Rank Group

News Release

25 February 2011

The Rank Group Plc
Financial results for the year to 31 December 2010

Financial highlights

- Group revenue of £567.8m (2009: £540.0m)
- Statutory revenue of £544.5m (2009: £520.5m)
- Group EBITDA before exceptional items of £92.3m (2009: £83.9m)
- Group operating profit before exceptional items of £62.0m (2009: £58.0m)
- Group operating profit after exceptional items of £75.4m (2009: £60.8m)
- Adjusted profit before tax of £55.2m (2009: £48.5m)
- Adjusted earnings per share of 10.2p (2009: 8.9p)
- Basic earnings per share before exceptional items of 9.8p (2009: 9.0p)
- Net debt of £123.4m (£186.8m at 31 December 2009)
- Dividend per share of 2.40p (2009: 1.35p)

Group key performance indicators

- Customers up 7.9% to 2.5 million
- Customer visits up 1.7% to 22.4 million*
- Average revenue per customer down 2.5% to £225.86
- Net spend per visit up 3.4% to £25.30
- Net promoter score at 38% (2009: 37%)
- 2.9% online-offline customer cross-over**

* excludes Rank Interactive, **percentage of customers using both land-based and remote channels

Review of key events

- Growth in customers across all four businesses
- Sustained profit growth in Grosvenor Casinos; now largest single business within Group
- 11.2% increase in revenue from food and drink
- Launch of cross-Group customer relationship management system

Ian Burke, chief executive of The Rank Group Plc said: “The Group continued its progress in 2010, delivering strong growth in earnings through improved revenue and profit generation and a further substantial reduction in net debt. At the same time, we stepped up investment in our businesses and improved our competitive position in our key markets.

“We own a number of established and trusted gaming brands and have the rare ability to deliver them across a range of land-based venues and remote channels. We are developing increasingly sophisticated systems for understanding and engaging with our customers and our management team is motivated to deliver outstanding service to customers.”

Ends

Definition of terms:

- Group revenue is before adjustment for free bets, promotions and customer bonuses;
- Group EBITDA is Group operating profit before depreciation and amortisation;
- Adjusted profit before tax is profit from continuing operations before taxation adjusted to exclude exceptional items, the unwinding of discount in disposal provisions, other financial gains or losses and the amortisation of the equity component of the convertible bond; and
- Like for like excludes club openings and closures as well as changes to gaming taxation.

Enquiries

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Photographs available from www.rank.com

Analyst meeting, webcast and dial-in details:

Friday 25 February 2011
There will be an analyst meeting at Bank of America Merrill Lynch Financial Centre, 2 King Edward Street, London, EC1A 1HQ, starting at 9.00am. There will be a simultaneous webcast of the meeting.

For the live webcast, please register at www.rank.com. A replay of the webcast and a copy of the slide presentation will be made available on the website later. The webcast will be available for a period of six months.

Forward-looking statements
This announcement includes ‘forward-looking statements’. These statements contain the words “anticipate”, “believe”, “intend”, “estimate”, “expect” and words of similar meaning. All statements, other than statements of historical facts included in this announcement, including, without limitation, those regarding the Group’s financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to the Group’s products and services) are forward-looking statements that are based on current expectations. Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance, achievements or financial position of the Group to be materially different from future results, performance, achievements or financial position expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group’s operating performance, present and future business strategies, and the environment in which the Group will operate in the future. These forward-looking statements speak only as at the date of this announcement. Subject to the Listing Rules of the UK Listing Authority, the Group expressly disclaims any obligation or undertaking, to disseminate any updates or revisions to any forward-looking statements, contained herein to reflect any change in the Group’s expectations, with regard thereto or any change in events, conditions or circumstances on which any such statement is based. Past performance cannot be relied upon as a guide to future performance.

Chief executive's review

During 2010, Rank recorded another year of growth in adjusted earnings per share, driven by continued operational improvements and further debt reduction. At the same time we continued to build for the future, investing in our assets, strengthening our team and improving our capabilities in key strategic areas.

During the year, our brand teams served more than 2.5 million customers, with growth across each of our businesses. Customer visits increased by 1.7% to more than 22 million and average spend per visit improved by 3.4% to £25.30.

The Group's net promoter score, which measures the propensity of customers to recommend our brands, increased to 38% with the strongest improvement from Mecca Bingo.

Group key performance indicators (KPIs)

	2010	2009
Customers (000s)	**2,514**	2,330*
Customer visits (000s)**	**22,441**	22,068
Average revenue per customer (£)	**225.86**	231.76
Spend per visit (£)	**25.30**	24.47
Online-offline crossover	**2.9%**	-
Net promoter score	**38%**	37%

* re-stated to adjust for customer cross-over between brands and channels; ** excludes Rank Interactive

Moving into 2011, the consumer environment remains challenging with higher sales taxes in both Great Britain and Spain; as well as the introduction of a full smoking ban in Spain. Nevertheless, the Group has started the year well with growth in like-for-like revenue and increases in customer visits in our two largest businesses, Grosvenor Casinos and Mecca Bingo.

We aim to complete a refinancing during the second half of 2011, due to the expiry of our existing banking facilities in 2012. Whilst the lending environment is not as benign as it was in 2007 (when we agreed our current banking facilities), the Group's operating performance and substantially reduced net debt levels have put us in an advantageous position.

In each of our markets, we have the opportunity to achieve sustained growth in operating profit through stimulating consumer demand for our brands and broadening brand distribution both via land-based venues and remote media.

Summary of results

During 2010, Rank achieved a 14.6% year-on-year increase in adjusted earnings per share. This performance was driven by revenue growth across all four businesses, effective management of operating costs and lower financing costs.

£m	**Revenue***		**Operating profit****	
	2010	2009	**2010**	2009
H1	**281.1**	266.0	**28.6**	30.2
H2	**286.7**	274.0	**33.4**	27.8
Group	**567.8**	540.0	**62.0**	58.0

* before adjustment for free bets, promotions and customer bonuses; ** before exceptional items

Group revenue of £567.8m was 5.1% ahead of 2009 (3.1% on a like-for-like basis), driven by increases in customers, customer visits and spend per visit.

Operating costs rose by 4.3%, principally as a result of longer opening hours and an increased number of venues in Grosvenor Casinos. Group operating profit increased by 6.9% to £62.0m.

£m	**Revenue***		**Operating profit****	
	2010	2009	**2010**	2009
Grosvenor Casinos	**238.6**	220.0	**36.0**	30.9
Mecca Bingo	**234.5**	233.0	**29.7**	32.3
Top Rank España	**37.0**	36.2	**6.8**	5.6
Rank Interactive	**57.7**	50.8	**7.9**	7.5
Central costs	**-**	-	**(18.4)**	(18.3)
Group	**567.8**	540.0	**62.0**	58.0

* before adjustment for free bets, promotions and customer bonuses; ** before exceptional items

Grosvenor Casinos made the largest contribution to Group revenue and Group operating profit. Revenue improved by 8.5% to £238.6m as a result of sustained like-for-like growth in customer visits, particularly in our 'G Casino' venues. Operating profit increased by 16.5% to £36.0m.

Mecca Bingo grew revenue by 0.6% to £234.5m but operating profit declined by 8.0% to £29.7m, largely as a result of increases in taxation.

Revenue of £37.0m from Top Rank España was 2.2% higher than in 2009, despite the relative weakness of the euro. In local currency, revenue increased by 6.2% as a result of rising customer visits and higher average spend per visit.

Revenue from Rank Interactive increased by 13.6% to £57.7m, with meccabingo.com generating the majority of the growth. An increase in marketing costs to build our brands online led to a slight weakening in margin but nevertheless operating profit increased by 5.3% to £7.9m.

Central costs of £18.4m were £0.1m higher than in 2009.

The Group's effective tax rate was 27.7% (2009: 29.0%); whilst adjusted net interest costs of £6.8m were £2.7m lower than in the prior year as a result of reduced borrowings and lower interest rates.

Net debt
During 2010, we reduced Group net debt from £186.8m to £123.4m as a result of positive operating cash flow and a number of VAT refunds.

Rank's stated capital structure policy is to operate at or around 2.5 times net debt to EBITDA. At 31 December 2010, Rank's trailing 12-month net debt to EBITDA ratio was 1.3 times, substantially below its target range.

Rank believes that it is prudent to retain balance sheet flexibility until such time as appeals from Her Majesty's Revenue and Customs ('HMRC') against the Group's VAT refunds are fully and finally resolved. We expect the European Court of Justice to deliver a final ruling in this matter within the next 18 months.

Regulatory and tax change
Through our engagement with regulators and governments we seek fairness and consistency in the application of taxation and regulation to our business activities.

During 2010, the British Government opened consultations on a range of fiscal and regulatory changes relating to the gaming sector. Rank responded to each of these consultations. Copies of Rank's responses are available from www.rank.com/our_industry.

Proposal	Department	Rank response
To create a more flexible regime for the allocation of B3 amusement machines	Department of Culture, Media and Sport	Supports recommendation
To create a licensing regime for offshore online gaming companies	Department of Culture, Media and Sport	Supports fair licensing regime
To reform the taxation of amusement machines	HM Treasury	Supports fair reform of taxation

Current trading
Since the start of 2011, Rank has maintained operational momentum, delivering 2% growth in like-for-like revenue during the first eight weeks of the year. On a segmental basis, the performance is mixed due to the effect that external factors (win margin and weather) can have on short trading periods. However, we are pleased with the general underlying trend of continued growth in customers and visits.

Year-on-year segmental and Group revenue for 8 weeks to 20 February 2011		
	Like-for-like revenue*	**Total revenue**
Grosvenor Casinos	(6)%	(6)%
Mecca Bingo	8%	8%
Top Rank España	(18)%	(18)%
Rank Interactive	25%	25%
Group	**2%**	**2%**

* Like-for-like revenue excludes club closures and openings

Revenue from Grosvenor Casinos declined by 6% in the period despite a 16% increase in visits. Spend per visit declined by 19% due to the effect of a reduction in win margin in our London casinos. Our provincial casinos maintained strong revenue growth in the period.

Mecca Bingo achieved an 8% increase in revenue, due to 4% growth in customer visits and a 4% improvement in spend per visit. This performance reflects both the progress we have made to improve the customer experience (with particularly strong growth in food and drink) and the negative effect on trading of the heavy snowfall during the first eight weeks of 2010.

Revenue from Top Rank España declined by 18% with the introduction of a full smoking ban resulting in a 14% drop in spend per visit. Customer visits were down by 5%.

Rank Interactive generated 25% growth in revenue, due to strong growth from meccabingo.com and our online casino brands.

Dividend
Reflecting the Group's continued progress, the board is pleased to recommend that a final dividend of 1.66p per ordinary share be paid on 4 May 2011 to shareholders on the register at 1 April 2011. This represents a 23% increase compared with the final dividend for 2009 and is in line with our medium-term aim of growing dividends faster than earnings as we target a level of 3.0 times dividend cover.

The full-year dividend in respect of the 2010 financial year (incorporating the interim and final dividends) is 2.40p per share – approximately 24% of the Group's adjusted earnings per share.

Outlook
Looking ahead, the operating environment for our businesses in 2011 presents both challenges and opportunities. The Group is in a strong position to meet both as a result of the actions we have taken in recent years to improve our service to customers, to extend and enhance our venues and remote channels, to keep operating costs in balance and to reduce debt.

In this our 75th year, we look forward to the future with confidence.

Strategic overview

Rank's aim is to generate wealth for shareholders by achieving sustainable growth in earnings and dividends per share.

In order to achieve our aim, we have developed a strategy that is defined at both a Group level and a brand level.

- **Group strategy** – provides a framework to determine long-term decisions about which markets and sectors to operate in and how to allocate capital between them.
- **Brands strategy** – provides a framework for operational decisions within our brand portfolio.

Group strategy

Our Group strategy is to develop gaming-based entertainment experiences, offered to customers via licensed venues and remote channels in markets where the regulatory and fiscal framework offers the opportunity to generate attractive, sustainable returns.

In order to access these markets, we have developed a portfolio of brands aimed to meet the gaming and entertainment preferences of a wide range of customers and for a variety of occasions. Behind these brands are a range of common competencies (e.g. hospitality, catering, machines management) and shared services (e.g. procurement, finance, human resources, property management).

As a business operating in a highly regulated sector of the leisure and entertainment market, three key capabilities are core to our strategy:

- **Customer focus** – we use customer insight (based on analysis of quantitative data and qualitative intelligence) to guide service and product evolution;
- **Responsible operation** – the way that we look after our customers not only determines the sustainability of our customer relationships but also our position with regard to regulators, governments and the broader communities within which we operate; and
- **Constructive political engagement** – we work with governments and regulators to shape a regulatory and fiscal environment that supports both our own development and responsible policy objectives.

We perceive growing convergence between land-based and remote gaming and see the ability to meet consumption demand across a range of channels as an increasingly important advantage in a competitive market.

Within the markets where we operate, licensed gaming venues such as casinos and bingo clubs offer an attractive combination of growth potential and stability. Relatively low levels of market penetration (only 5% of adults in Great Britain played casino games in 2010) and changing regulations offer the opportunity to modernise in order to stimulate demand growth. Meanwhile, important licensing restrictions and the requirement for high levels of probity add a defensive aspect to the sector.

Brands strategy

We view our ownership of established and trusted brands and the ability to reach out to more than 2.5 million customers both through our land-based venues and remote channels as a source of competitive advantage.

Each of Rank's brands is following a strategy to grow customer numbers, visits and revenue through:

1. the systematic use of data and customer feedback to inspire service and product improvements;
2. capital investment to extend the reach and broaden the appeal of our land-based venues; and
3. the wider distribution of our brands via online and mobile media.

1) Systematic use of data and customer feedback

1.1 Customer focus through insight & engagement

The desire to understand more about customer attitudes and behaviours in order to refine our products and services and inspire innovation is the keystone of our approach. Driving this to the heart of our operations through systems development and customer and employee engagement is critical to the achievement of our goals.

We have continued to invest in our insight capability, covering the collection, analysis and interpretation of quantitative and qualitative data in order to gain a deeper understanding of customer behaviour.

During the final quarter of the year, we launched a single inventory customer relationship management system covering all of our UK customers across Mecca Bingo, Grosvenor Casinos and Rank Interactive. This allows us to view how our customers interact with each of our brands, including club and website visits, spending patterns, games preferences and satisfaction scores. It is becoming a core business tool for our brands, guiding how we develop products and services, how we communicate with our customers and where we invest capital in new venues.

The development of customer rewards programmes in Grosvenor Casinos and Mecca Bingo has facilitated the collection of more detailed information on customer preferences than was hitherto available.

At 31 December 2010, more than 328,000 customers were members of our Play Points customer rewards programmes. During the year, we extended Play Points from eight to 13 of our casinos with the programme encompassing 18% of our members and tracking 15% of our revenue. Play Points was also extended from two to eight Mecca Bingo clubs.

We continued to gather and analyse qualitative data to understand changes in customer behaviour. During the course of the year, we interviewed more than 49,000 customers to compile our net promoter score, we received more than 15,000 individual pieces of feedback and invested in over 1,300 hours of focus group and immersion research.

1.2 Insight into action – service improvements

During 2010, we continued to invest in service and product improvements, based upon our understanding of customer preferences.

Gaming and entertainment
More than 90% of Group revenue is generated by the games that our customers play. During 2010, gaming revenue grew by 4.6% to £520.2m.

Highlights included:

- Launch of exclusive ‘Britain’s Got Talent’ games on meccabingo.com and in Mecca Bingo clubs;
- Replacement of 1,650 electronic bingo units in 17 clubs with ‘Mecca Max’ mobile gaming terminals, offering main stage bingo, interval games and amusements;
- Extension of server-based amusement machines from 422 units to 673 across all Mecca Bingo clubs, enhancing our ability to test new games;
- Roll-out of 1,687 community games across our amusement machines in Mecca Bingo;
- Upgrades to electronic roulette in 13 Grosvenor Casinos; and
- Extension of ‘After Dark’ suite of late night games from two to six Mecca Bingo clubs.

We will maintain our focus on innovation in entertainment in 2011, with the completion of the ‘Mecca Max’ deployment across the estate, the testing of new games in Grosvenor Casinos, the deployment of third-party branded games across all channels and the continued development of ‘After Dark’.

Food and drink
Improving the quality of food and drink in Rank’s land-based businesses remains a key area of opportunity for the Group both in terms of broadening the appeal of our venues and capturing a greater proportion of our customers’ leisure expenditure.

During 2010, we continued to use customer insight to guide improvements to the quality of our bar and restaurant operations, through menu developments, service improvements, more competitive pricing and promotional activity.

In Mecca Bingo, we have now grown spend per visit on food and drink by 17.7% since 2007, largely as a result of the move to table service with meals cooked to order.

As a consequence of the changes we generated £47.6m in Group revenue from sales of food and drink in 2010 - an increase of 11.2%, despite the negative effect of the rise in the standard rate of VAT. This represented 8.4% of total Group revenue.

During 2011, we will continue to make improvements across the business including the extension of table service from 63 to 93 Mecca Bingo clubs.

2) Capital investment to extend reach and broaden appeal of our brands

During 2010, we invested £51.6m of capital across the Group. More than 80% of the capital investment was deployed in our portfolio of Grosvenor Casino and Mecca Bingo venues, enhancing existing units and developing new units.

The capital was focused on improving the customer experience of our brands, through enhancements to service and to the architectural fabric of our venues.

Grosvenor Casinos
The modernisation and expansion of our casinos estate forms a key element of the Group's growth strategy. In 2006 we launched the G Casino format with the aim of reaching out to a much broader base of customers than would typically visit a traditional casino.

The format has proved successful (achieving significantly higher levels of customer visits, revenue and profit than traditional casinos) and we have set ourselves a target of reaching 20 'G Casino' venues by the end of 2012, via the opening of new casinos and the relocation and conversion of existing casinos.

Provincial casinos – performance comparison

	Casinos	Average visits/week	Average spend/visit	Average EBITDA/week
G Casino*	9	3,637	£30.82	£29.2k
Traditional Grosvenor	17	2,307	£31.94	£16.8k

* excludes three casinos converted to G Casino format in 2010 and London casinos

We converted three existing Grosvenor Casinos (in Brighton, Newcastle-upon-Tyne and Birmingham) to the G Casino format at a combined capital cost of £3.9m. Since the start of 2011 we have carried out a similar project to convert our Walsall venue and now operate 14 venues under the G Casino format.

Later this year, we will open one new G Casino venue at Stockton-on-Tees and convert at least one existing casino (in Plymouth) to the G Casino model.

During the final quarter of the year, we opened two experimental 'E-casinos' in Scarborough and Liverpool. The E-casino model offers a predominantly electronic casino gaming experience and has been developed for markets where consumer demand does not at present warrant investment in a full casino.

We closed one loss-making casino in the year, at Hove in East Sussex.

At 31 December 2010, we operated 35 casino venues in Great Britain (incorporating 36 licences), compared with 34 venues (35 licences) at the end of 2009. During February 2011, we opened a second licensed casino area within our Walsall venue and we plan to increase the estate to 36 venues (38 licences) by the end of 2011.

Mecca Bingo
During the year, we invested £22.6m of capital in the maintenance and improvement of our bingo clubs in Great Britain. The improvements expenditure broadly falls into two categories – Full House Destination and Full House Local.

Full House Destination is a modern leisure venue that provides community games, amusements and food and drink in a social, female-focused environment. During the year, we converted four Mecca Bingo clubs (Oldbury, Aberdeen, Dagenham and Southend-on-Sea) to the Full House Destination format at a combined capital cost of £5.7m.

Whilst we have seen positive customer responses and an encouraging uplift in customer visits and revenue at these venues, further work is required to refine the model.

We have taken steps to reduce operating costs in these venues and are looking at means to lower capital costs on any future conversions.

Full House Local is our capital investment programme for traditional bingo clubs (many of them small ex-cinema sites). During the year, we invested £1.2m on modest renewal projects at nine of these clubs, combining service enhancements (cook-to-order food) with improvements to the fabric of the venues, inside and out. We are very pleased with the early results of this programme and plan to undertake a number of similar projects in 2011.

3) Wider distribution of our brands via online and mobile media

The development of established, trusted brands, distributed to suit customer preference is a key component of our Group and brands strategy.

During 2010, both Mecca Bingo and Grosvenor Casinos generated revenue growth from their land-based venues and their remote gaming sites as the brands benefited from closer operational integration. During the year, 2.9% of the 2.1 million customers of our UK brands played in either a land-based casino or bingo club and via one of our internet or mobile sites. Whilst this level of cross-over is still relatively low, we consider that the ability to cross-sell between channels presents a significant opportunity for our brands.

Revenue by brand (land-based and remote)

£m	**2010**	2009
Mecca brand	**273.7**	264.6
Grosvenor Casino brands	**242.1**	221.3
Top Rank España*	**37.0**	36.2
Blue Square**	**15.0**	17.9

* land-based operations only; ** remote operations only

Mecca brand
Revenue from our Mecca Bingo clubs and Mecca branded websites increased by 3.4% to £273.7m in 2010 with a strong performance from remote gaming supplementing a modest improvement from our clubs. This was driven in part by a step-up in national brand promotions, including television advertising. Critically, our internal affiliate scheme (which rewards Mecca Bingo clubs for promoting meccabingo.com to customers) generated more than 16,000 new online customers in 2010 - a 191% increase compared with the prior year.

Grosvenor Casinos brands
Revenue from Grosvenor Casinos venues and branded websites increased by 9.4% to £242.1m in 2010. The majority of this growth was generated by our land-based venues. The extension of our market-leading position in land-based casino gaming into remote channels remains a major area of unrealised opportunity.

Spain
During the year, we advanced the development of online gaming for the Spanish market, which is expected to be subject to regulation from 2011 or 2012. We plan to launch during the first half of 2011.

Belgium
The opening of the Belgian online gaming market has created potential for Rank to expand its operations in that territory. Under current proposals, only land-based casino operators may apply for online casino licences. Rank currently operates two casinos in Belgium. Whilst the online legislation has not yet been fully enacted and the technical regulations have not been finalised, the ability to offer online as well as land-based casino gaming in Belgium may represent a growth opportunity for the Group.

Mobile gaming
The use of smartphones and other mobile communications devices is gradually transforming the way that people seek entertainment – both in Great Britain and around the world.

During 2010, we offered our customers a range of mobile gaming experiences – both on local area networks in Mecca Bingo clubs and on wide area networks under Rank Interactive.

Highlights of the year included:

- the replacement of 1,650 electronic bingo units with 'Mecca Max' mobile gaming terminals;
- the launch of Mecca Bingo and Blue Square 'apps' in the Apple Store; and
- Blue Square awarded 'Best Mobile Performance of the Year' at the e-gaming review awards.

During the final quarter of the year, Rank acquired the assets of Rapid Mobile, a mobile technology development business. The acquisition will guide Rank's continued development in the area of mobile gaming.

Operating review

Grosvenor Casinos

Grosvenor Casinos produced a strong performance during 2010, finishing the year as the Group's largest business in terms of revenue and operating profit. Revenue of £238.6m was up 8.5% on the prior year, driven by estate expansion and a 5.0% like-for-like improvement. Operating profit increased by 16.5% to £36.0m as a result of sustained growth across the year.

Financial performance

	2010	2009
Revenue* (£m)	**238.6**	220.0
Like-for-like revenue	***5.0%***	
EBITDA (£m)**	**46.0**	39.2
Operating profit (£m)**	**36.0**	30.9
Operating margin	***15.1%***	*14.0%*

* before adjustment for free bets, promotions and customer bonuses; ** before exceptional items

H1 vs H2 analysis

	Revenue (£m)		**Operating profit (£m)**	
	2010	2009	**2010**	2009
H1	**116.6**	106.7	**17.6**	14.7
H2	**122.0**	113.3	**18.4**	16.2
Full-year	**238.6**	220.0	**36.0**	30.9

In line with our strategy, the strong financial performance of our casinos was based upon our success in broadening the appeal of our venues through service and amenity improvements – particularly those operating under the G Casino format.

Key performance indicators

	2010	2009
Customers (000s)*	**1,131**	985
Customer visits (000s)	**5,414**	4,825
Spend per visit (£)	**44.08**	45.60
Net promoter score	**36%**	37%

* restated to include customers of two Grosvenor Casino venues in Belgium

Over the course of the year, our casinos served more than 1 million customers – an increase of 14.8% compared with 2009 - while customer visits rose by 12.2% to 5.4 million. Spend per visit declined by 3.3% to £44.08, reflecting the growth in leisure customers in recently opened casinos. On a like-for-like basis, customer visits increased by 5.3% and spend per visit declined by 0.3%.

Our casinos achieved a net promoter score (which measures customer propensity to recommend our casinos) of 36%. Whilst this was below its 45% target, the business exited the year on an improving trend.

Segmental performance

	Customer visits (000s)		Spend per visit (£)		Revenue (£m)		Operating profit (£m)	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
London	**1,014**	959	**93.43**	90.62	**94.7**	86.9	**17.6**	13.2
Provinces	**4,083**	3,560	**31.28**	32.56	**127.7**	115.9	**17.6**	16.8
Belgium	**317**	306	**51.09**	56.21	**16.2**	17.2	**0.8**	0.9
Total	**5,414**	4,825	**44.08**	45.60	**238.6**	220.0	**36.0**	30.9

Revenue and margin improvements in our London casinos were the chief factors behind the strong growth in operating profit.

London – Our London casinos generated a 9.0% increase in revenue compared with 2009, with customer visits up 5.7% and spend per visit up 3.1%. This strong revenue performance, combined with the effect of cost reduction measures in 2009 led to a 33.3% increase in operating profit.

Provinces – Revenue from our casinos outside London increased by 10.2% as a result of 14.7% growth in customer visits and a 3.9% decline in spend per visit. On a like-for-like basis revenue increased by 3.3% with customer visits up 5.4% and spend per visit down 2.0%. Operating profit increased by 4.8% with costs relating to recently opened venues affecting operating margin performance.

Belgium – Revenue from our two Belgian casinos decreased by 5.8%, due to the relative weakness of the euro and a decline in average spending. In local currency, revenue decreased by 1.7% with customer visits up 3.6% and spend per visit down by 5.1%.

Revenue analysis – Great Britain

(£m)	**2010**	2009
Casino games	**158.3**	145.4
Gaming machines	**35.9**	34.3
Card room games	**10.9**	8.8
Food & drink/other	**17.3**	14.3
Total	**222.4**	202.8

Casino games – The 8.9% growth in casino games reflected the strong increase in customer visits. Our electronic roulette terminals performed particularly well as customers responded positively to equipment upgrades in 13 casinos.

Gaming machines – Revenue from gaming machines increased by 4.7%. Excluding the effect of the rise in the standard rate of VAT, revenue increased by 6.9%.

Card room games – Our casino card rooms (which offer games such as player-to-player poker and mah jong) increased revenue by 23.9%. Excluding the effect of tax changes introduced in 2009, revenue increased by 19.1%.

Food & drink/other – Revenue from food and drink increased by 21.0% as a result of growth in both customer visits and spend per visit as customers responded positively to improvements in our bar and restaurant operations – particularly in the G Casino format venues.

Mecca Bingo

Mecca Bingo produced a stable underlying performance during 2010. The business achieved modest revenue growth in the year but operating profit slipped, largely due to the effect of the increase in the standard rate of VAT.

Revenue of £234.5m was up 0.6% on the prior year as the business benefited from a full year's trading at its Beeston 'Full House' club. On a like-for-like basis, revenue declined by 0.8%. Operating profit declined by 8.0% to £29.7m.

Financial performance

	2010	2009
Revenue* (£m)	**234.5**	233.0
Like-for-like revenue	***(0.8)%***	
EBITDA (£m)**	**43.0**	42.4
Operating profit (£m)**	**29.7**	32.3
Operating margin	***12.7%***	*13.9%*

* before adjustment for free bets, promotions and customer bonuses; ** before exceptional items

H1 vs H2 analysis

	Revenue (£m)		**Operating profit (£m)**	
	2010	2009	**2010**	2009
H1	**118.7**	116.3	**16.0**	19.0
H2	**115.8**	116.7	**13.7**	13.3
Full-year	**234.5**	233.0	**29.7**	32.3

The performance of Mecca Bingo was strongest during the first half of the year with the extreme weather conditions in December undermining the business's second half.

Key performance indicators

	2010	2009
Customers (000s)	**911**	881
Customer visits (000s)	**14,688**	14,933
Spend per visit (£)	**15.96**	15.60
Net promoter score	**47%**	39%

In line with our strategy, the stable revenue generation of our bingo clubs was based upon our success in re-engaging with lapsed customers and reaching out to new customers through service and amenity improvements.

Over the course of the year, our bingo clubs served approximately 911,000 customers – an increase of 3.4% compared with 2009. Customer visits declined by 1.6% to 14.7 million. Spend per visit increased by 2.3% to £15.96, with growth in spending on food and drink and amusements. On a like-for-like basis, customer visits declined by 2.5% and spend per visit increased by 2.2%.

Net promoter score, which measures customer propensity to recommend our bingo clubs, increased by eight percentage points to 47% beating our target of 45%.

Revenue analysis

(£m)	**2010**	2009
Main stage bingo	**40.5**	40.0
Interval games	**103.8**	105.0
Amusement machines	**65.8**	65.6
Food & drink/other	**24.4**	22.4
Total	**234.5**	233.0

Main stage bingo – Revenue from main stage bingo increased by 1.3% although this performance was distorted by changes to taxation introduced in the 2009 Budget. Excluding the tax changes, main stage bingo revenue declined by 3.8% on lower customer visits.

Interval games – Revenue from interval games declined by 1.1% as our clubs received fewer customer visits. This performance represented a slight increase in spend per visit, which resulted from gameplay enhancements and participation fee margin improvement.

Amusement machines – Revenue from amusement machines increased by 0.3% despite the lower level of customer visits and tax changes. Excluding the effect of the VAT rise, revenue increased by 2.5% reflecting continued improvements to the quality of our amusements product and service.

Food & drink/other – Revenue from food and drink increased by 8.9%, reflecting double-digit growth in spend per visit as customers responded positively to changes made to the quality of our in-club meals.

Top Rank España

Financial performance

	2010	2009
Revenue (£m)	**37.0**	36.2
Like-for-like revenue	***2.2%***	
EBITDA* (£m)	**9.5**	8.4
Operating profit* (£m)	**6.8**	5.6
Operating margin	***18.4%***	*15.5%*

* before exceptional items

Top Rank España recovered strongly in 2010, despite the difficult economic conditions in Spain.

Revenue of £37.0m was up 2.2% on the prior year despite the weakening of the euro. In local currency, revenue increased by 6.2%. Operating profit increased by 21.4% to £6.8m as a result of operational improvements and a programme of cost savings introduced during the first half. The business incurred a £1.4m one-off charge relating to redundancies which for reasons of segment materiality has been treated as exceptional (and so excluded from the result disclosed here).

H1 vs H2 analysis

	Revenue (£m)		**Operating profit (£m)**	
	2010	2009	**2010**	2009
H1	**18.4**	18.1	**3.0**	2.7
H2	**18.6**	18.1	**3.8**	2.9
Full-year	**37.0**	36.2	**6.8**	5.6

Key performance indicators

	2010	2009
Customers (000s)	**331**	314
Customer visits (000s)	**2,339**	2,310
Spend per visit (£)	**15.82**	15.67
Net promoter score	**38%**	n/a

In line with our strategy, Top Rank España's growth in revenue was driven by an increase in customer numbers and customer visits.

Over the course of the year, our Spanish bingo clubs served approximately 331,000 customers – an increase of 5.4% compared with 2009 – and customer visits rose by 1.3% to more than 2.3 million. A small decrease in the frequency of customer visits was more than offset by an increase in the number of customers and an increase in the spend per visit of 1.0% to £15.82.

In its first year of measurement, the business achieved a net promoter score of 38% - just short of its 40% target but on an improving trend.

Revenue analysis

(£m)	**2010**	2009
Bingo	**23.2**	24.0
Amusement machines	**10.2**	8.4
Food & drink/other	**3.6**	3.8
Total	**37.0**	36.2

Bingo – Revenue from games of bingo declined by 3.3% to £23.2m. In euros, revenue increased by 0.2% reflecting growth in customer visits and a reduction in average expenditure.

Amusement machines – Revenue from amusement machines increased by 21.4% to £10.2m. In euros, revenue increased by 26.1%, reflecting the positive effect of regulatory reform in our Madrid clubs and enhanced machines management.

Food & drink/other - Revenue from sales of food and drink declined by 5.3% to £3.6m. In euros revenue decreased by 0.7%.

Rank Interactive

Financial performance

	2010	2009
Revenue* (£m)	**57.7**	50.8
Like-for-like revenue	***13.6%***	
EBITDA (£m)	**11.4**	11.4
Operating profit (£m)	**7.9**	7.5
Operating margin	***13.7%***	*14.8%*

* before adjustment for free bets, promotions and customer bonuses

Rank Interactive achieved a positive performance during 2010, producing strong growth in revenue, stepping up investment and improving operating profit.

Revenue of £57.7m was up 13.6% on the prior year as a result of increased investment in our brands and significant growth in customer referrals from our land-based bingo clubs and casinos. Operating profit of £7.9m was 5.3% higher than in 2009.

H1 vs H2 analysis

	Revenue (£m)		**Operating profit (£m)**	
	2010	2009	**2010**	2009
H1	**27.4**	24.9	**2.3**	3.0
H2	**30.3**	25.9	**5.6**	4.5
Full-year	**57.7**	50.8	**7.9**	7.5

Rank Interactive enjoyed a strong second half on the back of successful first-half investment in marketing. Revenue accelerated strongly and operating margin expanded despite investment in international and the mobile channel.

Key performance indicators

	2010	2009
Customers (000s)	**261**	212*
Net promoter score	**12%**	32%

* re-stated to adjust for customer cross-over between brands and channels

During the course of the year, our brands served more than 261,000 customers via online and mobile channels – an increase of 23.1%. Net promoter score declined significantly, principally as a result of customer dissatisfaction with our online casino and sports betting sites.

Revenue analysis

(£m)	**2010**	2009
Bingo & games	**42.0**	34.3
Casino	**5.7**	5.1
Poker	**1.8**	2.9
Sports betting	**8.2**	8.5
Total	**57.7**	50.8

Bingo & games – revenue from our bingo and games sites increased by 22.4% compared with 2009. This performance was largely due to sustained growth from meccabingo.com which benefited from strong brand awareness, the success of cross-selling to Mecca Bingo club customers and heightened investment in advertising and promotion.

Casino – Revenue from our casino websites increased by 11.8%. We perceive online casinos as a key area for online and mobile gaming growth.

Poker – Revenue from poker declined by 37.9% in highly competitive market conditions.

Sports betting – Revenue from Blue Square's sportsbook decreased by 3.5% with a reduction in stakes being partially offset by growth in win margin.

KEY RESULTS
(from continuing operations)

	2010	2009
Group revenue	**£567.8m**	£540.0m
Group statutory revenue*	**£544.5m**	£520.5m
Operating profit:		
- before exceptionals	**£62.0m**	£58.0m
- after exceptionals	**£75.4m**	£60.8m
Adjusted net interest payable (note 4)	**£(6.8)m**	£(9.5)m
Adjusted profit before taxation**	**£55.2m**	£48.5m
Profit before taxation:		
- before exceptionals	**£54.5m**	£49.2m
- after exceptionals	**£73.5m**	£52.0m
Profit after taxation:		
- before exceptionals	**£38.2m**	£34.9m
- after exceptionals	**£48.9m**	£37.9m
Basic earnings per share:		
- before exceptionals	**9.8p**	9.0p
- after exceptionals	**13.7p**	9.9p
Adjusted earnings per share (note 7)	**10.2p**	8.9p
Dividend per share	**2.40p**	1.35p
Group EBITDA before exceptional items***	**£92.3m**	£83.9m
Net debt	**£123.4m**	£186.8m
Net debt to EBITDA ratio	**1.3x**	2.2x
Weighted average number of ordinary shares in issue	**389.5m**	389.5m

* Statutory revenue is stated after adjustment for free bets, promotions and customer bonuses.
** Adjusted profit before taxation is calculated by adjusting profit from continuing operations before taxation to exclude exceptional items, the unwinding of discount in disposal provisions, other financial gains or losses and the amortisation of the equity component of the convertible bond.
*** Group operating profit before depreciation and amortisation.

Key results

Group revenue from continuing operations rose by £27.8m to £567.8m whilst Group operating profit before exceptionals of £62.0m was £4.0m higher than in 2009 as a result of a strong performance from Grosvenor Casinos.

Adjusted net interest payable of £6.8m was £2.7m lower than in 2009, reflecting the Group's substantially lower net debt (down £63.4m or 34%) and lower interest rates.

Adjusted Group profit before tax and exceptionals was £6.7m higher than in 2009.

Adjusted earnings per share of 10.2p (2009: 8.9p) reflects the higher adjusted pre-tax profit on an unchanged weighted average number of ordinary shares.

Effective tax rate

The Group's effective corporation tax rate was 27.7% (2009: 29.0%) based on a tax charge of £15.3m on adjusted profit before taxation and exceptionals of £55.2m. This is in line with the Group's anticipated effective tax rate of 26% to 28%. The Group's effective corporation tax rate for 2011 is expected to remain around 28%. Further details on the taxation charge of £16.3m and the adjustment to tax of £(1.0)m are provided in notes 5 and 7 to the Group financial information.

Cash tax rate

The Group had an effective cash tax rate of 2.5% on adjusted profit following the utilisation of brought forward losses and capital allowances. The Group is expected to have a cash tax rate of 6% to 8% in 2011, excluding any tax payable on the resolution of a number of legacy issues.

Dividends

The Group is committed to a policy of paying out a progressively higher ratio of earnings in dividends, taking into consideration both the Group's capital investment requirements and the stability of the wider economic environment. A final dividend of 1.35 pence per share for the year 2009 was paid on 5 May 2010 following the resumption of the payment of ordinary dividends.

An interim dividend of 0.74 pence per share was paid on 10 September 2010 and a final dividend of 1.66 pence per share for the year 2010 has been recommended, giving a total dividend of 2.40 pence per share for the 2010 year.

Exceptional items

In order to give a full understanding of the Group's financial performance and aid comparability between periods, the Group reports certain items as exceptional to normal trading.

	2010 £m	2009 £m
Grosvenor Casinos	**(3.6)**	(1.5)
Mecca Bingo	**31.0**	4.3
Top Rank España	**(1.4)**	-
Central costs	**(12.6)**	-
Continuing operations	**13.4**	2.8
Discontinued operations	**0.6**	0.8
Total exceptional profit before financing and taxation	**14.0**	3.6

The key exceptional items are detailed below by business:

Grosvenor Casinos impaired the carrying value of its Belgian casino concessions by £11.2m following a re-evaluation of the anticipated process for concession renewal, expected useful lives and the associated cash flows. As a consequence, the concessions are no longer regarded as indefinite life assets and will be depreciated over their expected remaining useful lives.

Additionally a profit of £4.0m was made following refunds of overpaid VAT on amusement machine revenue and a profit of £4.5m recognised from the release of an accrual for input VAT. HMRC has challenged the method used by Grosvenor to calculate the amount of input VAT that could be recovered and an accrual was set up to cover the potential liability. Case law now indicates that Grosvenor's position is correct and the accrual has therefore been released, however HMRC continues to appeal the lead case. Grosvenor has also incurred £0.9m in costs relating to the closure of its casino in Hove, East Sussex.

The Group received £42.5m from HMRC in refunds on overpaid VAT on main stage bingo and amusement machines revenue. After costs (including advisors fees and the cost of a third party cap for contingent tax liabilities) and taxes, this resulted in an exceptional profit of £30.1m in Mecca Bingo and £4.0m in Grosvenor Casinos (noted above). In addition Mecca Bingo recognised a £3.2m credit on the reversal of fixed asset impairments booked in prior years, a non-trading freehold site was written down by £1.5m following an independent valuation and a £0.8m increase in onerous lease provision was booked.

Top Rank España incurred £1.4m in redundancy costs following a restructuring of operations.

Central costs comprise £12.4m in onerous lease provisions on sub-let sites and £0.2m in irrecoverable VAT (following the receipt of the VAT refunds identified above). The onerous lease provisions relate to sites where the Group holds the head lease but space is largely occupied by former Group companies or their successors. These sites have proved increasingly difficult to sub-let and a number of the tenants have gone in liquidation or have difficulty in paying their rents. The increases, which arise following a re-assessment of rental income, dilapidation estimates and lease surrender opportunities, mainly relate to sites at Southampton, Huddersfield and Romford.

Exceptional profit from discontinued businesses comprises the receipt of £0.6m in VAT following successful Conde Nast/Fleming claims relating to businesses no longer owned by the Group.

Further details on exceptional items, including 2009 exceptionals, are provided in note 3 to the Group financial information.

Disposal provisions

At 31 December 2010, the Group held £10.7m in provisions for costs associated with disposed businesses, including outstanding industrial disease and personal injury claims arising from Rank's legacy businesses, deferred payments arising from lease settlements and other directly attributable costs. The timing and exact amounts of the expenditure are uncertain as it is taking longer than originally anticipated to agree the settlement of remaining liabilities.

The provision reduced by £1.7m as a result of £2.1m in cash utilisation, offset by increases of £0.2m due to currency translation (predominantly relating to US Dollar liabilities) and £0.2m due to the unwinding of discount on the provision.

The major expenditures in the period comprised:

- £1.0m on property related costs;
- £0.7m on professional support with tax investigations by a number of regulatory authorities in Europe and North America; and
- £0.4m on outstanding industrial disease and personal injury claims.

Further details on provisions, including 2009 balances, are provided in note 8 to the Group financial information.

Cash flow and net debt

	2010 £m	2009 £m
Continuing operations		
Cash inflow from operations	**93.1**	87.3
Capital expenditure	**(51.6)**	(34.3)
Fixed asset disposals	**0.1**	1.6
Operating cash inflow	**41.6**	54.6
Acquisitions and disposals	**0.8**	(0.3)
Net cash receipts (payments) in respect of provisions and exceptional items	**26.4**	(17.6)
	68.8	36.7
Interest, hedges and tax receipts (payments)	**0.7**	(4.4)
Dividends paid	**(8.1)**	-
Other (including foreign exchange translation)	**2.0**	7.4
Decrease in net debt	**63.4**	39.7
Opening net debt	**186.8**	226.5
Closing net debt	**123.4**	186.8

At the end of December 2010, net debt was £123.4m compared with £186.8m at the end of December 2009. The net debt comprised syndicated loan facilities of £168.6m, £9.1m in fixed rate Yankee bonds, £13.2m in finance leases and £6.5m in overdrafts, partially offset by cash at bank and in hand of £74.0m.

Financial structure and liquidity

The Group's syndicated banking facilities comprise a £100.0m term loan and a £200.0m multi-currency revolving credit facility, which were arranged in April 2007 and mature in April 2012. These facilities require the maintenance of a minimum ratio of earnings before interest, tax, depreciation and amortisation ('EBITDA') to net interest payable and a maximum ratio of net debt to EBITDA, both of which are tested bi-annually at June and December. The Group has always fully complied with its banking covenants.

In addition, the Group has uncommitted borrowing facilities of £24m, repayable on demand but which are available for general use.

In May 2010, the Group reduced the revolving facility by £50.0m in order to minimise unutilised facility costs and in October 2010 repaid £50.0m of its term loan.

The Group's facilities are provided by a panel of banks with no single bank providing more than 10% of the facility. The Group treasury function sets counterparty limits for the lending banks with which it trades and regularly monitors their credit ratings to minimise risk of financial loss.

The Group intends to negotiate replacement banking facilities during 2011 and has commenced initial discussions with its existing lenders. Based on these initial discussions and current market conditions, the Group does not envisage any difficulty in arranging new facilities.

The Group expects, over the medium term, to operate at around 2.5 times net debt to EBITDA. Rank is currently operating at 1.3 times net debt to EBITDA in order to retain balance sheet flexibility until such time as appeals from HMRC against the Group's VAT refunds are fully and finally resolved.

Capital expenditure
During 2010, the Group's capital investment programme totalled £51.6m. Of this, more than 80% was invested in extending the reach and broadening the appeal of Rank's two largest businesses, Grosvenor Casinos and Mecca Bingo.

	2010 **£m**	2009 £m
Grosvenor Casinos	**19.4**	15.8
Mecca Bingo	**22.6**	13.0
Top Rank España	**1.9**	1.5
Rank Interactive	**6.2**	3.3
Others	**1.5**	0.7
Total	**51.6**	34.3

Grosvenor Casinos spent £7.8m on electronic roulette terminals, £4.9m on converting three venues (Birmingham, Brighton and Newcastle) to the G Casino format and completing the Sheffield conversion, £1.3m on the new E Casinos in Scarborough and Liverpool and £1.2m on new site development. The balance of the expenditure was on minor capital works.

Capital expenditure for Mecca Bingo comprised £2.6m on the development of the new Full House Destination clubs in Dagenham and Southend-on-Sea, £3.1m on completing the Full House Destination clubs at Oldbury and Aberdeen, £3.8m on new mobile gaming terminals, £4.8m on amusement machines (including £1.4m of finance leases), £1.3m on club refurbishment, £0.8m on improving our food and drink offer, £0.8m on smoking shelters and the balance on minor capital works.

Rank Interactive spent £6.2m on website development (including £1.4m on international expansion) and Top Rank España £1.9m on minor capital works.

The only significant capital commitments at 31 December 2010 were £2.3m on mobile gaming terminals and £0.8m on interval bingo upgrades (both in Mecca) and £0.4m on the conversion of our Walsall Casino to the G Casino format.

In light of uncertain economic conditions, the Group continues to maintain strict control over committing expenditure to capital projects. Although we anticipate 2011 capital investment to be in the order of £50-55m, expenditure will be phased and dependent on operating performance and the success of the Mecca Full House conversions. This will allow quick reductions in the overall level of capital expenditure should business conditions deteriorate. The commitments to the 2011 G Casino conversions at Walsall and Plymouth and the new G Casino at Stockton are not affected by this policy.

VAT and duty changes

During 2009 and 2010, HM Treasury made a number of changes to taxation which affected our operations in Great Britain. These changes had a potential £4.1m net negative effect on 2010 Group operating profit before mitigating actions. We estimate the actual impact to be in the region of £2.3m. This effect is as follows:

Change	Date	Net effect on 2010
Change in card room taxation	April 2009	£(0.6)m
Increase in bingo duty from 15% to 22%	April 2009	£(3.0)m
Decrease in bingo duty from 22% to 20%	April 2010	£1.6m
Bingo exemption from VAT (weeks 1-17 2010 following VAT Tribunal)	April 2010	£1.6m
Increase in standard rate of VAT from 15.0% to 17.5%	January 2010	£(3.7)m
Total		**£(4.1)m**

The following changes made to taxation in 2010 and 2011 will impact Group operating profit in 2011:

- 1% increase in employer's national insurance contributions; and
- Increase in standard rate of VAT from 17.5% to 20.0%.

VAT and fiscal neutrality

Since 2006, Rank has invested significant resource in pursuing litigation to reclaim overpaid VAT. Following successful rulings in both the VAT Tribunal and the High Court, the Group has received from HMRC £101.6m in refunded VAT and a further £10.7m in associated interest (before costs and increases in gross profits tax). The Group has requested further repayments totalling approximately £76.0m before interest and expects to receive them in 2011.

The claims are based upon the European Union's principle of fiscal neutrality, which requires that similar products and services be taxed on a consistent basis. Rank has contended that VAT has been applied inconsistently to both games of bingo and amusement machines in Great Britain.

HMRC has appealed the matter to the European Court of Justice ('ECJ') and Rank expects that the case will be heard in 2011, with a final ruling likely in 2012.

The table below sets out the value and status of the individual claims.

Claim	Period	Amount	Status
Overpayment of output VAT on interval bingo	2003-2008	£59.1m	Money received but HMRC has appealed to European Court Of Justice. Case expected to be heard in 2011
Overpayment of output VAT on machine income	2002-2005	£26.4m	Money received but HMRC has appealed to European Court Of Justice. Case expected to be heard in 2011
Overpayment of output VAT on main stage bingo	2004-2009	£16.1m	Money received but HMRC has appealed to European Court Of Justice. Case expected to be heard in 2011
Overpayment of output VAT on bingo	2002-2004	Approximately £11m plus interest covering the period of the claim to the present date	Claim lodged and £7.1m paid by HMRC in February 2011 with interest of £1.4m expected in March 2011. Balance of claim subject to HMRC validation of claim on this section only
Incorrect introduction of 3 year cap on VAT reclaims	Various	Not known at present	Claims lodged awaiting HMRC validation of calculations
Overpayment of output VAT on interval and main stage bingo impacted by 3 year cap on VAT reclaims	1980-1996	Approximately £65m plus interest covering the period of the claim to the present date	Claims lodged awaiting HMRC validation of calculations

Conde Nast/Fleming

In 1997, HMRC introduced a three-year retrospective cap on claims for overpaid VAT. The effectiveness of this cap was successfully challenged in the courts (the Conde Nast/Fleming cases). As a result, Rank was able to re-visit VAT periods up to December 1996.

One of the Conde Nast/Fleming claims is for the repayment of output VAT on main stage and interval bingo covering the period from 1996 back to 1973. HMRC issued guidance in January 2010 that this type of claim could be paid once the amount has been verified. The Group anticipates receiving approximately £65m during 2011, excluding interest. The timing of the receipt will depend upon the successful resolution of a number of quantification and entitlement issues as well as the quantum of the claim. This claim relies on the court ruling that the inconsistent application of VAT to bingo breached the rules on fiscal neutrality and will therefore drop away should HMRC's appeal against this ruling be successful. It also includes the £35m interval bingo claim disclosed in prior periods that has been delayed by quantification and entitlement issues raised by HMRC.

Financial risk

The Group's financial risk management strategy focuses on the minimisation of risks for the Group. The Group's funding, foreign exchange, liquidity, counterparty and interest rate risks are managed by the Group's treasury department in accordance with approved policies and are subject to internal audit review. All significant financing transactions and treasury policies are authorised by the board of directors. Implementation of these policies is closely managed by the finance director and the group treasury manager. The treasury function is not run as a profit centre.
The key financial risks impacting the Group are liquidity risk, interest rate risk and credit risk. The Group has limited exposure to foreign exchange and this is not considered a key risk.

i) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when they fall due. Quarterly cash flow forecasts are prepared that identify the requirements of the Group and these are regularly updated to ensure sufficient financial headroom exists for at least 12 months. This is coupled with a regular review of medium term funding requirements which, in particular, are updated alongside the Group's strategic plan process. The Group negotiated new medium term facilities in 2007, as noted above, which mitigate the liquidity risk it may face.

ii) Interest rate risk

The Group's operating cash flows are independent of changes in interest rates. The Group primarily finances itself through syndicated bank facilities and the public debt market. The bank facilities are multi-currency although borrowings are typically drawn in Sterling and euros at floating interest rates. The Group currently has only US $14.3m of public bonds outstanding, which mature in 2018. The Group normally uses interest rate swaps, caps and collars to manage its exposure to interest rate fluctuations and at the end of December 2010, 11% of the Group's borrowings were at fixed rates. Group policy is to maintain between 40% and 60% of its borrowing at fixed rates. The current low interest rates combined with the high cost of moving to fixed rates have led the Group to continue to operate outside of this policy for the time being.

iii) Credit risk

Credit risk is the risk that a counterparty may not be able to settle amounts owing in full, when due. Surplus cash is invested in short term financial instruments using a limited number of financial institutions with strong credit ratings. Counterparty credit ratings are reviewed regularly and credit limits set to avoid significant concentration of risk with any one counterparty.

Going concern

In adopting the going concern basis for preparing the financial statements the directors have considered the issues impacting the Group during 2010 as detailed in the business review above and have reviewed the Group's projected compliance with its banking covenants detailed above. Based on the Group's cash flow forecasts and operating budgets, and assuming that trading does not deteriorate considerably from current levels, the directors believe that the Group will generate sufficient cash to meet its requirements for at least the next 12 months and comply with its banking covenants. Accordingly the adoption of the going concern basis remains appropriate.

Group Financial Information

Group Income Statement
For the year ended 31 December 2010

	2010			2009		
	Before exceptional items £m	**Exceptional items (note 3) £m**	**Total £m**	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
Continuing operations						
Revenue before adjustment for free bets, promotions and customer bonuses	**567.8**	**-**	**567.8**	540.0	-	540.0
Free bets, promotions and customer bonuses	**(23.3)**	**-**	**(23.3)**	(19.5)	-	(19.5)
Revenue	**544.5**	**-**	**544.5**	520.5	-	520.5
Cost of sales	**(296.1)**	**-**	**(296.1)**	(278.4)	-	(278.4)
Gross profit	**248.4**	**-**	**248.4**	242.1	-	242.1
Other operating costs	**(186.4)**	**(25.1)**	**(211.5)**	(184.1)	(0.5)	(184.6)
Other operating income	**-**	**38.5**	**38.5**	-	3.3	3.3
Group operating profit	**62.0**	**13.4**	**75.4**	58.0	2.8	60.8
Financing:						
– finance costs	**(7.5)**	**-**	**(7.5)**	(10.9)	-	(10.9)
– finance income	**0.5**	**5.6**	**6.1**	0.9	-	0.9
– other financial (losses) gains	**(0.5)**	**-**	**(0.5)**	1.2	-	1.2
Total net financing (charge) income	**(7.5)**	**5.6**	**(1.9)**	(8.8)	-	(8.8)
Profit before taxation	**54.5**	**19.0**	**73.5**	49.2	2.8	52.0
Taxation	**(16.3)**	**(8.3)**	**(24.6)**	(14.3)	0.2	(14.1)
Profit for the year from continuing operations	**38.2**	**10.7**	**48.9**	34.9	3.0	37.9
Discontinued operations	**-**	**4.3**	**4.3**	-	0.6	0.6
Profit for the year	**38.2**	**15.0**	**53.2**	34.9	3.6	38.5
Attributable to:						
Equity holders of the parent	**38.2**	**15.0**	**53.2**	34.9	3.6	38.5
Earnings per share attributable to equity shareholders						
– basic	**9.8p**	**3.9p**	**13.7p**	9.0p	0.9p	9.9p
– diluted	**9.8p**	**3.8p**	**13.6p**	9.0p	0.9p	9.9p
Earnings per share – continuing operations						
– basic	**9.8p**	**2.8p**	**12.6p**	9.0p	0.7p	9.7p
– diluted	**9.8p**	**2.7p**	**12.5p**	9.0p	0.7p	9.7p
Earnings per share – discontinued operations						
– basic	**-**	**1.1p**	**1.1p**	-	0.2p	0.2p
– diluted	**-**	**1.1p**	**1.1p**	-	0.2p	0.2p

Group Statement of Comprehensive Income
For the year ended 31 December 2010

	2010 **£m**	2009 £m
Comprehensive income:		
Profit for the year	**53.2**	38.5
Other comprehensive income:		
Exchange adjustments net of tax	**(0.6)**	(3.3)
Actuarial loss on retirement benefits net of tax	**-**	(0.4)
Total comprehensive income for the year	**52.6**	34.8
Attributable to:		
Equity holders of the parent	**52.6**	34.8

Group Statement of Changes in Equity
For the year ended 31 December 2010

	Share capital £m	Share premium £m	Capital redemption reserve £m	Exchange translation reserve £m	Other* £m	Total £m
At 1 January 2009	54.2	98.2	33.4	18.4	(208.6)	(4.4)
Comprehensive income:						
Profit for the year	-	-	-	-	38.5	38.5
Other comprehensive income:						
Exchange adjustments net of tax	-	-	-	(3.3)	-	(3.3)
Actuarial loss on retirement benefits net of tax	-	-	-	-	(0.4)	(0.4)
Total comprehensive (expense) income for the year	-	-	-	(3.3)	38.1	34.8
Transactions with owners:						
Credit in respect of employee share schemes	-	-	-	-	1.0	1.0
At 31 December 2009	**54.2**	**98.2**	**33.4**	**15.1**	**(169.5)**	**31.4**
Comprehensive income:						
Profit for the year	**-**	**-**	**-**	**-**	**53.2**	**53.2**
Other comprehensive income:						
Exchange adjustments net of tax	**-**	**-**	**-**	**(0.6)**	**-**	**(0.6)**
Total comprehensive (expense) income for the year	**-**	**-**	**-**	**(0.6)**	**53.2**	**52.6**
Transactions with owners:						
Dividends paid to equity holders	**-**	**-**	**-**	**-**	**(8.1)**	**(8.1)**
Release of accrual for unclaimed dividends	**-**	**-**	**-**	**-**	**0.4**	**0.4**
Credit in respect of employee share schemes	**-**	**-**	**-**	**-**	**1.4**	**1.4**
At 31 December 2010	**54.2**	**98.2**	**33.4**	**14.5**	**(122.6)**	**77.7**

* Other reserves at 31 December 2010 comprised retained losses of £122.6m (2009: £169.5m)

Group Balance Sheet
At 31 December 2010

	2010 **£m**	2009 £m
Assets		
Non-current assets		
Intangible assets	**167.4**	178.0
Property, plant and equipment	**203.0**	187.5
Deferred tax assets	**22.1**	23.5
Trade and other receivables	**2.1**	2.1
	394.6	391.1
Current assets		
Inventories	**3.4**	3.7
Trade and other receivables	**27.0**	26.0
Income tax receivable	**0.2**	0.4
Cash and short-term deposits	**74.0**	64.1
	104.6	94.2
Total assets	**499.2**	485.3
Liabilities		
Current liabilities		
Trade and other payables	**(98.0)**	(105.9)
Income tax payable	**(28.5)**	(26.3)
Financial liabilities		
– loans and borrowings	**(8.1)**	(7.8)
Provisions	**(6.8)**	(9.0)
	(141.4)	(149.0)
Net current liabilities	**(36.8)**	(54.8)
Non-current liabilities		
Trade and other payables	**(0.2)**	(0.3)
Income tax payable	**(35.6)**	(18.5)
Financial liabilities		
– loans and borrowings	**(189.4)**	(242.3)
Deferred tax liabilities	**(6.1)**	(6.3)
Provisions	**(45.8)**	(34.6)
Retirement benefit obligations	**(3.0)**	(2.9)
	(280.1)	(304.9)
Total liabilities	**(421.5)**	(453.9)
Net assets	**77.7**	31.4
Capital and reserves attributable to the Company's equity shareholders		
Share capital	**54.2**	54.2
Share premium	**98.2**	98.2
Capital redemption reserve	**33.4**	33.4
Exchange translation reserve	**14.5**	15.1
Retained losses	**(122.6)**	(169.5)
Total shareholders' equity	**77.7**	31.4

Group Cash Flow Statement

For the year ended 31 December 2010

	2010	2009
	£m	£m
Cash flows from operating activities		
Cash generated from operations	**119.5**	69.7
Interest received	**6.6**	7.9
Interest paid	**(5.1)**	(11.4)
Tax (paid) received	**(0.8)**	4.3
Net cash from operating activities	**120.2**	70.5
Cash flows from investing activities		
Acquisition of businesses including deferred consideration	**(0.1)**	(0.3)
Disposal of business	**0.9**	-
Net payments in respect of hedges	**-**	(5.2)
Purchase of intangible assets	**(6.8)**	(3.6)
Purchase of property, plant and equipment	**(43.4)**	(30.7)
Proceeds from sale of property, plant and equipment	**0.1**	1.6
Net cash used in investing activities	**(49.3)**	(38.2)
Cash flows from financing activities		
Dividends paid to equity holders	**(8.1)**	-
Repayment of Sterling borrowings	**-**	(158.2)
Repayment of syndicated facilities	**(50.9)**	(21.8)
Repayment of other facilities	**-**	(2.0)
Drawdown on syndicated facilities	**-**	101.2
Drawdown on other facilities	**-**	2.0
Finance lease principal payments	**(1.0)**	(0.7)
Net cash used in financing activities	**(60.0)**	(79.5)
Net increase (decrease) in cash, cash equivalents and bank overdrafts	**10.9**	(47.2)
Effect of exchange rate changes	**(0.2)**	(0.8)
Cash and cash equivalents at 1 January	**56.8**	104.8
Cash and cash equivalents at 31 December	**67.5**	56.8

Notes to the Group Financial Information
For the year ended 31 December 2010

1. General information, basis of preparation and accounting policies

General information

The Company is a limited liability company incorporated and domiciled in England and Wales under registration number 03140769. The address of its registered office is Statesman House, Stafferton Way, Maidenhead SL6 1AY. The Company is listed on the London Stock Exchange.

This condensed consolidated financial information was approved for issue on 24 February 2011.

This condensed consolidated financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2010 were approved by the board of directors on 24 February 2011, but have not yet been delivered to the Registrar of Companies. The auditor's reports on the financial statements for the years ended 31 December 2010 and 31 December 2009 were unqualified and did not contain a statement under Section 498 of the Companies Act 2006. The financial statements for 2009 have been delivered to the Registrar.

Basis of preparation

The financial information attached has been extracted from the audited financial statements for the year ended 31 December 2010, and has been prepared in accordance with IFRS as adopted by the EU and IFRIC interpretations issued and effective at the time of preparing those financial statements.

Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

(a) *Standards, amendments and interpretations to existing standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

• IFRS 2 Share-based Payment (Amended) - The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. Although the adoption of this amendment did not have any impact on the financial position of the Group, it has resulted in an increase in the Company's investments in subsidiary undertakings with a corresponding increase in equity. The impact of the adoption of the standard on prior years was not material.

1. General information, basis of preparation and accounting policies (continued)

• IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) - The revisions to the standards apply from 1 January 2010. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 Consolidated and Separate Financial Statements (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will they give rise to gains or losses. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The revisions will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. The revisions have been applied prospectively and had no impact during the period.

• IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items - The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

• IFRIC 17 Distribution of Non-cash Assets to Owners - The interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

• IFRIC 18 Transfers of Assets from Customers - The interpretation provides guidance on accounting for transfers of assets received from customers. The interpretation had no effect on the financial position or performance of the Group.

• Improvements to IFRSs (issued April 2009) - In April 2009 the second set of amendments to standards was issued, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the amendments had no effect on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that was issued but is not yet effective.

1. General information, basis of preparation and accounting policies (continued)

(b) *Standards, amendments and interpretations to existing standards that are not yet effective*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning after 1 January 2010 or later periods, but they have not been early adopted by the Group:

- IAS 24 Related Party Disclosures (Amendment) – Effective 1 January 2011
- IAS 32 Financial Instruments: Presentation, Classification of Rights Issues – Effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement – Effective 1 January 2011
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments – Effective 1 July 2010
- IFRS 9 Financial Instruments – Effective 1 January 2013
- Improvements to IFRSs (issued May 2010) – Effective either 1 July 2010 or 1 January 2011

It is not anticipated that the adoption of the above standards, amendments and interpretations of existing standards will have a material impact on the financial statements in the period of initial application.

(c) *Other future developments*

On 17 August 2010, the IASB and FASB released a joint exposure draft that would significantly change lease accounting for both lessees and lessors by requiring balance sheet recognition of all leases.

The majority of the Group's properties are currently classified as operating leases and consequently the proposed changes would have a potential material impact on the balance sheet (with a grossing up of assets and liabilities upon recognition of the intangible asset and lease liability) and the income statement (with an increase in operating profit and finance costs). The Group currently recognises rental expenses under operating leases on a straight line basis within operating profit and provides additional disclosure of future minimum commitments under non-cancellable operating leases.

It is not possible, at this time, to quantify the impact of the proposals as they have not yet been formalised and therefore, while the Group continues to monitor financial reporting developments and start preparations, the internal process for collating and calculating the impact has not commenced.

2. Segment information – continuing operations

	2010					
	Grosvenor Casinos	**Mecca Bingo**	**Top Rank España**	**Rank Interactive**	**Central costs**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Continuing operations						
Revenue reported in internal information	238.6	234.5	37.0	57.7	-	567.8
Free bets, promotions and customer bonuses	(1.0)	(13.7)	-	(8.6)	-	(23.3)
Segment revenue	**237.6**	**220.8**	**37.0**	**49.1**	**-**	**544.5**
Operating profit (loss) before exceptional items	**36.0**	**29.7**	**6.8**	**7.9**	**(18.4)**	**62.0**
Exceptional operating (loss) profit	**(3.6)**	**31.0**	**(1.4)**	**-**	**(12.6)**	**13.4**
Segment result	**32.4**	**60.7**	**5.4**	**7.9**	**(31.0)**	**75.4**
Finance costs						**(7.5)**
Finance income						**6.1**
Other financial losses						**(0.5)**
Profit before taxation						**73.5**
Taxation						**(24.6)**
Profit for the year from continuing operations						**48.9**

	2009					
	Grosvenor Casinos	Mecca Bingo	Top Rank España	Rank Interactive	Central costs	Total
	£m	£m	£m	£m	£m	£m
Continuing operations						
Revenue reported in internal information	220.0	233.0	36.2	50.8	-	540.0
Free bets, promotions and customer bonuses	(1.2)	(12.3)	-	(6.0)	-	(19.5)
Segment revenue	218.8	220.7	36.2	44.8	-	520.5
Operating profit (loss) before exceptional items	30.9	32.3	5.6	7.5	(18.3)	58.0
Exceptional operating (loss) profit	(1.5)	4.3	-	-	-	2.8
Segment result	29.4	36.6	5.6	7.5	(18.3)	60.8
Finance costs						(10.9)
Finance income						0.9
Other financial gains						1.2
Profit before taxation						52.0
Taxation						(14.1)
Profit for the year from continuing operations						37.9

2. Segment information – continuing operations (continued)

To increase transparency, the Group has decided to include additional disclosure analysing total costs by type and segment. A reconciliation of total costs, before exceptional items, by type and segment is as follows:

	2010					
	Grosvenor Casinos	**Mecca Bingo**	**Top Rank España**	**Rank Interactive**	**Central costs**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Employment and related costs	**90.6**	**61.5**	**14.7**	**9.5**	**12.4**	**188.7**
Taxes and duties	**48.7**	**37.3**	**2.0**	**1.3**	**0.7**	**90.0**
Direct costs	**10.8**	**21.9**	**3.2**	**15.3**	**-**	**51.2**
Property costs	**17.3**	**26.2**	**2.0**	**0.7**	**0.9**	**47.1**
Marketing	**6.9**	**10.9**	**0.9**	**9.9**	**-**	**28.6**
Depreciation and amortisation	**10.0**	**13.3**	**2.7**	**3.5**	**0.8**	**30.3**
Other	**17.3**	**20.0**	**4.7**	**1.0**	**3.6**	**46.6**
Total costs before exceptional items	**201.6**	**191.1**	**30.2**	**41.2**	**18.4**	**482.5**
Cost of sales						**296.1**
Operating costs						**186.4**
Total costs before exceptional items						**482.5**

	2009					
	Grosvenor Casinos	Mecca Bingo	Top Rank España	Rank Interactive	Central costs	Total
	£m	£m	£m	£m	£m	£m
Employment and related costs	85.9	56.7	15.4	8.6	11.2	177.8
Taxes and duties	45.9	36.7	1.6	0.3	0.7	85.2
Direct costs	8.8	23.4	3.6	13.9	-	49.7
Property costs	16.9	26.4	2.0	0.7	0.9	46.9
Marketing	6.1	10.2	0.8	8.8	-	25.9
Depreciation and amortisation	8.3	10.1	2.8	3.9	0.8	25.9
Other	16.0	24.9	4.4	1.1	4.7	51.1
Total costs before exceptional items	187.9	188.4	30.6	37.3	18.3	462.5
Cost of sales						278.4
Operating costs						184.1
Total costs before exceptional items						462.5

2. Segment information – continuing operations (continued)

A reconciliation of total assets by segment was as follows:

	At 31 December 2010					
	Grosvenor Casinos	**Mecca Bingo**	**Top Rank España**	**Rank Interactive**	**Central costs**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Total segment assets	**173.4**	**106.1**	**50.8**	**66.7**	**5.9**	**402.9**
Unallocated assets	-	-	-	-	-	**96.3**
Total assets	**173.4**	**106.1**	**50.8**	**66.7**	**5.9**	**499.2**

	At 31 December 2009					
	Grosvenor Casinos	Mecca Bingo	Top Rank España	Rank Interactive	Central costs	Total
	£m	£m	£m	£m	£m	£m
Total segment assets	176.1	97.5	53.9	64.4	5.4	397.3
Unallocated assets	-	-	-	-	-	88.0
Total assets	176.1	97.5	53.9	64.4	5.4	485.3

3. Exceptional items

	2010	2009
	£m	£m
Exceptional items relating to continuing operations		
Impairment charges	**(12.7)**	(1.5)
Impairment reversals	**3.2**	-
Charge to provision for onerous leases	**(17.8)**	-
Release from provision for onerous leases	**4.3**	1.0
VAT agreement cost	**(4.6)**	-
VAT partial exemption accrual release	**4.5**	-
Restructuring costs	**(2.0)**	-
Exceptional operating costs	**(25.1)**	(0.5)
VAT refund net of gross profits tax and associated costs	**38.5**	1.9
Net profit on sale of property less associated closure costs	**-**	1.4
Exceptional operating income	**38.5**	3.3
Finance income	**5.6**	-
Taxation	**(8.3)**	0.2
Exceptional items relating to continuing operations	**10.7**	3.0
Exceptional items relating to discontinued operations		
Release from disposal provisions	**-**	5.0
Charge to disposal provisions	**-**	(4.2)
Additional profit arising on previously disposed subsidiary	**0.6**	-
Finance income	**0.4**	-
Taxation	**3.3**	(0.2)
Exceptional items relating to discontinued operations	**4.3**	0.6
Total exceptional items	**15.0**	3.6

3. Exceptional items (continued)

Continuing operations

Impairment charges

The Group recognised an impairment charge of £1.5m against one vacant freehold property following an external market valuation of the Group's freehold properties.

The Group also recognised an impairment charge of £11.2m against the carrying value of its two casino concessions in Belgium. The impairment charge has been recognised due to a reduction in the expected useful life of the concessions following a change in the anticipated process for concession renewal in Belgium. The residual carrying value will be amortised over the remaining expected useful life of nine years.

Impairment reversals

The Group has reversed previous impairment charges of £3.2m in relation to seven Mecca Bingo clubs primarily where performance has seen a sustained improvement from the adverse impact of the smoking bans in the UK and the loss of section 21 gaming terminals in 2007.

Onerous leases

The Group recognised an additional charge of £17.8m in relation to the provision for onerous property leases. This included a charge of £15.9m primarily in relation to vacant sites following a reduction in the expected sub-let income. These sites have proved increasingly difficult to sub-let and a number of tenants have gone into liquidation or have difficulty in paying their rents. The reduction in the discount rate used in the calculation of the onerous lease provisions also resulted in a £1.9m charge.

The Group also released £4.3m in relation to two Mecca Bingo leases where the discounted cash flows derived from the property are now expected to exceed the unavoidable lease costs.

VAT agreement cost

Further details of the VAT agreement cost are disclosed in note 12.

VAT partial exemption accrual release

The Group has been in negotiation with HMRC for several years on the means by which it calculates the amount of irrecoverable VAT in Grosvenor Casinos. Since July 2007, the Group has accounted for irrecoverable VAT on the basis that HMRC were correct. As a result, the amount of irrecoverable VAT suffered by Grosvenor Casinos exceeded the amount that the Group believed was due. In 2010, the point of dispute between the Group and HMRC was the subject of litigation by another, similar, taxpayer. In that case, the First-tier Tribunal and the Upper Tribunal have ruled that HMRC's position was incorrect. While HMRC have appealed, precedent case law indicates that the Group's position is correct and on that basis the irrecoverable VAT accrual has been reduced by £4.5m accordingly. However, it remains possible that this decision will be reversed on appeal. In that event the Group would have to pay the VAT in dispute plus interest (see note 12).

Restructuring costs

The Group recognised an exceptional pre-tax loss of £2.0m following the restructuring of the Top Rank España business and closure of one Grosvenor Casino at Hove, East Sussex.

3. Exceptional items (continued)

VAT refund net of gross profits tax and associated costs

On 21 May 2010, the Group received £42.5m in overpaid VAT from HMRC. The repayment covers VAT paid on games of main stage bingo (between 2004 and 2009) and amusement machines (between 2002 and 2005). On 7 June 2010, the Group received £5.6m of interest in respect of the repayment. The repayment follows successive rulings in the Group's favour in both the First-tier Tribunal's tax chamber (formerly the VAT and Duties Tribunal) and the Upper Tribunal. HMRC has appealed these rulings and the claims will now be considered by the European Court of Justice (ECJ). It is expected that this appeal will be heard in 2011. If HMRC is successful in its appeal, the Group will be required to return the payment with interest (see note 12). The claims concern the inconsistent application of VAT to revenue from Mecca Bingo and Grosvenor Casinos. It is the Group's contention that this practice contravened the European Union principle of fiscal neutrality. Further details of the exceptional gain arising on the VAT refunded are disclosed in the table below:

	Main stage bingo £m	Amusement machines £m	Total £m
Cash repayment received	16.1	26.4	42.5
Increase in gross profits tax payable	(2.5)	-	(2.5)
Costs, including contingent fees	(0.8)	(0.3)	(1.1)
Irrecoverable input VAT	(0.3)	(0.1)	(0.4)
Exceptional gain before financing and taxation	12.5	26.0	38.5
Finance income	1.2	4.4	5.6
Taxation	(3.8)	(8.6)	(12.4)
Total exceptional gain on VAT refund	9.9	21.8	31.7

Discontinued operations

Additional profit arising on previously disposed subsidiary

The Group also recognised an exceptional profit of £0.6m, together with associated interest of £0.4m, following the successful outcome of certain VAT claims relating to a previously disposed subsidiary.

4. Financing

	2010	2009
	£m	£m
Continuing operations:		
Finance costs:		
Interest on debt and borrowings	**(4.3)**	(7.2)
Amortisation of issue costs on borrowings	**(0.9)**	(1.0)
Interest payable on finance leases	**(0.9)**	(0.9)
Unwinding of the discount in onerous leases provisions	**(1.2)**	(1.3)
Unwinding of the discount in disposal provisions	**(0.2)**	(0.2)
Amortisation of the equity component of the convertible bond	**-**	(0.3)
Total finance costs	**(7.5)**	(10.9)
Finance income:		
Interest income on short term bank deposits	**0.5**	0.9
Finance income	**0.5**	0.9
Other financial (losses) gains	**(0.5)**	1.2
Total net financing cost for continuing operations before exceptional items	**(7.5)**	(8.8)
Exceptional finance income	**5.6**	-
Total net financing cost for continuing operations	**(1.9)**	(8.8)

A reconciliation of total net financing costs to adjusted net interest included in adjusted profit is disclosed below:

	2010	2009
	£m	£m
Total net financing cost for continuing operations before exceptional items	**(7.5)**	(8.8)
Adjust for :		
Unwinding of the discount in disposal provisions	**0.2**	0.2
Amortisation of the equity component of the convertible bond	**-**	0.3
Other financial losses (gains) - including foreign exchange	**0.5**	(1.2)
Adjusted net interest payable	**(6.8)**	(9.5)

Further details of the exceptional finance income are disclosed in note 3.

5. Taxation

	2010		
	Continuing operations £m	**Discontinued operations £m**	**Total £m**
Current income tax			
Current income tax – UK	**(13.1)**	**-**	**(13.1)**
Current income tax – overseas	**(1.8)**	**-**	**(1.8)**
Current income tax charge	**(14.9)**	**-**	**(14.9)**
Current income tax on exceptional items	**(8.0)**	**-**	**(8.0)**
Amounts under provided in previous year	**(0.3)**	**-**	**(0.3)**
Amounts over provided in previous year on exceptional items	**-**	**2.8**	**2.8**
Total current income tax (charge) credit	**(23.2)**	**2.8**	**(20.4)**
Deferred tax			
Deferred tax – UK	**(1.6)**	**-**	**(1.6)**
Deferred tax – overseas	**(0.2)**	**-**	**(0.2)**
Restatement of deferred tax from 28.0% to 27.0%	**(0.8)**	**-**	**(0.8)**
Deferred tax on exceptional items	**(0.3)**	**-**	**(0.3)**
Amounts over provided in previous year	**1.5**	**-**	**1.5**
Amounts over provided in previous year on exceptional items	**-**	**0.5**	**0.5**
Total deferred tax (charge) credit	**(1.4)**	**0.5**	**(0.9)**
Tax (charge) credit in the income statement	**(24.6)**	**3.3**	**(21.3)**

	2009		
	Continuing operations £m	Discontinued operations £m	Total £m
Current income tax			
Current income tax – UK	3.1	-	3.1
Current income tax – overseas	(1.7)	-	(1.7)
Current income tax credit	1.4	-	1.4
Current income tax on exceptional items	(0.8)	1.2	0.4
Amounts over provided in previous year	1.3	-	1.3
Amounts over provided in previous year on exceptional items	0.6	-	0.6
Total current income tax credit	2.5	1.2	3.7
Deferred tax			
Deferred tax – UK	(18.7)	-	(18.7)
Deferred tax – overseas	(0.3)	-	(0.3)
Deferred tax on exceptional items	0.4	(1.4)	(1.0)
Amounts over provided in previous year	2.0	-	2.0
Total deferred tax charge	(16.6)	(1.4)	(18.0)
Tax charge in the income statement	(14.1)	(0.2)	(14.3)

The tax effect of items within other comprehensive income was as follows:

	2010 £m	2009 £m
Current income tax charge on exchange movements offset in reserves	**-**	(1.9)
Deferred tax charge on exchange movements offset in reserves	**(0.5)**	(1.9)
Deferred tax credit on actuarial movement on retirement benefits	**-**	0.1
Total tax charge on items within other comprehensive income	**(0.5)**	(3.7)

5. Taxation (continued)

Factors affecting future taxation

It was announced in the Budget on 22 June 2010 that the UK corporation tax rate will be reduced from 28% to 27% from 1 April 2011, and by a further 1% per annum thereafter until 1 April 2014 when the corporate tax rate will be 24%.

The proposed rate reductions will reduce the amount of future cash tax payments to be made by the Group. Overall the reduction in the corporation tax rate from 28% to 24% is expected to reduce the Group's net deferred tax asset in the future by approximately £1.0m.

The Budget also proposed that from 1 April 2012, the rate of capital allowances applicable to plant and machinery expenditure will be reduced from 20% to 18% on a reducing balancing basis. The rate of capital allowances applicable to long-term assets will be reduced from 10% to 8% on a reducing balancing basis.

These changes to capital allowance rates will reduce the rate that tax relief is given to qualifying capital expenditure, which will advance cash tax payments. This will be offset by the proposed reductions to the rate of corporation tax.

6. Dividends

	2010 £m	2009 £m
Dividends paid to equity holders		
Final for 2009 paid on 5 May 2010 - 1.35p per share	**5.3**	-
Interim for 2010 paid on 10 September 2010 - 0.74p per share	**2.9**	-
Refund of unclaimed dividends	**(0.1)**	-
Total	**8.1**	-

A final dividend in respect of the year ended 31 December 2010 of 1.66p per share, amounting to a dividend of £6.5m, is to be proposed at the annual general meeting on 14 April 2011. The financial information does not reflect this dividend.

7. Adjusted earnings per share

Adjusted earnings is calculated by adjusting profit attributable to equity shareholders to exclude discontinued operations, exceptional items, other financial gains or losses, unwinding of the discount in disposal provisions, amortisation of the equity component of the convertible bond and the related tax effects. Adjusted earnings is one of the business performance measures used internally by management to manage the operations of the business. Management believes that the adjusted earnings measure assists in providing a view of the underlying performance of the business.

Adjusted net earnings attributable to equity shareholders is derived as follows:

	2010 £m	2009 £m
Profit attributable to equity shareholders	**53.2**	38.5
Adjust for:		
Discontinued operations (net of taxation)	**(4.3)**	(0.6)
Exceptional items after tax on continuing operations	**(10.7)**	(3.0)
Other financial losses (gains)	**0.5**	(1.2)
Amortisation of the equity component of the convertible bond	**-**	0.3
Unwinding of the discount in disposal provisions	**0.2**	0.2
Taxation on adjusted items and impact of reduction in the tax rate to 27.0%	**1.0**	0.3
Adjusted net earnings attributable to equity shareholders	**39.9**	34.5
Weighted average number of ordinary shares (m)	**389.5m**	389.5m
Adjusted earnings per share (p) - basic	**10.2p**	8.9p

8. Provisions

	Onerous leases £m	**Disposal provisions £m**	**Total £m**
At 1 January 2010	31.2	12.4	**43.6**
Exchange adjustments	-	0.2	**0.2**
Unwinding of discount	1.2	0.2	**1.4**
Impact of change in discount rate charged to the income statement - exceptional	1.9	-	**1.9**
Charged to the income statement - exceptional	15.9	-	**15.9**
Released to the income statement - exceptional	(4.3)	-	**(4.3)**
Released to the income statement - operating	(0.4)	-	**(0.4)**
Utilised in year	(3.6)	(2.1)	**(5.7)**
At 31 December 2010	**41.9**	**10.7**	**52.6**
Current	3.4	3.4	**6.8**
Non-current	38.5	7.3	**45.8**
Total	**41.9**	**10.7**	**52.6**

During 2010, the Group reassessed its estimate of the liability arising under certain onerous lease contracts taking account of changes in the expected benefits to be derived and costs incurred in relation to the contracts. The changes in estimates affected expected sub-let income, dilapidation estimates and lease surrender opportunities. The impact of these changes has been to increase the provision for onerous leases by £11.9m.

9. Borrowings to net debt reconciliation

Under IFRS, accrued interest and unamortised facility fees are classified as loans and borrowings. A reconciliation of loans and borrowings disclosed in the balance sheet to the Group's net debt position is provided below:

	2010 **£m**	2009 £m
Total loans and borrowings	**(197.5)**	(250.1)
Less: accrued interest	**0.7**	0.6
Less: unamortised facility fees	**(0.6)**	(1.4)
	(197.4)	(250.9)
Add: cash and short-term deposits	**74.0**	64.1
Net debt	**(123.4)**	(186.8)

10. Cash generated from operations

Reconciliation of operating profit to cash generated from operations:

	2010 **£m**	2009 £m
Continuing operations		
Operating profit	**75.4**	60.8
Exceptional items	**(13.4)**	(2.8)
Operating profit before exceptional items	**62.0**	58.0
Depreciation and amortisation	**30.3**	25.9
Decrease in inventories	**0.2**	-
Increase in trade and other receivables	**(1.1)**	-
Increase in trade and other payables	**0.3**	2.5
Share-based payments and other	**1.4**	0.9
	93.1	87.3
Cash utilisation of provisions	**(5.7)**	(11.7)
Cash payments in respect of exceptional items	**(6.3)**	(5.9)
Cash receipts in respect of exceptional items	**38.4**	-
Cash generated from operations	**119.5**	69.7

11. Contingent assets

The Group has lodged a number of claims following the House of Lords decision in the Condé Nast/Fleming cases on the applicability of the three year cap that HMRC introduced to limit VAT reclaims. These claims, which had to be submitted by March 2009, are based on management's best estimates from the information available and the Group expects HMRC to closely review both the Group's right to the amounts claimed and the value of each claim before settlement. In a number of cases, the Condé Nast claims are subject to successful outcomes of other claims for the repayment of VAT (including the claims for interval bingo, main stage bingo and amusement machines already received by the Group) the outcome of which is not certain.

One of the claims identified above is for the repayment of VAT on some games of bingo covering the period from 1996 back to 1973, when VAT was introduced. This claim has been made under the Condé Nast/Fleming ruling detailed above and HMRC issued guidance in January 2010 that this type of claim could be paid once the amount has been verified. This claim is currently estimated to be worth approximately £65m plus interest covering the period of the claim to the present date but continues to be reviewed by HMRC. Consequently the Group is uncertain as to when or if it will be received.

The Group also submitted a claim in 2010 which extends its existing claims for overpaid VAT on bingo back to 2002. This claim could be worth approximately £11m plus interest covering the period of the claim to the present date. HMRC paid £7.1m in February 2011, with interest of £1.4m expected to be received in March 2011. The balance of the claim is subject to HMRC validation.

The Group has not recognised any gain in its financial statements at 31 December 2010 in respect of the above items.

12. Contingent liabilities

On 10 November 2008, the Group received £59.1m in overpaid VAT from HMRC, following the VAT and Duties Tribunal's ruling in May 2008 that the application of VAT to some games of interval bingo contravened the European Union's principle of fiscal neutrality. HMRC has appealed rulings from the VAT and Duties Tribunal and Upper Tribunal and the case has now been referred to the European Court of Justice (ECJ). The Group expects the case will be heard in 2011. In the event of an adverse ruling, Rank would be required to repay the £59.1m and amounts not paid over for the period from July 2008 to 26 April 2009 plus interest. In September 2010, the Group entered into an agreement with a third party that would result in the receipt of £40.5m in the event that the Court finds in favour of HMRC. This agreement was funded by a payment of £4.6m which has been recognised as an exceptional cost.

On 21 May 2010, the Group received £42.5m in overpaid VAT from HMRC relating to main stage bingo and amusement machines. This payment was made in response to HMRC's stated guidance on settling main stage bingo claims and following the Tribunal's ruling in 2009 that the application of VAT to certain types of amusement machine contravened the European Union's principle of fiscal neutrality. HMRC continues to appeal the claim, with the case also referred to the ECJ and again expected to be heard in 2011. In the event of an adverse ruling, Rank would be required to repay the £42.5m plus interest.

The Group has been in negotiation with HMRC for several years on the means by which it calculates the amount of irrecoverable VAT in Grosvenor Casinos. Since July 2007 the Group has accounted for irrecoverable VAT on the basis that HMRC was correct. As a result, the amount of irrecoverable VAT suffered by Grosvenor Casinos exceeded the amount that the Group believed was due. The difference in the Group's position as against HMRC's position for the period under negotiation (July 2007 to December 2010) amounts to £6.3m. In 2010, the point of dispute between the Group and HMRC was the subject of litigation by another, similar, taxpayer. In that case, the First-tier Tribunal and the Upper Tribunal have ruled that HMRC's position was incorrect. While HMRC has appealed, precedent case law indicates that the Group's position is correct and on that basis the irrecoverable VAT charge has been adjusted accordingly. However, it remains possible that this decision will be reversed on appeal, in that event the Group would have to pay the VAT in dispute (see above) plus interest.

The directors consider that, in respect of all contingent liabilities disclosed above, it is more likely than not that no outflow will arise.

13. Post balance sheet event

The Group submitted a claim in 2010 which extends its existing claims for overpaid VAT on bingo back to 2002. On 16 February 2011, HMRC paid £7.1m, with interest of £1.4m expected to be received in March 2011. As outlined in note 12, HMRC continues to appeal and in the event of an adverse ruling, Rank would be required to repay the £7.1m plus interest.