William Hill PLC

2010 Interim Results

26th August 2010

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Ralph Topping: Good morning; this is just to prove that we've got a new Marketing Director. Good morning everybody; good to be hear again and thanks for coming along. Going to open today with an overview of our business and Neil Cooper, our Group Financial Director will take you through the numbers; after that we'll look at the progress we are making. If you have any questions at the end, we'll stay here until we've answered them, or we get fed up and want to go.

A short summary first of all: this is the second year of William Hill Online and we're seeing the benefits coming through with 1 43% rise in operating profit. We believe Retail is showing underlying resilience, particularly in machines and in football; but also in the number of transactions, which we think is the best indication of busyness – b-u-s-y-n-e-s-s - busyness. As for telephone, we've highlighted the issue and now we're implementing the solution.

On the balance sheet we did the work and it has paid off; there is money available if we want to find any online opportunities, the right online opportunities.

Lastly, on brains and talent, we've brought brains into the business and we're developing real talent. That, of course, continues.

For us, William Hill is the home of betting; we're all about as a business enabling our customers to bet and play how, where and when they want, by providing a trusted high quality market-leading service. That means maintaining our absolutely solid foundations in Retail; we are, and aim to stay, Number 1 in the UK. It means going international with our online offer and being a significant player in selected markets. It means putting Sportsbook at the head of our online strategy. It also means taking full advantage of new technology and bringing in the brains you need to do that.

The big drivers for this industry have always been tax and regulatory change. Do we expect that trend to continue? Yes, and I think we'll see a substantial benefit from the application of gross profits tax to machines, if the rate comes in at 15%; it has already been suggested. That is almost 4 points below our tax neutral rate. Internationally, regulation has been slow, but it is picking up speed. We're getting legal frameworks for online gambling now in some very competitive marketplaces. Of course there is the UK, but there is also France and Italy all nor regulated; Germany, Spain, Greece, Denmark are all under review. The US could b e interesting, but probably not for at least a couple of years.

By and large, however, we are all moving from a dotcom model to a focus on local licences. There is a clear distinction between offline and online consumer profiles. Land-based betting is about cash; it is about social environment and it is community centred, also very, very private. These are attractive qualities that aren't going to disappear. We are definitely in a world that is more demanding and much more sophisticated thanks to advances in technology. We are at the forefront of change; in Retail we are investing in new technology, such as self-service terminals, that complement our high tech gaming machines. Retail was and is all about capturing market share in the local areas.

One thing, however, I think we do need in this industry is a re-definition of the concept of competition. The 'bricks and mortar' approach we currently have doesn't reflect modern reality. Smart phones and the internet are changing the way people can place a bet. Online is part of our fragmented highly competitive market; we are seeing the beginning of consolidation and strategies designed for diversified revenue.

As for the UK economy, take your pick - double-dip recovery, inflation, deflation, housing down, housing up. How do we see it? there are pockets such as London and strangely you may think, Scotland, but Northern Ireland is still pretty unaffected; but it is challenging elsewhere, particularly parts of the region such as the North West and North East - certainly for the near term, we believe. Medium term we remain convinced we will see it improve.

Here is what drives the two elements of our business and market research our customers tell us service is key for them, over and above location. We continue our investment in our estate, both improving its quality and expanding it and we are looking to open 40 new licences a year and to refurbish around 250 shops. We are putting in technology such as LCD TVs in all units; we are continuing to upgrade facilities such as air conditioning.

On the online side, gaming products such as poker, casino and bingo has historically grown faster than sports betting, but with innovations such as in-play betting that is changing. Our focus is on Sportsbook, it is on mobile, servicing customers and where we are looking at revenue for a unique active CRM and service.

In terms of international, we will go for licensed markets that offer more certain opportunity. As a business we need to be able to advertise; for us it is UK first, then a small number of other countries where we will invest in Marketing. That is the focus, but alongside those we make our service available to wider markets.

The evolution of the organisation continues significantly through our brainpower, both in the top level team and further down the organisation. You've met some of our key players before; now meet some more.
We are delighted to welcome Gareth Davies as Chairman; like me Gareth has been in the business for nearly 40 years; he has got a strong record at international expansion at Imperial Tobacco. I think it would be fair to say that Gareth is excited to be here are William Hill, not just because this is a special organisation, which it is, but it is because he has discovered when he visited his office the other day there is a large terrace outside his office where he can enjoy Imperial Tobaccos products every now and then – and it is more now and then [audio] – he was absolutely delighted to find that we had a terrace.

Then there is our Marketing – I don't know what you'd call – to me he is a wee bit Marketing … generally called a guru or a genius, we'll just call him a genius, Kristof Fahy. Some of you met Kristof last November; he officially joined in January; his background speaks for itself. He is taking on more duties; Kristof is looking at our whole operation from the point of view of the customer, which is very important; so customer experience falls under his mantle.

We mad Terry Pattinson our Director of Trading this year. Terry, for those who don't know, is an Australian and if you can make a mark in Australia the UK can't seem so difficult. The big man brings a new approach; it is all to do with getting the price right. He is not really interested in opinion or odds compilation; he is interested in the market and he is interested in developing trading skills. Do you know something, I love that; he is highly competitive on pricing in key markets and key events and we'll have some more of that later.

Then there is Neil – I keep putting Ben on this slide – our new Group Finance Director; he has been here three months so he hardly qualifies as being new. He has got good industry, City, transition and financial management experience; he has been a delight to work with so far; he speaks very well – you can hear that for yourself as I pass you over to him for the numbers.

Neil Cooper: Thank you Ralph and good morning to you all. First of all I would like to take you through the key points of the income statement for the Group for the 26-week period ended 29th June 2010.

At £529.9 million, net revenue was in growth over the comparable period by 3%, benefitting from a strong online performance and from the contribution to the Retail channel from very good machine growth.

Offsetting these positives, OTC Retail saw some turnover softness, together with a gross win margin reduction, partly lapping strong prior year levels, but also in part due to poor horse racing results. Telephony net revenue also fell sharply, impacted by results.

Pre-exceptional group EBITDA at £135.6 million was in growth by 1%. Net finance costs and tax were both broadly in line in absolute terms with the comparative period, and minority interests related to the Online channel grew accordingly. This, just to keep you on your toes, is now termed 'non-controlling interests'. This sees retained profit at £66.9 million, broadly in line with the prior year. I will comment on net finance costs and exceptional costs in a little bit more detail in later slides.

Despite this retained profit performance, basic adjusted earnings per share fell by 18% as a result of the increased number of shares in issue, following our rights issue in 2009. Net debt for covenant purposes fell by

£72 million from the year-end position to stand at £530 million. Finally, we are pleased to be able to confirm an Interim Dividend payment of 2.5 pence per share.

As promised, looking at the breakdown of exceptional costs, firstly we have a £4.2 million provision for the telephony restructuring announced recently, which, together with a further 1.3 we booked in H2, and the remaining 1.5 related to capital, equates to £7 million restructuring costs previously announced as part of this project.

Secondly, like others, we retained VAT following the [Rand] case and have [built] a £5.6 million gain arising from the preliminary settlement. Whilst the original costs relating to this were charged to ordinary profit, I took the view that this credit was both material and, unfortunately, non-recurring and should be accounted for as such. I should just note that whilst HMRC have very kindly paid us, presumable reflecting their view of the likelihood of their success in appealing, they do continue to appeal the final UK Court judgements with the European Courts of Justice. There is a small chance that this credit may reverse should that appeal be upheld.

Finally, we have seen a further adverse movement in the balance sheet valuation of our interest rate hedges, giving the development of the yield curve in the first half of 2010. of this movement, the increase relating to ineffective hedges has led to a £4.1 million exceptional cost.

Moving into our key Retail channel, the following slide gives you the overview. OTC has seen a 2% turnover decline, largely in pence per slip, which when allied with a lower gross win margin year-over-year, has resulted in a 7% OTC gross win fall. Conversely, as Ralph has indicated in his introduction, we have seen an 11% increase in machine gross win. On a blended basis this totals a 1% growth in retail gross win, which translates to a 1% decline in out and out revenue following the impact of the VAT hike on machine costs.

Operating costs have grown by 3% in line with our previous guidance, and operating profit has fallen 8%, which we think reflects the operationally geared nature of this retail business.

In regards to the OTC gross win margin, the key movement against prior year have been the lapping of strong football margin in Q1 last year, which

I would remind you helped contribute to a First Half performance last year which was above our normal guidance range. Secondly, the very positive impact of the World Cup, but thirdly the negative impact of the Quarter2 horse racing festivals, which more than offset the positive World Cup benefits from a margin perspective. Underlying horse racing margin has also moved down, as both over rounds and runners per race have worsened.

Positively, at £836 gross win per machine per week, machines continue to demonstrate real strength, continuing a long-term trend of annual growth in this key statistic, indeed, growing by 61% since 2005. it is worth noting that we have made maintained a machine density of circa 3.8 machines per shop for three years now, with drivers of growth subsequently, therefore, being both product improvement and operational management.

Turning away from the Retail channel in isolation for a moment, this slide shows you some snapshots from what was a very successful World Cup for bookmakers. Benefitting from a number of group games going our way, period 6 – and I would remind you that the profit for this tournament fell into both period 6 and period 7. Period 6 saw £19.3 million in gross win across the three trading channels at a 25% margin.

Just for interest, we put our best and worst five games from the tournament in profit terms on to a slide. As you would expect, England drawing will always make money for the bookmakers. Punters had high expectations for Argentina in Argentina against Germany; and then for Germany in Germany against Spain. Those two results worked well for us too; and of course a nil-nil final at full time was also very welcome. For those of us in the bookmaking business watching that final, a very nerve-wracking 90 minutes it was too. On the flipside, favourites winning big as you can see from the list of worst game for us didn't do us any favours at all. Strikingly, the sports book saw higher turnover in OTC retail for the tournament as a whole demonstrating the importance of this channel for us and please note that there is a slide in the appendix giving you the full tournament picture.

Given the volatility seen in our OTC gross win margin progression in the first half caused in part by the impact of horseracing festivals, we felt it would be helpful to you to show on a pro forma basis how material each of the key festivals in the first half can be. I'm talking about entry, which obviously includes the Grand National, Cheltenham and Royal Ascot. The chart on the right shows the total gross win percentage variance between the best performance and the worst performance in the last five years at these festivals. Taken together with a pro forma base would be 1.1 percentage point in margin in the first half. I think it clearly demonstrates the potential scale of volatility outcome of these events. Of course our expectations do remain that OTC gross win margin will trend to the range of 17-18% over the long-term.

Finally, in retail, our cost base has grown by 3% year-over-year despite our staff costs in total being held flat and our property costs moving up only marginally in line with the [estate] growth over that period. The main drivers of this year-over-year £6.9 million increase in retail costs include a year-over-year incremental £2.4 million of marketing costs and additional content costs following an increase in charges from both SIS and TurfTV as well from the Racing Post. Subsequent to the end of the half SIS have announced a further 8% cost increase to take effect in the second half of 2010, but this area will continue to see additional year-over-year costs over the second half of the year.

As outlined in our trading statement in July, we made a loss in the telephone channel in the first half of the year. Despite good cost control with an 11% reduction in operating costs, trading results, particularly in horseracing, impacted this channel strongly. Gross win margins fell by 4 percentage points from 8.6% to 4.6% and accordingly a £2.3 million was posted and Ralph will discuss the changes we're making here later.

Moving to the results for William Hill Online and commenting on the sports book and gaming separately, for the sports book, the first half saw a 77% increase year-over-year in that revenue from £21.3 million to £37.7 million driven by a combination of both strong top line growth and an improving gross win margin. Again, Ralph will outline later the operational and strategic drivers behind this growth. It is important to say that whilst we've obviously benefitted from the world cup with £6.2 million of gross win earned from the tournaments during June, turnover trends to the end of period 6 at +56% year-over-year were only marginally better than those seen for period 5 on a year-to-date basis, which were up 56% year-over-year. Gaming revenues were also positive with a 10% growth in total from 78.8 million in '09 to 86.5 in '10. Within this total Casino was in growth by 8%, although the closure of the French operation in June is likely to see this go backwards in the second half. Poker, reflecting market difficulties seen elsewhere, was down 5%. Finally, Bingo grew 52%, although to be fair, off a relatively small base. Cost of sales fell by 30%, showing the benefits to the relocation of the sports book to Gibraltar in the second half of ’09 and operating costs grew by 27% leading to an operating profit at £44.9 million up to 43% on the prior year.

Without stealing Ralph’s thunder I thought it would be helpful to show our key operating metrics in support of this very strong financial performance in Online. Within sports book whilst turnover grew year-over-year by 59% despite the fact that in-play betting through the sports book more than doubled with pre-match [still in] growth by a still impressive 44%. Together with this top line growth the Group has also seen margin improvements during the half with gross win at 7.7% up by 0.9 percentage points on the prior year. For the Online channel as a whole, new [active] grew by 20%, new accounts by 38% and revenue per new [active] by 4% with average cost of acquisitions now standing at around £64.

Looking at a cost base analysis for William Hill online, whilst expansion and marketing investments are growing the cost base, the rate of growth at +27% is behind that of gross profit growth in the half of +33%, so operating profit margins have therefore grown to 36% in the first half of 2010 versus the comparable period at 31%. As the table shows, we’ve seen an increase in marketing investments during the half as well as seeing growth in staff costs as the infrastructure continues to be put into place to support what is a strongly growing business.

Moving away from individual channel results towards the consolidated Group results, the Group has seen a modest fall in its total net interest. As the table breakdown makes clear, a successful bond issuance in late 2009 designed to both increase the [unclear] of our borrowing and reduce the reliance of the Group on bank debt has enabled us to reduce our bank loan interest albeit with the introduction of bond interest and that change has, as you can see, changed the profile of the net interest number.

The last two years has seen a restructuring of the Group’s balance sheet. We had a reduction in bank debt levels, through a rights issue, through a bond issue, and through considerable self-help. The Group migrated onto its previously negotiated [unclear] agreement during the first half of 2010 and has continued to reduce its net debt levels with net debt [unclear] now standing at £530 million, which is down 106 million from the position in 2009 and 72 million from the position at the end of 2009. The Group's banking covenant outcomes are very strong at below 2 times of net debt over EBITDA and together with £310 million of both [unclear] headroom and existing available cash resource leaves the Group well placed to exploit further opportunities for growth of its online business.

Finally, a quick rattle through other key financial items from today's statement. Firstly, with falling asset values and a reduction in the discount ranges to value the liabilities of the pension fund, we've seen an increase in our pension deficit during the half as a result of the roll-forward valuation of the half year. Secondly, and I alluded to this in part in my earlier comments, the forward yield curve has stayed flatter for longer than we had anticipated at our year end hedge valuation. This has given rise to a further cost in the half of which the element relating to effective hedges has been taken the reserves and the element relating to ineffective hedges has been expensed via exceptional items. Positively looking ahead, the bulk of these asset and money hedges will have expired by the end of 2012 and in the appendix, I enclose a slide looking ahead at current balance sheet values so you can model this item properly in terms both of cash and of profit. Finally, just restating our announcement of the 2.5p interim dividend.

Thank you for your attention. I will now hand over to Ralph who will share with you some of the operational and strategic details of what we feel has been a good half progress.

Ralph Topping: Let's drill down to some of the detail. We spend year 1 on integration. That was building the team's operational capabilities and improving the products, so in year 2 we're seeing the benefits now. We're using our marketing teams in Tel Aviv and elsewhere more and more effectively and increasing distribution outside the UK. It's particularly good to see sports book deliver the results, but there's more to do. [We aren't] going to stand still for this is a programme of continuous improvement and that's what's driving our performance. I promised the last time we gathered that we'd be spending more money on marketing when the product was right. [It is, we are]; the first TV advertising for sports book brought excellent results. We're putting more resource into TV advertising this year and next.

Our primary focus is the UK and market share, but we have 21 different [language states] available now. We're not neglecting gaming, we're making further improvements there too. The big story is always sports book and the big stories in sports book are football and in-play. We've had 134% growth in football turnover and 102% growth on in-play numbers. Bet volumes increased by 51% of H1 to 42 million and the average transaction size was up from £12.31 last year to £13 dead-on this year. At the end of week 21, if we just look at that, the average transaction size was 12.63p versus £11.94 last year, so we had a good World Cup, but it wasn't the World Cup that drove these figures. In-play was 33% of all turnover in the period. If you take out horseracing, it was half of the turnover on sports betting. One of our aims is to be market-leading in football. We're now offering 100 in-play markets per football game. If you look back a year ago, I'm almost ashamed to say it was 5, so that's 20-fold increase. If you look a the big matches, the top tier games, it's 125 and pre match is just as strong, almost 100 markets in the top [unclear] games against 40 last year. We offered in-play in lots of different sports during the half and our margins are up and in-play, they've doubled. Gross wins in football were up 300% year-on-year; gross wins on in-play tennis doubled.

Once we get customers coming to the sports book we find they tend to look at gaming as well and we've been tailoring our products [unclear]. We've launched 30 new games, working with big media players such as Endemol, Freemantle and also specialists like Cryptologic and [unclear]. The platform runs flash-based games. They're an absolutely ideal cross-sale to sports book customers, because they download so fast. Bingo is now bigger than Poker. We've added Swedish and Spanish sites this year. We've seen a 37% increase in [unclear] from Q2 last year to Q2 in 2010. Bingo is making real progress because of successful TV campaigns and also use of social media.

Our marketing spend in H1 [unclear] was up year-on-year at around 25% of net revenue. That's actually lower compared with other organisations and we may look to up that. We want more market share in the UK and under [Christo's] guidance that means high profile TV advertising of our sports book this year for the first time, but certainly more of it next year. It's been highly successful. It's enhanced our brand profile, but it's also importantly linked to the William Hill brand name for football. You'll see more of it in the coming months along with more campaigns for Bingo, which have been a big driver as a [unclear] product growth.

We promised 21 new language sites in 2010. That's 16 languages and 5 specific English language sites for other countries and we'll have that by the year end. We've been awarded an Italian licence and are preparing the site for launch. We're going through the process for our licence in [Denmark]. France, what can we say about France; France is different, viva la difference. French likes to be different and we announced in May that we'd closed the customers with French addresses. We may not agree with France's approach, but we really respect the Government's local laws, especially one that is as rational, progressive and forward-thinking as France. We intend to apply for our licence, but it's not our commercial priority given you face, 1) a high turnover tax, 2) horrible parimutuel betting on horseracing, and 3) lack of casino. One day France may be attractive, but their regulatory regime needs to change and when it comes to change, we know the French, don't we, they're as quick as a drugged tortoise crawling over treacle. How do we continue to yield good results, but here there's a big bear outside and we've got to keep feeding it, so you're the first guys to ask what's next? It's like kids in a car, when are we going to be there, Dad?

Let's start with the sports book. We're extending sports book in further channels and increasing our share of [wallet]. [Telly's] revolution in the in-play football betting continues. We will release the next tier of products early next year whereby we're going to create new and dynamic markets that settle every minute of the game. This is going to help the sports book offering and also our growing Smartphone offering. The big games will have more than 200 markets per match this year and as an industry first we're going to be offering every UK domestic football match in-play in the English Premier League, the championship, English Leagues 1 and 2, Blue Square Premier, Scottish Premier League, Scottish Divisions 1, 2 and 3, [unclear] taking place in the UK. That's about 90 on a Saturday afternoon at the same time.

We're putting in place a localised service for 2011 that will [unclear] average [shop] in the country at the same time. That's how important football is to us, that's how important football is to our customer and that, by the way, is how important our shops are to us and our customers in [shops]. There's much, much more coming. And playing basketball is critical to some key European territories and cricket where there's been a big increase in [fixtures], particularly 20/20. Next year we move on to Australian sports, Gaelic sports, ice hockey, darts and in time for the World Cup, Rugby Union. Did anyone mention horseracing and running; all UK races, that's coming.

We're launching financial betting in Q4 that will stand out. That's out own, that's propriety. It's [in test], it's simple, it's different, you'll like it. Don't ask me any more; I'm not telling you any more, just wait and see. Q4, not long to go now. We'll do more with mobile betting too. We've had a 450% increase in the number of Smartphone bets this year and that's continuing post the world cup. We're developing apps for the iPhone, Android and Microsoft platforms, not just a replication of our online site, but a new way for people to bet and we'll be doing an app a month next year. As our business moves forward, so does the need for more resource and marketing. We don't only need to attract new customers to William Hill, we've got to keep them, we've got to grow the value of the customers we already have, so we've developed a [structured focus] to get, keep and grow customer clients in every market we operate. It tells us which customers will drive value and where is the right place to invest, so while our marketing team in Tel Aviv will continue to do great work for us and drive new customers to William Hill, you saw the [new figures] on the subject, another marketing team in Gibraltar will focus on developing and growing relationships with those customers for the long-term. We're making customer knowledge and insight a key pillar of our marketing efforts to better insights in customer understanding. We can design customer experiences that our customers really want and we'll have them coming back to William Hill and retain them in our business for much, much longer.

The UK remains our primary focus, but we look beyond to regulated markets. We divide those according to whether we think they're heading for a favourable or unfavourable regulatory regime. By favourable we mean a market with no indiscriminatory access, so we'll not [bother] with France, to all or most products in which we are able to compete. This picture is highly subjective and it can change almost week by week. We like to give a general [pencil] [unclear] [mafia] there at the back of the room gainfully employed.

Right now we're engaged with a handful of countries in each of the two regulating [countries] beyond them or many countries that all added up contribute less than 1% of online's net revenue. Some investors were, however, potentially [unclear] to changing regulations [unclear], [they] want to know about risk too. I'm not going to jeopardise commercial confidentiality, but let me give you some detail to allay some of those fears. First, our revenues actually come from more than 125 countries. Secondly, the UK remains by far the largest, 67% of net revenues. We're put a lot of resource in and are looking to [unclear] of the UK market. We did have significant exposure in France, which represented 7% of net revenues in H1. Closing to our French customers, we'll have an EBIT [unclear] around 5 million. Bottom line, we prefer regulated countries and we'll take licences wherever they are available and we focus on marketing spend on a small number of key countries. Yes, we'll continue to provide services [unclear] but we'll spend our marketing money promoting licensed local sites where regulation brings a greater degree of certainty. Just to repeat myself, above all, the UK remains a big priority. There's still a lot of market here to go for.

Of course, in William Hill as a whole we continue to develop the organisation. We bring in new people; we have new roles for those people, we want hungry people in our organisation and we've put the benchmarks up. We want high performers and we want high deliverers. Jim [Mullin] is a good example. Jim's got a strong background in virtual product development and brand extension for a very friendly and focused company called News International, and he's also worked for [Arp] Worldwide. He's got a good track record of delivering on major projects. Jim will be in charge of operational activities day-to-day, which frees up Henry Birch to focus on strategy, partnerships, business development, international M&A, HR, legal, regulatory, all the little things that the Chief Executive spends his time on from time-to-time.

As we push for a bigger share of wallet, we're also [looking to two things]: a Gibraltar-based Director to help online focus on the customers, someone fully experienced in managing CRM and various customer services. We've still got a lot of it online but also putting a lot of effort into retail. This year we expect to open nearly 70 new licensees. When you look back over the last four years that's something like 250 new licensees in our last four years. We're generating excellent value returns. Some competitors keep going for city centre locations. Those rentals are three or four times higher and to my mind the Development Directors should be shot or fired on sight; I think one of them was fired from [unclear], but better be careful because there will be a lawsuit. I think he left us [finger flat]. I'll tell you later.

That brings with it a huge downside risk. If we look at our strength in machines, just looking at the numbers there they speak for themselves and as ever we're a company which has been in hardly any strong cost control. All in all we generate more profit for shareholders and customers, and that's what it's all about. Now these are rough numbers, but first half Paddy Power is on about 28K. We can even beat Ladbrokes who around nearly 70 and William Hill is on something like [40-48]. Overall I remain convinced we are well positioned for when [unclear] retail. I have no absolutely doubt about that.

I manage to be very surprised when people talk about structural decline. It's usually the same people who talk about Scottish football product. They never actually go to a game in Scotland. They never go near a betting shop, but they feel well capable of talking about it. You really have to look at retail in total nowadays; not OTC and machines in isolation; that is old hat. OTC bets are not placed by a separate group of punters wearing bobble hats. They are all the same, so when we same overall transactions we feel we're up by more than 20% in the first half of the year. It's a positive sign that the underlying business is in good nick.

As evidence of the economic impact in the OTC pence per slips in, which was down 6% half one last year, it was only down 1.5% in the first half of this year. The number of OTC slips is broadly flat and flatter alongside continuous [grossing machines was flat]. Now that is encouraging. It says…it definitely to me suggests potential for improvement once the economy picks up. If transactions fell of a cliff, I really would be worried. Transactions are not falling off a cliff.

Question: when is it going to pick up? Well, I'm sure we're going to ask you that question later on when we make this session really interactive. We've taken a conservative approach. We assumed continued pressure on the working men and women in half two 2010, and at least half one 2011. On machines, the Storm benefit continues to come through. We're innovating continuously and managing more effectively. Now London gross win per machine at an early stage was £1,100 per week and the capital shops make more from machines than over the counter business for the first time this year.

As for the cost space, our pay freeze which we've had for 31 months will end in October. Picture costs are rising. We've got a VAT increase next year, but, hey, you don't get a new Finance Director for nothing. We're going to be rigorous and focused, and Neil's going to be even more rigorously focused. I've asked them to scrutinise all costs in this year's budget round not once, not twice but three times, so I mentioned to my Executive Team today that there are three rounds of pain to go through and that work is underway.

We announced our changes to telephone last month. You know the story. Offshore operators and exchanges have benefited from a different playing field. We've campaigned a long time but nothing has been forthcoming from the last Government. In Q4 we paused the existing UK business and William Hill Online establishes a new business to manage our telephone customers. Some clients will be managed by a specialist team in Gibraltar. Others are going to be outsourced to the specialist call centre company called Vertex. Now Vertex takes over our existing Sheffield call centre. Discussions are going on with employees in our other call centre in Leeds. It's a difficult time. I have to say, having been up in Leeds last week, our staff have been brilliant in their response – absolutely brilliant. It's a testimony to their professionalism.

William Hill has currently got a savings of between 4 and £7 million a year. That's 4 million and £7 million a year and we'll tell you when things are clearer when they're nearer to 4 or whether they're nearer to 4 or 7.

As you do from time to time, you listen into the other presentations elsewhere and I couldn't help hearing Tote and other presentations about leadership and trading. They really made me chuckle and brought a wee bit of sparkle into a dull day, so let me educate this audience about what leadership actually means. We've almost certainly worked in the industry or been in a big business before and I'm going to educate you a wee bit about what leadership is, so the next time [you'll be in this] you'll know what we're talking about.

Let me tell you about Terry. In nine months he has transformed the way the In-Play Department trades and thinks. It's a vision that's led by technology. A single point of pricing entry that caters for multiple channels. That pricing service feeds into retail and will allow the advancements in sports book deployed passed on. Terry has extensive trading experience and a strong understanding of [how we are now]. He's doing big things for our reputation as proper players. We're bookmakers first and foremost; we are layers of bets.

Now I'll give you some recent examples and major events. The World Cup Final we went 65 Spain at 90 minutes. We were into the Final winning on both teams. We felt the strongest price in the world on Spain was in the Far East and we went 65 Spain; no one in the UK or Europe matched us. On the World Cup we were the first bookmaker rather to go 8/1 on England. The competition followed days later. On the Open Golf Championship we went the big standout price on Tiger Woods (7/1) and that beat all competition. On the Derby we went 3/1 Jan Vermeer. That was the best price available throughout the morning and went until 15:30 – half an hour before the race we stood the price. If you look at the pricewise grid in the Racing Post for Saturdays during the 2009/10 football season, you'll see who offered the best price in any selection. Funny, isn't it? Yes, whoever had the idea that Paddy Power were the most competitive. I love the comedian Frank Carson and he used to say, "It's the way I tell 'em".

Moving onto the betting industry's leadership, the betting industry's principle leaders are here in the room with us today. We saw David Steele when he presented last November and he spent 20 years with William Hill. He's led [Refill]; he now leads Corporate Services and Government Affairs. Andrew Lyman, who reports to David, joined us last November. He was previously Chief Executive of the ABB and in a former life he was Director of Monitoring Enforcement for the Gambling Commission, and he worked for the Financial Services Authority. He's a highly respected and frequently consulted expert on this wide-ranging regulatory and political subject area, and an industry leader; no one else could touch him in this sector. There are very able, diligent and hard working people at William Hill who are leading the way with David Steele, who is the Vice Chair of the ABB; Thomas Murphy, who is Vice Chair of the Bookmakers' Committee that represented bookmaking on the Levy discussions; and Steven Reid, who sits on the RGA's Executive Committee with Thomas shortly to join him there.

William Hill sits at the heart of policymaking and industry decisions. Amongst current activities we are forging new alliances with the intake of 200 new MPs who enter Parliament at the Election. We're meeting and have met the new Ministers, and joint Chairs of the old Party have [unclear] spoke to. We also met John Penrose, the new Gambling and Horseracing Minister under the DCMS.

As for the key issues, the Prevalence Study is ongoing and the results are now expected in Q1 2011. We had expected them Q4 of this year, but we put back. The 50th Levy discussions are underway. Racing has come back and asked for 130/150 million. We were the only industry that thinks it should be recession-proof. The Levy has been the size of 115 million, but that was before the recession kicked in. The current Bookmakers' Committee suggests the industry should subsidise racing as a subsidy through the Levy not being [on] 70 million. If there is no agreement by the end of October then the referral goes to the Secretary of State for a determination. The Levy is not a levy; it's a subsidy. It's an anachronism that's supporting uneconomic racecourses and I think a commercial solution is [knee-deep].

The betting industry, the bookmakers actually pay around £225 million a year to the racing industry through picture rights, levies, sponsorships, but it could be and should be spent much more effectively.

The Horse Race Betting Levy Board has finally listened to industry concerns about the impact of exchanges on levy yield and Government tax revenues. We started a consultation on the issue and will be submitting a response. We will not be saying any more on that subject today.

The DCMS consultation in dual-licensing of offshore operators providing services in the UK is now closed. We've submitted our response. We are already in a well-regulated territory in Gibraltar. There is no need for a duplicating system, but there is no timeline for the next steps.

Current trading, we've seen good trading in the seven weeks since the end of June. There was the benefit of two weeks for the World Cup. Neil's already talked of the overall benefit. Disappointed with retail performance overall with margin in line with normal range; turnover has still been up 13% and machines continue to perform strongly, given a total net revenue growth of 20%. Online and a quiet period for online outside the football season, net revenues returning strong growth at 37% and that's benefiting from continued strong Sportsbook growth. That's offset flat gaming with the impact of Casino being weaker following our withdrawal from France. Overall that means the Board's view for 2010 remains unchanged, so we look out.

We're seeing the benefit of actions we've been taken for the last two years, giving us a strong competitive position in retail and online with yet more to come. Yes, we're facing increased costs through VAT and we're not yet clear on the near-term consumer outlook, so we stay cautious for planning purposes, but we've got a highly competitive position both in the UK and an international focus that gives us a good outlook for the medium and long-term, so let's finish where we started.

We have a tangible strategy for delivering continued growth. Our Sportsbook is spearheading our online growth; got a clear direction for telephone; we've got a strong balance sheet and it gives us the flexibility we need to pursue opportunities for online. We've also got an approach that means we're continually looking to strengthen the organisation to make William Hill the home of betting. There is a lot going on in our organisation. Thank you for listening and now questions.

Tej Randhawa: Morning; it's Tej Randhawa, I'm from Citi and I just had three questions, if I can.

Ralph Topping: Fire ahead.

Tej Randhawa: The first is on the World Cup. I just wanted to know whether you have done some work to figure out how much of that improvement was incremental, and how much is substitution, in your existing client base? The second is in the presentation you talk about increased TV advertising both this year and next. In the past you've guided to Marks & Spencer as a percentage of online growth, net revenues of around about 25%; are you still comfortable with that number for FY'11? And lastly in terms of your storm cabinets they seem to be now bedded in your performance was very strong there. Has the machine gap with Coral's closed?

Ralph Topping: I would say in the last one, Coral would be the only one that knows. We think it has, but they would be the only one's that can actually say. Because we open the kimono, they don't.

Tej Randhawa: In your opinion it has closed; in the past you've talked about it has…

Ralph Topping: We think it has, yes. They only come in and say it hasn't or it has. I don't think they will say it has, so I don't think you'll get that. Alright? On the World Cup is it incremental; time alone will tell on that. We got a hell of a lot of new customers for the Word Cup. The proof of the pudding is whether we retain those customers and they still bet with us, but we think it's largely…we've got a strong customer base now and we think that customer base will remain with us during Premier League season, and the football season, but we will have more information on that probably in February.

TV advertising, it's interesting we've got a number of choices. We can either take what we spend at the moment and allocate some more of it to TV advertising. We haven't been through the budget process. I'm comfortable with 25% at the moment, but I think if you're on a roll, then it's the time for investing. And I think as an organisational class we've been a wee bit cautious in what we've done and I think what we saw in the World Cup what we see coming through in the figures, encourages us that we've got a brand that people like betting with; we've got a product that people like betting on, and as we're developing that products going forward, we want to sing a wee bit louder about that and that means [unclear] but we haven't done our budget yet, so the budget will be completed roundabout October/November so wait until then. Is that fair enough?

Tej Randhawa: Yes, thank you very much.

Matthew Gerard: Morning, Matthew Gerard from Credit Suisse. Just following on from your comments on retail and the racing products, particularly the Levy negotiations. In light of these comments coming out about the potential 7% decline in racing fixtures for next year. I suppose firstly do you think that realistic, or do you see it just as a threat? Secondly, what can you do in terms of content and shops at those key times to kind of mitigate against that?

Ralph Topping: Well they've delayed the publication of the fixtures programme because I don't think they can't quite make up their minds what the number's going to be. I've heard that it's 80 and I've heard that it's 250. I think what's clear about the fact that is even up to 250 is that they produce levies, and they produce in some cases good levies. So it seems a wee bit like racing not being content to shoot itself in one foot, it likes to shoot itself, blast away at the two feet by going for a cost cutting exercise which actually destroys some of the value to the levy. It doesn't seem right and proper to me that the fixtures list like this; we help, we've offered help, we do provide help in constructing a fixtures list which we thing will be Levy friendly, and we don't believe they've been radical enough in taking some of the ideas that bookmakers have. But that's their issue and I've no criticism to make or other observations to make on racing in that respect. As far as content goes, we've been very successful as a business over the last then years in diversifying and some of the other avenues that we have for replacement of these fixtures of [form] racing for one thing, and virtual product which are growing and there's always other activities and betting shorts that can replace the horseracing one, including greyhound racing. So it seems a wee bit counterintuitive that they would wish to destroy the value there is in these fixtures for the levy which is what they're complaining about. A Martian wouldn't be able to make sense of that. And very clever people on Mars as well.

Matthew Gerard: And in terms of your recent instruction with the new coalition, do you detect any willingness to move to a more commercial solution?

Ralph Topping: I think we had a very good meeting with John Penrose under the auspices of the ABB. Richard Glynn was there with me and I think both of us agreed when we came out that when we came out that Penrose gave us a fair Hearing. He seems to be a free marketeer from what we can deduce about him. He certainly says the right things and we'll wait and see. He's an impressive man, that's all I will say.

Matthew Gerard: Thank you.

Ralph Topping: We'll maintain the position; Nigel, you've got the last question of the day.

Question: Good morning, Roohi Siddiqui from Merrill Lynch. Could I have three questions if I can? The first one is on machines; in terms of the uplift from here, the run rate in Q2 is clearly very strong – you mentioned that London machines obviously at 1,100 or thereabouts. How much further can we see machines improving form theses already very high levels? The second question is on your acquisition criteria, because if you're looking to exploit opportunities in online betting and gaming, what sort of market, would you be looking to do more JVs, are you looking out for acquisitions; could you give us a flavour of what sort of products you would be interested in. Would it be mainly sports book or casino, which is probably the more richer product right now? And then thirdly on OTC retail, I mean obviously you're cautious if the consumer is not good, but when you talk about weakness in OTC retail next year, what does that mean? Does that mean that we're going to see an underlying decline of whatever; 4, 5% as we've seen this year? And also you won't have the World Cup, so it will be down even more. Thank you.

Ralph Topping: We're not going to have the World Cup next year? I thought it was every year. That's a blow. Machines, can I deal with them. The machines are improving. We've got a great run rate on them. The funny thing is when you were posing your question, it was almost like - not like déjà vu, but déjà écouté. I've heard this question being posed at about five of these sessions, these annual sessions. Our machines are peaking; what's going to happen, they're going to tail off next year? The fact is that I think machines are becoming more and more popular – look at London, they were 53% of our business goes through machines, versus 47% over the counter. We've seen string growth in Scotland this year in machines and we expect that growth in Scotland to continue next year because we are putting more resource that and machines are kicking in as a popular products in Scotland. I'm inclined to believe that the way machines keep going we are waiting on our machine suppliers coming up with their new ideas for new kits. We will look at the new games that are coming through and we will also…if we put a lot a time and effort into educating, not only our staff, but also out customer base on these machines, so I'm not in the gloom and doom call on this says they're going to tail off next year. I don't buy that. We will be assuming growth in our machines next year.

On the acquisition online, we're a sports betting company. We've got…we believe sports betting is what drives the gaming products in lots and lots of ways. Not in all ways, but lots and lots of ways. So our emphasis is on developing our ports betting product. Now in terms of acquisition, I'm not going to comment on if we have any acquisition targets because I think it's [fatuous] exercise because I'm sure we get associated with all kinds of companies – I've got a phone call at quarter to eight to some of the press guys and they were linking us with everybody and nobody. But I refuse to get drawn in there. But we're a sports betting company, we've got a strong gaming division. We believe sports betting in lost of ways leads to much more of a business around the gaming products, so sports betting is really what we're interested in developing. At this point in history.

As far as over the counter retail is concerned, we're a bit cautious about it, but as I said in the presentation, you've got to look at things in the round. You've got to look at how we do on machines and how we do on over the counter, and I really do mean that. It's rather old-fashioned as a business – that is an old-fashioned approach to look at OTC as some separate area with separate clientele and a segregated area where the OTC people don't go to the machines people. They are one and the same, so we are confident on machines and a little bit caution on over-the-counter, but overall we'll wait and see the run rate at the end of the year and the last couple of months of the year, as in the last quarter there's going to be more strength in our view on next year, dependant on that, and when we know a wee bit more about what the Government's plan is for us.

Mark Reed: Good morning – two questions – I'll try and move into the modern age; if we talk about retail in aggregate, GDP turned positive three quarters ago and your retail net revenue is down 1% and your retail profits are down 8; you've had a World Cup margin within your historic range – could you please explain to me why you don't think it is structural?

Ralph Topping: When you look at the level of transactions – if you look at the gross win percentage in horse racing, I have seen a fall-off this year, but we can explain where that's come from – we don't believe there's anything structurally wrong with the horse-racing product; we've had a bad year for horses. We are also seeing, as you would expect, in this kind of decline you would expect to see less owners in horse racing having less horses and that's why the number of runners per race is reducing and you will also see at the race tracks, and should expect to see this for a bit longer yet; you will expect to see more bookmakers chasing less punters around, to get money from the punters at the race track, so there's that which would affect the last year. Then we've got some cost pressures in our business which are unavoidable – VAT; increase in picture rights etc, and I think all of that will settle down at some point because in the next round of picture rights negotiations I don't expect there will be the clamour from bookmakers to take two services necessarily; other bookmakers at the moment are only taking one service and are not seeing a big fall-off in the business as a result, so if we see organisations coming to us saying pay us 25 million for these picture rates, then I think 25 million, that would take us 500 million in turnover to make and I think we would take a view at that point whether or not we wish to take that service.

I cannot see it as being a structural decline. It's an effect of the economy. If you look back at previous recessions, when the consumer had more money in his pocket – when there's more money in your pockets, you guys go out and buy racehorses, or at least your bosses go out and buy racehorses and several usually a string of racehorses because things are good and trainers are then training more racehorses and entering more racehorses at race tracks, so I expect the racehorse product to come back. I don't think it is a long-term decline. I think it has plateaued and I am confident in the future. History tells me to be confident in the future, so I am not a doom and gloom guy like yourself.

Neil Cooper: I think you've also got to show a little bit of caution about drawing too strong a direct correlation between the gross GDP numbers and what may be happening in leisure retail, because if you looked across the broader leisure retail, I am not sure there are many finance directors in there talking about fantastic growth in the last three quarters in leisure retail outside of bookmaking, so I think you have got to be a tad cautious about that – drawing too direct a relationship. Clearly there is a macro relationship. There has to be but, in the short run, you shouldn't see it as because it doesn't go in lock-step therefore it's broken.

Mark Reid: Neil, could you give a little bit more guidance on the type of retail cost inflation for 2011? Presumably if you've had a pay freeze for 33 months there's still sort of catch up and this is ahead of any cost saving schemes that you may come up with.

Neil Cooper: The first thing to say is that if you freeze your pay indefinitely then you're just going to move everyone onto the national minimum wage and the Government sets your pay policy. We have been frozen for a while and the more that goes on, the more likely it is that we lose all control. It is not likely that we can stand still forever into the future, for that reason. We have pressure on content cost and we've talked around SIS billing; we don't know what TurfTVare going to suggest in the future, but if your major competitors just rammed an 11% cost increase through the industry, why wouldn't your thoughts turn to what you can get – it's common sense, right? Our view is we've guided this year to an underlying 3% plus whatever impact the new development brings – I am not anticipating that, as with the VAT impact which is a sort of specific, I am not anticipating a materially different guidance for next year at this stage. I would say it's early days and we haven't been through a detailed planning process for next year as yet and clearly, if we are going to win this through driving top line, labour and the services in the shop that go to making the customer experience critical to that – we have got to be balanced in how we address this. We are not going to cut our way to victory if the real challenge for us is to grow top line, so we have to be somewhat balanced in the way that we do that.

Nigel Hicks: What makes up the 64.4 million of retail cost of sales? I have seen there's GBT in there, but is there a machine cost?

Neil Cooper: Yes, off the top of my head I think it's machine VAT; it's AMLD and it's that other item you mentioned, but if you grab me after the meeting I'll take you through the details.

Nigel Hicks: In Retail 'Other' costs have gone up by 14% - 6 million – could you say-

Neil Cooper: The main single element in there is the marketing number which I talked about in the presentation. That's gone up by £2.5 million and we have seen cost increases year-over-year at the racing post which doesn't go through the content cost line for us in terms of the analysis you have seen; it goes through that other cost line.

Nigel Hicks: Can you talk about interest rate and your cost of debt versus equity and the timing that you expect your rates to fall?

Neil Cooper: That's obviously national interest rates and that's done by the Governor of the Bank of England, but one day maybe! Delusion of grandeur is always good for an FD! Our interest rate is driven by a number of factors. We have a bank deal that was negotiated at a tough time for the bank market. I know from experience elsewhere that deals done around that time were going to be expensive. That deal becomes current in March 2011, so that means it's got a year to run. Logically, naturally FD's these days are looking to get refinanced before deals become current because there's an obvious and understandable reluctance on the part of investors to accept that we haven't got our cash flow and banking facilities sorted out in good time. I think you can read from that that we need to be turning our attention to that existing deal to secure the next deal within the next 6 months. The market has moved and I wouldn't like to set any expectations because I can see a couple of my banking partners in the room and it's never done, to do these things in public, but we are hoping to see an opportunity to make savings on the interest line following the renegotiation of the existing forward facility; that goes without saying. I make that view because actually it is clear that the market has moved since our last deal.

The second component of our P&L interest line is amortised one-off costs on the deal that we did. Again, not just my expectation but my personal experience from refinancing a deal done at the height of the bank crisis is that we trust and hope that we can do a slightly cheaper deal next time, which would obviously reduce the pressure there, and I have also put in the slides some clarity on hedges. We are where we are on hedges. The business was carrying over a billion pounds' worth of variable debt and very appropriately put in place hedges that were appropriate at that time. Standing back in isolation, 5% hedge costs would not have seemed unreasonable by any standards 2, 3 or 4 years ago; in hindsight, we got it wrong on a number of grounds; we don't need all the hedges we've got on the price at which we think the hedge is wrong. We cannot fix that without either buying out the hedges at the value that they're sitting on the balance sheet at, or letting them roll off.

What I have done is put in the slide both the P&L and the cash flow that will flow out my existing valuation and, for the avoidance of doubt, if the valuation changes it will change the numbers on that slide, but that's as it stands at the half year. You will see from that we will also start to see some benefits through time – that problem will be gone by 2012, because all the hedges will have expired, and given that we now have some bonds in place, we've got potentially a slightly different way of managing the fixed and floating risk that you always have to sit and think about. There are potentially three areas where we can look to make progress in terms of reducing financing costs and obviously it's something I'll be spending a bit of time on myself.

Nigel Hicks: You say 2012 – the end of 2012 or during?

Neil Cooper: They drop off on sort of a time-lag basis, but if you look at the slides you'll see that it's falling each half, so it isn't completely monolithic; it's not like they are all there until 30th December and then they are all gone the 31st. I cannot remember the exact schedule, to be fair, but the numbers that arise out of the exact schedule are sitting in there, so it lags down like that.

Nigel Hicks: Capex you are saying 60-odd million; what's the 50 million going to be spent on in the second half?

Neil Cooper: I think the two things that will drive higher Capex spending in the second half is firstly the volume of new licences opening; we are now actually guiding to between 60-70; we have relatively a fairly low percentage of that open in the first half, so that will have weight in H2 and, secondly, obviously refurbishment – we have had a refurbishment pause for a couple of years as part of the self-help activities around the balance sheet. Just to remind you, we refurb on a set cycle; either a 6 or 12 year soft or hard refurb, so we have in effect taken some beyond the 6 years or the 12 years. We are not going to catch up that gap in one lump, but we are going to drip-feed those in, so that we do catch up over a reasonable sort of 3-year period. Therefore the bulk of that refurbishment activity is happening in H2, so that's why we have got an asymmetrical lay-down of Capex.

Nigel Hicks: On the machines *(interruption off-mic re hogging the mic) …* global draw – can you say what difference in performance you saw?

Ralph Topping: For commercial reasons we do not extract those numbers – we don't hand those numbers out…

Nigel Hicks: Can I just ask – you mentioned taxing exchanges or the Government and other authorities waking up-

Ralph Topping: -BLB Consulting's looking at the exchanges. Thanks very much. Let me press on, and this will be the last question, I'm afraid.

Ben O’Toole: It’s Ben O’Toole from HSBC – just a question on UK racing and volume, and possibly mix; if you do see a reduction in the number of races next year, presumably you’d expect the quality of racing overall to improve – do you think that the mix – well, if you get improvement in the mix, that the average ticket price could improve?

Ralph Topping: I think you’re talking about the UK racing as has been [mooted]; I don’t think you can talk about improvement in quality overall. I think the races you are looking at are all-weather races with lower graded animals, so I am not sure there’s a relationship between an improvement in horse racing as a result of doing that; these horses have still got [trained] races to run in - if you mean bigger fields and bigger entries for other races – but they will not be higher quality races, that’s for sure.

Unless there’s anybody else wishing to ask me a question, I want to draw a line under it. Thank you very much for coming along, ladies and gentlemen.