WILLIAM HILL PLC

Financial Statements prepared in accordance

with International Financial Reporting Standards

28 December 2004

William Hill PLC

Report and financial statements 2004

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INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF WILLIAM HILL PLC ON IFRS PRO-FORMA FINANCIAL INFORMATION

In accordance with our letter of engagement dated 16 February 2005 we have audited the accompanying pro-forma IFRS consolidated statements of income, balance sheet, cash flows, accounting policies and the related notes 1 to 37 for the 52 week period ended 28 December 2004 (together "the IFRS pro-forma financial information"). This IFRS pro-forma financial information is the responsibility of the Company's directors. It has been prepared as part of the Company's conversion to International Financial Reporting Standards (IFRSs). Our responsibility is to express an opinion on this IFRS pro-forma financial information based on our audit.

Our audit report is made solely to the Company in accordance with our engagement letter. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the opinions we have formed.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the pro-forma IFRS financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the pro-forma IFRS financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the pro-forma IFRS financial information. We believe that our audit provides a reasonable basis for our opinion.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that the 'Basis of accounting' as outlined in the Statement of accounting policies explains why there is a possibility that the accompanying IFRS Balance Sheet as at 28 December 2004 may require adjustment before constituting the final opening IFRS Balance Sheet for statutory reporting.

Opinion

In our opinion, the accompanying pro-forma IFRS financial information as at 28 December 2004 has been prepared, in all material respects, in accordance with the basis set out in the Statement of accounting policies, 'Basis of accounting' section.

Deloitte & Touche LLP
Chartered Accountants
London
2 March 2005

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

William Hill PLC

Consolidated Income Statement
for the 52 weeks ended 28 December 2004

	Notes	52 weeks ended 28 December 2004 £m
Revenue	1,2	**8,287.7**
Cost of sales		**(7,726.3)**
Gross profit	2	**561.4**
Other operating income		**4.3**
Other operating expenses		**(334.8)**
Share of results of associate	3	**2.1**
Operating profit	2,4	**233.0**
Investment income	6	**1.9**
Finance costs	7	**(28.6)**
Profit before tax	2	**206.3**
Tax	8	**(57.4)**
Profit for the period	28	**148.9**

Earnings per share (pence)		
Basic	10	**36.3**
Diluted	10	**35.7**

All amounts relate to continuing operations for the current financial period.

Consolidated Statement of Recognised Income and Expense
for the 52 weeks ended 28 December 2004

	Notes	52 weeks ended 28 December 2004 £m
Loss on cash flow hedges	27	**(0.3)**
Actuarial loss on defined benefit pension scheme	34	**(10.7)**
Tax on items taken directly to equity	20	**2.6**
Net income recognised directly in equity		**(8.4)**
Transferred to income statement on cash flow hedges	27	**2.6**
Profit for the period		**148.9**
Total recognised income and expense for the period		**143.1**

William Hill PLC

Consolidated Balance Sheet

as at 28 December 2004

	Notes	**28 December 2004 £m**	30 December 2003 £m
Non-current assets			
Goodwill	11	**733.3**	732.3
Other intangible assets	12	**18.7**	2.8
Property, plant and equipment	13	**104.2**	98.2
Interest in associate	15	**2.9**	0.8
Deferred tax assets	20	**24.6**	21.9
		883.7	856.0
Current assets			
Inventories	16	**0.3**	0.4
Trade and other receivables	17	**15.4**	15.7
Cash and cash equivalents	17	**60.5**	46.4
		76.2	62.5
Total assets		**959.9**	918.5
Current liabilities			
Trade and other payables	21	**(67.8)**	(61.8)
Tax liabilities		**(46.9)**	(48.1)
Bank overdraft and loans	18	**(49.8)**	(45.9)
		(164.5)	(155.8)
Non current liabilities			
Bank loans due after more than one year	18	**(447.7)**	(366.6)
Retirement benefit obligations	34	**(55.3)**	(45.6)
Deferred tax liabilities	20	**(3.8)**	(1.3)
		(506.8)	(413.5)
Total liabilities		**(671.3)**	(569.3)
Net assets		**288.6**	349.2
Equity			
Called-up share capital	22	**40.5**	42.2
Share premium account	23	**311.3**	311.3
Capital redemption reserve	24	**1.7**	-
Merger reserve	25	**(26.1)**	(26.1)
Own shares held	26	**(59.3)**	(5.0)
Hedging and other reserves	27	**(1.7)**	(1.3)
Retained earnings	28	**22.2**	28.1
Total equity		**288.6**	349.2

The financial statements were approved by the board of directors on 2 March 2005 and are signed on its behalf by:

DCI Harding
Director

TD Singer
Director

William Hill PLC

Consolidated Cash Flow Statement

for the 52 weeks ended 28 December 2004

	Notes	52 weeks ended 28 December 2004 £m
Net cash from operating activities	30	**164.7**
Investing activities		
Interest received		**1.9**
Proceeds on disposal of property, plant and equipment		**0.9**
Purchases of property, plant and equipment		**(18.5)**
Purchases of betting licences		**(0.6)**
Expenditure on computer software		**(9.7)**
Acquisition of subsidiary	29	**(3.2)**
Net cash used in investing activities		**(29.2)**
Financing activities		
Purchase of own shares		**(145.5)**
Dividends paid		**(59.6)**
Repayments of borrowings		**(6.3)**
New bank loans raised		**90.0**
Net cash used in financing activities		**(121.4)**
Net increase in cash and cash equivalents in the period		**14.1**
Cash and cash equivalents at start of period		**46.4**
Cash and cash equivalents at end of period		**60.5**

General information

William Hill PLC is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is Greenside House, 50 Station Road, London N22 7TP.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out below.

Pro forma financial information for the 52 weeks ended 28 December 2004

The Group is preparing for the adoption of International Financial Reporting Standards as its primary accounting basis for the period ending 26 December 2006. The Group's date of adoption and transition will therefore be the 29 December 2004, as comparative information will be prepared for the accounting period beginning on this date.

The pro forma financial information for the 52 weeks ended 28 December 2004 produced here has been prepared for illustrative purposes only. It has been prepared on the basis that the IFRS transition date is 30 December 2003. The actual transition date will be 29 December 2004.

Basis of accounting

The financial information presented in this document has been prepared on the basis of International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Board (IASB) and its committees, and as interpreted by any regulatory bodies applicable to the Group. These are subject to ongoing amendment by the IASB and subsequent endorsement by the European Commission and are therefore subject to possible change. As a result, information contained within the IFRS financial statements will require updating for any subsequent amendment to IFRS required for first time adoption or those new standards that the Group may elect to adopt early.

In preparing this financial information, the Group has assumed that the European Commission will endorse the amendment to IAS 19 'Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures'.

On 19 November 2004, the European Commission endorsed an amended version of IAS 39 'Financial Instruments: Recognition and Measurement' rather than the full version as previously published by the IASB. In accordance with guidance issued by the UK Accounting Standards Board, the full version of IAS 39, as issued by the IASB, has been adopted in the preparation of this financial information.

First-time adoption of International Financial Reporting Standards
The financial statements have been prepared in accordance with IFRS for the first time. The disclosures required by IFRS 1 'First-time Adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS are given in note 37.

IFRS 1 sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. Under IFRS 1 the Group will be required to establish its IFRS accounting policies as at 26 December 2006 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 29 December 2004.

IFRS 1 provides a number of optional exceptions to this general principle. The most significant of these are set out below, together with a description in each case of whether an exception has been adopted by the Group.

Business combinations
The Group has elected not to apply IFRS 3 'Business Combinations' retrospectively to business combinations that took place before the 30 December 2003. As a result, in the opening balance sheet, goodwill arising from past business combinations amounting to £732.3m remains as stated under UK GAAP at 30 December 2003.

Employee benefits
The Group has recognised actuarial gains and losses in relation to employee benefit schemes at 30 December 2003. The Group has recognised actuarial gains and losses in full in the period in which they occur in the statement of recognised income and expense in accordance with the amendment to IAS 19 'Employee Benefits', issued on 16 December 2004.

Basis of accounting (continued)

Share-based payments
The Group has elected to apply IFRS 2 'Share-based Payment' to all relevant share based payment transactions granted after 7 November 2002 but not fully vested at 29 December 2004.

Financial instruments
The Group has applied IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' for all periods presented and has therefore not taken advantage of the exemption in IFRS 1 that would enable the Group to only apply these standards from 28 December 2005.

General
The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below.

Presentation of financial information

The primary statements within the financial information contained in this document have been presented substantially in accordance with IAS 1 'Presentation of Financial Statements'. However, this format and presentation may require modification in the event that further guidance is issued and as practice develops.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 28 December 2004. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Investment in associate

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill. Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable from customers and represents amounts receivable for goods and services that the Group is in business to provide, as set out below.

In the case of the LBO, telephone and interactive sportsbook businesses (including FOBTs, games on the online arcade and other numbers bets), revenue represents the gross takings receivable from customers in respect of individual bets placed, on events that have occurred by the period end.

In the case of AWPs and the online casino operation, revenue represents the net winnings (excluding VAT) from customers on gaming activity completed by the period end.

Turnover from the online poker business reflects the net income ('rake') earned from poker games completed by the period end.

In the case of the greyhound stadia, turnover represents income arising from the operation of the greyhound stadia in the period, including sales of refreshments and tote income.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

In order to hedge its exposure to certain foreign exchange risks, the Group makes every effort to match its foreign currency assets and liabilities.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Finance costs

Finance costs of borrowings are recognised in the profit and loss account over the term of those borrowings at a constant rate on the carrying amount.

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to profit and loss over the expected useful lives of the assets concerned.

Operating profit

Operating profit is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The interest cost and the expected return on assets are shown as a net amount of other finance costs or income.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Land and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the balance sheet at their cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	-	50 years
Long leasehold properties	-	50 years
Short leasehold properties	-	over the unexpired period of the lease
Fixtures, fittings and equipment and motor vehicles	-	at variable rates between 3 and 10 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Internally generated intangible assets – computer software and systems

Expenditure on initial investigation and design of computer software and systems is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's development of computer systems is recognised only if all of the following conditions are met:

- An asset is created that can be identified (such as software and new processes);
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives, generally between three and ten years. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets – licences

Betting licences are recorded at cost or if arising in an acquisition at their fair value. They are judged to have an indefinite life and are accordingly not amortised but are subject to annual impairment reviews. The directors consider that the Group's licences have an indefinite life due to: the fact that the Group is a significant operator in a well established market; the proven and sustained demand for bookmaking services; the operation of current law that acts as a barrier to entry for new entrants; and the Group's track record of successfully renewing its betting permits and licences.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its goodwill, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows, which are based on the budgeted figures for the following year and subsequently an annual growth rate of 2.4%, are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories represent stocks of consumables in stores and goods for resale within the greyhound stadia. They are stated at the lower of cost and net realisable value.

Share-based payments

On 31 December 2003, the Group applied the requirements of IFRS 2 ‘Share-based payment’. In accordance with the transition provisions included in IFRS 2, its provisions have been applied to all grants after 7 November 2002 that were unvested as of 31 December 2003.

The Group issues equity-settled share-based payments to certain employees and operates a number of Inland Revenue approved Save As You Earn share option schemes open to all eligible employees which allow the purchase of shares at a discount. The cost to the Group of both of these share-based payments is measured at fair value at the date of grant. Fair value is expensed on a straight-line basis over the vesting period, based on the Group’s estimate of shares that will eventually vest.

Fair value is measured by use of the Black-Scholes-Merton pricing formula. The expected life used in the model has been adjusted, based on management’s best estimates, for the effects of non-transferability, exercise restrictions and behavioural considerations. Where relevant, the value of the option has also been adjusted to take into account any market conditions applicable to the option (e.g. TSR requirements).

Further descriptions of the Group’s share based payment plans are given in note 33.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits held by the Group with an original maturity of three months or less.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liability and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings
Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using the effective interest method. Any accrued finance costs are included in accruals and deferred income within trade and other payables.

Trade payables
Trade payables are not interest-bearing and are stated at their nominal value.

Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting
The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates. The Group uses interest rate swap contracts to hedge its interest rate exposure and retains cash balances in foreign currencies matched against its foreign currency liabilities (client deposit accounts) to hedge its exposure to foreign currency exchange rates. The Group does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on the use of financial derivatives.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value with unrealised gains or losses reported in the income statement.

Provisions

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

1. Revenue

An analysis of the Group's revenue is as follows:

	52 weeks ended 28 December 2004 £m
Rendering of services	**8,285.5**
Sale of goods	**2.2**
Revenue as disclosed in Consolidated Income Statement	**8,287.7**
Other operating income	**4.3**
Investment income	**1.9**
Total revenue as defined in IAS 18	**8,293.9**

2. Segmental information

For management purposes, the Group is currently organised into three operating divisions – retail, telephone and interactive. These divisions are the basis on which the Group reports its primary segment information.

Business segment information for the 52 weeks ended 28 December 2004:

	Retail £m	Telephone £m	Interactive £m	Other £m	Corporate £m	Group £m
Revenue	7,020.7	540.8	696.3	29.9	-	8,287.7
Payout	(6,472.6)	(480.5)	(590.2)	(22.3)	-	(7,565.6)
Gross win	**548.1**	**60.3**	**106.1**	**7.6**	**-**	**722.1**
GPT, duty, levies, VAT and other cost of sales	(123.6)	(14.3)	(21.9)	(0.9)	-	(160.7)
Gross profit	424.5	46.0	84.2	6.7	-	561.4
Depreciation	(14.2)	(0.5)	(0.5)	(0.3)	(0.7)	(16.2)
Other administrative expenses	(244.8)	(23.4)	(32.0)	(6.7)	(7.4)	(314.3)
Share of result of associate	-	-	-	-	2.1	2.1
Operating profit/(loss)	**165.5**	**22.1**	**51.7**	**(0.3)**	**(6.0)**	**233.0**
Investment income	-	-	-	-	1.9	1.9
Finance costs	-	-	-	-	(28.6)	(28.6)
Profit/(loss) before tax	**165.5**	**22.1**	**51.7**	**(0.3)**	**(32.7)**	**206.3**
Balance sheet information						
Total assets	647.3	79.9	134.9	15.1	82.7	959.9
Total liabilities	(38.5)	(4.2)	(16.3)	(0.8)	(611.5)	(671.3)
Investment in associate	-	-	-	-	2.9	2.9
Capital additions	31.2	0.8	2.3	0.6	0.1	35.0

The retail distribution channel comprises all activity undertaken in LBOs including AWPs and FOBTs. Other activities include on-course betting and greyhound stadia operations.

The directors believe that gross win and operating profit are more important performance metrics than revenue.

2. Segmental information (continued)

Net assets/(liabilities) have been allocated by segment where assets and liabilities can be identified with a particular channel. Corporate net assets include corporation and deferred tax, net borrowings, pension liability and dividends payable as well as any assets and liabilities that cannot be allocated to a particular channel other than on an arbitrary basis. Included within total assets by segment are £535.4m, £75.0m, £115.8m and £7.1m which relates to goodwill allocated to the retail, telephone, interactive and stadia operations respectively.

There are no inter-segmental sales within the Group.

In accordance with IAS 14 'Segment Reporting', segmental information by geographical location is not presented as the Group's revenue and profits arise primarily from customers in the United Kingdom with significantly less than 10% (the minimum required by IAS 14 to necessitate disclosure) of revenue and profits generated from customers outside of this jurisdiction. All of the Group's net assets are located in the United Kingdom.

3. Share of results of associate

	52 weeks ended 28 December 2004 £m
Share of profit after taxation in associated undertaking	**2.1**

The above represents the Group's share of the operating profit of Satellite Information Services (Holdings) Limited (note 15).

4. Operating profit

Operating profit has been arrived at after charging:

	52 weeks ended 28 December 2004 £m
Net foreign exchange losses	**0.3**
Depreciation of property, plant and equipment	**15.3**
Depreciation of software	**0.9**
Staff costs (see note 5)	**191.9**
Auditors' remuneration for audit services (see below)	**0.3**

4. Operating profit (continued)

Amounts payable to Deloitte & Touche LLP and their associates by the Company and its UK subsidiary undertakings in respect of non-audit services were £0.3m. A more detailed analysis of auditors' remuneration is provided below:

	52 weeks ended 28 December 2004 £m
Audit services – statutory audit	**0.3**
Fees for other services:	
Further assurance services	**0.1**
Tax services	
- compliance services	**0.1**
- advisory services	**0.1**
	0.3

'Further assurance services' in the table above includes fees paid in respect of auditing industry levy calculations and amounts paid in respect of the audit of financial statements prepared in accordance with IFRS.

The audit fees payable to Deloitte & Touche LLP are reviewed by the Audit Committee to ensure such fees are competitive. The Committee sets the policy for awarding non-audit work to the auditors and reviews the nature and extent of such work and related fees in order to ensure that independence is maintained. The fees disclosed above consolidate all payments made to Deloitte & Touche LLP by the Company and its subsidiaries.

5. Staff costs

The average monthly number of persons employed, including directors, during the period was 11,217 all of whom are engaged in the administration and provision of betting services. Their aggregate remuneration comprised:

	52 weeks ended 28 December 2004 £m
Wages and salaries	**158.6**
Social security costs	**14.4**
Other pension costs (note 34)	**18.9**
	191.9

Included in other pension costs is £10.7m relating to actuarial losses, which have been charged to the statement of recognised income and expense.

6. Investment income

	52 weeks ended 28 December 2004 £m
Interest on bank deposits	**1.9**

7. Finance costs

	52 weeks ended 28 December 2004 £m
Interest on bank loans and overdrafts	**25.6**
Interest on guaranteed unsecured loan notes 2005	**0.2**
Amortisation of finance costs	**1.3**
	27.1
Pension finance costs (note 34)	**1.5**
	28.6

8. Tax on profit on ordinary activities

The tax charge comprises:

	52 weeks ended 28 December 2004 £m
UK corporation tax at 30%	**57.4**
UK corporation tax – prior periods	**(1.7)**
Overseas tax	**0.3**
Total current tax charge	**56.0**
Deferred tax – origination and reversal of timing differences	**1.4**
Total tax on profit on ordinary activities	**57.4**

The effective tax rate in respect of ordinary activities before exceptional items was 27.8%. The tax charge is lower than the statutory tax rate of 30% mainly due to brought forward losses for which deferred tax was not recognised.

8. Tax on profit on ordinary activities (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	52 weeks ended 28 December 2004 £m	%
Profit before tax	**206.3**	100.0
Tax on Group profit at standard UK corporation tax rate of 30%	**61.9**	30.0
Non taxable income of associate	**(0.7)**	(0.3)
Adjustment in respect of prior periods	**(1.7)**	(0.8)
Permanent differences	**0.5**	0.2
Held over gains crystallising	**1.3**	0.6
Utilisation of tax losses	**(3.9)**	(1.9)
Total tax charge	**57.4**	27.8

The Group earns its profits primarily in the UK, therefore the tax rate used for tax on profit on ordinary activities is the standard rate for UK corporation tax, currently 30%.

9. Dividends proposed and paid

	52 weeks ended 28 December 2004 £m
Equity shares:	
- final dividend of 9.0p per share for the 52 weeks ended 30 December 2003	**37.6**
- interim dividend of 5.5p per share for the 26 weeks ended 29 June December 2004	**22.0**
	59.6
Proposed final dividend of 11.0p per share for the 52 weeks ended 28 December 2004.	**43.1**

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed final dividend of 11.0p will be paid on 2 June 2005 to all shareholders on the register on 6 May 2005.

Under an agreement signed in November 2002, The William Hill Holdings 2001 Employee Benefit Trust agreed to waive all dividends. As at 28 December 2004, the trust held 2.8m ordinary shares. In addition, the Company does not pay dividends on the 10.5m shares held in Treasury. The Company estimates that 391.6m shares will qualify for the final dividend.

10. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	52 weeks ended 28 December 2004 £m
Profit after tax for the financial period	**148.9**

	Number (m)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**410.1**
Effect of dilutive potential ordinary shares:	
Employee share awards and options	**7.4**
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**417.5**

The basic weighted average number of shares excludes shares held by The William Hill Holdings 2001 Employee Benefit Trust and those shares held in treasury as such shares do not qualify for dividends. The effect of this is to reduce the average number of shares in the 52 weeks ended 28 December 2004 by 8.7m.

11. Goodwill

	£m
Cost and net book value:	
At 31 December 2003	732.3
Recognised on acquisition of a subsidiary (note 29)	1.0
At 28 December 2004	**733.3**

12. Other intangible assets

	Licence value £m	Computer software £m	Total £m
Cost:			
At 31 December 2003	-	3.5	3.5
Additions	0.6	12.9	13.5
Acquired on acquisition of subsidiary	3.3	-	3.3
At 28 December 2004	3.9	16.4	20.3
Accumulated amortisation:			
At 31 December 2003	-	0.7	0.7
Charge for the period	-	0.9	0.9
At 28 December 2004	-	1.6	1.6
Net book value:			
At 28 December 2004	**3.9**	**14.8**	**18.7**
At 30 December 2003	-	2.8	2.8

The amortisation period for the Group's computer software is between three and ten years. The use of a ten year life in respect of some of the software is supported by warranties written into the relevant software supply contract.

Licences are judged to have an indefinite life and are accordingly not amortised but are subject to annual impairment reviews. The directors consider that the Group's licences have an indefinite life due to: the fact that the Group is a significant operator in a well established market; the proven and sustained demand for bookmaking services; the operation of current law that acts as a barrier to entry for new entrants; and the Group's track record of successfully renewing its betting permits and licences.

13. Property, plant and equipment

	Land and buildings £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
Cost:				
At 31 December 2003	125.3	81.9	4.3	211.5
Additions	16.3	4.4	0.8	21.5
Acquisition of subsidiary undertaking	0.1	-	-	0.1
Disposals	(2.6)	(6.0)	(0.9)	(9.5)
At 28 December 2004	139.1	80.3	4.2	223.6
Accumulated depreciation:				
At 31 December 2003	44.4	66.4	2.5	113.3
Charge for the period	10.3	4.2	0.8	15.3
Disposals	(2.4)	(6.0)	(0.8)	(9.2)
At 28 December 2004	52.3	64.6	2.5	119.4
Net book value:				
At 28 December 2004	**86.8**	**15.7**	**1.7**	**104.2**
At 30 December 2003	80.9	15.5	1.8	98.2

The net book value of land and buildings comprises:

	28 December 2004 £m	30 December 2003 £m
Freehold	**32.6**	32.5
Long leasehold	**5.0**	5.1
Short leasehold	**49.2**	43.3
	86.8	80.9

Out of the total net book value of land and buildings, £2.2m (30 December 2003 - £2.3m) relates to administration buildings and the remainder represents licensed betting offices. The gross value of assets on which depreciation is not provided amounts to £1.1m representing freehold land (30 December 2003 - £1.1m).

14. Subsidiaries

The principal subsidiaries of the Company, their country of incorporation, ownership of their share capital and the nature of their trade are listed below:

Directly owned:	Country of incorporation	Proportion of all classes of issued share capital owned by the Company	Nature of trade
William Hill Holdings Limited	Great Britain	100%	Holding company
Held through intermediate companies:			
William Hill Investments Limited	Great Britain	100%	Holding company
Will Hill Limited	Great Britain	100%	Holding company
Windsors (Sporting Investments) Limited	Great Britain	100%	Holding company
Camec Limited	Great Britain	100%	Betting services
William Hill Organization Limited	Great Britain	100%	Betting services
William Hill (Course) Limited	Great Britain	100%	Betting services
William Hill Credit Limited	Great Britain	100%	Betting services
William Hill (North Eastern) Limited	Great Britain	100%	Betting services
William Hill (North Western) Limited	Great Britain	100%	Betting services
William Hill (Southern) Limited	Great Britain	100%	Betting services
William Hill (Football) Limited	Great Britain	100%	Betting services
William Hill (Strathclyde) Limited	Great Britain	100%	Betting services
William Hill (Caledonian) Limited	Great Britain	100%	Betting services
William Hill (Grampian) Limited	Great Britain	100%	Betting services
William Hill (London) Limited	Great Britain	100%	Betting services
William Hill (Midlands) Limited	Great Britain	100%	Betting services
William Hill (Scotland) Limited	Great Britain	100%	Betting services
William Hill (Western) Limited	Great Britain	100%	Betting services
William Hill (Essex) Limited	Great Britain	100%	Betting services
Camec (Provincial) Limited	Great Britain	100%	Betting services
Camec (Scotland) Limited	Great Britain	100%	Betting services
Camec (Southern) Limited	Great Britain	100%	Betting services
Laystall Limited	Great Britain	100%	Betting services
Brooke Bookmakers Limited	Great Britain	100%	Betting services
James Lane Group Limited	Great Britain	100%	Betting services
Arena Racing Limited	Great Britain	100%	Betting services
Transdawn Limited	Great Britain	100%	Betting services
The Regal Sunderland Stadium Limited	Great Britain	100%	Greyhound stadium operation
Team Greyhounds (Brough Park) Limited	Great Britain	100%	Greyhound stadium operation
William Hill Casino NV	Netherland Antilles	100%	On-line casino
William Hill Online NV	Netherland Antilles	100%	On-line casino

The proportion of voting rights held is the same as the proportion of shares held.

A full list of the Company's subsidiaries will be appended to the Company's Annual Return.

15. Interests in associate

	Goodwill £m	Provision for impairment of goodwill £m	Share of net assets £m	Total £m
At 31 December 2003	24.0	(24.0)	0.8	0.8
Share of profit after taxation	-	-	2.1	2.1
At 28 December 2004	**24.0**	**(24.0)**	**2.9**	**2.9**

At 28 December 2004 William Hill Organization Limited, a principal subsidiary of the Company, held an investment of 19% of the ordinary share capital of Satellite Information Services (Holdings) Limited (SIS), a company incorporated in Great Britain. The investment has been accounted for as an associated undertaking using the net equity method and the change in the Group's share of its net assets is shown above. Although the Group does not own more than 20% of the share capital of SIS, it can exercise significant influence over SIS as evidenced by its representation on its board of directors and due to the fact that it is a significant customer for SIS's services.

The SIS group of companies provides real time pre-event information and results, as well as live coverage of horse racing, greyhound racing and certain numbers draws, via satellite. The statutory financial statements of SIS are prepared to the year ending 31 March. The consolidated figures above are based on management accounts for the calendar year 2004.

A provision was made in 1999 against goodwill relating to the acquisition of shares in SIS to recognise impairment in the carrying value.

The following financial information relates to SIS:

	28 December 2004 £m
Total assets	**46.5**
Total liabilities	**(30.7)**
Total revenue	**114.7**
Total profit after tax	**11.3**

William Hill Organization Limited also holds directly or indirectly 33% of the entire share capital of Lucky Choice Limited and of 49's Limited. These companies were formed for the purpose of promoting and publicising certain numbers betting formats. In the opinion of the directors, the results of these companies are not material to the results of the Group. Consequently, the investments have been stated at cost and have not been accounted for under the net equity method, which would normally be appropriate for an associated undertaking.

16. Inventories

	28 December 2004 £m	30 December 2003 £m
Raw materials, consumables and bar stocks	**0.3**	0.4

17. Other financial assets

Trade and other receivables comprise:

	28 December 2004 £m	30 December 2003 £m
Trade debtors	**1.9**	2.7
Other debtors	**1.1**	3.5
Prepayments	**12.4**	9.5
	15.4	15.7

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Bank balances and cash comprise cash and short-term bank deposits held by the Group with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Credit risk

The Group's principal financial assets are bank balances and cash and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

18. Bank overdrafts and loans

	28 December 2004 £m	30 December 2003 £m
Bank loans	**500.0**	410.0
Guaranteed unsecured loan notes 2005	**-**	6.3
	500.0	416.3
The borrowings are repayable as follows:		
On demand or within one year	**50.0**	46.3
In the second year	**60.0**	50.0
In the third to fifth years inclusive	**390.0**	320.0
	500.0	416.3
Less: expenses relating to loan	**(2.5)**	(3.8)
	497.5	412.5
Less: amount due for settlement within 12 months (shown under current liabilities)	**(49.8)**	(45.9)
Amount due for settlement after 12 months	**447.7**	366.6

18. Bank overdrafts and loans (continued)

Bank loans

	52 weeks ended 28 December 2004
	%
The weighted average interest rates paid were as follows:	
Bank loans	**6.0**

At 28 December 2004, the Group has a total bank facility of £620.0m available to it, split into two tranches:

- Tranche A comprising a term loan of £170.0m repayable over the next two years, £50.0m of which was repaid on 31 December 2004;
- Tranche B comprising a revolving facility of £450.0m effective until 28 May 2007.

Mandatory repayments are required to be made under the terms of the loan documentation, including, but not limited to, the net proceeds of certain asset sales. The maturity profile above is analysed on the basis of calendar years from the balance sheet date.

The bank facilities bear interest at a variable margin of between 0.7% and 1.45% above LIBOR, dependent on certain financial ratios. The applicable margin at 28 December 2004 was 0.7%.

A commitment fee of half the applicable margin is payable on the undrawn element of the revolving facility. The revolving facility drawn down at 28 December 2004 was £330.0m (30 December 2003 - £200.0m).

The total facility is secured by guarantees given by the Company and certain of its subsidiaries.

Guaranteed unsecured loan notes 2005

	28 December 2004 £m	30 December 2003 £m
Less than one year	**-**	6.3

As part of the acquisition of The Regal Sunderland Stadium Limited, guaranteed unsecured loan notes 2005 (2005 Notes) of £8.4m were issued by the Group to the vendors. Holders of the 2005 Notes redeemed all of the outstanding notes at par during the period. Interest payable relating to the 2005 Notes was paid quarterly and was set at 0.5% above base lending rate.

Overdraft facility

At 28 December 2004, the Group had an overdraft facility with National Westminster Bank plc of £5.0m (30 December 2003 - £5.0m). The balance of this facility at 28 December 2004 was £nil (30 December 2003 - £nil).

Fair value of loans and facilities

It is the directors' opinion that due to the floating nature of the Group's borrowings and the proven cash generation of the Group, there is no significant difference between book and fair value of the Group's bank facilities and other borrowings.

19. Derivatives and other financial instruments

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The Group had the following interest rate hedging arrangements at 28 December 2004 under which the LIBOR element of the interest payable is swapped for fixed rate payments:

- Two amortising interest rate swaps, each for a notional principal of £12.5m and expiring on 23 June 2006. The average fixed rate to be paid under these swaps is 5.11725%;
- Four amortising interest rate swaps, each for a notional principal of £68.8m at 28 December 2004 reducing to £26.3m by 30 September 2006 and expiring on 31 December 2006. The average fixed rate to be paid under these swaps is 5.35%;
- One interest rate swap, entered into during the period but not taking effect until 31 December 2004, for an initial notional principal of £85.0m increasing to £120.0m by 30 September 2006 and expiring on 31 December 2007. The average fixed rate to be paid under this swap is 4.925%.

The fair value of swaps entered into at 28 December 2004 is estimated at a liability of £2.5m (30 December 2003 - £4.8m). Derivative pricing models have been used to calculate these fair values. All of these interest rate swaps are designated and effective as cash flow hedges and the fair value thereof has been deferred in equity. An amount of £2.6m has been paid against hedged interest payments made in the period.

Currency risk

The main functional currency of the Group is sterling. A number of transactions are conducted in other currencies which give rise to monetary assets and liabilities denominated in other currencies. None of these currency amounts are considered material enough to disclose separately.

Net foreign currency monetary assets at 28 December 2004 are as follows:

	Sterling £m	**Other currencies £m**	**Total £m**
Currency:			
Sterling	-	-	-
Other currencies	-	-	-
	-	-	-

Net foreign currency monetary assets at 30 December 2003:

	Sterling £m	Other currencies £m	Total £m
Currency:			
Sterling	-	1.5	1.5
Other currencies	-	-	-
	-	1.5	1.5

20. Deferred tax

The following are the major deferred tax (liabilities) and assets recognised by the Group and movements thereon during the current period:

	At 31 December 2003 £m	Acquired during period £m	Amount credited / (charged) to income £m	Amount credited / (charged) to statement of recognised income and expenses £m	**At 28 December 2004 £m**
Accelerated capital allowances	1.0	-	(2.2)	-	**(1.2)**
Held over gains	(0.6)	-	0.5	-	**(0.1)**
Retirement benefit obligations	13.7	-	(0.3)	3.2	**16.6**
Licences	-	(1.0)	-	-	**(1.0)**
Share remuneration	-	-	0.7	-	**0.7**
Rolled over capital gains	(0.7)	-	(0.8)	-	**(1.5)**
Derivatives	1.4	-	-	(0.6)	**0.8**
Tax losses	5.8	-	0.7	-	**6.5**
	20.6	(1.0)	(1.4)	2.6	**20.8**

The current rate of UK corporation tax of 30% has been used to calculate the amount of deferred tax.

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	28 December 2004 £m	30 December 2003 £m
Deferred tax liabilities	**(3.8)**	(1.3)
Deferred tax assets	**24.6**	21.9
	20.8	20.6

Deferred tax assets of £10.1m (30 December 2003 - £13.4m) in respect of carried forward tax losses have not been recognised, as it is not expected that taxable profits will arise in the foreseeable future in the companies with the losses.

Temporary differences arising in connection with interests in associate are insignificant.

21. Other financial liabilities

Trade and other payables comprise:

	28 December 2004 £m	30 December 2003 £m
Trade creditors	**23.7**	18.2
Financial derivatives (note 19)	**2.5**	4.8
Other creditors	**3.0**	3.2
Accruals and deferred income	**38.6**	35.6
	67.8	61.8

The average credit period taken for trade purchases is 20 days.

The directors consider that the carrying amount of trade payables approximates to their fair value.

Included in trade creditors is an amount of £13.1m (30 December 2003 - £8.6m) in respect of amounts due to clients, representing deposits received and customer winnings. This is offset by an equivalent amount of client funds held, which are included in cash at bank and in hand.

22. Called up share capital

	28 December 2004		30 December 2003	
	Number of shares	**£m**	Number of shares	£m
Authorised - ordinary shares of 10p each:				
At 28 December 2004 and 30 December 2003	**800,000,000**	**80.0**	800,000,000	80.0
Called-up, allotted and fully paid - ordinary shares of 10p each:				
At start of period	**421,811,111**	**42.2**	421,811,111	42.2
Shares cancelled	**(16,929,722)**	**(1.7)**	-	-
At end of period	**404,881,389**	**40.5**	421,811,111	42.2

The shares were cancelled during the period as part of the Company's share buy back programme.

The Company has one class of ordinary shares, which carry no right to fixed income.

23. Share premium

	£m
At 31 December 2003 and 28 December 2004	**311.3**

The share premium reserve records the excess of the cash actually received on the issue of shares over the nominal amount of the share capital issued.

24. Capital redemption reserve

	£m
At 31 December 2003	**-**
Shares cancelled (note 22)	**1.7**
At 28 December 2004	**1.7**

The capital redemption reserve arose on the cancellation of previously issued shares and represents the nominal value of those shares cancelled.

25. Merger reserve

	£m
At 31 December 2003 and 28 December 2004	**(26.1)**

The merger reserve arose following a Group reorganisation in 2002 in preparation for the flotation of the Company.

26. Own shares

	£m
At 31 December 2003	**(5.0)**
Treasury shares purchased	**(56.1)**
Movements on reserves due to transfer of own shares to recipients	**1.8**
At 28 December 2004	**(59.3)**

Own shares held at 28 December 2004 amounting to £59.3m comprise 10.5m shares (nominal value - £1.1m) held in treasury purchased for £56.1m and 2.8m shares (nominal value - £0.3m) held in The William Hill Holdings 2001 Employee Benefit Trust purchased for £3.2m. The shares held in treasury were purchased at a weighted average price of £5.32. At 28 December 2004 the total market value of own shares held was £74.5m.

27. Hedging and other reserves

	Other reserve £m	Hedging reserve £m	Total £m
At 31 December 2003	**2.1**	**(3.4)**	**(1.3)**
Change in fair value of hedging derivatives	**-**	**(0.3)**	**(0.3)**
Transferred to retained earnings	**(2.1)**	**-**	**(2.1)**
Transfer to income	**-**	**2.6**	**2.6**
Deferred tax arising	**-**	**(0.6)**	**(0.6)**
At 28 December 2004	**-**	**(1.7)**	**(1.7)**

Other reserve arose on the granting of share options that were to be met by issuing shares. The options were exercised in the period and consequently the reserve was transferred to retained earnings.

Hedging reserve records the movements on derivative fair values, where those derivatives have qualified to be deferred to equity.

28. Retained earnings

	£m
At 31 December 2003	**28.1**
Dividends paid (note 9)	**(59.6)**
Net profit for the period	**148.9**
Actuarial loss recognised in the pension scheme	**(10.7)**
Deferred tax arising thereon	**3.2**
Treasury shares purchased	**(89.3)**
Expense recognised in respect of share remuneration	**1.3**
Transferred from other reserve	**2.1**
Movements on reserves due to transfer of own shares to recipients	**(1.8)**
At 28 December 2004	**22.2**

29. Acquisition of subsidiary

On 9 September 2004, the Group acquired all of the issued share capital of Arena Racing Limited ('Arena') for total cash consideration of £2.6m including costs of £0.1m. Arena operates a small chain of LBOs.

On 17 December 2004, the Group acquired all of the issued share capital of Transdawn Limited ('Transdawn') for total cash consideration of £0.7m including costs of less than £0.1m. Transdawn also operates a small chain of LBOs.

Both of these transactions have been accounted for by the purchase method of accounting. The goodwill arising on these transactions are subject to an annual impairment review in accordance with IAS 36 'Impairment of assets'.

The following table sets out the book values of the identifiable assets and liabilities of Arena and Transdawn acquired during the period and their fair value to the Group:

	Book values				
	Arena £m	Transdawn £m	Total £m	Fair value adjustments £m	Fair value to Group £m
Net assets acquired					
Intangible – licence value	-	0.1	0.1	3.2	3.3
Tangible	0.1	-	0.1	-	0.1
Debtors and prepayments	-	0.1	0.1	-	0.1
Cash	0.1	-	0.1	-	0.1
Creditors and accruals	(0.1)	(0.2)	(0.3)	-	(0.3)
Deferred tax provisions	-	-	-	(1.0)	(1.0)
	0.1	-	0.1	2.2	2.3
Goodwill					1.0
Total consideration					3.3

The £3.2m fair value adjustment to intangible assets represents the value of betting licences held by Arena and Transdawn. The deferred tax liability of £1.0m relates to the recognition of those licences.

No reorganisation costs have been incurred in respect of these acquisitions.

29. Acquisition of subsidiary (continued)

Net cash outflows in respect of the acquisition comprised:

	£m
Cash consideration	3.3
Cash at bank and in hand acquired	(0.1)
	3.2

Arena recorded a small loss after taxation of less than £0.1m in the period between its acquisition by the Group and 28 December 2004. Transdawn also recorded a small loss after taxation of less than £0.1m in the period between its acquisition by the Group and 28 December 2004.

If the acquisition of Arena had been completed on the first day of the financial period, Group revenues for the period would have been £8,295.0m and Group profit attributable to equity holders of the parent would have been £149.2m.

30. Notes to the cash flow statement

	52 weeks ended 28 December 2004 £m
Operating profit	**233.0**
Adjustments for:	
Share of result of associate	**(2.1)**
Depreciation of property, plant and equipment	**15.3**
Depreciation of computer software	**0.9**
Gain on disposal of property, plant and equipment	**(0.6)**
Cost charged in respect of share remuneration	**1.3**
Defined benefit pension cost less cash contributions	**(2.6)**
	245.2
Operating cash flows before movements in working capital:	
Decrease in receivables	**0.5**
Increase in payables	**1.6**
Cash generated by operations	**247.3**
Income taxes paid	**(57.4)**
Interest paid	**(25.2)**
Net cash from operating activities	**164.7**

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

None of the acquisitions detailed in note 29 generated significant cash flows during the period of their ownership by the Group.

31. Contingent liabilities

At 28 December 2004 the Group has given a guarantee to third parties in respect of the rental of office premises on behalf of Satellite Information Services Limited, a subsidiary of SIS. The guarantees are given by Camec Limited (a principal subsidiary of the Group) but it has an indemnity from other parties for each of those parties' proportion of the liability. The guarantees are to the value of:

	28 December 2004 £m
Guarantees	**0.2**

32. Operating lease arrangements

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	28 December 2004 £m
Within one year	**28.2**
In the second to fifth years inclusive	**94.9**
After five years	**130.9**
	254.0

Operating lease payments represent rentals payable by the Group for certain of its LBO, office properties and amounts payable for the use of certain office and computer equipment.

33. Share based payments

The Group had the following share-based payment schemes in operation during the period, all of which will be settled by equity:

(a) Long Term Incentive Plans (LTIP) encompassing awards made in 2003 and 2004;

(b) Save As You Earn share option schemes granted after 7 November 2002 (SAYE) encompassing awards made in 2003 and 2004;

(c) Float bonus;

(d) Executive Director Incentive Plan (EDIP); and

(e) Save As You Earn share option schemes granted before 7 November 2002 (2002 SAYE) encompassing an award made in 2002.

In accordance with the transition provisions included in IFRS 2, the Group has recognised an expense in respect of all grants after 7 November 2002 that were unvested as of 31 December 2003. In the context of the Group's schemes, this includes (a) LTIP and (b) 2003 and 2004 SAYE schemes above. The total expense recognised (excluding employers' National Insurance costs) in respect of these schemes was £1.0m in the 52 weeks ended 28 December 2004.

33. Share based payments (continued)

(a) Long Term Incentive Plans (LTIP)

The LTIP provides a conditional award of shares dependant on the Group's Total Shareholder Return (TSR) performance over a three-year period and continued employment of the individual at the date of vesting (options are forfeited if the employee leaves the Group before the options vest). If the options remain unexercised after a period of ten years from the date of grant, the option lapses.

	28 December 2004 Number
Outstanding at beginning of the period	1,749,011
Granted during the period	981,307
Lapsed during the period	(372,504)
Exercised during the period	(70,286)
Outstanding at the end of the period	2,287,528
Exercisable at the end of the period	-

As the LTIP is a conditional award of shares and therefore the recipients do not have to pay an exercise price, the shares have, in effect, a zero cost exercise price. The weighted average share price at the date of exercise for share options exercised during the period was £5.31. The options outstanding at 28 December 2004 had a remaining weighted average contractual life of 8.6 years.

The inputs into the Black-Scholes-Merton pricing formula in respect of these awards were as follows:

	28 December 2004
Weighted average share price at date of grant	£3.17
Weighted average exercise price	Nil
Expected volatility	31%
Expected life	3.5 years
Risk free interest rate	4.5%
Expected dividend yield	3.4%

Expected volatility was determined by calculating the historical volatility of the Group's shares over a period matching the option life where possible and where this is not possible (due to the fact that the Company was only listed in June 2002), historical volatility has been calculated to a period from the date of option grant to a date three months after the listing of the Company. This ensures that the volatility calculation is not unduly affected by erratic price movements that arose immediately after flotation. The expected life of the option used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The value of the option has also been adjusted to take into account the market conditions applicable to the option (i.e. TSR requirements) by applying a discount to the option price. This discount is calculated based on an estimate of the probability of achieving the relevant condition.

The weighted average fair value of the options granted under the LTIP schemes at the date of grant was £0.94 per option. The expense recognised (excluding employers' national insurance costs) in respect of relevant LTIP schemes in the 52 weeks ended 28 December 2004 was £0.6m.

33. Share based payments (continued)

(b) SAYE schemes for 2003 and 2004

The SAYE Share Option Schemes, which are open to all eligible employees, are based on a three, five or seven year monthly savings contract. Options under the schemes are granted with an exercise price up to 20% below the share price when the savings contract is entered into. The options remain valid for six months beyond the end of the relevant savings contract.

	28 December 2004	
	Number	**Weighted average exercise price £**
Outstanding at beginning of the period	1,262,604	1.76
Granted during the period	782,534	3.93
Lapsed during the period	(215,114)	(2.36)
Exercised during the period	(1,743)	(1.76)
Outstanding at the end of the period	1,828,281	2.62
Exercisable at the end of the period	-	-

The exercise price for the 2003 and 2004 SAYE schemes was £1.76 and £3.93 respectively.

The weighted average share price at the date of exercise for share options exercised during the period was £4.89. The options outstanding at 28 December 2004 had a remaining weighted average contractual life of 4.8 years.

The inputs into the Black-Scholes-Merton pricing formula in respect of these options were as follows:

	28 December 2004
Weighted average share price at date of grant	£3.51
Weighted average exercise price	£2.56
Expected volatility	31%
Expected life	4.6 years
Risk free interest rate	4.8%
Expected dividend yield	3.1%

Expected volatility was determined by calculating the historical volatility of the Group's shares over a period matching the option life where possible and where this is not possible (due to the fact that the Company was only listed in June 2002), historical volatility has been calculated to a period from the date of option grant to a date three months after the listing of the Company. This ensures that the volatility calculation is not unduly affected by erratic price movements that arose immediately after flotation. The expected life of the option used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The weighted average fair value of the options granted under these SAYE schemes at the date of grant was £1.26 per option. The expense recognised in respect of relevant SAYE schemes in the 52 weeks ended 28 December 2004 was £0.4m.

33. Share based payments (continued)

(c) Pre 7 November 2002 schemes

In accordance with the transition provisions included in IFRS 2, the Group has not recognised an expense in respect of all grants before 7 November 2002 that were unvested as of 31 December 2003. In the context of the Group's schemes, this includes options outstanding in relation to a float bonus, the Executive Director Incentive Plan (EDIP) and the 2002 SAYE Share Option Scheme. The float bonus and EDIP were incentive arrangements for Messrs Harding and Singer arising out of the flotation of the Group. They were structured as zero cost options. The float bonus and 30% of the EDIP arrangement were exercised during the period. A further 30% of the EDIP vested during the period but was not exercised by the period end.

	28 December 2004	
	Number	**Weighted average exercise price £**
Outstanding at beginning of the period	7,581,833	1.14
Lapsed during the period	(179,526)	(1.80)
Exercised during the period	(1,521,714)	(0.03)
Outstanding at the end of the period	5,880,593	1.41
Exercisable at the end of the period	550,000	N/a

The weighted average share price at the date of exercise for share options exercised during the period was £5.31. The options outstanding at 28 December 2004 had a remaining weighted average contractual life of 3.4 years.

34. Retirement benefit schemes

The Group operates a number of defined contribution and defined benefit pension schemes in the United Kingdom. The respective costs of these schemes are as follows:

	52 weeks ended 28 December 2004 £m
Defined contribution scheme (charged to operating profit)	**0.6**
Defined benefit scheme (charged to operating profit)	**6.1**
Defined benefit scheme (charged to finance costs)	**1.5**
Defined benefit scheme (charged to statement of recognised income and expense)	**10.7**
	18.9

Defined contribution scheme

The Group operates a defined contribution retirement benefit scheme for all eligible employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income in respect of the scheme represents contributions payable to this scheme by the Group at rates specified in the rules of the scheme. As at 28 December 2004, contributions of £nil due in respect of the current reporting period had not been paid over to the scheme.

34. Retirement benefit schemes (continued)

Defined benefit scheme

The Group operates a defined benefit scheme for eligible employees however it is now closed to new members. Under the scheme, the employees are entitled to retirement benefits varying between 1.67% and 3.33% of final salary for each year of service on attainment of a retirement age of 63. No other post-retirement benefits are provided. The scheme is a funded scheme and the contribution rate for 2004 was 17% of pensionable pay. This rate is subject to regular review and for 2005 the intention is to pay a contribution rate of 19% of pensionable pay to meet the cost of pension provision. In addition, the Group made a £3.5m additional contribution to the scheme in February 2004 to help to reduce the deficit.

A full actuarial valuation of the scheme was carried out at 30 September 2004 and updated to 28 December 2004 by a qualified independent actuary. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The major assumptions used by the actuary were:

	28 December 2004
Rate of increase of salaries	**3.75%**
Rate of increase of pensions in payment	**2.75%**
Discount rate	**5.25%**
Inflation assumption	**2.75%**

The assets in the scheme and their expected rate of return were as follows:

	28 December 2004		30 December 2003	
	Expected return %	**Value £m**	Expected return %	Value £m
Equities	**6.50**	**114.0**	6.10	102.1
Corporate bonds	**5.25**	**9.0**	5.50	4.5
Gilts and cash	**4.50**	**8.2**	4.50	5.9
Total market value of assets		**131.2**		112.5
Present value of scheme liabilities		**(186.5)**		(158.1)
Deficit in scheme		**(55.3)**		(45.6)

Analysis of the amount charged to operating profit:

	52 weeks ended 28 December 2004 £m
Current service cost	**5.7**
Past service cost	**0.4**
Total operating charge	**6.1**

34. Retirement benefit schemes (continued)

Analysis of the amount charged to finance costs:

	52 weeks ended 28 December 2004 £m
Expected return on pension scheme assets	**(7.1)**
Interest on pension scheme liabilities	**8.6**
Net return	**1.5**

Analysis of the amount recognised in statement of recognised (income) and expenses:

	52 weeks ended 28 December 2004 £m
Actual return less expected return on pension scheme assets	**(4.3)**
Experience gains and losses arising on the scheme liabilities	**(2.6)**
Changes in assumptions underlying the present value of the scheme	**17.6**
	10.7

Movements in the present value of defined benefit obligations in the current period were as follows:

	28 December 2004 £m
At beginning of period	**158.1**
Movement in period:	
Service cost	**5.7**
Interest cost	**8.6**
Contributions from scheme members	**1.4**
Actuarial gains and losses	**15.0**
Benefits paid	**(2.7)**
Past service cost	**0.4**
At end of period	**186.5**

34. Retirement benefit schemes (continued)

Movements in the present value of fair value of scheme assets in the current period were as follows:

	28 December 2004 £m
At beginning of period	**112.5**
Movement in period:	
Expected return on scheme assets	**7.1**
Actuarial gains and losses	**4.3**
Contributions from the sponsoring companies	**8.7**
Contributions from scheme members	**1.4**
Benefits paid	**(2.8)**
At end of period	**131.2**

History of experience gains and losses:

	52 weeks ended 28 December 2004
Difference between the expected and actual return on scheme assets:	
Amount (£m)	**4.3**
% of scheme assets	**3%**
Experience gains and losses on scheme liabilities:	
Amount (£m)	**2.6**
% of the present value of the scheme liabilities	**1%**

35. Events after the balance sheet date

The Group intends to make a significant return in surplus capital in 2005. In order to fund this return, the Group has secured new loan facilities of £1.2bn with a consortium of banks (the 'new facilities'). Subject to the satisfaction of various conditions precedent, the new facilities became available from 2 March 2005 on a committed and underwritten basis and are structured as a £600m five year term loan and a £600m five year revolving credit facility.

36. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below. Transactions between the Company and its subsidiaries and associates are disclosed in the Company's separate financial statements.

Trading transactions

During the period the Group made purchases of £18.6m from Satellite Information Services Limited, a subsidiary of the Group's associated undertaking, SIS. At 28 December 2004 the amount payable to Satellite Information Services Limited by the Group was £nil.

Purchases were made at market price. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received except as disclosed in note 31.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	52 weeks ended 28 December 2004 £m
Short-term employee benefits (including salaries)	**1.6**
Post-employment benefits (employer's contribution)	**0.1**
Other long-term benefits	**-**
Share-based payment (IFRS 2 charges)	**0.2**
	1.9

37. Explanation of transition to IFRSs

This is the first year that the Group has presented its financial statements under IFRS. The following disclosures are required in the year of transition. For the purposes of these financial statements, the last financial statements prepared under UK GAAP were for the 52 weeks ended 30 December 2003 and the date of transition to IFRS was taken to be 31 December 2003.

Reconciliation of equity at 31 December 2003 (date of transition to IFRS):

	Notes	UK GAAP £m	Effects of transition to IFRS £m	IFRS £m
Goodwill		732.3	-	732.3
Other intangible assets	a	-	2.8	2.8
Property, plant and equipment	a	101.0	(2.8)	98.2
Interest in associate		0.8	-	0.8
Deferred tax assets	b,c,d,g	6.2	15.7	21.9
Total non-current assets		840.3	15.7	856.0
Inventories		0.4	-	0.4
Trade and other receivables		15.7	-	15.7
Cash and cash equivalents		46.4	-	46.4
Total current assets		62.5	-	62.5
Total assets		902.8	15.7	918.5
Trade and other payables	d,e,f	(93.1)	31.3	(61.8)
Tax liabilities		(48.1)	-	(48.1)
Bank overdraft and loans		(45.9)	-	(45.9)
Bank loans due after more than one year		(366.6)	-	(366.6)
Retired benefit obligations	b,g	(31.7)	(13.9)	(45.6)
Deferred tax liabilities	c	-	(1.3)	(1.3)
Total liabilities		(585.4)	16.1	(569.3)
Net assets		317.4	31.8	349.2
Equity				
Called-up share capital		42.2	-	42.2
Share premium account		311.3	-	311.3
Merger reserve		(26.1)	-	(26.1)
Own shares		(5.0)	-	(5.0)
Hedging and other reserves	d	2.1	(3.4)	(1.3)
Retained earnings	c,e,f,g	(7.1)	35.2	28.1
Total equity		317.4	31.8	349.2

37. Explanation of transition to IFRS (continued)

Reconciliation of equity at 28 December 2004:

	Notes	UK GAAP £m	Effects of transition to IFRS £m	IFRS £m
Goodwill	h	736.2	(2.9)	733.3
Other intangible assets	a,h	-	18.7	18.7
Property, plant and equipment	a	119.0	(14.8)	104.2
Interest in associate		2.9		2.9
Deferred tax assets	b,c,d,g,i	6.5	18.1	24.6
Total non-current assets		864.6	19.1	883.7
Inventories		0.3	-	0.3
Trade and other receivables		15.4	-	15.4
Cash and cash equivalents		60.5	-	60.5
Total current assets		76.2	-	76.2
Total assets		940.8	19.1	959.9
Trade and other payables	d,e,f	(106.9)	39.1	(67.8)
Tax liabilities		(46.9)	-	(46.9)
Bank overdraft and loans		(49.8)	-	(49.8)
Bank loans due after more than one year		(447.7)	-	(447.7)
Retired benefit obligations	b,g	(38.5)	(16.8)	(55.3)
Deferred tax liabilities	c,h	-	(3.8)	(3.8)
Total liabilities		(689.8)	18.5	(671.3)
Net assets		251.0	37.6	288.6
Equity				
Called-up share capital		40.5	-	40.5
Share premium account		311.3	-	311.3
Capital redemption reserve		1.7	-	1.7
Merger reserve		(26.1)	-	(26.1)
Own shares		(59.3)	-	(59.3)
Hedging and other reserves	d	-	(1.7)	(1.7)
Retained earnings	c,e,f,g,i	(17.1)	39.3	22.2
Total equity		251.0	37.6	288.6

37. Explanation of transition to IFRS (continued)

Notes to the reconciliation of equity

(a) Software classification - application software, which can be run independently from any specific hardware configuration, is typically included within other intangibles under IFRS rather than tangible assets as is the norm under UK GAAP. The effect of this is to reclassify software of £14.8m (30 December 2003 - £2.8m) from tangible assets to intangible assets. Total net assets are not affected by this adjustment.

(b) Deferred tax associated with pension liabilities – under IFRS deferred tax relating to the pension scheme cannot be netted off against the pension liability as it is under UK GAAP. This has the effect of increasing the Group's deferred tax asset by £16.5m (30 December 2003 - £13.6m) with a consequent increase in the net pension liability presented. Net assets are not affected by this adjustment.

(c) Deferred tax on rolled over gains - under IFRS deferred tax on rolled over capital gains must be provided for, while under UK GAAP this is not necessary if the intention is to retain (for the foreseeable future) the assets into which the capital gains have been rolled. The effect of this is an increase of £1.5m (30 December 2003 - £0.7m) in recognised deferred tax liabilities. In addition, due to more restrictive rules on the ability to offset deferred tax liabilities and assets, the deferred tax liabilities and assets are grossed up by £1.3m (30 December 2003 - £0.6m).

(d) Financial instruments - all derivative instruments are required by IFRS to be carried on the balance sheet at fair value. Under IFRS, hedge accounting for derivatives is only allowed where detailed documentation in accordance with IAS 39 is in place. This allows the movements in fair values of the relevant derivative instrument (but not the related borrowings) to be recognised directly in reserves and therefore not impact earnings. This issue will have no impact on the Group's earnings as acceptable hedge accounting documentation has been in place since 30 December 2003. However the balance sheet does reflect a financial liability of £2.5m (30 December 2003 - £4.8m) representing the fair value of the relevant derivatives, as well as a related deferred tax asset of £0.8m (30 December 2003 - £1.4m) offset by corresponding entries in a new 'hedging reserve'.

(e) Dividends – under IFRS dividends payable may only be recorded as a liability of the Group when a legal or constructive liability has been incurred. This is likely to be when the dividend proposed by the Board is made public on the announcement of the Group's results. Currently under UK GAAP, dividends are recorded in the period to which they relate, even if only proposed after the period end. This has the effect of increasing the net assets of the Group by the amount of the proposed dividend of £43.1m (30 December 2003 - £37.6m).

(f) Holiday pay - it is accepted practice under IFRS to provide for pay for holidays to which staff are entitled but which they have not yet taken. This has resulted in the recognition of an accrual for holiday pay of £1.5m (30 December 2003 - £1.5m).

(g) Pensions - a small difference arises in the valuation of the pension scheme assets under IFRS, because pension assets must be valued using bid prices rather than using mid-market prices as is the convention under UK GAAP. This results in an increase in the pension scheme liability of £0.3m (30 December 2003 - £0.3m) and a consequent adjustment to deferred tax assets of £0.1m (30 December 2003 - £0.1m).

(h) Acquisitions - the Group has elected not to apply IFRS 3 'Business Combinations' retrospectively to business combinations that took place before the 30 December 2003.

The Group has adopted IFRS 3 'Business combinations' in full for the 52 weeks ended 28 December 2004. This has resulted in the recognition of additional intangible fixed assets of £3.9m and related deferred tax liabilities of £1.0m. Under UK GAAP the intangible fixed assets would have been recognised in goodwill and the deferred tax liability would not have arisen.

(i) Deferred tax assets have been reduced by £0.6m to reflect the reduced charge for share remuneration (see IFRS income statement reconciliation).

37. Explanation of transition to IFRS (continued)

Reconciliation of profit or loss for 2004:

	Notes	UK GAAP £m	Effects of transition to IFRS £m	IFRS £m
Revenue		8,287.7	-	8,287.7
Cost of sales		(7,726.3)	-	(7,726.3)
Gross profit		561.4	-	561.4
Other operating income		4.3		4.3
Other operating expenses	a	(336.8)	2.0	(334.8)
Share of results of associate	b	3.1	(1.0)	2.1
Operating profit		232.0	1.0	233.0
Investment income		1.9	-	1.9
Finance costs		(28.6)	-	(28.6)
Profit before tax		205.3	1.0	206.3
Tax	c	(57.0)	(0.4)	(57.4)
Profit for the period		148.3	0.6	148.9

Notes to the reconciliation of profit or loss for 2004

(a) Share remuneration - the basis of charging the income statement for share-based remuneration under IFRS is that the options granted are valued at fair value using an option pricing model rather than the intrinsic value of the option as was the case under UK GAAP. In addition the costs of SAYE schemes are chargeable under IFRS whereas they are not chargeable under UK GAAP, and the IFRS transitional arrangements mean that options granted before 7 November 2002 do not attract a charge under IFRS although they were chargeable under UK GAAP. The overall effect of these differences is a charge under IFRS that is £2.0m less in comparison with that reported under UK GAAP.

(b) Associate profit - under IFRS, the share of the associate's result included in the Group's operating profit is after a charge for interest and tax. These items were shown within the Group's interest and tax charges under UK GAAP. This has the effect of reducing operating profit by £1.0m, representing the tax charge of the associate.

(c) Tax charge – the tax charge is £0.4m higher under IFRS compared to UK GAAP reflecting a combination of:

- £0.6m increase related to the different deferred tax charge accompanying the adjustment for share remuneration referred to in (a) above;
- £0.8m increase reflecting a deferred tax movement on capital gains rolled over, which are ignored under UK GAAP but provided for under IFRS; and
- £1.0m reduction arising from the different treatment of associate tax highlighted in (b) above.

Explanation of material adjustments to the cash flow statement for 2004

There are no significant adjustments between the cash flow statements produced under IFRS as against UK GAAP.