaver considerations.

The shares issued are unlisted.

29. Related Parties

The Company has taken advantage of the exemption under FRS 8 "Related party disclosures" not to disclose related party transactions with companies which are wholly owned subsidiaries.

During the year the Group loaned £391,000 to one of its directors. The loan is repayable in full on 14 December 2026 and does not accrue interest. Certain early repayment clauses exist within the loan agreement which provide for both immediate repayment on an exit event and early repayment subject to annual bonus arrangements.

The Group also made payments to related parties (by virtue of common directors) of £0.2 million (2011: £0.2 million) to the Association of British Bookmakers and £1.8 million (2011: £2.1 million) to the Greyhound Board of Great Britain.

30. Post Balance Sheet Events

On 20 August 2012 the Office of Fair Trading announced that it had referred the proposed disposal of 23 UK casinos to The Rank Group PLC to the Competition Commission. Accordingly, the disposal did not become unconditional by 19 September 2012 and therefore the agreement relating to the disposal ceased to be formally binding on the parties at midnight on 19 September 2012. The parties are currently engaged with the Competition Commission, and the Commission's preliminary findings will be issued to the parties in December.

31. Ultimate Controlling Party

As at 29 September 2012, the Company's immediate parent company and the ultimate parent company of the Group was GCG Manager S.A Luxco S.C.A (a "societe en commandite par actions" established under the laws of Luxembourg), with registered office at 7, Val Sainte Croix, L-1371 Luxembourg.