William Hill PLC
2011 Final Results

24 February 2012

PRESENTATION

Ralph Topping - ***Chief Executive***

Good morning, everybody, and welcome. Thanks for coming along today. Neil Cooper, our Group Financial Director, is with me on the platform. He's on his feet with the financial highlights in a moment. Glad to see he's on his feet and not on his back. And we've got some of our senior management team here to join us later for questions.

Today, I want to talk not just about things we've been doing, but also about the things we are going to do. That's the investing and innovating you are going to hear about in the second half. But first, a quick look at the highlights.

This is another very positive performance. It's a good financial result. Our revenue is up 6%, and we made almost £276 million profit. And that's in spite of VAT costing an extra £9 million, below par gross win margin in Retail, and no World Cup. It's what comes from innovation and investment we've already put in, and marketing of products, marketing of channels, and internationally.

We're seeing the benefit of being highly competitive, regardless of the economic climate.

Our Online net revenue has grown by more than 70% since we created William Hill Online. And this is the second year we've seen growth in Online, running at more than 20%.

And mobile's still flying, with more than 500% growth in bets.

At the same time, Retail is robust. Net revenue is up, in spite of a weak margin.

And, yes, we've got a strong balance sheet, which gives us the flexibility to make choices, choices [of where] to invest, and when, including internationally.

Before Neil, some recollections; all our yesterdays, last year's predictions. A year ago, I set two targets and made Lyndsay very nervous. The sportsbook turnover would be equivalent to over-the-counter by the 2014 World Cup; secondly, that mobile sportsbook turnover would be £5 million a week by mid-2013.

A year ago, sportsbook was 64% of over-the-counter turnover. Now, it's 83%. And already this year it's been as high as 91%, with strong uplift during the Australian Open tennis, and also from cricket, and from basketball. Several times this year already we've been well over £40 million turnover in a week, and we've got a lot to look forward to this year with Euro 2012.

The mobile target we've already hit. This time last year, it was just over £1 million. At the half year it was just over £2 million. Now, we're averaging more than £7 million a week, and we hit just short of £9 million a couple of weeks ago.

Of course, when we hit a target, we set a new one. That mobile target is now £15 million a week. And I want mobile to be 40% of sportsbook turnover by the end of 2013; that's more than twice what it is today.

Management bonuses are tied to achieving mobile targets. Don't hit the target, don't get the bonus. No money, no fun, is what we used to say in Scotland. We won't be getting a bonus unless we get what we want from mobile.

With that, let's have Neil take us through the financials.

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

Thank you, Ralph, and good morning to you all. Actually, you've just given me an idea; we should make financial reports only available if you ring up our website via your mobile. We'll have to put some thought into that one.

Okay, I'm pleased today to be able to outline our results for the year ended December 27, 2011. A year which saw top line growth at Group level in terms of both wagering and net revenue, as well as good growth in underlying earnings, which we term adjusted, and which grew by 12%.

Amounts wagered grew by over 8%.

And net revenue grew by 6% to £1,137 million, with all of our Online verticals in growth, and Retail net revenue also growing, despite a weaker gross win margin, but which benefited from wagering growth in OTC from a continuation of the long-standing growth trend seen in Machines.

Operating profit, which refers to pre-exceptional profit before interest, tax and defined amortization, came in broadly in line with the prior year at £275.7 million, and pre-exceptional PBIT was £272.1 million.

Finance costs fell sharply as a result of the refinancing activities undertaken at the end of 2010, and tax also fell.

With operating profit flat but interest and tax both falling, pre-exceptional retained profit grew by 12% to £166.6 million.

Basic earnings per share, adjusting for define amortization and exceptional items, also grew by 12% to 24.2p. And dividend per share has grown by 16% to 9.6p, which reflects both the adjusted EPS growth and a move now to 2.5 times cover, which is in line with our stated policy.

Finally, the Group saw £242 million of cash inflow from operating activities, of which £90 million was used to repay borrowings.

Accordingly, net debt for covenant purposes fell from £499 million to £416 million.

You'll be aware of the exceptional items we posted in 2011 but, just to reiterate, first, ongoing acquisition costs relating to our impending US acquisitions came in around £1.7 million.

Secondly, the costs of closure of our retail operation in the Republic of Ireland were £1.9 million net of sale proceeds.

Thirdly, we saw an adverse £1.8 million movement on the fair value of our remaining ineffective interest rate hedges, which all came through in the first half. At current values, there is £11 million remaining on the balance sheet, which will be paid out in cash during 2012, with no further outlays once these hedges have expired.

Most materially, and given the disappointing performance of the Telephone business in 2011, we took a £46.6 million non-cash impairment charge, largely relating to the goodwill allocated to the Telephone business, which arose on transition to IFRS in 2005.

Moving to focus on the Retail channel overview, we saw 6% year over year wagering growth, with over-the-counter wagering up 3% and machines wagering up just over 6%. OTC gross win was impacted by a 1.1 percentage point margin decline. But despite this, total net revenue grew year over year by 1% to £789.7 million, from £783.1 million in 2010.

Cost of sales grew by 3% due to higher horse race levy payments and gaming machine revenue share charges.

The impact of a modest 2% operating cost growth on an operationally geared business meant that operating profit fell 4% year over year.

Machines continued to be a driver of wagering and profit growth for William Hill with gross win growing year over year by 9%, on top of the 10% year-over-year growth we saw in 2010.

Gross win per machine per week now stands at £901 on average for the year as a whole. This benefited from a small increase in gross win margins, driven by playing mix.

Quarterly growth rates showed a modest slowdown across the year as we lapped the completion of the rollout of our Storm cabinets in March 2010.

Looking ahead, we have announced a sole supply deal with Inspired Gaming, which should see the remaining 21% of our estate move from Global Draw by around half year. And we're currently trialing the three screen Storm Plus cabinets, which we hope will provide opportunities for improved player retention and mix management.

Headline year-over-year OTC wagering growth in 2011 was 3.3%; a, perhaps, surprisingly strong performance given wider retail trends in the economy.

The prior year saw both fairly lengthy periods of bad weather hitting wagering and a very strong World Cup. Adjusting out from the year-over-year comparison, the weeks affected by these highlights underlying growth of between circa 1% and 2% in each of the four quarters of the year.

Offsetting this, gross win margin fell, as I said, by 1.1 percentage point to 16.8%. The primary driver of this year-over-year fall was related to our football business, partly rolling over an exceptional World Cup, but also following a difficult start to the '11/'12 season, for the bookies at least.

To give you a sense of why this was so, 73% of the English Premier League games played by top six teams against other Premiership teams in the '10 to '11 season up to December 27, went to the favorite, versus 58% last year through the same time period.

Horseracing also saw some margin pressure, largely on the larger UK festivals and increasingly from Irish racing. UK non-festival horseracing, which makes up around 85% of UK horseracing stakes, saw margins increase by 0.1 percentage point.

The operating cost base for Retail grew 2% year over year. Whilst our Retail employees received a 2% pay rise in 2011, overall employee costs fell year over year, benefiting from a number of factors, the largest of which was the rollover of redundancy costs in 2010 linked to Irish closures and the outsourcing of shop cleaning.

The final salary scheme has now been closed to future accruals, which reduced pension costs also.

Property costs grew by 3%, of which rent within that grew by 2%. Of the 242 units on which we agreed new rents in 2011, over 100 were agreed at a nil increase, and the implied annual rent inflation on the 242 units as a Group was only 1.6% per annum. This clearly demonstrates the success that we're having in holding rent increases substantially below inflation, and is the lowest data point in this metric we've seen for 15 years.

Content costs increases continue apace, with scheduled increases from SIS driving up business costs.

And other costs growth was inflated by changes in our central costs recharges.

We continue to expect retail cost inflation for 2012 of around 4% on a 52-week basis.

Following net revenue growth of 24% in 2010, William Hill Online grew net revenue by 28% in 2011 to £321.3 million. Whilst all verticals showed year-over-year net revenue growth, Online's Vegas products lead the way at plus 54%; sportsbook grew 36%, benefitting from strong wagering growth; and Bingo grew 19%.

The Group's Playtech Casino products grew 8%, but underlying performance in this category was more like 19%. I'll remind you that we had six months of French Casino business in 2010 in the comparative.

Poker also saw net revenue growth at plus 7%.

And overall operating profit grew 17% to £106.8 million.

Sportsbook wagering growth levels, I think, continue to demonstrate the success of the Group's strategies with wagering more than doubling since 2009; growing 57% in 2010, and 51% in 2011.

Year-over-year pre-match wagering grew 38%, and in-play wagering grew 75%.

Gross win margin for the business was in line with our normalized expectation at 7%, albeit behind the prior year.

Pre-match gross win margin saw similar year-over-year trends to those seen in Retail, falling by 1.1 percentage point to 8.7%.

In-play gross win margins held up better at 4.6%, versus 4.8% in 2010.

Given the awareness of the William Hill brand in the UK, the challenge, for us, is to grow share of wallet, as we successfully demonstrated by the 22% growth in revenue per active player. Whilst new accounts fell back slightly, this was, in part, reflecting a strong growth in customer acquisition in 2010, driven by the World Cup.

31% year-over-year cost growth in Online reflects the ongoing investment in growing this business.

As I previously guided, the Group's marketing-to-net revenue ratio has grown to 27%, in part due to the bow wave of investment into the Group's Italian regulated market launch. And I expect that this statistic will remain around this level in 2012, given the consolidation of the Group's position in Italy, where Bingo was launched in January this year, and sportsbook is coming soon; as well as the launch into the Spanish regulated market, which we expect to be some time in the first half.

Cost of sales, which is actually on the previous slide, grew 52% year over year in 2011, partly linked to the strong growth in the Group's Vegas Casino games; and partly driven by the increase in taxation now arising from regulated markets, with taxes being paid in Italy and Spain, and being accrued in Greece.

The Group took action in 2011 to address the cost base of the Telephone operation, given its worsening commercial performance. The closure of the UK operation and the opening of an operation in Gibraltar were successfully implemented with cost of sales falling 62%, and operating costs reduced by 10%. However, commercial performance has continued to disappoint with turnover falling 19%, and net revenue falling 40%.

Gross win margin suffered in the year from the success seen by a high roller who has chosen to take his business elsewhere, perhaps good for us.

Given this recent performance, and having regard to future forecasts, it has not been possible to justify any goodwill linked to this business segment. And, accordingly, we've fully impaired the Telephone-related goodwill and associated assets. That said, we remain committed to this channel, particularly given our views on the importance of a multi-channel approach for our customers.

Net finance costs saw a sharp move downwards in 2011, reducing by 39%. This arose from a combination of factors linked to the refinancing of the Group's revolving credit facility in late 2010. These include the de-designation of ineffective hedges, and cheaper bank borrowings.

Lower absolute levels of debt have also helped, with net debt for covenant purposes declining by £187 million since the start of 2010, where we were at £603 million, and we're now at £416 million.

In terms of cash flow, the Group saw its net cash increase by £5 million during 2011; a £15 million swing on the prior year, which saw a net cash decrease of £10 million. This chart reflects the major year-over-year points of difference.

In terms of cash-generative changes, which are those in dark blue, the Group paid down £31 million less debt in '11 than in '10. And we also saw substantial year-over-year reductions in cash interest outflow.

In terms of increased outflow, which are those items in the red, both Group dividends and non-controlling interests increased, as did capital investment, which I'll cover off in a moment.

The Group saw a strong working capital inflow in 2011, for the second year in a row, driven by growth in Online and in general business accrual movements. I would expect there will be a working capital outflow in '12 of between £10 million and £20 million, although forecasting working capital is not an exact science, especially as 2012 is going to be a 53-week year for us.

We'd previously indicated that we expected to spend around £60 million of CapEx in 2011, and cash CapEx came in slightly below this at £56 million. This increase both reflects greater shop investments and refurbishments in Retail, and growth in business product and infrastructure investment in Online.

The Retail estate declined in number over the year given the disposal of the Group's Irish Republic shops in December, from 2,377 at the start of the year to 2,371 at the end of the year.

The UK estate however, grew by circa 1%, obviously ending the year at 2,371. The average number of shops across the estate also grew 1%. We opened 34 new shops in 2011, and we expect to open a similar number in 2012.

Major retail refurbishments doubled, from 43 in 2010 to 91 in 2011. And, again, we expect to do a similar number is 2010.

We also continue to invest in minor six-year or 12-year cyclical refurbs, as well as in upgrading TV gantries, as part of a 3-year plan to ensure that the whole estate will be cathode-ray-tube free.

And, looking ahead, we expect to spend around £70 million of CapEx in 2012.

In terms of other finance matters, the Group's effective tax rate was slightly below guidance at 17.3%, benefiting from the actual business mix, together with release of prior year provisions no longer deemed necessary.

At present, our effective tax rate also benefits from deferred tax credits arising from the fall in UK corporation tax rates. A 2% decline was enacted during '11, but only 1% is expected to be enacted in '12, hence the increase in guidance rates for '12 to 20%. Given the non-cash nature of the deferred tax credit, effective cash tax guidance remains higher than this, at 22%, for 2012.

The Group finalized its most recent pension scheme triennial actuarial revaluation, they obviously get paid by the syllable these guys, during the year. And this gave rise to a new agreement between the Group and the Pension Scheme Trustees in relation to closure of the current actuarial funding gap over an eight-year timeframe; with annual top-up payments of between £8 million to GBP10 million through this period, which is broadly in line with those top-up payments that we're currently making.

The accounting deficit, at present, is £34.1 million.

And finally, I'm very pleased to be able to reiterate that we have announced a final dividend of 6.7p, which makes a total dividend for 2011 of 9.6p per share; up by 16% year over year.

That's all I've got to say, so thank you for listening. I'll now hand back to Ralph.

Ralph Topping - ***Chief Executive***

Thanks, Neil. I'm going to keep this simple, because I'm a simple man and at William Hill we consciously to try to stay away from jargon and management speak, which seems to be creeping into our industry with every new appointment made.

So we do see ourselves as the home of betting. William Hill is a fantastic brand. In fact, the William Hill businesses made £85 million more operating profit in 2011 than our nearest UK rival. £85 million; that rightly entitles us to be called the home of betting, if not the home of banking.

That brand is the heart of our business. We're experts in odds setting and risk management. We're about gaming, as well as betting. We're about regulated markets, which are the future of our industry. We're driving a culture of innovation. And we work harder at our marketing, whether that's TV advertising, or selling product in the shops, or sponsorship.

The betting industry gets accused a lot of not putting enough back into sports. Well, we're sponsoring racing. We're sponsoring the Greyhound Derby, and other big greyhound races. We've plans to take the Greyhound Derby up to £200,000 headline prize money in the next two years. We sponsor the darts. We sponsor the snooker. We sponsor Scottish football. We sponsor the FA Cup, or are a supporter of the FA Cup, and the England national team. We're spending £86 million on marketing in Online; that's £55 million more than some.

I don't think anyone can accuse us of not doing enough.

We don't wake up in the morning and say let's be second today. We don't like being second at anything. We're compelled to spearhead. And the prominence of the brand means we've got to be good at everything we do and every channel, whether that's retail, whether that's online, telephone, mobile, text.

Now everyone tends to see us a business to customer operation. We need to move beyond that, not least for opportunities outside the UK. We will do B2C where we can and when we can. But we're not ruling out partnerships, whether commercial or with governments. And we're not ruling out acquisitions.

We've got a strong, new strategy team together, six or seven people, brains in the business, and the Board will be looking at propositions from them over the next 24 months. Of that, I am very confident.

So here's a high level view of where the channel is doing. Retail. I get slightly fed up, is that the way you would describe it? Let's keep it calm. Yes, slightly fed up with how people look at Retail.

There's a lot of activity taking place in a betting shop, and for anybody who goes into a betting shop they would notice that. We have to stop thinking about over-the-counter versus machines. It's always been about what the customer is prepared to leave behind on any betting offer or device.

Customers often want to spend more money than we take off them in the time they're with us. Our job is to give them every opportunity to spend it. And how do we do that? Well, we do it with more product and more routes to bet. That's why we keep enlarging and developing our product, why we're pushing Storm, and why we're trialing SSBTs.

Doing exactly that, total transactions have grown 7%, and overall stakes are up 6%. OTC stakes grew in every month in the second half outside of the World Cup. Every month OTC stakes grew.

We rolled over the World Cup, but we still grew our football slips by 2%. Against 2009, the last year without a major tournament, we're 17% ahead in the number of bets and 14% up in stakes. In the last five years, football slips are up 62%.

And, yes, machines are still growing. We've got the new Inspired contract for the whole estate, trials of marketing and rewards, and more to come towards the back of the year on further innovations. Storm delivered gross win per machine per week of £921 in the full year, and £947 in Q4.

Saturday's still the big day of the week. We always look at Saturday as a measure of the health of the business, particularly as it attracts the discretionary or recreational punter, and it was our healthiest day of the week last year. Turnover was up 5% on Saturdays over-the-counter, and gross win was up 12% on machines on Saturdays.

Online. We've seen strong growth in stakes from key sports. Football's up 54%; tennis is up 64%; cricket's up 75%; and basketball, which was a new employee product last year, is up 66%.

Now if you take out horseracing, in-play is now 60% of stakes. We're doing more low margin in-play than a certain other bookmaker and yet our sportsbook margin was way ahead in the second half at 7.2%. Think about it.

Gaming is still doing well. The best growth has come from cross-sell. Our homegrown casino products now account for more than half of our Casino revenues, and are an even higher proportion of our UK Casino revenues.

We made £30 million more sportsbook revenue, but we also made £29 million more from William Hill flash-based games. It means we've got the highest yield per active of the major UK brands.

Mobile is also growing well from a low base. There's a lot of potential, which is why it's a major priority. In December, mobile was 19% of sportsbook stakes.

We made £6.8 million gross win from sportsbook in Q4. I'll say that again because you might want to refer to other presentations. We made £6.8 million of mobile sportsbook gross wins in three months, not six months as in other presentations, and that's with one hand tied behind our back because we weren't in the up-store.

We're also scratching the surface on mobile gaming. It was about 14% of Casino revenue in December. But the important fact beginning to emerge is that mobile Casino will soon be bigger than download Casino. In January, it took more first-time Casino deposits, and almost as many transactions. Mobile Casino.

Our strong focus on the UK is paying off with a 35% growth in net revenues. In other countries, excluding the effect of withdrawing from France, revenues grew 23%.

I've put this slide up here because I think I need to do a lecture. Understanding the margin dynamic it's called. I was going to change into a corduroy jacket with sleeve pads just to do this lecture. I've always wanted to be a lecturer, so I apologize in advance for being so Janet and John.

I'm surprised, shocked, indignant to hear people who've been covering this sector for years wittering on about margin. Let's do the basics. I'm going to say this once. I'm not going to take any questions. If you still have questions at the end of this lecture, come and spend some time in our shops. I've got a nice betting shop in Possil in Glasgow all ready to welcome you there for a week, not just a flying cup of coffee visit. It's the last time I'm going to speak on the subject, so do take notes.

I was a big fan of The Prime of Miss Jean Brodie, as you can tell here (laughter). Sorry about that.

So why is our margin 17% to 18% Retail, but only 7% in Online? There are three reasons.

Reason number one, product mix. Our Retail margin has gone up from 16% to 17%, to 17% to 18%. Why? Why is that? Pricing hasn't changed and, if anything, we've had margin weakness because of racing. It's largely because of our product mix. Those are the two key words, product mix. Higher margin football is becoming a larger part of OTC.

In the Online division, in-play is lower margin and it's becoming a bigger part of Online so the Online margin has come down slightly to around 7%.

Now let me be absolutely clear about this; we are not managing to these margins. We are not managing to these margins. These are what the margins are based on our pricing and our product mix if the sporting results are normal. The margin performance is about showing you whether or not the sporting results have been normal in the period.

Reason number two, pricing. Only one product is priced differently. Only one product, football. But pricing to a higher margin doesn't mean we apply that margin equally on the home win, the draw, and the away win. 85% of punters back their favorite. We put the value where they want to bet, especially on the Premier League. We might only price 2.5% into the favorite and spread the rest of the margin across the other two.

Reason number three is customer behavior. Now this is the easiest thing to dismiss. Especially if you're a saddo and you are at home on the Internet, the very notion of customer mix doesn't necessarily occur in your living room. So if you don't go into betting shops regularly, you're missing the most critical point.

Two behaviors affect our margins. First, we do more accumulators on the shops. 84% of our Retail football bets are accumulators. Why? Because they're coupon based. Almost 90% of those are on four-fold and above. A four-fold is four selections, so 90% of our bets are on four selections and more.

In Online, twice as many bets are singles, and only 55% are four-fold and above. It's a very different behavior driving a very different margin.

12% to 14% in Online, now that's really healthy; but it's even healthier in Retail, up at around 20% to 25%.

The other point about behavior is that Retail customers are less price sensitive. You've seen it from us so many times before. The customers' priorities are service, location, and the product. Pricing has become less and less important over the years. And remember, 4.5 million regular betting people are only betting in Retail.

Here ends the lesson. If you still have questions, please spare me because I'm not in the mood. I don't want to get into a spat on a public broadcast. Trust me, this will really descend into Glaswegian sarcasm; I say that in a very friendly way.

Okay, let's look at growth. I want to talk about products, our channels, and international.

Product innovation in 2011. It shouldn't be a big surprise to you that football has the biggest appeal in terms of sports betting amongst younger customers. If you just take a look at football crowds, there's a fair scattering of young people in that crowd? And who watches football on TV, there's a fair scattering of young people watching football on TV. So it's no surprise it's our largest product Online, and it's growing well in Retail.

We've talked a lot about our expanded Online offering with 100 in-play markets on all football, and 188 pre-match markets on top flight games.

We've also improved our shop coupon range over the last two years. Together, those drove a 31% increase in football stakes last year, 31%. Football stakes since the start of the 2011/'12 season and over-the-counter are up 18%.

Look, racing's still an important product as across all channels. We said we'd do everything to promote the sport. We made that commitment. Now if you came to Leeds last year, you saw how we've optimized the broadcast schedule.

We're actually also offering the widest range of markets online with insurance, place only, and betting without markets. I think we've now got the best range in the market. And if you look at the two main channels together, stakes in racing were up 12% in 2011.

As for in-play, well, we're firing ahead. The question is what do you want to bet on? We launched ice hockey, NFL, and rugby union models, and we also upgraded basketball and football. We are, in fact, the only bookmaker to cover every single NFL match in-play during the last season.

If ever a contest was made for in-play, it was the Australian tennis final between Djokovic and Nadal. We made over £0.5 million gross win on in-play betting during those five hours and 53 minutes; and think what we might have made if Andy Murray had actually got to the final, which is a shame.

According to Gambling Data's latest in-play report, we have the highest average number of markets per event, particularly for football, with 77% more markets than the nearest competitor and more than double everyone else. Think where we were on in-play two years ago. Have we peaked? Not even close. And I actually don't think we're getting the credit for that.

And that's just sports betting innovations. We've done a lot to work to reshape our homegrown flash-based games online, and it's paid off with 54% net revenue growth, mainly from cross-sell. You should see the margins on a product you don't have to market.

What's next? Well, we don't stop. On Machines, we made Inspire the sole supplier in January. David Steele, who's going to come up on stage at the end of this presentation, did the commercials on that and signed the deal. They've got a great track record as the innovator in the industry, and we're excited by the pipeline of what's coming.

Right now, we're testing Storm Plus, which is a three-screen version of Storm, and that's being tested in 100 shops. It's early days, but these machines are outperforming the control group, quite significantly. The remaining 21% of our estate will get Storm Plus by the middle of the year, and that will give us data from 600 shops. And we've plans to replace the rest of the estate, as well.

We're trialing, as Neil referenced in his presentation, Video walls in 25 shops, in key competitive locations, and if it drives growth we'll use them elsewhere. We're also putting them into new units right now.

We're taking the depth of in-play markets that we have in football and tennis and we're also applying them to other products. We are working on as many as 10 other models we're releasing this year. And, no, I'm not going to tell you what they are; much as our competitors would love to know.

The plan on channel innovation in 2011, well, it's to reach more customers, more often, and encourage them to use more than one channel.

And how did we do last year? I'm definitely not happy with where we got to on Mobile, and the team and [Jib,] know that; that's why there's a focus across the Group on it this year. But I got a lot happier when Apple finally accepted our sportsbook into the App Store two weekends ago. And right now, we're the highest ranked betting app in the sports league table in the App Store.

It's a good app. If you haven't tried it, then please download it. The racing pundits at The Sun newspaper gave it a five star rating. And, at the end of the year, 19% of sportsbook revenues are coming from Mobile, as I said earlier.

We've already got a casino app and, right now, it's almost as successful as our download casino in terms of bets and revenues. As I said before, it's already pulled ahead on first deposits.

And we're not just doing our own Apps. Last year, Jamie Hart told you about Mint; a proprietary integration, where you'll know that's worth having when I tell you we took 2.8 million bets via The Racing Post and Racing UK apps last year.

Now, games are a great way to encourage multi-channel usage. We cross-sold three games last year across the gaming machines and online, and they were the best performing games when launched. And that, to me, is a significant step for our business.

What's going to happen this year? Coming up this year we're expanding the Mobile team, there will be some announcements made on new management within Mobile, so it has the right amount of dedicated resource to take it forward.

And there's a lot more to come; specialist sportsbook apps, supporting accumulator betting, for instance; a mobile version of the Vegas Games; and apps linked to our sponsorships, especially the FA sponsorship, which is the first of its kind in betting.

You've also had a look at one of our routes for self-service betting terminals. We're running three trials. Some will be more successful than others. Some are going well. On others, some people are getting a kicking. No damage to the business, just their posteriors. We'll tell you more about that later in the year.

Maybe you're wondering about these strange boxes up on the screen, and you could be thinking what monkey in a Sri Lankan zoo drew those. But I'm only kidding, I'm sure you all know; I'm sure you're all clued up. This is not one of Terry's algorithms; in fact, they're QR codes to take you to our mobile sportsbook and casino. Fantastic, yes?

It used to be a simple game; you just went into a betting shop and you handed Mary from the Dairy a slip, and you got a ticket back, and then you went outside and back into the pub. Profits, mind you, are better nowadays than they were back in those days.

92% of our revenues come from the UK. And with other governments changing their regulations, and with William Hill being one of the strongest multi-channel operators, I'm convinced we should be expanding this business outside the UK in the next few years; ideally, multi-channel.

Italy is the first significant international investment we made in Online, and you've seen the initial results. Sportsbook is launched in the coming weeks, and Bingo is out there right now.

We're also targeting Spain, where we one of only a few bookmakers ready to launch at the beginning of January. It was, of course, disappointing to be delayed. But it's still a good market for us and revenues in 2011 were actually up 77% in Spain.

We're also taking a first step in the US with the three impending land-based sports betting acquisitions, which we've talked about before. We were warned the regulatory process could take 12 to 18 months, and that prediction looks like coming true. It's an exceptionally long process, but we're in the hands of the regulators, and we're not complaining.

International investment, what's next? Well, William Hill was largely looked at as a British business, and is largely a British business. I think it must become less dependent on these islands. And the fact that we've got good growth in the UK doesn't blind us to some real revenue opportunities internationally.

There's no such thing as a global brand in gambling. We see brands that are strong in certain territories. And we do need, as a business, to become more international. That means significantly growing in one or two territories, rather than spreading ourselves too thinly.

Italy, Spain, and Austria are being developed. We may not always be able to go direct to the consumer. What's more relevant is to look at partnerships and/or acquisitions to give us the position we want. That means, ideally, multi-channel, as well as online, led by our sports betting skill set, and in regulated markets.

And one of our priorities, of course, is to determine what we do about our online call option. We have to consider the route forward in the context of a multi-channel international strategy, which, we believe, will deliver superior shareholder returns.

The working relationship with Playtech is encouraging, following last year's temporary difficulties. We've had some good, regular discussions with Playtech at a very senior level and those discussions are ongoing. And I've no doubt you'll have some further questions to ask me on that at the Q&A.

Regulatory update. Regulation remains a big driver of opportunity for this business so let's cover off the noise right now. First, in the UK, we're all expecting to hear the tax neutral rate for Machine Games Duty in the budget on March 21; and we'll be applying that from February 1, 2013.

We might also get a statement about the Treasury's direction on UK online tax, though, no one's absolutely expecting guidance on the rate yet.

DCMS is looking for a legislative slot to put through a simple Gambling Bill to change to point of consumption and we'll have to wait and see if that appears in the Queen's Speech, potentially, in May.

You've seen the Deloitte report we commissioned. Government cannot understand the dynamics of our industry unless we educate them; that's a fact. And that's what that report, and the one from Gambling Compliance, were there to do. Because no matter what rate, Government needs to understand that enforcement is the critical point.

Now, we're big enough to hold our own. We've no complaint about regulation, but only if Government ensures those who take licenses enjoy effective protection. Proper enforcement balanced against a sensible rate of tax is what we're pushing for.

We're also talking to Government and to racing about how that industry gets funded. Now, I'm absolutely -- I'm going to make a statement here and that is that racing's never going to be allowed to die, and nor would we wish that to be the case. There is, of course, a case for change; whether that's the number of courses, or the cash going into SIS, and particularly, [first] TV, that's being diverted away from racing.

A lot can be done to generate more cash for racing. Today is not the day to talk in detail about the exchanges and how little levy comes from that route, so I'm not going to mention the exchanges, as you, perhaps, have noticed.

Everyone in the betting and racing industry has recognized that the levy is past its sell-by date, and that both sides waste an inordinate amount of senior exec time every year. When I say it's past its sell-by date I mean the time that we actually put into that whole process, it's wasteful, although I would defend the levy and the levy mechanism as a sensible way for the prize money determination.

The settlement of the 51st game, without the need for a referral to the Secretary of State, with a guaranteed underpin by the big three, hopefully, represents a watershed moment.

There are a number of senior people, on all sides, who are engaged to create a much more commercial environment, including the levy, while maintaining the protection enjoyed by both sides. So there are a lot of hurdles to overcome, VAT, state aid, and we should watch this space for what happens over the course of the next three to six months.

Now, let's look outside the UK. We've already talked about the licensing process in Nevada. We're all keeping an eye on where Online could be going. With our license, we'd be a full gaming license, putting us in a very strong position.

While we're focusing there, we mustn't overlook the moves by Governor Christie, in particular, in New Jersey, to overturn the land-based sports betting ban. We're also watching what's happening in Greece, Spain, Germany and elsewhere.

It's easy to forget what's our important when we're immersed in the details but, for us, changes to regulation are more opportunity than threat. Even in the UK, GPT looks like a big number, but this could be game changing for the structure of the industry. And we are very placed to take advantage of that.

Brains and talent; every one of these sessions I've made this part of the presentation. And I've talked a lot at these sessions about people. Tel Aviv and Bulgaria, we now have the right teams in place, and we've got new leadership. And if you look at the screen there, we've got the guy at the top there, Schraga Mor, and he's our new guy in Israel. Schraga was previously running an incident messenger business, and he actually used to run MSN in Israel.

And the guy -- the picture underneath is of Hector Sousa. When I first heard we were employing a Hector in Bulgaria I thought that's an improvement, we'll have a Scotsman out there. But Hector Sousa gives it away; he's not a Scotsman. He has over 10 years experience managing gaming call centers and back office functions with PartyGaming, so he's an experienced guy.

Our operations are performing well, with increased levels of terrific cooperation across Online, much improved visibility, and good control.

Here in the UK we've also created a corporate development office, which I referred to earlier, with the task of focusing on new opportunities and new channels, like mobile, new technologies, partnerships, acquisitions. That way, our Retail and Online divisions are free to focus on operational excellence day to day. The office is led by Robin Chhabra. And you've probably heard that Andy Lee will be rejoining us shortly, too.

CDO, Corporate Development Office, also includes Jamie Hart, Neil Deely, who's an expert on software and machines, and Mark McMillan a banker from HSBC.

We've got plans to bring in another couple of people; hopefully, we'll surprise you with the names when we announce them.

I intend to spend more time working with that group to make sure we take advantage of opportunities available to us. The bottom line is we've grown the strength of our management team; we've got great internal people; we've got high caliber external hires; and we're gearing up for opportunities coming our way in the next few years. So I reckon we're well positioned and performing well.

You can see here how it's looking so far in 2012. You saw the seven-week data on the statement; these are the six week numbers because I know how much you like to do direct comparisons, and I never want you to say I never do anything for you. So here we are. It's up there on the screen; scribble away, take a copy away with you, go into a corner, and become ecstatic.

There's good revenue growth, it's up 16%. And we've seen continuing good trends in both UK Retail, which is up 9%, and Online, which is up 30%, with sportsbook stakes up 23% and net revenue up 80% (sic - see slide 34).

In summary, this is the story of a strong organization. It's strong in management, it's strong in operations, and it's strong in financials. Our businesses are £85 million ahead of our main competitor in operating profit terms. And if you look at that and think about it, we're more than £1 billion ahead in stakes.

We live by innovation. We see opportunities for significant growth. Most of all, we're ambitions; but we're ambitions always with shareholder value in mind and the long-term development of William Hill. We're about creating sustainable competitive advantage through our brand, through our trading, through our marketing, and, most of all, through our innovations.

Thank you, ladies and gentlemen. Now, I'd like to invite a couple of familiar faces to join us for the Q&A session. David Steele, first of all, David come up. David Steele's our Commercial Director, and he's been here before to talk about what's happening in regulation. But he also handles the political front for us. He's close to Whitehall, and, as I say, he's also been promoted recently to Commercial Director.

Vince Bateson. Vince Bateson, who looks incredibly young, has been -- has shown you the gaming machines, game machines and SSBTs, plenty of times before, but his first time in the spotlight here. Don't think you have to go easy on him because he's my grandson; he can, in fact, take it.

Let's have some questions, and I'll hand them over, this time, to the team, as appropriate.

QUESTION AND ANSWER

Ivor Jones - *Numis Securities - Analyst*

Ivor Jones, Numis. Ralph, you seem to be hinting you would say more about the Playtech option if you were asked about it.

Ralph Topping - *Chief Executive*

Yes, that's why I picked on you, Ivor. That's why I selected you.

Ivor Jones - *Numis Securities - Analyst*

Well, it doesn't seem worth phrasing the question, really.

Ralph Topping - *Chief Executive*

[Do you have a question, or] you want me to tell you more about it? We're having -- we've had some colorful episodes over the last three years with Playtech and ourselves, to be quite frank about it, but when you actually look at the deal now, looking back three years, a couple of observations.

One, it's been successful, there's nobody can deny that. It's been successful both for Playtech and for ourselves. I think both parties recognize that if we were to go back in time, certainly, we wouldn't have constructed the deal we did. And the deal we did is, perhaps, not appropriate as we go forward, especially when we're looking at strategy and talking much more about strategic direction for William Hill.

But I would underline that we -- the deal was a good one and we think the relationship has worked, despite the colorful incidents that we've had. And both parties, I think, can laugh about that a wee bit more.

However, since the last quarter of last year we've actually been meeting with Playtech on a regular basis, the very highest level. Chairman and I are meeting with the Chairman and Chief Executive of Playtech on a regular basis and we're making -- we've had some very good open and honest discussions; usually over a particularly nice bottle of red, which does help open and honest discussions, I've found, and I'm sure the Chairman can vouch for that as well.

But the relationship at this point in time is positive, and both parties are keen to ensure that it remains positive, no matter what might happen in the future.

So, all in all, it's good but the nitty-gritty has still to be talked about. And I'm sure that, as and when we've got anything to report to you, Ivor, we will update not only you but everybody else.

Ivor Jones - *Numis Securities - Analyst*

That almost seemed to be drifting into management speak.

Ralph Topping *- Chief Executive*

Well, I think it's particularly Glaswegian management speak so, sorry, son.

Ivor Jones *- Numis Securities - Analyst*

What are the things that you wouldn't have in the deal now that you did have three years ago?

Ralph Topping *- Chief Executive*

I think a wee bit more in the context of our strategic freedom. I think having, in some cases, a minority veto was frustrating for us at times; and I think Playtech, to be fair to them, recognize that.

Ivor Jones *- Numis Securities - Analyst*

The presentation changed slightly to split out Playtech Casino and Vegas games, how are the economics different from the revenue derived through those two streams?

Neil Cooper *- Group Finance Director*

Look, I'm not going to tell you in too much detail because it does go to amongst, other things, the sort of commercial rates we're paying for various pieces of content.

I think what's important to recognize is the economics, of any business stream, are made up of two facets. There's obviously the direct payment for provision of software and/or intellectual property if you're using a licensed game; and then secondly, and this is probably the bigger factor, when you look at what marketing costs are consumed, typically, a lot of the download is affiliate led.

A lot of the Vegas is cross-sell out of a sportsbook customer who's already on the site so, therefore, the marketing costs are -- and I think Ralph alluded to this in his presentation, actually. The costs of a cross-sell into a Vegas product from an existing UK sports betting customer is clearly much more efficacious for us, [that's] profitable. God, I'm lapsing into management speak now.

Ivor Jones *- Numis Securities - Analyst*

Do you have some control over how you direct the revenue down the two channels? Is the growth differential partly a function of management choice, rather than customer choice?

Neil Cooper *- Group Finance Director*

No, no, I don't think you could take that view. We are open for business however somebody wants to engage with us. And we don't get -- people don't ring us up and say, listen, I'd love to play Vegas or I'd love to play roulette with you would you like me to go to a download casino or go to a cross-sell Vegas product? They do the choosing.

Ivor Jones - ***Numis Securities - Analyst***

Sorry, last question. Sticking with the Vegas theme, you lost the 32Vegas appeal, I know you don't control the litigation but are you still comfortable that you're covered for the costs?

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

Yes.

Ivor Jones - ***Numis Securities - Analyst***

So there won't be a cost to William Hill?

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

No.

Ivor Jones - ***Numis Securities - Analyst***

Thanks.

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

Vaughan Lewis, Morgan Stanley. I'm not going to ask about pricing in the shops, but if you look at your TV adverts for horse racing, with building the brand around best odds guaranteed, are you comfortable that the customer base is different so that those people watching Channel 4 racing won't expect that in the shops?

Ralph Topping - ***Chief Executive***

Yes, would be the answer to that one. Yes.

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

A completely different customer base?

Ralph Topping - ***Chief Executive***

I'm quite comfortable with that one, thank you.

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

Your comparisons with your nearest competitor are fair, I think, but one area where they possibly outperform you is on the tax side. Is there anything you can do to get your tax rate down to 13%?

Ralph Topping - ***Chief Executive***

Well, you know my other responsibilities in live football and so I'm becoming a bit of an expert on tax. But I'm not that much an expert that I can handle that question; I'll pass it over to Neil.

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

Yes, sure. Look, I think, in some senses, to deliver a 17% effective tax rate against a headline 25% or 26% corporate tax rate, it's actually 26.5% effective for the year, is a good performance for William Hill in isolation. So let's not lose sight of the fact that nine points below the statutory rate is a good performance in and of itself.

I'm looking forward to reading the, no doubt, more detail that we'll see when Ladrokes publish their full annual report on tax because 13% and 13% guidance is, clearly, an excellent result. If there are things we can learn from them, we will clearly be learning it and applying it as quickly as possible. There is no bar on good ideas being adopted here, even if they come from Uxbridge.

So, yes, fair play to them. We've had a good result in absolute terms; they have had an exceptional result. We will be looking at it very closely, and if it's applicable to us we will obviously apply it.

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

And just a final one, a small one, on the litigation with the BHA. What's the rough cost of that? And what's the possible upside for William Hill? Why is that being pursued?

Ralph Topping - ***Chief Executive***

The upside for William Hill is that we get some clarity on the law. That's why we're doing it. And the cost is not significant because it's a shared cost, so it's not even worth mentioning.

Matthew Gerard - ***Credit Suisse - Analyst***

Matthew Gerard, Credit Suisse. Three from me, please.

Firstly, Online. You spent £86 million on marketing, as you rightly pointed out, 27% of the full year. Can I just check, your guidance July '12 was to stay at 27% rather than the H2 rate, which was obviously running closer to 29%?

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

Around 27%, yes.

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

Around 27%. So that's despite the euro [champs]. Would that not be a big effective jump up in spend in marketing?

Ralph Topping - ***Chief Executive***

No, because it's short term and we've already budgeted, so it's already in the guidance.

Matthew Gerard - ***Credit Suisse - Analyst***

And can you, following on from that, give us an idea of the split as a percentage of MGR marketing costs would be in the UK versus international? I guess it's significantly lower in the UK.

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

Yes, I'm not going to quote you the exact number. But I think we've consistently said that the benefit of having an extremely strong both prompted [ad] and prompted awareness in the UK the logic goes that you should be able to market for less. The reality is we do, and we're below 20% in our UK net revenue-to-marketing ratio.

Matthew Gerard - ***Credit Suisse - Analyst***

And two more, if I may; one for Vince, and one for David actually.

On Machines, the split you've now given out on the Storm Q4 machines implies the global draw machines are, perhaps, around [GBP850], something like that, certainly sub [GBP900]. Is there any reason why that's not going to be rectified with the rollout of the new terminal? There's no locational bias, for example, in the estate which would mean you can't recover that difference?

Vince Bateson - ***Head of Retail Gaming***

No. We've clearly set our stall out to say that we're going sole supplier with Inspired because we see a bankable benefit. That's part of the benefit, and we believe there's no reason why we can't achieve that.

Matthew Gerard - ***Credit Suisse - Analyst***

And lastly, for David. On the regulatory risk section, you didn't reference some of the comments from certain Labor MPs recently on the proliferation of betting shops. I know it's very easy to throw things when you're in opposition and not in government. Do you see that as a material risk that may affect your business?

There's obviously been some comment about the proliferation of betting shops in poor areas, machines in particular, just your take on that.

Ralph Topping - ***Chief Executive***

Do you want to give some facts on that, David?

David Steele - ***Corporate Services Director***

Yes, sure. To answer the question quickly, no, I don't see it as a material risk. I think you have to contextualize this. We have a few inner London boroughs in the main who claim there has been some increase in betting shops in their localities.

I think if you look at the national picture, there's about 8,500 betting shops, it's been pretty static at that for three years. Part of this call now from Labor and from inner London is around possible reintroduction of the demand test.

I don't think that's got any legs at all, personally. Or, alternatively, perhaps looking at a differentiation around planning uses and going back from the current A2 class, that's been in place for 25 years, to a sui generis use.

I think it's probably worth saying, or reminding ourselves, betting offices existed in sui generis through the whole of the '60s and '70s, and right up to '87/'88 when the use class changed. They peaked in numbers, probably about 1968, at 15,800; and even when the use class changed in '87/'88, 10,300; has steadily declined ever since that point down to the current 8,500. I personally don't think it's a way of controlling use on a High Street, generally.

But I suppose the obvious answer would be -- sorry, the obvious question would be if it came to pass, how would it impact? And I guess possibly more in the M25 than anywhere else because that's where the current noise is. And I think, if you look at the M25 generally, we've got 650 to 700 shops. It's absolutely where we're at our strongest in terms of footprint, so I guess it would impact on us less least of all.

And outside of that, the fact that even if you moved back to a sui generis use class, it doesn't mean you won't be granted. We have, internally, a lot of expertise at moving from A1 to A2, probably more than our competitors, from the stats I get, so it's not something I'm overly concerned about.

I think we should also remember DCLG haven't yet gone to consultation on this. We're still in a pre-consultation phase. And if something were to happen, I think we're 18 months-plus away.

Matthew Gerard *- Credit Suisse - Analyst*

Okay, thank you.

Richard Carter *- Deutsche Bank - Analyst*

Richard Carter, Deutsche Bank. A couple of questions. Are you going to give Retail staff pay increases this year? I think you said you increased it last year 2%.

Secondly, how do you define the 30% of Retail customers using more than one product? Is that OTC products? Or does that include the machines?

Ralph Topping *- Chief Executive*

Well, it's all products in a Retail.

Richard Carter *- Deutsche Bank - Analyst*

Is that mainly gaming machines, as well?

Ralph Topping *- Chief Executive*

(multiple speakers) in gaming machines, on the first question. And I'll deal with them one by one because I sometimes can't remember what the first question was by the time I get to the end.

So the first question was around -- and I can't remember.

Richard Carter *- Deutsche Bank - Analyst*

Retail staff pay increase.

Ralph Topping - ***Chief Executive***

Retail staffing, yes. Retail staffing, will they get a pay increase? Well, they got 2% last year, split 1% and 1%, and we're going to have a review. The review will be pushed back until later in the year, so we'll let you know what comes out of that review.

Richard Carter - ***Deutsche Bank - Analyst***

Okay. And is the 4% cost guidance, is that a like-for-like cost, or an absolute in Retail?

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

It's an absolute cost guidance. But I would just remind you that we have a 53-week year, so that guidance is the 52 on 52. Clearly, the absolute growth will be higher because there will be an extra week of cost in there by the time we published the numbers. And just remember I told you that, please.

Richard Carter - ***Deutsche Bank - Analyst***

And then just a question on Online. You obviously had a big increase in the amount of money you're spending on marketing, but active players didn't really show a huge increase. Have you got any data to show what was going on in Q3 and Q4, when you were obviously accelerating this spend? It's surprising that you weren't seeing a bigger increase in active players.

And can you talk about the marketing spend in terms of how much you're spending above the line and below the line?

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

The first thing to say is we've increased our guidance, around the interims, to reflect the fact that we were increasing spending, predominantly international, linked to market entry into Italy. So you shouldn't see that step up as being something that's been predominantly pushed through the UK.

We haven't published data on numbers below what you've seen. And I'm not going to comment on that here, other than to say one of Hill's big challenges is with a very strong market awareness, and an account that, for us, look like they're around 50% of the whole UK marketplace for online punters, the challenge is not for us is not in gaining new punters, as much as it is getting expanded share of wallet from our, if you like, installed user base.

We already have, if you -- looking at our customer numbers for the UK, we have around 50% of what we think the active Online market is. We're only at around a 12% market share. So, clearly, even if we can just get all of that installed users putting all their spend through us there's a hell of a lot of opportunity in the UK, which is why we regard the UK as being a continually attractive market for growth.

Ralph Topping - ***Chief Executive***

Its still kind of back-of-the-fag-packet, and we've still got some more work to do on this. But instinctively, I think we're seeing our share of the market growing from 12% to 14%, round about that level. So I still think there's a lot of the market to go for in the UK.

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

Yes. It's difficult to look at our sportsbook wager and growth at 50% and believe that the bulk of that's obviously coming from the UK, because that's the bulk of the business, still 75% of the business. Do I think the UK sports betting market per se is growing at 50%? No, I don't. So the implication is we're growing share.

Ralph Topping - ***Chief Executive***

14% is a hell of a lot to go for.

Richard Carter - ***Deutsche Bank - Analyst***

Would it also be the case, because obviously UK is much bigger, that the actual growth in actives is much greater outside of the UK, it's just because the UK is much bigger statistically [you've] already seen a move?

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

Yes.

Ralph Topping - ***Chief Executive***

I think that's right, yes.

Richard Carter - ***Deutsche Bank - Analyst***

Okay. And then on the -- Ralph, you talked about 84% of footfall in the shops was on accumulators, was that revenue or gross win?

Ralph Topping - ***Chief Executive***

That's the fact of bets -- 84% of the bets are four-folds and above.

Richard Carter - ***Deutsche Bank - Analyst***

84% of the actual bets placed?

Ralph Topping - ***Chief Executive***

Yes.

Richard Carter - ***Deutsche Bank - Analyst***

So would you expect because the margins higher the gross win would be a higher percentage?

Ralph Topping - ***Chief Executive***

The gross win -- the 84% of those bet on four-folds is going to be higher than on a single, yes, absolutely.

Richard Carter - ***Deutsche Bank - Analyst***

A higher proportion.

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

Just remember that, that implies that there are 16% of bets going through on slips. Some of those may be accumulators as well. The 84% is the coupon led accumulators.

Ralph Topping - ***Chief Executive***

But you find those slips are -- even punters betting on slips are betting on accumulators in betting shops, yes.

Richard Carter - ***Deutsche Bank - Analyst***

And then just finally, on the Machines, when you're running out the new machines, should we expect some sort of lag that's happened historically?

Ralph Topping - ***Chief Executive***

Yes, there's been -- you can confirm this, but historically there's always been a two or three week dip as punters get used to the machines. But eventually --

Vince Bateson - ***Head of Retail Gaming***

Traditionally, you always see some sort of lag. The swap-overs are planned for first half this year, we're hoping to complete by mid-year, and we'll look to manage that swap over as best as we possibly can.

Richard Carter - ***Deutsche Bank - Analyst***

So you expect the replacement of the Global Draw machines to be complete by the end of Q2?

Vince Bateson - ***Head of Retail Gaming***

By around mid-year.

Richard Carter - ***Deutsche Bank - Analyst***

Mid-year. Okay, cheers.

Simon Davies – *Collins Stewart - Analyst*

Your dividend cover is on 2.5 times, your largish competitor is down at two times, and you've had pretty strong cash flow. Do you think there's scope to bring that cover level down, i.e., grow dividend more than earnings?

Secondly, can you give the current run rate in terms of gross win per machine year to date across the estate?

And lastly, just reversing to Playtech, obviously, the option comes up for negotiation in Q4; can you just talk through the key factors behind your decision as to whether you will exercise that?

Ralph Topping - *Chief Executive*

Sorry, I couldn't hear the last bit.

Simon Davies – *Collins Stewart - Analyst*

The option on the Playtech minority. Clearly, the first window is in the fourth quarter of the current year, can you just talk about the factors behind your decision as to whether you will exercise that or not?

Ralph Topping - *Chief Executive*

Sure. On the dividend, Neil you want to cover that one?

Neil Cooper - *Group Finance Director*

Sure. Our stated dividend policy is that we should be around 2.5 times, moving to 2 when the time is right. Obviously, that then begs the question what are the facets that would lead us to form a view that the time was right? The answer to that is largely about how we see the blend of our free cash flow being invested, be it in driving the business forward through CapEx, be it in potentially acquisitions, being it in retuning cash to the shareholders.

As indeed you indicate in your other questions, we do have a potential call option to consider in our fiscal planning. We're unlikely to make any change. It's a matter for the Board, but I would suggest we're unlikely to want to step outside of our current 2.5 times, until at least a decision around that is clear, which will obviously be something that we'll work through as we go through the year.

We need to get through that, and then we can see what the landscape looks like in terms of our ability to generate cash and where the right home for it is in finding that balance between investing in the business for future growth and, obviously, returning cash to shareholders.

And, as a number of people have said, there are some open issues around tax, which we also need to be clear on, where they land. It would be disappointing to form a view on a dividend and the next week the Government does something on tax that causes you to reconsider that view.

So we need to just take this calmly and make sure that we have as much information to hand as we do before we make a decision that we don't want to go back on.

Ralph Topping - *Chief Executive*

I think if you look at the Playtech call option, you're right; Q4, that's the first opportunity to exercise the call option, or think about exercising the call option, because you don't really need to confirm your exercise until April next year.

The discussions, as I said, are ongoing with Playtech at the senior level. We'll be sending them some project teams to look at the pluses and minuses, and have an exchange of views within those forums. We are serious about giving this a good examination; we think it is a very adult way to do it, with both companies looking at it.

Both companies recognize that there has to be a change; it's the shape of what that change would be. Now, if there can be a change, I think both companies would be adult about recognizing that the partnership might, might, have to alter, or indeed the call option may be exercised. But I can assure you, we're not at that stage at the moment.

We'd be very -- we're also mindful of what might happen with GPT. That's another consideration for us. But more than anything, the key consideration for myself, and Gareth, and the Board, I think, is the strategic freedom. That's extremely important to us as a business now that -- nobody, certainly on our side, imagined that this business would be as successful so quickly, as it was.

We probably thought it would be very successful. We did think it would be very successful, but not as quickly. And strategic freedom going forward, I think, is important to William Hill in a world that's changing, a world that's regulating, and in a business where actually we don't have to actively seek out a lot of opportunities; they do come to us for evaluation.

So that's going to be important to us going forward. But we've been open and honest enough with Playtech on that, in the sessions that we've had at a very senior level.

So I expect some strong work to be done over the course of this summer, both internally and with Playtech, and we'll reach a conclusion in late summer on this whole issue to be fair to all parties. Other than that, there's no more I can add, or be prepared to add.

And on the gaming machines, the answer on this one is, no. Vince, do you want to say that?

Vince Bateson - ***Head of Retail Gaming***

Yes, I was going to say it's a six-week snapshot. It's not really --

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

No.

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

Roohi Siddiqui from Bank of America Merrill Lynch. A few questions from me, please. The first is could you just clarify what happened to Online Casino in Q4 in terms of revenues? It would appear that it was down, and is that due to the disruption we saw around the [management] issues we saw in William Hill Online?

The second question, on current trading, you were kind enough to give the data for the six weeks, could you give the data for the seven weeks for OTC wagers? Has there been major disruptions --?

Ralph Topping - ***Chief Executive***

I think we published the data for seven weeks this morning.

Neil Cooper *- Group Finance Director*

Yes.

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

Not for OTC wagers. You gave the overall Retail wagers, up 2%, for the seven weeks.

Neil Cooper *- Group Finance Director*

No, listen, what I'll tell you is that in both week six and seven we saw some weather related disruption, with around half of the horse racing fixtures cancelled. Now, given that we only really had one big day of snow, it was quite unusual, but I think there were a lot of icy tracks that caused cancellations.

So six and seven we've seen some OTC wagering impact in a year-on-year terms because of the weather. We haven't quoted a number. And, obviously, given the need to make sure we disseminate information widely and consistently, I'm not going to quote the number, I'm afraid.

Ralph Topping *- Chief Executive*

We saw some disruption in our business, as you can imagine, October and November; mainly in Poker, not so much in Casino. And the business is back on an even keel now and we're happy with the numbers that are being generated. So, as I said in the presentation, no long-term damage to that business as a result of the walkouts.

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

Actually, I have a couple more questions. Sorry about that.

Ralph Topping *- Chief Executive*

Be our guest.

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

Could you talk a little bit, Vince, perhaps about the revenue uplift that you'd expect to see by moving to the Storm 3 for the 21% of the stakes? So should we assume that actually those machines will be achieving what Storm is achieving now, or is it actually going to be more? Could you give any kind of clarification around that?

Vince Bateson *- Head of Retail Gaming*

I think on the Storm 3 machines, we've got a 100-shop trial, which has been ongoing since about the turn of the year. It's very early days but takeup and feedback from customers has been very good and, as Ralph said in the main presentation, they are outperforming the control group. So it's a big tick in the box, as far as we're concerned, from that point of view.

Yes, we're going to swap over the 2000/1950, or whatever it is, Global Draw machines to that new cabinet. And I suppose the exciting part for us is that that increases the amount of data that will get through the scheme and give us something to manage and operate our yield functions with.

Give our yield people something to work with. We'll use that to manage our offers and adapt our approach. And, yes, we believe it will deliver upside.

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

If you want to model it, really, I think we've given you the broad estate Storm numbers, which are obviously, as I think Matthew said, slightly higher than the average.

The -- to Vince's point, it is early days. We haven't quoted the uplift for a reason, because it's far too early to get people excited about it. When we are fully sure that we know how the trials gone, we will tell you about it, and obviously you can then run that through models, given as you see fit.

At this stage, it is genuinely premature, I think. To the extent that we haven't quoted a number, that tells you that we regard it as a bit premature for you guys to be starting thinking about it. But, listen, we're flagging that there's certainly enough upside for us to feel that it's worth investing our time as a management group in.

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

And then finally one question for you Neil, which is the working capital outflow this year. Could you just talk a little bit about that?

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

Yes. If you -- no doubt someone will point this out to me at the break, so I might as well get it in first. I thought we might see an outflow in '11. Now that hasn't happened; that is a combination of just specific balance-by-balance events, and also a strong business growth.

Now, putting aside payment fluctuations, payment date fluctuations, if Retail held static and Online grew, you should expect to see a very modest working cash, working capital inflow each year because you're getting deposits in and you're expanding your marketing, and so on, so, therefore, you will you should see creditor growth each year.

Now, our creditor growth has been in excess of the underlying growth of the business. For a number of reasons, far too many and far too boring to see the eyes glaze over of the rest of the audience on this.

We didn't see that in '11. I am expecting that that will, however, some of those abnormally high balances will reverse back. As a good example, and just one example, CapEx accruals have grown year over year by around £5 million '10 on '11.

Now, assuming we spend broadly in the year what we're planning to spend -- now that's understandable because we've been accelerating our capital spend so our commitments are running slightly ahead of our cash getting out the door. Now I'm expecting that '12 actually will be a fairly steady program versus '11 so, in that context, it's easy to see CapEx accruals being in line next year with this year in an absolute sense, which means you get a £5 million outflow rather than a flat or an inflow.

So it's for those sorts of reasons that I'm anticipating we won't be -- in effect, we've had a slightly super normal burst of working capital inflow this year. I'd expect that super normal element to run backwards in '12, hence my guidance that I expect to see a slight outflow.

The changing year-end date, obviously, we were cutting off slightly before the month end; next year we'll definitely be cutting off slightly after the month end, may have a small factor on timing of payments as well. Suffice to say that I'm comfortable that at this stage in the year there is a long list of fairly specific detail I've reviewed that form the opinion that I've given. It could all change given the (multiple speakers) events.

Ralph Topping - ***Chief Executive***

If that's the short answer, we'll give you a longer written answer.

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

Thank you very much.

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

Sorry, just one other point; I've just had a look at the numbers. Back to the question about Casino, how both Playtech and Vegas casino category grew year over year in Q4.

Ralph Topping - ***Chief Executive***

And if I can go back to the machines and just say -- echo what Neil said, that you shouldn't change us your -- you shouldn't uplift your figures at the moment.

We'll give you more detail in April, because the trial will have been well and truly concluded by that time, I think, and we'll give you some more information. But, as Neil said, don't -- everybody's not to get excited; but two people are, Vince, you and I, yes? Okay, Vince does excitement. It's really very convincing. There he has a big smile. Well done, Vince. Thank you very much.

So we're coming to the end. Yes, but not quite because someone's put her hand in the air. We're happy to [have you as] the penultimate person.

Jane Anscombe – ***Edison - Analyst***

One really quick one. You did mention Germany, can you just say whether you're applying for a license in Schleswig-Holstein, and how you see the licensing processing develop there?

Ralph Topping - ***Chief Executive***

Well, you're actually sitting next to our General Counsel, and General Counsel is a fantastic guy called Thomas Murphy, who's well known for his brevity, now and again. Thomas?

Thomas Murphy - ***General Counsel and Company Secretary***

It's being considered.

Ralph Topping - ***Chief Executive***

Thank you. You should see him on a karaoke night. He's fantastic on a karaoke.

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

Look on the bright side, that's two more words that you got out of him than we normally do. It's always yes or no from Thomas.

Ralph Topping - ***Chief Executive***

Last question, please. There are no last questions. That was the last question. Here we go. This is final kicking (inaudible).

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

Vaughan Lewis, Morgan Stanley. Very quick ones. It's clear why you want to keep Telephone, but should we assume the losses continue? Is there anything you can do to --?

Ralph Topping - ***Chief Executive***

I think you -- yes. I think we've got plans to manage the Telephone business differently this year. Neil referred to the large player last year taking over £4 million from us. That large player was -- he didn't disappear, we made him disappear so he isn't going to be back this year. Nothing nasty in that. Ivor's raising his eyebrows at the front.

Ivor Jones - ***Numis Securities - Analyst***

You've not rubbed him out?

Ralph Topping - ***Chief Executive***

No, no, we haven't rubbed them him out at all. But we are going to manage the business differently. We recognize the business is changing. And the trick is to move people from telephone betting, especially the lower end, on the £5, £10 spend, up to -- and retain more of the £20, £25, £30 spend, and move those, the lower denominations, onto online, or indeed mobile.

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

A one-word answer from Neil, if possible; what's the rough buy out cost of the pension in total if you were to --?

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

Well, the accounting deficit's £34 million. The actuarial deficit was around £56 million at the point that we agreed the funding deal, and it's around an eight-year funding deal at about £8 million to £10 million. Now, the reason that's higher than £56 million is, if you agree a longer term pay out, you've also got to account for the time value of money.

It's impossible to answer that question with one word. What were you thinking of?

Ralph Topping - *Chief Executive*

I thought if that was one word from you -- anyway. Is that it? Thank you very much for coming along. Good seeing you again, and we'll see you the next time. And no doubt you're going to be here while we're milling around and ask us some more questions, but it's been really good seeing you. Thank you very much.