

# Interim Management Statement



29 April 2010

## Overview

William Hill PLC (William Hill or the Group) (LSE: WMH), a leading international betting and gaming company, announces its interim management statement for the 13 weeks ended 30 March 2010 (the period). All comparisons are with the 13 weeks ended 31 March 2009.

The Group delivered a good performance in the period, with net revenue increasing by 1%. Pre-exceptional operating profit<sup>(1)</sup> increased by 3% reflecting a strong performance from William Hill Online which countered the Retail OTC performance last year.

## Key highlights

- Group net revenue +1%, operating profit +3%
- William Hill Online growth gained momentum
  - New accounts +31%, unique active players +15%
  - Strong Sportsbook performance with turnover +51% and net revenue +79%
  - Net revenue +25%, operating profit +51%
- Overall Retail turnover showed positive growth
  - Turnover +4%
  - Machines gross win +9%
  - 'Storm' roll-out complete
  - Maintaining focus on cost control with underlying costs +1%
  - OTC gross win -11% against strong comparator in 2009
  - Net revenue -4%, operating profit -13%

*Ralph Topping, Chief Executive of William Hill, commented:*

*"I am satisfied with our performance this early in the year, with an improvement shown in overall Retail turnover levels and good growth from William Hill Online in revenues, operating profit and new accounts.*

*"Current trading across the Group is encouraging and we have much to look forward to this summer with interest in the World Cup expected to be greater than ever. Kick-off times in South Africa are favourable for our UK and European customer base and we have experienced sustained growth in football betting since the last tournament. We continue to maintain a watchful eye on costs and are making significant investment in growing our international online business. Despite the continuing challenging market conditions, I am confident that we are on track to achieve our objectives for this year."*

## Divisional performance

### (a) Retail

Retail turnover, comprising amounts wagered OTC and on gaming machines, increased by 4% in the period. Gross win fell by 3% with good growth in gaming machines offset by a lower gross win OTC. Net revenue was down 4%. The 1% difference against gross win reflects the return to the 17.5% VAT rate applied to gaming machines.

The OTC gross win margin was 17.5%, which is within our expected trading range of 17-18%. However, the margin was lower than the unusually high margin we experienced in 2009 of 18.8%, contributing to an 11% fall in gross win and net revenue.

Although there was severe weather in the first two months of 2010 that disrupted racing and sports fixtures, the number of weather-related cancellations in effect proved neutral in the first 13 weeks year-on-year. The sporting results overall were favourable and included a good performance during the four-day Cheltenham Festival, one of the busiest periods of the betting year.

Gaming machines continued to perform well, delivering a 9% increase in gross win (net revenue increase of 6% reflecting the increased VAT cost). Roll-out of the Inspired Gaming 'Storm' machines was completed on schedule in March 2010, with more than 6,200 machines now available in the Retail estate.

We continued to deliver strong cost control in Retail with operating costs flat in the period. Excluding the cost of closing 15 shops in the Republic of Ireland in 2009, costs increased by 2%. On an underlying basis, excluding development activities, costs increased by less than 1%.

Operating profit in Retail, however, was down 13%. The biggest factor in this decline was the abnormally high OTC gross win margin in the comparator period.

#### *(b) Online*

William Hill Online continued to perform well, building on the momentum we highlighted in our 2009 results statement in February 2010. In the first quarter, net revenue increased by 25% and operating profit was 51% higher. New accounts increased by 31% and unique active players grew by 15%.

Sportsbook made especially good progress, benefitting from the greater breadth and depth of our product offering and an improved in-play product. Net revenue was 79% higher than in 2009. Turnover increased 51% and we saw a 77% increase in turnover from in-play betting. The overall Sportsbook gross win margin improved from 6.6% in 2009 to 8.1% in 2010, reflecting structural improvements but also favourable results. The in-play margin was 4.6% and the pre-match margin was 9.7%.

Gaming continued to perform well. Net revenue was up 11%. Bingo witnessed a 53% increase in net revenue and casino grew by 11%. Poker, however, remained adversely affected by market conditions, principally the impact of higher liquidity available at two gaming sites that accept US customers. Net revenue from poker dipped 11% in the period.

Operating profit was up 51% to £23.3m and Playtech's minority interest was £6.6m.

#### *(c) Telephone*

Telephone continued to face tough competition from overseas sources and the Board is looking at options to return the channel to greater profitability. Net revenue was flat year-on-year, though the gross win margin was higher than usual at 7.6%, resulting in a broadly break-even position.

### **Current trading and outlook**

Current trading in the four weeks to 27 April, which included the Grand National on 10 April, was generally good, with a continuation of the positive trends seen in machines and William Hill Online. Although the Grand National result was not a good one for bookmakers, unlike last year, the overall results during Grand National week helped to compensate for this one poor result.

### **Fiscal and regulatory developments**

In March, H.M. Treasury published the Budget for 2010, in which there are no significant changes on taxation and gaming duty, except an inflation-related rise in Amusement Machines Licence Duty (AMLDD) on gaming machine from £2,215 to £2,285.

### **Material events, transactions and financial position**

On 29 January 2010, the Group utilised its new forward start bank facilities to repay its outstanding bank loans totalling £375m. This had no impact upon the total net assets of the Group but changed the disclosure of its bank borrowings, which are now classified as non-current liabilities. Apart from the above, there have been no material events, or changes in the financial position of the Group.

## Risks

Principal risks and uncertainties for the Group remain consistent with those disclosed on pages 32 and 33 of the 2009 Annual Report and Accounts. The principal risks to trading performance in the rest of 2010 are:

- the challenging economic climate continues to impact trading;
- a change to gross profits tax on machines in Retail at a rate higher than our tax neutral position and/or an increase in VAT, which is currently charged on machines;
- countries fail to regulate online gambling or do so in a way that prevents William Hill Online from operating effectively; and
- adverse sporting results.

### References:

(1) Earnings before interest, taxation, exceptional items and amortisation relating to trade names, affiliate relationships and non-competition agreements

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### Analyst conference call

Ralph Topping, Chief Executive will be hosting a conference call for analysts at 8.15 a.m. BST. Dial-in telephone number: 0845 634 0041 (international: +44 20 8817 9301), PIN 2717329. A replay of the call will be available for a period of one week on telephone number: 020 7769 6425 (international: +44 20 7769 6425), PIN 2717329. The call is also accessible by webcast at [www.williamhillplc.com](http://www.williamhillplc.com).

### Notes to editors

William Hill is a leading betting and gaming company. It is one of the UK's largest bookmakers with over 2,300 LBOs in the UK and Ireland that provide betting opportunities on a wide range of sporting and non-sporting events and, in the UK, gaming machines are offered in every LBO. The Group's online business, William Hill Online, is one of the leading European online betting and gaming businesses by profitability, providing sports betting, casino games, poker, bingo, numbers betting and skill games.

### Glossary and abbreviations

AMLD	Amusement Machine Licence Duty, payable on gaming machines. For the B2/B3 gaming machines available in William Hill shops, we pay £2,215 per machine per year.
Category B2	With gaming machines, Category B2 games have a maximum stake of £100, maximum payout of £500 and each game is a minimum of 20 seconds.
Category B3	With gaming machines, Category B3 games have a maximum stake of £1, maximum payout of £500 and each game is a minimum of 2.5 seconds.
Category C	With gaming machines, Category C games have a maximum stake of 50 pence, maximum payout of £70.
EBIT	Earnings before interest and tax.
EBITA	Earnings before interest, tax and amortisation relating to trade names, affiliate relationships and non competition agreements as described in note 12 to the

	Group Financial Statements, excluding exceptional items.
Gross win and net revenue	<p>Gross win and net revenue are used internally as key performance indicators of the Group's business. The Board believes presentation of gross win/net revenue enhances an investor's understanding of the Group's underlying financial condition and results of operations.</p> <p>Gross win is calculated as the total amount that the Group retains from customers after paying out any winnings but before deducting VAT payable on income from gaming machines. For William Hill Online, it includes certain marketing-type costs, such as free bets. Gross win is being used as the primary top-line reporting measure for Retail OTC and machines in 2009 as the machines net revenue number is distorted by the temporarily lower VAT rate in 2009.</p> <p>Net revenue is the primary measure for Telephone and William Hill Online. This is defined as gross win less fair-value adjustments for free bets, promotions and bonuses, which are used extensively in online operations but less so in Retail. In Retail, net revenue is relevant to machines and represents gross win less VAT. All other betting tax charges in the Group are recorded in cost of sales.</p>
Gross win margin / net revenue margin	<p>This is a measure, <i>inter alia</i>, of the effect of sporting results on the business. The margin is defined as gross win/net revenue divided by amounts wagered. The margin is also affected by the mix of products with different margins and the amount of concessions or free bets offered to customers.</p>
Pro forma	<p>On 30 December 2008, William Hill acquired certain assets from Playtech and combined these with its existing interactive business to create William Hill Online. The pro forma numbers compare William Hill Online's 2009 performance with the combined 2008 results of William Hill's existing online business and the assets acquired from Playtech, as detailed in the announcement issued on 20 October 2008. All other numbers compare William Hill Online with William Hill's standalone interactive business.</p>
William Hill Online	<p>William Hill Online is a joint venture between William Hill and Playtech. William Hill owns 71% and Playtech 29%.</p>