William Hill PLC

2010 Trading Update

19 January 2011

Operator

Welcome to the trading update 2011 conference call. At this time all participants are in a listen-only mode. I would now like to turn the call over to your host, Ralph Topping, Chief Executive Officer.

Ralph Topping - ***Chief Executive***

Thank you. Good morning, everyone. Thanks for joining us for this quick update call. I'm actually calling from Heathrow today so - as my flight leaves in about 15 minutes -- so I'm going to keep this brief and I'd ask that you keep the questions to a minimum. Neil is with me on the call and I'll hand over to him shortly for a run through of the numbers. He and Lindsay of course will be available all day if you have any questions to follow up, and when I get back you can give me a call if you wish.

There's been a bit of speculation ahead of today's announcement about the likely impact of the snow in December on our business. I'm pleased to report that we've delivered robust performance in quarter four. LBOs and Online performed strongly and over-the-counter market was higher than projected, with favorable football results and with horse racing stabilizing. This all helped to mitigate the affect of the weather, which was, as expected, seen particularly on our over-the-counter Retail turnover.

The quarter contributed to our full-year performance with net revenue up 7% on 2009 and pre-exceptional operating profit or EBITA of around GBP275m. That's of course on an un-audited basis.

Online continues to advance, particularly Sportsbook, where we continued to broaden and deepen our product range. If you've been watching the football recently, and I'm sure many of you have, you'll have noticed our TV adverts showing over 100 in-play betting markets per match against Bet365’s 50. We're now heading towards 200 markets for the Premier League match, which puts us well ahead of the nearest competition.

In-play turnover more than doubled in the full year and in-play gross win was 277% ahead year-on-year, with the margin benefiting from our structural improvements in trading. In-play accounted for about 35% of Sportsbook turnover in the year, but if you exclude horse racing it was 53%.

We're also rapidly expanding our mobile offering. In addition to the Sportsbook and Casino apps available at williamhill.com, we've launched Match Predictor and Shake-a-Bet, which you can download for your iPhone from the apps store. We've also done an exclusive deal partnering up with the Racing Post to offer online odds through their app. That is just the start actually, with more developments to come in 2011. Mobile accounted for around 2 to 3% of Sportsbook net revenue in the year, but the growth is rapid and is running at more than 400% in 2010.

Turning to Retail, as before I'd really encourage you to look at this business in the round. This is a business that is evolving. Our customer base is broadening, as is our product base, with football and machines attracting a wider customer base. Turnover in Retail has done well both in Q4 and over the year as a whole.

Transactions in Retail are still growing despite of the weather impact on December's trading. And of course our customers' capacity is still a bit constrained. But for the year as a whole pence per slip on an underlying basis is down 2 to3% if you strip out the World Cup trading periods and the bad weather in December. But the number of bets is down less than 1% on the same basis, while machine transactions grew strongly. To me the facts are glaringly obvious that customers still want to bet in the shops, but their disposable income is now understandably squeezed at the moment.

As part of this squeeze, horse racing has the largest exposure. Its frequency means that it's almost constantly available as a product right through the day so it's not surprising that it's feeling the impact of the recession more than other products. At the same time it's finding its level given the range of products we now have available in our shops. The fact that horse racing is now only about a quarter of our gross win in retail illustrates how we have transformed our business model over the last decade.

The future shape of the levy of course remains an open question and we're now awaiting a determination from the Secretary of State. Our view has always been that the levy is unfit for purpose and needs to be replaced with a commercial arrangement with racing. We think a commercial arrangement would give us a better racing product that is more attractive to our punters and that un-commercial racing operations would no longer be propped up.

And in terms of Telephone, that's well on its way to transitioning into part of William Hill Online.

So looking back, overall I'd class 2010 as a strong performance. We're at the top-end of market expectations on operating profit. We've transformed our trading operation. We've become a market leader in in-play football, just as we promised. We're focusing on mobile over the next two years and we'll be saying more on that at the February announcements. And we've still got the best football gaming offerings on the high street.

2011 is going to be the year of technology for us. I know that sounds strange coming from a Hill's guy, given all our experience with technology in the past, but, believe me, I definitely haven't lost my marbles. We'll talk more about the year of technology when we get to prelims at the end of February and we may hold an analyst and investor day some time in the second quarter.

I'll be heading off to get my plane now just to prove I'm a working Chief Executive, and I'm going to hand over to Neil and he'll take the questions at the end. Goodbye and I'll see you in February.

Neil Cooper - ***Group Finance Director***

Thanks Ralph. Just to move on today, here I am talking from sunny Wood Green this morning and some people have all the luck.

Okay, first of all I'd remind you that we saw strong OTC Retail margins in Q3 benefiting from positive football results. This trend continued into the fourth quarter with an OTC Retail margin at 19%, which is obviously well ahead of our normal 17% to 18% trading range. You might assume that's all about the fact that the top four Premier League clubs can't seem to string together a winning run at the moment. But we've also seen a modest improvement quarter-on-quarter in horse racing gross win margins, albeit on much-reduced turnover levels.

Altogether that helped to contribute to a performance at the top end of our usual OTC gross win margin range on a full-year basis at 17.9% versus 17.7% in 2009. An outcome which frankly reflects the very strong OTC Retail performance in the second half, particularly when you consider the first half OTC Retail margin performance against prior year was down.

It was another year of double-digit growth in machines, up 13% on a gross win basis. We're now lapping over the Storm rollout. And if you're trying to get a sense of our performance, we were about half way through the rollout at the end of 2009 and completed it at the end of Q1 2010. Gross win per machine per week for the full year in 2010 was up to GBP847 versus GBP758 in 2009. In over-the-counter sports betting a 3% fall for the year in OTC turnover has been mitigated partly by the year-on-year margin improvements I've just outlined to you, giving us only a 1% decline in OTC net revenue.

Taken together, machines and OTC, Retail turnover was up 8%, with machines and football more than offsetting the weakness in horse racing. Net revenue was 3% higher year-over-year for Retail as a whole, with like-for-like costs marginally ahead of our previous guidance, impacted in particular by closure costs with the planned closure of 20 of our 35 remaining shops in the Republic of Ireland announced in December. That gives us a broadly flat year-over-year position for Retail operating profit.

William Hill Online has continued to perform strongly with similar trends to those we were seeing when we last updated the market. Sportsbook continues to benefit from increased turnover as well as from favorable results. Turnover continued to grow in the second half to end the year up 57% on the prior year. And the gross win margin for the full year at 8% was at the top end of our 7% to 8% trading range. That resulted in an outstanding 95% increase in Sportsbook net revenue.

Overall gaming net revenues grew 5% in the year as a whole. Casino net revenue was down 6% in the second half, reflecting our withdrawal from France, and giving a broadly flat result year-over-year. Adjusting for France, casino net revenues grew 10%. Poker recorded a third consecutive quarter of growth, delivering a full-year net revenue in growth on the prior year. And Bingo continues to deliver an excellent performance, up more than 50% on the prior year in net revenue terms. Overall this resulted in a 24% year-on-year increase in net revenue and a 22% year-on-year increase in operating profit.

Now just to complete the picture, Telephony returned to profitability in the second half so should make a small profit in the year as a whole.

This gives us an un-audited, expected Group pre-exceptional EBITA result of around GBP275m. That's around the top end of the current range of analysts' forecasts, which reflects we think the higher-than-normal margin we've seen in the fourth quarter.

Two other items to flag, the first of which is taxation. We're now expecting our 2010 effective pre-exceptional income statement tax rate to be around 20%. This has reduced for two reasons. Firstly we're benefiting in the year from the one-off release of prior-year provisions that we now no longer deem necessary. And secondly, we're also benefiting from the reduction in deferred-tax liabilities arising from the scheduled reduction in the UK corporation tax rate from 28% to 27% in 2011.

The latter of these items with continue to recur as the corporation tax rate is planned to step down further over the next three years. Accordingly, we now expect our effective income statement tax rate for 2011 to be around 22% as a result of this deferred-tax feature.

For the avoidance of doubt, we don't expect the deferred-tax changes to impact cash tax. The prior-year release I mentioned will impact cash tax by around GBP2m. We'll give you more guidance on this and the interaction between income statement tax rates and cash tax rates at the prelims.

The second item to flag is CapEx. Our CapEx expenditure, including capital accruals in 2010 ended up being around GBP43m, which was below our previous guidance of around GBP55m to GBP60m. Although we completed most of the new licenses we planned for the year, we were delayed getting onsite with refurbishments and we've also pushed out some Group IT infrastructure projects. We've previously guided on CapEx of GBP60m to GBP70m for 2011 as we've initiated our refurbish and catch-up program on top of our continuing program of new licenses and re-sites. And we'll reconfirm this at the prelims.

That's the overall financial picture. Now I'd like to hand over to the call moderator for questions. As Ralph's obviously at the airport it'll only be myself taking questions today, but as Ralph has said, if there's anything that you want to pick up with him, by all means give him a call directly. So if the moderator can put us into Q&A, please.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question and answer session. (Operator Instructions). Jason Streets from RBS is online with a question.

Jason Streets *- RBS - Analyst*

Good morning.

Neil Cooper *- William Hill plc - Group Finance Director*

Hi Jason.

Jason Streets *- RBS - Analyst*

Hi. Just on the Online side, profits you say were up 20% odd for the year and they were up 43% at the interim. I'm just wondering -- and clearly revenue has grown substantially. What's happened on the cost side of the Online business?

Neil Cooper *- William Hill plc - Group Finance Director*

Listen, in terms of the detail it's probably a level of detail beyond a trading update and obviously we'll be updating the market in full including a breakdown of costs at the preliminary announcement we make at the end of February.

In general we have up-weighted our -- first of all, we've got France in the first half, which we don't have in the second half on casino. Which is obviously one --- or to put it another way, we've got France in the second half of last year versus no France in the second half of this year so that will have had an effect half-over-half. And secondly, as I think we've indicated on a number of occasions, we're spending substantially more on TV advertising, driving the offer, and you can see the results of that through the Sportsbook turnover in part.

Jason Streets *- RBS - Analyst*

Thanks.

Operator

Nick Addleman from Goldman Sachs is online with a question.

Nick Addleman *- Goldman Sachs - Analyst*

Morning Neil.

Neil Cooper *- William Hill plc - Group Finance Director*

Morning. You alright?

Nick Addleman *- Goldman Sachs - Analyst*

Yes, thank you. Are you?

Neil Cooper - ***William Hill plc - Group Finance Director***

Struggling on, mate, struggling on.

Nick Addleman - ***Goldman Sachs - Analyst***

I was just wondering again on the Online business just if we could get a feel for fourth quarter what the net revenue growth was, maybe what it was on a reported basis and then what it was underlying, so stripping out France.

Neil Cooper - ***William Hill plc - Group Finance Director***

Yes, listen, the only comment I want to make on the strip-out of France is that casino for the second half was down 6%. But for the whole year the impact of the French -- if you strip-out France from '09 and '10 actually underlying casino was up 10%. Now the bulk of that has been delivered broadly half-over-half. I don't want to get into individual quarterly reporting, other than what we've already said in the statement because we are focusing on the full-year results here.

Nick Addleman - ***Goldman Sachs - Analyst***

Okay. Thanks, Neil.

Operator

Tej Randhawa from Citigroup is online with a question.

Tej Randhawa - ***Ciitgroup - Analyst***

Hi, morning Neil.

Neil Cooper - ***William Hill plc - Group Finance Director***

Morning.

Tej Randhawa - ***Ciitgroup - Analyst***

Just two questions if I can. The first one was, you've given the Q4 Retail turnover growth. Can you split that by machines and OTC?

And the second question is on your FY'11 cost guidance. I think at the time of the last update you were talking about going through the budget, but you mentioned that it was probably unlikely to be changed from the 3% that you've previously guided to. I just want to know whether there was any update on that, and whether that, your FY'11 guidance in terms of costs, is at that 3% level?

Neil Cooper - ***William Hill plc - Group Finance Director***

Just to be absolutely clear on the cost guidance, I think what we've said is that cost guidance is on like-for-like costs. We then have the impact of new licenses pushing costs up a little bit more.

Tej Randhawa - ***Ciitgroup - Analyst***

Right.

Neil Cooper - ***William Hill plc - Group Finance Director***

At the moment we will guide to that at the prelims so I don't anticipate making any comment today.

In terms of your first question, the quarter on OTC was around 8%. Machines within that were around 12% and OTC within that was down at 8%. Now obviously without getting into individual months, chucking around individual month numbers, the bulk of that damage on the OTC Retail performance was, as you'd expect, in December where we saw nearly half of the previously-scheduled horse race fixtures cancelled.

Tej Randhawa - ***Ciitgroup - Analyst***

Alright. Excellent. Thank you very much.

Operator

Roohi Siddiqui from Bank of America - Merrill Lynch is online with a question.

Neil Cooper - ***William Hill plc - Group Finance Director***

Hi Roohi.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Hi Neil. Thanks for taking my question. Firstly on over-the-counter Retail, could you give us an underlying decline, the rate of decline over-the-counter Retail excluding December?

Neil Cooper - ***William Hill plc - Group Finance Director***

What I'll do is actually give you a sense of what we think the underlying position for the year as a whole was. Now with stripping out -- we would strip out both December in that regard, but also the trading periods with the World Cup in, because obviously to be balanced we can't just strip out all the bad news.

Now on that basis, if you strip out, if you stripped out the World Cup period and December, our OTC Retail performance would be around 3% down, of which the bulk of that, slightly over 2%, would be pence per slip, and slightly less than 1% would be transactions decline. Now in truth that's the sort of trend we've been reporting -- we'd reported at the interims on an underlying basis. And although individual months have gone up and down, the second half excluding December we've obviously seen a slight improvement. Because I think we were 4% down on an underlying basis at the half so we've obviously improved slightly in the second half. But on average around 3% down for the year as a whole.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Okay, thank you. And the second question --

Neil Cooper - ***William Hill plc - Group Finance Director***

It gets -- the only danger in looking at this is obviously to get to an underlying position you're taking out effectively three periods of the year. So we've got to be balanced in how we use this information.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Sure. And I notice there's not much in terms of an outlook statement.

Neil Cooper - ***William Hill plc - Group Finance Director***

I think what that says is we haven't changed our views from our previous outlook statement, otherwise we'd have commented on it.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Okay, from back in October?

Neil Cooper - ***William Hill plc - Group Finance Director***

Yes.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Okay. And could you give me an update on where you are in terms of the levy, the discussions?

Neil Cooper - ***William Hill plc - Group Finance Director***

Yes, sure. The discussions have moved beyond us in the sense that the relevant bodies underneath the Levy Board have submitted their move. The Levy, the independent Levy Board members have submitted their views to the Minister and it is now with the Minister for determination. We're expecting that fairly soon I think by the middle of February. In which case we can obviously then update the market if there's an implication for us that's price sensitive.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Okay. And then finally on poker, would you be able to give me the number for H2 for revenue and Online?

Neil Cooper - ***William Hill plc - Group Finance Director***

I'm sure --

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Or Q4.

Neil Cooper - ***William Hill plc - Group Finance Director***

Sorry? I'm sure we can, but we'll -- I think we've just seen a fairly modest growth for the half. Let me look at Lyndsay and see if she can just pull the two quarters together. I don't have the second half in isolation just to hand on that. Actually I do. Hold on. Yes, I think in total we're actually up about 6% to 7% on poker, Roohi, for the second half.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

And that's due to the migration to the new platform, right?

Neil Cooper - ***William Hill plc - Group Finance Director***

I think we'd migrated by the end of the first quarter.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Yes. So year on year, it's just because of that, primarily?

Neil Cooper - ***William Hill plc - Group Finance Director***

Yes.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Okay. Okay, thanks very much.

Neil Cooper - ***William Hill plc - Group Finance Director***

It's a relatively small number in the mix obviously to be fair, but -- so it isn't going to move the overall Group needle hugely.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Okay. Thank you.

Operator

Vaughan Lewis from Morgan Stanley is online with a question.

Vaughan Lewis - ***Morgan Stanley - Analyst***

Hi there.

Neil Cooper - ***William Hill plc - Group Finance Director***

Hi Vaughan. You alright?

Vaughan Lewis - ***Morgan Stanley - Analyst***

Morning. Yes. You talked about getting down to a dividend cover of two times before. And given the strong balance sheet and the decent results, could we expect that a bit sooner, so a dividend of about 10p for 2010?

Neil Cooper - ***William Hill plc - Group Finance Director***

That's just what you happen to have in your guidance, is it?

Vaughan Lewis - ***Morgan Stanley - Analyst***

And then --

Neil Cooper - ***William Hill plc - Group Finance Director***

No, look -- we're not -- no, sorry, let me -- we haven't commented on dividend and certainly in the trading statement we're not going to make a comment on that.

Vaughan Lewis - ***Morgan Stanley - Analyst***

And is there anything else you can say about the balance sheet? Are you -- I guess you're pretty comfortable with it now. Is there a possibility of any extra cash returns, do you think or --

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Neil Cooper - ***William Hill plc - Group Finance Director***

No. Just for the avoidance of doubt, we ended the year very slightly under GBP500m of net debt, I think GBP499m, which obviously from a covenant perspective leaves us about 1.75 net -- or technically, 1.73 net debt over EBITDA, which I think is just slightly better than we were in the first half. Yes, I think it's far too premature to be looking ahead and speculating on some of these other things. Obviously the Board will sit down and decide the dividend policy at the right time and we'll communicate that once that decision is made. So I don't want to speculate on that this morning on the call.

Vaughan Lewis - ***Morgan Stanley - Analyst***

Sure. Can I just ask a bit more detail on the cost outlook? Are you starting to see rents go up at all?
And can you just remind us where you are on the staff pay freeze? Has that dropped off now and what sort of --

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Neil Cooper - ***William Hill plc - Group Finance Director***

Yes. In terms of the staff, what we've said to the staff is the frontline staff, e.g. the guys who make all the money for us in OT -- in the retail shops, are getting a 2% pay, an effective 2% pay rise, which is actually dripped in 1% in October 2010 and a further 1% in March 2011. So year over year we're seeing a 2% rise in the wage bill in Retail itself. Outside of the direct Retail staff, we've not commented to the staff in the head office and the back office about expectations for 2011 and we'll be reviewing that in the first quarter. So we haven't made a decision on that.

In terms of rents, look, I think we continue to -- our rental profile is skewed secondary and even tertiary, so in the current rental market we're seeing reasonable success in keeping a lid on outrageous rent demands from landlords.

But listen, I think to be fair these are levels -- some of these questions are getting into levels of detail that we'll be very happy to discuss at the prelims when all the information is laid out clearly in the normal fashion for the analysts' presentation.

Vaughan Lewis - ***Morgan Stanley - Analyst***

Okay. And just one final one, if I may. Is William Hill Online making any revenues at all now in France or Italy?

Neil Cooper - ***William Hill plc - Group Finance Director***

France, the answer is very simply no. We've closed our French service provision. Italy is a market that we're very excited about. We've got a license and we're just going through the pre-license process before we can launch in particular casino, and it is a key priority for us in 2011.

Vaughan Lewis - ***Morgan Stanley - Analyst***

But it is still generating revenue now on the dotcom side then?

Neil Cooper - ***William Hill plc - Group Finance Director***

I'll take the fifth on that one.

Vaughan Lewis *- Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Ed Birkin from Barclays Capital is online with a question.

Neil Cooper *- William Hill plc - Group Finance Director*

Hi Ed.

Ed Birkin *- Barclays Capital - Analyst*

Sorry, my question's actually already been answered. I obviously tried to cancel it but it didn't work.

Neil Cooper *- William Hill plc - Group Finance Director*

That's alright. No problem. We'll see you later, Ed.

Operator

Matthew Gerard from Credit Suisse is online with a question.

Matthew Gerard *- Credit Suisse - Analyst*

Morning Neil.

Neil Cooper *- William Hill plc - Group Finance Director*

Hi Matthew.

Matthew Gerard *- Credit Suisse - Analyst*

Just a couple from me following up. You probably don't want to talk specifics about marketing in William Hill Online in particular, but if we look at the trends, obviously it was bumbling along at 20% of net revenue, your marketing cost that is, before jumping up quite sharply in the first half to just over 25%. Now, how much of the outperformance in the second half, I suppose, has been reinvested in marketing? And has that percentage of revenue figure been sustained or did it drop back a bit slightly because some of that first-half spend was pre World Cup and targeted customer acquisition?

Neil Cooper *- William Hill plc - Group Finance Director*

I think, to be fair, Matthew, I think it's a very sensible question, but given what we've disclosed today, I think that's something that we'll expand further on at the prelims. If -- what I will say is that our in-play turnover has continued to grow and we're very pleased with how that is evolving. We continue to advertise primarily in-play around the ITV and Sky Football and certainly if you look at the turnover performance as any guide, we're seeing real traction there.

But listen, in terms of the more detailed part of your question, I think that is something that is better discussed at the prelims when we obviously spend a bit, a little bit more time sharing with your our strategies and thinking for the year ahead.

Matthew Gerard *- Credit Suisse - Analyst*

And just one more on machines really. Obviously, it's been a sustained strong performance through the backend of the year despite presumably a footfall impact on the shops from the adverse weather. Can you give us a bit more color on what's actually driving this machine growth? Obviously transactions are still pretty strong, but have you also had a margin benefit or a yield-management benefit through the backend of the year as well?

Neil Cooper *- William Hill plc - Group Finance Director*

I think we've seen a very -- we've seen a small shift around in margin, but this is predominantly about turnover, Matthew. Clearly, we've had the Storm rollout. We are still not fully aniversaried over Storm, so you'd expect to see continued levels of growth higher than the, whatever the market average is.

As I think I've commented on a number of occasions, we're not just getting the growth out of Storm; we're seeing growth out of our non-Storm estate as well, albeit obviously at a lower rate of growth. We work very hard operationally to encourage trial, to manage the operation and the player experience around the machines. And like any other successful product format, it isn't just a single magic bullet. There are a number of facets - the way that we operate, the keenness we are to maintain an up-to-date service, the machines in and of themselves - that all add up to a very, very strong performance.

Matthew Gerard *- Credit Suisse - Analyst*

Okay. Thank you.

Neil Cooper *- William Hill plc - Group Finance Director*

As they say on the machines, success has a thousand fathers, but failure's an orphan, right?

Operator

Geetanjali Sharma from Espirito Santo Investment Bank is online with a question.

Geetanjali Sharma *- Espirito Santo - Analyst*

Hi. Morning guys. Just a flavor on the Online side of things, if I may. Could you give us a sense of which geographies are driving the growth in the gaming side particularly? Is this primarily the UK?

Neil Cooper *- William Hill plc - Group Finance Director*

Look, to be fair, I don't -- we don't typically comment on individual geographies. Hence my response to Vaughan on -- we were explicit about France because obviously that had done something that was quite material. But we don't comment generally on specific geographies in terms of our Online business. I will say that in general the UK is, partly as a result actually of the French closure, but also of the strength of the Sportsbook, the UK is probably increasing in the mix of Online revenues, as a general comment. But other than that, I -- we wouldn't typically comment in any more detail than that.

Geetanjali Sharma *- Espirito Santo - Analyst*

Okay, alright. Thanks for that.

Operator

Nigel Hicks from Liberum Capital is online with a question.

Nigel Hicks - ***Liberum Capital - Analyst***

Morning guys.

Neil Cooper - ***William Hill plc - Group Finance Director***

Hi Nigel.

Nigel Hicks - ***Liberum Capital - Analyst***

Morning. Can I just come back to that debt number you said of the GBP499m? Is that the covenanted number?

Neil Cooper - ***William Hill plc - Group Finance Director***

That's the covenanted number, yes.

Nigel Hicks - ***Liberum Capital - Analyst***

So that compares with GBP484m at the end of November?

Neil Cooper - ***William Hill plc - Group Finance Director***

Yes it does.

Nigel Hicks - ***Liberum Capital - Analyst***

Right.

Neil Cooper - ***William Hill plc - Group Finance Director***

We paid a dividend subsequent to the GBP484m number, don't forget.

Nigel Hicks - ***Liberum Capital - Analyst***

Right. And were there any other exceptional costs, like to do with the hedging or the, any of the financial ones?

Neil Cooper - ***William Hill plc - Group Finance Director***

No. The hedging that we talked about when we closed the financial deal, we've obviously taken an exceptional hit, but we did not close the hedging instrument. So the cash flow, I think as I commented at the time, the cash flow implications of those hedges haven't changed. They haven't been brought forward.

Nigel Hicks - ***Liberum Capital - Analyst***

Okay. Can you just say -- on the debt, can you just run through in very simple terms what rates there are? Because I think the market may not have fully picked up the scale of the saving. I know there's some exceptionals, but in terms of the P&L charge for next year.

Neil Cooper - ***William Hill plc - Group Finance Director***

Right. Okay, I'll give you a very quick rundown. We obviously have a GBP300m bond, which is about a 7.125% coupon. We now obviously have a revolving credit facility in place, which carries with it a margin that is variable because it will depend on the degree of gearing that we have. But the margin is -- I'm just trying to grab a piece of paper to remind myself of what we'd said previously on the margin. The margin's going to be somewhere around 3%, just -- that's including LIBOR.

Lyndsay Wright - ***William Hill plc - Director of IR***

Including LIBOR.

Neil Cooper - ***William Hill plc - Group Finance Director***

Including a LIBOR number. The big changes for us in the facility were I suppose twofold. Firstly, we were carrying a pretty lumpy non-cash amortization of finance fees. That has reduced materially. I was -- to give you some sense of scale, I'd have to just -- I don't have the schedule right in front of me, Nigel, but I think we were talking about GBP6m to GBP7m in 2010, on a full-year basis in 2010, looking from the start of the year. And that has come down to somewhere just over a GBP1m. So there's a big shift there.

The hedging instruments, the effective hedges were costing us -- we're expecting to be costing us somewhere around GBP6m to GBP7m next year. Obviously that was much higher this year because the hedges are rolling off. So they -- because we've now designated those hedges and taken the future P&L hit up front as an exceptional item, again they will be -- that will give us an earnings benefit next year.

And the third thing, which is a smaller thing, but the structure of the preceding deal was that we had a big, chunky term loan which was higher than the amount of, actually, utilization we needed, so we were sitting on cash. And given deposit rates versus lending rates, you don't really want to be sitting on more debt than you need. So moving from a term loan to a revolver has helped -- will help us around the margins on keeping our finance costs down.

Has that helped?

Nigel Hicks - ***Liberum Capital - Analyst***

Yes. No, that's great. So gross cash at the halfway stage was GBP176m and I think it was GBP120m at the year end last year, '09. What -- does that come down to -- you've obviously got to have client cash sitting around, but --

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Neil Cooper - ***William Hill plc - Group Finance Director***

Yes. To be fair, I don't have that number in my mind, Nigel, because I hadn't -- we hadn't discussed it in the trading statement and we obviously haven't quite finished the full year-end balance sheet and reporting as yet.

Nigel Hicks - ***Liberum Capital - Analyst***

Okay.

Neil Cooper - ***William Hill plc - Group Finance Director***

But it will clearly come down because we're now -- we're holding -- we have around GBP260m drawn of our revolver versus a term loan of GBP359m that I had in place in November prior to the cutover. So obviously you'll see the excess liquidity has now been diverted into lower borrowings.

Nigel Hicks - ***Liberum Capital - Analyst***

Yes. Okay. Can you just say what -- the Telephone delays, what -- you mentioned --

Neil Cooper - ***William Hill plc - Group Finance Director***

It's just been a technical project that's involving a whole number of facets. We had said I think we'll get it done by Q4. We're now looking at -- in fact we're scheduled to cutover at the last weekend of January, so we've just run three or four weeks over. There's nothing more earth shattering than that.

Nigel Hicks - ***Liberum Capital - Analyst***

Okay. And on machines, are you -- are there -- is there any contract dates that are important regarding, say, Global Draw?

Neil Cooper - ***William Hill plc - Group Finance Director***

Yes. Hold on. Let me just refresh my memory.

Nigel Hicks - ***Liberum Capital - Analyst***

And while you find that, can you actually say whether -- to what delta there was between the two suppliers or was it material?

Neil Cooper - ***William Hill plc - Group Finance Director***

Yes, we've not commented on that, Nigel, because it's -- we regard some of that detail as commercially sensitive. We are seeing reasonable growth. Take my word for it; we're seeing reasonable growth from Global Draw.

Our machine contracts expire at the end of '11 and at the end of '12.

Nigel Hicks - ***Liberum Capital - Analyst***

Sorry, what does that mean? I don't understand. If both -- one contract with one ends in '11 and one contract with the other in '12?

Neil Cooper - ***William Hill plc - Group Finance Director***

Yes.

Nigel Hicks - ***Liberum Capital - Analyst***

Do you know which or --

Neil Cooper - ***William Hill plc - Group Finance Director***

If I wanted to tell you, I'd have told you.

Nigel Hicks - ***Liberum Capital - Analyst***

Right, okay. Thank you.

Neil Cooper - ***William Hill plc - Group Finance Director***

Alright.

Nigel Hicks - ***Liberum Capital - Analyst***

Cheers.

Operator

Roohi Siddiqui of Bank of America - Merrill Lynch is back online with a question.

Neil Cooper - ***William Hill plc - Group Finance Director***

Hi Roohi.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Hi Neil. Look, my question's on the Online Sportsbook. Is it possible for you to give us a split between in-play and pre-match, either on a turnover or gross win basis? And I apologize if I've missed that already.

Neil Cooper - ***William Hill plc - Group Finance Director***

Yes. Ralph made a comment on that in his script. But it's approximately 35%. In terms of revenue, turnover, it's approximately 35% in-play and therefore 65% pre-match. Now I would comment that that is probably lower than the norm at the moment despite the very strong growth we've seen. But I'd remind you that we probably have a higher amount of horse race betting through Online that some of our peers who -- than some of our non-traditional UK bookmaking peers. If you strip out the horse racing, we're probably at 50/50 now.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

And have you launched the in-play on horse racing that you were talking about during --

Neil Cooper - ***William Hill plc - Group Finance Director***

We haven't launched that yet, no.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Okay.

Neil Cooper - ***William Hill plc - Group Finance Director***

But it's one of the developments that the guys are working on.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Great. Thank you.

Neil Cooper - ***William Hill plc - Group Finance Director***

We'll give you a bit more detail on that at the prelims, Roohi.

Roohi Siddiqui - ***Bank of America - Merrill Lynch - Analyst***

Okay then.

Operator

[John Beaumont] from Matrix Group is online with a question.

John Beaumont - ***Matrix Group - Analyst***

Yes. Good morning Neil.

Neil Cooper - ***William Hill plc - Group Finance Director***

Morning.

John Beaumont - ***Matrix Group - Analyst***

Just a couple of financial ones. First of all, on the tax rate, you've said I think that next year's rate is also going to benefit from the release of deferred tax. I was just wondering, if we were to turn the clock forward to FY'12, what would be your best guess of an underlying rate, assuming that there's no deferred tax benefit rolling through in that period?

Neil Cooper - ***William Hill plc - Group Finance Director***

There will be -- look, what's going on with the deferred tax is that we've got a fairly large deferred tax liability on the balance sheet. As you move down in tax rates that deferred liability will reduce. So we're scheduled to see corporation tax dropping 1% a year between now and 2014. And, therefore, each year you will see this deferred tax benefit drop in, as long as obviously the government enacts that rate that it said it's going to enact. So we should see this one-off -- well, it's not really a one-off, but we should see this deferred tax gain in '10, '11, '12 and '13.

Now obviously the background tax rate is also dropping during that time as a result of the government dropping the corporation tax rates. So I think if you aimed off 2011 by the underlying drop in corporation tax you'd get to a best guess at this stage for '12.

John Beaumont - ***Matrix Group - Analyst***

Right, okay. And just going on, talking about your net debt figure, and I heard obviously that the GBP499m figure you mentioned earlier was covenant purposes, which presumably that therefore does include client cash. And I was just wondering, is that still running at around the GBP50m mark or has that changed much?

Neil Cooper - ***William Hill plc - Group Finance Director***

Look, we'll -- I don't think anything's materially changed there, but we will update at the prelims at that level of detail.

John Beaumont - ***Matrix Group - Analyst***

Right, okay. Thank you.

Neil Cooper - ***William Hill plc - Group Finance Director***

Alright. Can I just take one more question and then we need to wrap up in terms of time? So apologies if you're not in the queue. You can always call Lyndsay or I later on in the day.

Operator

(Operator Instructions).

Neil Cooper - ***William Hill plc - Group Finance Director***

By the sounds of it, we're done, are we, in terms of Q&A?

Operator

We have no further questions at this time.

Neil Cooper - ***William Hill plc - Group Finance Director***

Okay. Alright. Listen, I'd just like to say we appreciate everyone taking the time to call in and for the questions that have been asked. And I look forward to, as does Ralph, seeing you at the prelims. Thank you. Bye, bye.

Operator

Thank you ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.