# Annual Report and Accounts 2002

Founded in 1934, William Hill is one of the leading providers of fixed odds bookmaking services, offering odds and taking bets on a wide range of sporting and other events, as well as offering Amusement With Prizes machines and Fixed Odds Betting Terminals in licensed betting offices and operating an online casino. It is a market leader in all major betting channels in the UK with an established international presence through its online business.

# Contents

# Financial Highlights

- Turnover up 37% to £3,365.3m (2001 – £2,452.2m) and gross win up 5% to £527.7m (2001 – £502.6m)
- Gross profit up 14% to £416.0m (2001 – £365.0m)
- Exceptional costs totalling £49.1m (2001 – £nil) relating to the flotation of the Company
- Profit on ordinary activities before finance charges, taxation and exceptional costs up 26% to £141.4m (2001 – £112.0m)
- Profit on ordinary activities after tax (and before exceptional costs) up 218% to £58.6m (2001 – £18.4m)
- Basic earnings per share (before exceptional costs) up 145% to 16.9 pence (2001 – 6.9 pence)
- Interim dividend of 2.9 pence per share and proposed final dividend of 5.8 pence per share (payable on 5 June 2003) giving a total dividend of 8.7 pence per share

# Chairman's Statement

I am delighted to be able to report a record level of profit for the year in which William Hill floated on the London Stock Exchange.

Profit on ordinary activities before finance charges, tax and exceptional items was £141.4m, an increase of 26% on last year, and represents our third successive year of double digit profit growth.

We floated the business in June 2002 based on a strategy of focusing on organic growth in the businesses and markets that we know well, exploiting profitable opportunities arising from fiscal and regulatory reform, and taking advantage of product and technical innovation.

We will continue to grow organically and by acquisition in our core business and will look to selective diversification where we can find opportunities that offer synergies with our existing operations and create value for our shareholders. Our acquisition of the H&K chain of betting shops and of the Sunderland and Brough Park (post period end) greyhound stadia are examples of where existing profitable businesses can be acquired and readily integrated into the Group.

We have significantly strengthened our management team in recent years and successfully blended some of the best bookmaking skills in the industry with more broadly based general managers and functional specialists from other industries.
We believe that this combination of skills leaves us exceptionally well placed to exploit opportunities, in particular those arising from deregulation, as and when they occur in the future.

Our transition from private into public ownership is almost complete, so I will take this opportunity to place on record my thanks to Cinven and CVC for their support and contribution in the three years of their tenure, and to thank my colleagues, staff and those advisers who contributed to making our flotation one of the most successful in recent years.

We begin 2003 with a strong brand, a strong market position, a strong management team and a strong balance sheet, and we face the future with justifiable confidence as we look forward to further deregulation of the UK gambling industry.

**John Brown**
Chairman

# Chief Executive's Review

The UK gambling industry is going through a period of significant change. Fiscal and regulatory reforms are combining with technological advancements to create a wealth of opportunities for a strong and trusted brand such as William Hill to develop further its business.

## Trading performance

The major change to the fiscal environment in 2002 was the full year effect of the new gross profit tax (GPT) regime introduced in October 2001, which directly taxes bookmakers' gross profit rather than customers' stakes, and which significantly reduces the amount of tax paid by bookmakers on business conducted in the UK.

The results for the period also benefited from the inclusion of the football World Cup that stimulated betting activity and account recruitment. The event generated £13m of gross win across all three channels although we estimate roughly two-thirds of this amount represented substitution of betting on other sports.

## Licensed betting offices (LBOs)

The new gross profit tax regime has been particularly beneficial for our retail channel, which had been disadvantaged against remote channels due to the relative size of the deduction from customers' spend.

From the day of the introduction of the new tax there has been clear evidence of customers recycling the money saved on deductions into more and bigger bets. Turnover on fixed odds betting (excluding AWPs) in the retail channel was up 44% and gross win was up 1%.

Tracking the benefit of tax free betting through the year has been difficult because of the distorting effect of the World Cup in the second quarter, and a run of unfavourable results in the third quarter. In the fourth quarter, we were able to compare like for like trading with the corresponding period in 2001, when the new tax was also in operation, and total gross win in the shops (from traditional products, AWPs and self service fixed odds betting terminals (FOBTs)) was up 7%. Whilst improved horseracing results will have impacted the performance, these figures suggest that the full benefit of the new tax regime is still working through as customers adjust their betting behaviour.

Our strategy of giving the customer increased betting opportunities through opening more shops on Sundays, and offering new sports, betting events and innovative bet types facilitates recycling. Whilst there has been a staff cost associated with taking an increased volume of bets and extending opening hours, there is clear evidence that product diversification is helping to drive growth.

Virtual racing shown as part of the SIS programme and FOBTs have been particularly successful innovations with the roll out of terminals starting in mid 2002 and progressing rapidly so that by the year end we operated 1,745 terminals in the estate. In the fourth quarter of 2002, numbers betting comprising traditional numbers products, virtual racing and FOBTs accounted for a significantly higher proportion of the Group's gross win compared to the corresponding period in 2001.

These changes have contributed towards a 20% increase in profitability for the retail channel.

## Telephone

Telephone gross win grew by 6% to £50.9m and profit increased by 12% to £17.3m showing the resilience of the medium in the face of stiff competition from other remote channels and after recognising that the telephone channel no longer enjoys a pricing advantage over the retail channel following its repatriation.

## Interactive

Interactive businesses include our online sportsbook and casino and fledgling mobile (WAP) and interactive TV businesses.

These businesses showed significant growth with profit up 123% to £20.5m over the corresponding period. The channel's principal market has always been the UK although it has managed to attract an international customer base. Developing the overseas business is proving more difficult due to legislation in certain jurisdictions prohibiting local citizens from betting with an offshore bookmaker or discouraging local banks from processing card transactions. We are, therefore, continuing to focus principally on the UK market in which we believe further growth is possible as well as targeting selected European markets.

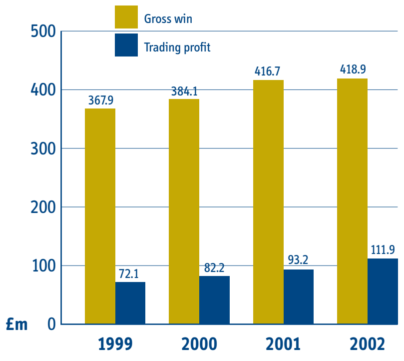
In January 2003, we successfully launched an on-line poker product, and later this year we will introduce new functionality to allow customers to move funds easily between the on-line sportsbook and casino.

## Cost of content

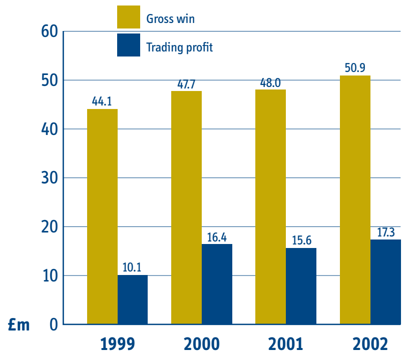
The new commercial agreement with the British Horseracing Board became effective on 1 May 2002 and represents an important step in providing both the bookmaking and horse racing industries with certainty regarding the use and price of data. We have also secured the necessary rights to screen pictures from individual race tracks for periods up until the end of 2004.

In August 2002, the bookmaking industry reached agreement with the Football League on the acceptance of football bets. The agreement in respect of LBOs runs until the end of the

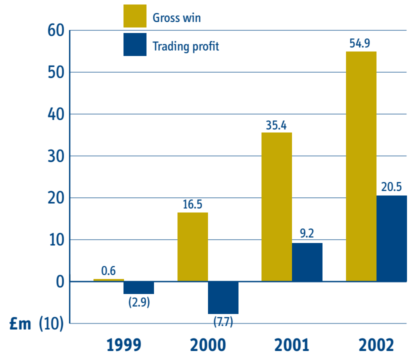
Licensed Betting Offices




Telephone




Interactive




2005/6 season, and in respect of the remote channels, runs until the end of the 2003/4 season.

At the time of writing, the bookmaking industry, via Bookmakers' Afternoon Greyhound Services (BAGS), is seeking to extend the terms of its agreement to purchase pictures from certain greyhound tracks. The current contract runs until the end of 2003 and BAGS is seeking a further two year extension. To date, 7 of the 16 BAGS tracks have signed. Separately, the greyhound industry is seeking a significant increase in the total amount derived from bookmakers via a licensing arrangement. The basis for this claim is disputed by bookmakers and as a result the industry is taking steps to mitigate the effect of this action.

## Competition issues

The Group continues to compete effectively against other operators of high street outlets, comprising national chains as well as smaller independents, other providers of telephone betting services, and also domestic and overseas operators of online sportsbook and casino services.

In addition, the bookmaking industry is responding to the competitive threat represented by betting exchanges by lobbying the Department of Culture, Media and Sport (DCMS) to examine the legality of persons laying bets on this platform, by trying to ensure a level playing field with the off course industry as regards the payment of levy and gross profit tax, and by encouraging the National Joint Pitch Council (NJPC) to enforce its rules so as to stop on course bookmakers betting into the exchanges.

In October 2002, the Levy Board adopted a new Levy Scheme (effective 1 April 2003) that will require layers (bookmakers) on betting exchanges to pay levy on the same basis as traditional bookmakers. We are also hopeful that Customs and Excise, as part of their review of the gross profit tax regime, will follow the levy decision and impose the tax on layers on the exchanges.

## Business development

During the period, the Group acquired H&K Commissions (Bookmakers) PLC, an independent chain of 35 shops, which improves our representation in North East London and Essex. In addition, the Group acquired Sunderland greyhound stadium during the period, and Brough Park greyhound stadium after the period end, to help secure at reasonable cost the supply of betting opportunities on greyhound racing. All three acquired businesses are profitable, established operations.

## Regulatory development

DCMS is currently engaged in developing legislation that reflects the recommendations contained in the Budd report published in July 2001 that will result in a deregulation of gambling markets in the UK. The major opportunity for our industry will be the increased number of gaming machines in shops and introduction of jackpot machines offering £500 maximum prizes. We are lobbying DCMS regarding the content of the proposed legislation and do not expect it to be enacted by Parliament until the second half of 2004 at the earliest.

The Gaming Board, the regulatory body responsible for the gaming industry in the UK, is in the process of seeking a declaration from the High Court to establish whether or not FOBTs are gaming machines and are therefore unlawful in betting shops under current legislation. The bookmaking industry has received legal advice that supports its view that these terminals offer fixed odds bets but recognises that the issue can only be determined definitively in a court of law and therefore is co-operating with the Gaming Board. The matter is not expected to be heard by the High Court until the early summer.

## Current trading

The good performance in the fourth quarter of 2002 has continued into the current financial year with gross win up 20% in the 9 weeks ended 4 March, 2003 compared to the corresponding period. Factors such as favourable sporting results, the introduction of FOBTs into the retail estate, and the growing popularity of football and numbers betting have all played their part in consolidating the growth in total customer spend.

The coming financial year will be no less demanding than the year just ended but the Group is well positioned to develop its business and take advantage of the very real opportunities that exist in its core market and the broader gambling sector.

# Operating and Financial Review


William Hill cashiers are always on hand to give help and advice

William Hill is a market leader in all major betting channels in the UK with an established international presence through its interactive business.

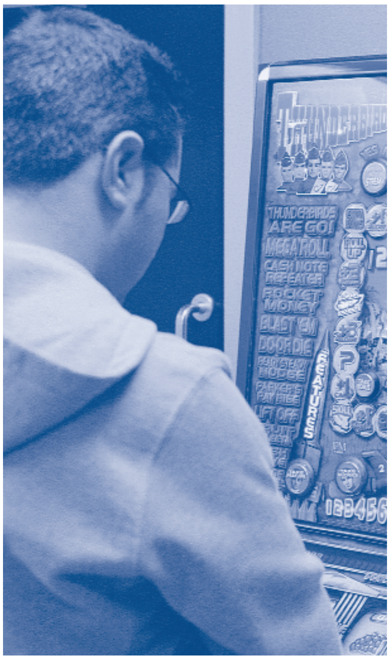
## The business, its objectives and strategy

The Group delivers its betting products to customers through three principal channels:

- LBOs comprising a nationwide network of 1,579 outlets, making William Hill the second largest operator of LBOs in the UK. The LBO estate is of high quality reflecting sustained investment and approximately 45% of units are located in London and the South-East. The scale of the LBO network gives William Hill a significant competitive advantage in terms of brand recognition and allows central costs to be spread across a large estate.

- Telephone betting, in which the directors believe William Hill is the UK market leader with an estimated market share of approximately 40% by turnover. The Group has approximately 640 telephone bet capture positions at call centres in Leeds and Sheffield. As at 31 December 2002, the business had approximately 453,000 registered customers (1 January 2002 – 400,000) and over 164,000 active customers (1 January 2002 – 150,000).

- Interactive betting, comprising profitable and fast growing online sportsbook (www.williamhill.co.uk) and online casino (www.williamhillcasino.com) operations. The Group accepted its first bet on the Internet in 1998 and since then its sportsbook and casino have experienced significant growth in the UK and internationally, attracting customers from over 150 countries. As at 31 December 2002, the sportsbook had over 425,000 registered accounts (1 January 2002 – 280,000), including over 130,000 active customers (1 January 2002 – 100,000), and the casino had over 180,000 registered accounts (1 January 2002 – 110,000), including over 43,000 active customers (1 January 2002 – 35,000).



The Group continues to pursue a strategy aimed at delivering sustainable earnings growth and value for shareholders. The key elements of this strategy are to:

- Continue to enhance traditional earnings and maximise organic growth opportunities;
- Profitably exploit new platforms;
- Capitalise on opportunities from regulatory, fiscal and technological change; and
- Selectively pursue value-enhancing acquisitions.

The directors believe that the Group has made good progress since flotation in pursuing its stated strategy.

## Performance in the period

The directors consider that the key metric for business activity is gross win (rather than turnover) as this figure reflects the amount won from customers. The Group's gross win was £527.7m, representing an increase of 5% over the corresponding period.

Growth in gross win reflected a number of factors including the effect on customers' betting behaviour of changes to the betting duty regime made in October 2001, sporting results, the occurrence of the football World Cup 2002, and the inclusion of 53 weeks in the corresponding period.

GPT, duty, levy, VAT and other costs of sales (excluding pay-outs to customers) reduced 19% to £111.7m and includes gross profit tax paid to Customs & Excise, levies paid to the horse racing and greyhound racing industries, VAT incurred in respect of AWPs, and various royalty payments to suppliers of FOBTs and to Cryptologic, a provider of certain services in respect of the online casino.

The total amount of gross profit tax paid was substantially lower than the amount of duty and gross profit tax paid in the corresponding period due to the introduction of the new gross profit tax regime in October 2001 with significant savings in relation to the LBOs being only partially offset by additional costs in the telephone and online sportsbook businesses.

The cost of the levy paid to the horse racing industry increased following the introduction of the 41st Levy Scheme with effect from 1 April 2002 that moved the basis of calculation to 10% of gross win derived from bets on UK and overseas horse racing.

The cost of VAT payments in respect of AWPs has remained relatively unchanged from the corresponding period as there has been no material change in the number of machines in the estate. The introduction of FOBTs into the estate since mid-2002 and the rapid roll-out of terminals has resulted in additional gross profit tax and royalties payable to Customs & Excise and suppliers, respectively, in respect of this new product offering.

The continuing successful development of the online casino has also resulted in increased payments to Cryptologic notwithstanding a reduction in the percentage of gross win paid as a royalty with effect from July 2001.

Gross profit, representing gross win less GPT, duty, levy, VAT and other costs of sales, amounted to £416m, a 14% increase over the corresponding period.

Net operating expenses (before exceptional items) increased to £277m, an increase of 7% over the corresponding period. Approximately half these costs relate to staff costs that increased 11% primarily due to the additional employees recruited as a result of increased bet volumes following the introduction of the new gross profit tax regime and to cope with extended trading hours in the estate, and an inflation related pay award. Other material costs include property costs that increased 5%; depreciation that increased 1%; communications costs that increased 13% due to the agreement between the betting industry and racecourses on a new contract for the rights to screen pictures and receive audio; advertising and sponsorship that increased 21% including an amount allocated across all three channels in relation to the promotion of business on the World Cup 2002; and an increase in AWP and FOBT rentals of 21% as the number of terminals increased through the second half of the year.



Associate income represents the Group's 19% share of the profits of its associate company, SIS.

Net interest payable (before exceptional items) fell to £60.6m, a decrease of 31% on the corresponding period, as a result of the re-financing of the Group on flotation that led to a reduction in net indebtedness and secured cheaper debt financing.

Tax on profit on ordinary activities relates primarily to the current year and as the Group earns its profits principally in the UK is calculated at 30% of taxable profits being the current standard rate of UK corporation tax.

The Group declared an interim dividend of 2.9 pence per share and the directors propose a final dividend of 5.8 pence per share resulting in a total dividend of 8.7 pence per share. This equates to a 3.9% yield on the issue price of £2.25 per share at flotation. No dividends were paid in respect of the corresponding period.

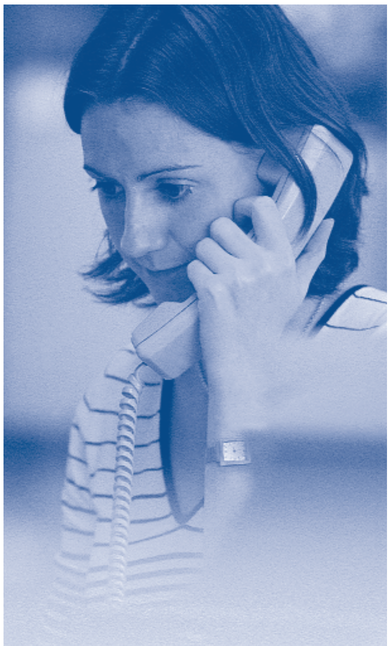
Exceptional items relate to costs incurred in respect of the flotation and re-financing of the Group and are explained in more detail in note 3 to the financial statements.

## Dynamics of the business

The strengths of the business today are no different to those outlined by the directors in the flotation prospectus and include the following:

- A market leader in all major betting channels in the UK with an established international presence;
- A long established and widely recognised brand, with a strong reputation for quality;
- An extensive and high quality estate of betting shops, which benefits from significant past investment and ongoing refurbishment and improvement;
- An effective risk management system and significant bookmaking experience;
- A focus on sustainable and profitable growth and tight management of costs;
- Strong cash flow generation;
- A track record of innovation and profitably exploiting regulatory, fiscal and technological change; and
- A strong management team.

The directors are seeking to build an increasingly profitable business by exploiting these strengths and, at the same time, carefully managing the risks to the operation. Such risks include: the potential impact of legislative changes both in the UK and overseas on the Group's ability to accept bets; the potential impact of changes to the UK fiscal environment; the ability of the Group to manage its bookmaking risk; the relationship with key suppliers most notably the horse and greyhound racing industries; the potential threat represented by competitors based in the UK and overseas; the risk that key technology or information systems could fail; the impact of the weather or other factors on the sporting programme; the risk of loss of key personnel; the risk of a prolonged economic downturn or other geo-political events that may result in a reduction in betting activity; the risk that intermediaries such as banks refuse to accept credit and debit card transactions connected with gambling; and the risk resulting from any inability of the Group to service its debt obligations.

The Board routinely monitors all the above risks and ensures that appropriate actions are taken to mitigate the risks or their potential adverse consequences. The Chief Executive's Review further expands on a number of issues that fall into the above description of risk factors.

## Investment

The Group spent a net £20.4m (53 weeks ended 1 January, 2002 – £28m) on capital investment in the period. The Group invests substantial amounts each year in the development of its estate to open new shops and to extend, re-site and refurbish existing units. Such investments are evaluated against strict criteria including a return on investment target of between 10% and 20%, depending on the type of project.

The telephone channel has received recent investment with the opening of a new 270 (capacity 400) seat call centre in Sheffield in January 2002 in anticipation of the closure of a facility in Athlone, Ireland in April 2002.

Further investment has also been made in developing the online sportsbook and casino offering to allow customers to bet in up to 8 languages and to improve the speed and usability of the sites.

The Group normally seeks a return of 15% on its capital investments.

## Dividends

The Company expects its interim and final dividends to represent approximately one third and two thirds of the total annual dividend, respectively.

## Capital structure and treasury

In June 2002, the Company floated on the London Stock Exchange and took the opportunity to raise gross proceeds of £340m. The issue of shares was made to institutional and other professional investors in the UK and elsewhere, to employees and to retail investors through intermediaries. At the same time the Company arranged new bank facilities amounting to £660m comprising a five year term loan of £210m and a revolving credit facility of £450m available until 28 May 2007. The new bank facilities are denominated in sterling as the Group's operations are largely based in the UK.

The Group used the proceeds of the flotation, draw down under the new bank facility and cash resources to repay its existing borrowings including the previous bank loans, the unsecured loan notes 2009, and the majority of its high yield bonds, as described in the financial statements. The Group is obliged under the terms of its new bank facility to redeem the outstanding high yield bonds in April 2003.

These transactions were undertaken principally to establish an appropriate capital structure for the next phase of the Group's development and to enhance its strategic flexibility. The directors believe that a number of recent developments in the UK gambling market could result in increased opportunities, in particular in relation to consolidation amongst LBO operators and, in due course, across gambling platforms. Following the flotation, William Hill is able to use listed shares for acquisitions and has access to cheaper sources of debt financing.

The amortisation profile and covenants attaching to the new bank facilities have been determined with regard to the Group's anticipated trading performance in the coming years and its capacity to service its debt obligations. Furthermore, the Group has entered into a series of amortising interest rate swaps to fix the interest rate payable on a substantial proportion of its floating rate debt. The amortising nature of the swaps results in approximately 75% of interest costs on the projected outstanding debt being hedged over the next 12 months reducing to 35% by 2006. The directors periodically review the borrowing and hedging arrangements to ensure that they remain appropriate to the needs of the Group and take account of changes in market conditions.

The above text has been prepared with reference to the guidance issued by the Accounting Standards Board in January 2003 entitled 'Operating and Financial Review.'

# Board of Directors

**John Brown**
Non Executive Chairman

**David Harding**
Chief Executive Officer

**Tom Singer**
Group Finance Director

**Charles Scott**
Senior Independent Non Executive Director

**David Allvey**
Non executive director

**Yagnish Chotai**
Non executive director

**Barry Gibson**
Non executive director

**Donald Mackenzie**
Non executive director

## John Brown
### Non Executive Chairman

John Brown, aged 60, is Chairman of the Group, having been Chief Executive from 1989 and Chairman from March 1999. He stood down as Chief Executive in August 2000 on the appointment of Mr Harding to that position. Mr Brown joined William Hill in 1959 and worked in different parts of the business over the next 26 years, until he was appointed Assistant Managing Director of WHO in 1985. Mr Brown is a high profile figure in the bookmaking and racing industries. He will remain part-time Non-Executive Chairman until retirement on 31 December 2003 and will continue to be responsible in conjunction with the Chief Executive for the overall business strategy of the Group.

## David Harding
### Chief Executive Officer

David Harding, aged 47, was appointed a director of a number of companies in the Group on 1 August 2000 and, after a period of induction, assumed the position of Chief Executive. Mr Harding is responsible (in conjunction with the Chairman) for the overall business strategy of the Group and is also responsible for the Group's day-to-day operations. For the two years prior to joining the Group, Mr Harding was with the Prudential Group, initially as Managing Director of their Life and Pensions business and latterly as Deputy Chief Executive of Scottish Amicable, a wholly owned Prudential subsidiary. He is an MBA graduate of Warwick University.

## Tom Singer
### Group Finance Director

Tom Singer, aged 39, joined the Group on 8 January 2001 and from 1 March 2001 assumed the position of Group Finance Director. His responsibilities cover finance, financial and strategic planning, investor relations, security and internal audit. Prior to joining the Group, Mr Singer worked at Moss Bros for three years where he held the position of Group Finance Director and was responsible for finance and IT. He was previously a management consultant with McKinsey for five years. Mr Singer is a chartered accountant.

## Charles Scott
### Senior Non Executive Director

Charles Scott, aged 53, Chartered Accountant, was appointed a non executive director of William Hill in January 1999 and is the nominated Senior Independent Non Executive Director for the purposes of the Combined Code. Prior to joining the Group, Mr Scott spent nine years with Saatchi & Saatchi in various roles including Chairman, Chief Executive and Finance Director. Mr Scott is a non executive director of several companies including adidas-Salomon, TBI, InTechnology and Profile Media. He has worked for over 20 years with US corporations, including as Chief Financial Officer of IMS International.

## Barry Gibson
### Non executive director

Barry Gibson, aged 51, was appointed as a non executive director of William Hill in May 2002. Mr Gibson was Group Retail Director of BAA from 1988 to 1997 and Chief Executive of Littlewoods from 1997 to 2001. Mr Gibson is currently Chairman of the British Institute of Retailing and a non executive director of National Express Group. Mr Gibson was a non executive director of Limelight from 1997 to 1999.

## David Allvey
### Non executive director

David Allvey, aged 57, was appointed a non executive director of William Hill in May 2002. Mr Allvey was Group Finance Director of B.A.T. Industries for 10 years until 1998, Chief Operations Officer of Zurich Financial Services AG and Allied Zurich Plc from 1998 to 1999 and Group Finance Director of Barclays Bank from 1999 to 2001. He is a non executive director of Costain Group, of Britannic Group and of Intertek Group. Mr Allvey was a non executive director of McKechnie from 1993 to 2000. He was Chairman of the Fiscal Committee of the 100 Group of UK Finance Directors and has been a member of the UK Accounting Standards Board since 1994, having qualified as a chartered accountant with Price Waterhouse in London.

## Donald Mackenzie
### Non executive director

Donald Mackenzie, aged 45, became a non executive director of William Hill in March 1999. He is a chartered accountant and a director of CVC Capital Partners Ltd.

## Yagnish Chotai
### Non executive director

Yagnish Chotai, aged 43, became a non executive director of William Hill in March 1999. He is a director of Cinven, a leading European private equity firm. Mr Chotai has been involved in a number of buyouts led by Cinven, including General Healthcare Group, Kappa Packaging, Unique Pub Company, Oxoid and Comax. Prior to joining Cinven, Mr Chotai was Deputy Managing Director of Gresham Trust, a private equity firm then owned by BAT. He joined Gresham in 1992 following a four year career in Hill Samuel Bank's development capital business. Prior to that he qualified as a chartered accountant with KPMG.

## Professional Advisers

**Freshfields Bruckhaus Deringer (Legal Advisers)**
65 Fleet Street
London EC4Y 1HS
T +44 (0) 20 7936 4000

**Deloitte & Touche (Auditors)**
180 Strand
London WC2R 1BL
T +44 (0) 20 7936 3000

**Brunswick Group Ltd (Financial Public Relations)**
16 Lincoln's Inn Fields
London WC2A 3ED
T +44 (0) 20 7404 5959

**Schroder Salomon Smith Barney (Corporate Stockbrokers)**
Citigroup Centre
33 Canada Square
London E14 5LB
T +44 (0) 20 7986 4000

**Capita Registrars**
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
T +44 (0) 870 1623100

# Directors' Report

The Directors present their annual report on the activities of the Group, together with the financial statements and auditors' report for the 52 weeks ended 31 December, 2002.

## Principal activities

The principal activities of the Group during the period were the operation of licensed betting offices and the provision of telephone and Internet betting and online casino services.

The subsidiary and associated undertakings principally affecting the profits or net assets of the Group are listed in note 16 to the financial statements.

## Reorganisation of the Group

In preparation for the flotation of the Company a re-organisation took place on 15 April, 2002 whereby William Hill PLC acquired the entire share capital of William Hill Holdings Ltd (WHH). WHH had been owned by a combination of certain funds managed by Cinven Limited, certain funds managed by CVC Capital Partners, companies and funds that co-invest with Cinven and/or CVC and certain members of management. In April 2002 such shareholders agreed to exchange their shares in WHH for shares in the Company as part of a group re-organisation. The Company changed its name from Troniclong Limited to William Hill Limited on 10 May, 2002 and from William Hill Limited to William Hill PLC on 28 May, 2002.

## Business review

Full details of the Group's activities and a report on its business, strategy and likely future developments are contained in the Chief Executive's Review and Operating and Financial Review on pages 4 to 9.

Details of significant events since the balance sheet date are contained in note 33 to the financial statements.

## Results and dividends

The Group's profit on ordinary activities after taxation and exceptional items was £21.2m (53 weeks ended 1 January, 2002 – £18.4m).

The directors recommend a final dividend of 5.8 pence per share to be paid on 5 June, 2003 to ordinary shareholders on the Register of Members on 9 May, 2003 which, together with the interim dividend of 2.9 pence per share paid on 4 December, 2002 makes a total of 8.7 pence per share for the period (53 weeks ended 1 January 2002 – Nil).

## Directors

The directors consist of:

| | |
|---|---|
| John Brown † | Non Executive Chairman |
| David Harding | Chief Executive |
| Thomas Singer | Group Finance Director |
| Charles Scott * ‡ (1) | Senior Independent Non Executive Director |
| David Allvey * ‡ (2) | Independent non executive director |
| Barry Gibson * † (3) | Independent non executive director |
| Yagnish Chotai † | Non executive director |
| Donald Mackenzie ‡ | Non executive director |

* Member of Nomination Committee (1) (Chairman)
‡ Member of Audit Committee (2) (Chairman)
† Member of Remuneration Committee (3) (Chairman)

Messrs. Harding and Singer were appointed to the Board on 4 March, 2002. Messrs. Brown, Scott, Mackenzie and Chotai were appointed to the Board on 15 April, 2002 and Messrs. Gibson and Allvey on 22 May, 2002.

Instant Companies Limited was the director of the Company from incorporation on 8 May, 2001 until resignation on 4 March, 2002.

## Directors proposed for re-election

Messrs. Harding, Singer and Scott retire by rotation at the next Annual General Meeting and offer themselves for re-election.

Please refer to page 11 for directors' biographies.

## Supplier payments policy

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Group at 31 December 2002 were equivalent to 17 days purchases (1 January 2002 – 26 days purchases), based on the average daily amount invoiced by suppliers during the period.

## Charitable contributions

During the period the Group made charitable donations of £24,068 (53 weeks ended 1 January 2002 – £111,000) principally to industry related charities serving the communities in which the Group operates.

## Substantial shareholdings

On 10 March, 2003 the Company had been notified, in accordance with sections 198 to 208 of the Companies Act 1985, of the following interests in the ordinary share capital of the Company:

## Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment within the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should as far as possible be identical to that of other employees.

## Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, and the Group magazine. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The Company's SAYE Share Option Scheme (Scheme) has been running successfully since its implementation in June, 2002. It is open to all eligible employees based on a three, five or seven year monthly savings contract. Options under the Scheme are granted with an exercise price up to 20% below the prevailing share price. The maximum permissible monthly savings under the Scheme is £250.

## Purchase of shares

As part of the Company's capital reorganisation at the time of flotation, 54,140 deferred shares with a nominal value of £2 (representing 0.000005% of the Company's called-up share capital as at 31 December 2002) were repurchased from Cinven Capital Management Limited and CVC European Equity Partners II L.P. for cancellation for a total consideration of 1 pence.

## Auditors

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**Nigel Blythe-Tinker**
Group Company Secretary
10 March, 2003

Registered Office:
Greenside House,
50 Station Road,
Wood Green,
London N22 7TP

**Substantial shareholdings**

| Name of holder | Number of shares | Percentage shareholding |
|---|---|---|
| Fidelity | 42,165,981 | 10.00 |
| Legal & General Investment Management | 13,928,542 | 3.30 |
| Lazard Asset Management | 13,624,200 | 3.23 |

Notes:

(1) Funds managed by Cinven Limited hold a total of 38,992,525 shares representing 9.24% of the issued share capital of the Company.

(2) Funds managed or advised by CVC Capital Partners Limited, or an affiliate thereof, and related co-investors hold a total of 36,819,936 shares representing 8.72% of the issued share capital of the Company.

# Directors' Remuneration Report

## Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (Regulations) which introduced new statutory requirements for the disclosure of directors' remuneration for quoted companies with year ends on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Regulations require the auditors to report to the Company's members on the "auditable part" of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

## Unaudited information

### Remuneration Committee

The Company has established a Remuneration Committee (Committee), which is constituted in accordance with the recommendations of the Combined Code and comprises independent non executive directors and the Group Chairman. The members of the Committee are Mr Gibson (non executive director), Mr Chotai (non executive director) and Mr Brown (Group Chairman). The Committee is chaired by Mr Gibson and makes recommendations to the Board. No director plays a part in any discussion about his own remuneration.

In determining the directors' remuneration, the Committee appointed Towers Perrin to provide advice on structuring directors' remuneration packages. The Committee also consulted Mr Harding (Chief Executive) and Mr Russell (Group Director, Human Resources) about its proposals. Towers Perrin did not provide any other services to the Group.

### Remuneration policy

The remuneration policy has been designed to ensure that the Group has the ability to attract and retain senior managers of a high calibre, align the interests of the senior management with that of the shareholders and be compliant with best practice. The performance measurement of the key members of senior management and the determination of their annual remuneration package are undertaken by the Committee. The remuneration of the non executive directors is determined by the Board within limits set out in the Articles of Association.

This report sets out the Company's policy on senior management remuneration for 2003 and, so far as practicable, for subsequent years. This policy will continue unless changed by the Committee, and any changes in policy for years after 2003 will be described in future Directors' Remuneration Reports, which will continue to be subject to shareholder approval. The Committee considers that a successful remuneration policy needs to be sufficiently flexible to take account of future changes in the Group's business environment and in remuneration practice.

There are four main elements of the remuneration package for senior management:

- Basic annual salary and benefits;
- Bonus payments;
- Share option incentives; and
- Pension arrangements.

The Group's policy is to position the basic salaries of the senior management at the median of the relevant competitive market, with a substantial proportion of their remuneration being performance related. As described below, senior management may earn annual incentive payments of up to 50% of their basic salary together with the benefits of participation in share option schemes.

Executive directors are required to obtain the Board's prior written consent to accept external appointments.

### Basic annual salary and benefits

The salaries of senior management are reviewed on 1 March each year. Individual pay levels, within the competitive market, are determined by reference to performance, experience and potential. For the basis of comparison the benchmark used is the retail and leisure companies within the Towers Perrin survey of 106 companies, adjusted by reference to specific competitor groups and cross-checked against the whole survey and a sample of companies of comparable size within the FTSE250.

The basic salaries of Messrs. Harding and Singer were reviewed, prior to flotation, in June 2002. Mr Harding had his salary increased by 36% to £350,000 and Mr Singer had his salary increased by 8% to £220,000. The basic salaries of other senior management were reviewed and increased by 2.5% in March 2002.

In addition to basic salary, senior management receive other competitive benefits, such as a fully expensed car or car allowance, private health cover and permanent health insurance. It is intended to continue to provide these benefits but retain the flexibility to provide a cash alternative for any or all of these according to individual circumstances.

**Bonus payments**

**1. Annual bonus payments**

Executives are eligible to participate in a senior management bonus scheme that is reviewed by the Committee on an annual basis to determine the most appropriate performance measures for that year. For 2002, this comprised only the Group financial performance as measured by profit on ordinary activities before finance charges and exceptional items. The scheme provides for a target payment (currently 20% of basic salary) and a maximum payment (currently 50%). Bonus payments for Messrs. Harding and Singer for the 52 weeks ended 31 December 2002 were 43% of basic salaries. This reflects the year on year improvement in profit on ordinary activities before finance charges and exceptional items of 26%.

**2. Float bonus**

On admission of the Company's shares to the London Stock Exchange, Mr Brown received a cash bonus of £500,000. Mr Harding and Mr Singer were both entitled to a bonus of £2,836,300 and £1,418,150 respectively, based on the enterprise value of the Group. The bonus was to be satisfied by paying up to 50% in cash and by granting a right to acquire at nil cost a number of shares calculated by dividing the amount of the bonus not paid in cash by the offer price of the shares on admission. Under the arrangement each elected to have 50% of the bonus in cash with the remaining 50% being a nil cost option that can be exercised at any time in the five year period following the announcement of the Group's results for the 2003 financial year.

**Share option incentives**

Long-term incentives will be provided to drive performance, aid retention and align the interests of executives with those of shareholders. There are three schemes in existence:

a) The Executive Director Incentive Plan (EDIP) was established to reward Messrs. Harding and Singer in the event of admission of the Company's shares to the London Stock Exchange and will not be repeated. Under the scheme each is entitled to an award of shares, structured as a nil cost option, which will vest in three annual tranches (30%, 30% and 40%), starting from the date of the first anniversary of admission, subject to the Company's Total Shareholder Return (TSR) performance against companies in the FTSE250 over the period from the date of admission to the date immediately preceding each relevant tranche vesting date. If top quartile TSR performance is achieved, all the shares in that tranche will vest. If median TSR performance is achieved, half the shares will vest, and if performance is between the median and upper quartiles, between half and the full amount will vest, on a straight-line basis. No shares will vest for below median performance. Full details of the EDIP were disclosed in the flotation prospectus.

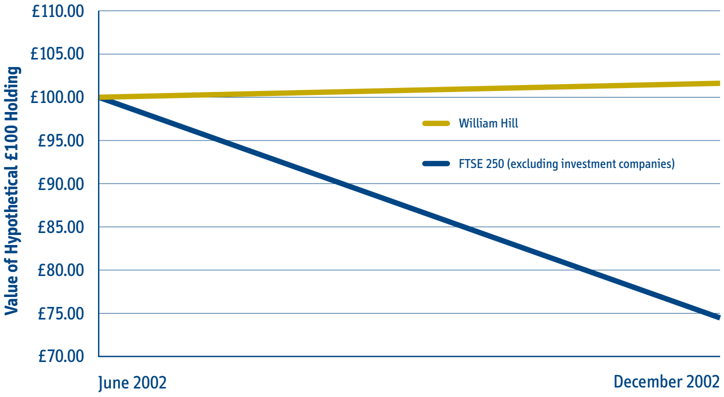
b) The Long-Term Incentive Plan 2002 (LTIP) is for senior management. The LTIP will be administered by the Committee and will provide conditional awards of shares to a value of up to 50% of salary (the basic award) for middle and senior management and up to a further 50% (the matching award) for senior management. The matching award will be on a ratio of not more than one to one and accordingly the maximum value of shares that can be awarded in any financial year is 100% of salary. Release of the shares will be dependent upon the Company's TSR performance over a three-year period measured against the performance of companies comprising the FTSE250 over the same period. Shares vest in proportion to above median TSR performance and no shares vest if the Company's performance is below median. Full vesting requires TSR performance to be in the top decile compared to the comparator group. No awards have yet been made but it is anticipated that the first award under the LTIP will be granted in March 2003 and thereafter awards will be made annually subject to objective conditions provided this is justified by corporate and individual performance. Messrs. Harding and Singer have agreed to defer their participation in the LTIP during the first year of its operation.

c) The Company also operates a SAYE Share Option Scheme for eligible employees under which options are granted with an exercise price up to 20% below the prevailing share price. Senior management are eligible to participate.

The Committee considers TSR to be the most appropriate metric for the EDIP and LTIP as it rewards management's performance in both growing the business as reflected in the share price and returning value to shareholders via the payment of dividends.

The Company does not operate any long-term incentive schemes other than the share option schemes described above. No significant amendments are proposed to be made to the terms and conditions of any entitlement of a director to share options.

**Historical TSR Performance**
**Growth in the value of a hypothetical £100 holding in the Company since the date of listing on 20th June 2002 versus the FTSE 250 (excluding investment companies) Index.**




**The starting value for the Company is based on the offer price (£2.25) on 20th June, 2002. All other points are based on average values taken over the prior 30 trading days.**

### Pension arrangements

Market competitive retirement benefits are provided to act as a retention mechanism and reward long service. Executive directors are members of the "Retirement Plan" section of the William Hill Pension Scheme. This provides defined benefits based on final pensionable pay and length of service. Benefits accrue at a rate of 1/30th of pensionable salary, up to the Earnings Cap, for each year of pensionable service. Their dependants are eligible for dependants' pensions and the payment of a lump sum, equivalent to four times salary, in the event of death in service. Pensionable pay is basic salary less the Lower Earnings Limit and no other payments are pensionable.

Where appropriate, member's benefits are restricted by the Earnings Cap but the loss of benefit is compensated for by additional salary on a discretionary basis. Mr Harding received 20% of salary for this loss of benefit in the period.

The current final salary scheme is closed to new entrants and has been replaced by a money purchase scheme in respect of new joiners. The normal retirement age is 63 (final salary) and 65 (money purchase).

### Performance graph

The above graph shows the Company's performance, measured by TSR, compared with the performance of the FTSE250 (excluding investment companies) also measured by TSR. The FTSE250 (excluding investment companies) has been selected for this comparison because it is the index used by the Company to determine payments under the EDIP and LTIP.

The graph consists of points representing the change in the value of a nominal investment of £100 made on 20th June, 2002 in the Company and the FTSE 250 (excluding investment companies) index, respectively. The change in value of the index holding reflects changes in the constituent companies over the period. The closing values at 31 December 2002 represent the value of each nominal holding at that date and reflect the change in the share price and the value of dividend income re-invested over the period.

### Policy on executive directors' contracts

It is the Company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice. Consequently no executive has a contractual notice period in excess of 12 months.

In the event of early termination the policy on executive directors' contracts provides for compensation up to a maximum of 12 months basic salary, pension contributions, other benefits, and pro-rated annual bonus.

### Executive directors contracts

Mr Harding is employed under a service contract with the Company dated 28 May, 2002 and is entitled under the contract to a basic annual salary, participation in the Company's bonus scheme, a company car (or allowance in lieu), permanent health insurance and private medical insurance cover. Mr Harding is also entitled to membership of the Company's pension scheme (pensionable salary limited to the Earnings Cap) and receives an annual payment of 20% of basic salary to reflect the restriction imposed by the Earnings Cap. Mr Harding's contract is for an indefinite term ending automatically on his retirement date (age 63), but may be terminated by 12 months notice given by either party. The Company may at its discretion elect to terminate the contract by making within ten days of the termination of employment a payment in lieu of notice equal to:

- the salary Mr Harding would have received during the notice period;
- a pro-rated amount in respect of bonus in respect of the year in which the employment terminates;
- the annual cost to the Company of providing pension and all other benefits to which Mr Harding is entitled under his contract.

If Mr Harding's employment is terminated following a change of control of the Company and within 12 months of such change of control Mr Harding is given notice or if Mr Harding terminates his employment for a good reason as defined in the service contract, the Company is obliged to pay within seven days of the termination of the employment a lump sum payment calculated in the same way as the payment in lieu of notice described above.

Mr Singer is employed under a service contract with the Company dated 28 May 2002. The terms and conditions of Mr Singer's service contract are the same as for Mr Harding, save that no additional payment of 20% of salary is made to Mr Singer in respect of the restriction on pension benefits imposed by the Earnings Cap.

### Non executive directors

All non executive directors have specific terms of engagement and their remuneration is determined by the Board within the limits set by the Articles of Association and based on independent surveys of fees paid to non executive directors of similar companies. The basic annual fee payable to Mr Brown, the Non Executive Chairman is £150,000, effective from 24 May, 2002. The basic annual fee paid to Messrs. Scott, Allvey and Gibson, the independent non executive directors who chair the Nominations, Audit and Remuneration Committees respectively, was £35,000. Basic annual fees of £30,000 are payable to Cinven and CVC Capital Partners in respect of the services provided by the other non executives, Mr Chotai and Mr Mackenzie, respectively. Non executive directors cannot participate in any of the Company's share option schemes and are not eligible to join the Group's pension scheme.

The date of appointment of Messrs. Scott, Brown, Chotai and Mackenzie was 15 April, 2002 and for Messrs. Allvey and Gibson was 22 May, 2002 .

## Audited information

### Directors' emoluments and remuneration

| Name of director | Fees/ basic salary† £ | Benefits in kind £ | Annual bonuses £ | Float bonuses* £ | 2002 total £ | 2001 total £ |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| David Harding | 364,500 | 12,601 | 150,500 | 2,836,300 | 3,363,901 | 469,852 |
| Tom Singer | 211,500 | 16,637 | 94,600 | 1,418,150 | 1,740,887 | 301,039 |
| **Non executive directors** | | | | | | |
| John Brown | 228,434 | 30,798 | 64,500 | 500,000 | 823,732 | 500,159 |
| Charles Scott | 29,212 | – | – | – | 29,212 | 27,523 |
| David Allvey | 21,431 | – | – | – | 21,431 | – |
| Barry Gibson | 21,431 | – | – | – | 21,431 | – |
| Yagnish Chotai (fees payable to Cinven) | 28,261 | – | – | – | 28,261 | 27,877 |
| Donald Mackenzie (fees payable to CVC Capital Partners) | 28,261 | – | – | – | 28,261 | 30,937 |
| Aggregate emoluments | 933,030 | 60,036 | 309,600 | 4,754,450 | 6,057,116 | 1,357,387 |

† Included in fees/basic salary for Mr Harding was £60,750 as compensation for loss of pension benefit due to the Earnings Cap.

* The float bonuses in respect of Mr Harding and Mr Singer were satisfied 50% in cash and 50% by the award of a nil cost option as described in the table below. The float bonus payable to Mr Brown was satisfied in cash.

There were no payments by the Company during the financial year for compensation for loss of office or payments in connection with the termination of qualifying services. The non-cash elements of the executive directors' remuneration packages consist of the provision of a company car or car allowance, private health cover, travel card and permanent health insurance.

### Directors' share options

Except for the float bonuses for Mr Harding and Mr Singer, aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors. Details of options for directors as at 31 December 2002 are as follows:

| Name of director | Scheme | Number of shares at date of appointment | Granted during the period | Exercised during the period | Number of shares at 31 December 2002 | Exercise price | Date from which exercisable | Expiry date |
|---|---|---|---|---|---|---|---|---|
| David Harding | Float bonus | – | 630,288 | – | 630,288 | Nil | March 2004 | March 2009 |
| | EDIP | – | 1,222,222 | – | 1,222,222 | Nil | June 2003 (30%) | June 2006 |
| | | | | | | | June 2004 (30%) | June 2007 |
| | | | | | | | June 2005 (40%) | June 2008 |
| Tom Singer | Float bonus | – | 315,144 | – | 315,144 | Nil | March 2004 | March 2009 |
| | EDIP | – | 611,111 | – | 611,111 | Nil | June 2003 (30%) | June 2006 |
| | | | | | | | June 2004 (30%) | June 2007 |
| | | | | | | | June 2005 (40%) | June 2008 |
| | SAYE | – | 5,277 | – | 5,277 | 180p | August 2005 | February 2006 |
| John Brown | N/A | – | – | – | – | – | – | – |
| Charles Scott | N/A | – | – | – | – | – | – | – |
| David Allvey | N/A | – | – | – | – | – | – | – |
| Barry Gibson | N/A | – | – | – | – | – | – | – |
| Yagnish Chotai | N/A | – | – | – | – | – | – | – |
| Donald Mackenzie | N/A | – | – | – | – | – | – | – |

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

The Company's ordinary shares were listed and admitted to trading on the London Stock Exchange on 20 June 2002 at a price of £2.25 at which time Messrs Harding and Singer became eligible to receive the float bonus and benefit under the EDIP arrangement. The market price of the ordinary shares at 31 December 2002 was £2.22 and the range during the period from flotation to 31 December, 2002 was £1.96 to £2.87.

Options granted as part of the float bonus and under the SAYE Share Option Scheme are not subject to performance criteria. For the EDIP the performance criteria under which options may be granted are detailed on page 15.

**Directors' pension entitlements**

Three directors are members of the Group's defined benefit pension scheme. In accordance with the Regulations, the following table shows the members' contributions, the increase in accrued entitlement during the period and the accrued entitlement at the end of the period. The following directors had accrued entitlements under the scheme as follows:

| Name of director | Accrued pension 1 January 2002 £ | Real increase in accrued pension £ | Inflation £ | Increase in accrued pension in the period £ | Accrued pension 31 December 2002 £ |
|---|---|---|---|---|---|
| David Harding | 4,505 | 3,248 | 77 | 3,325 | 7,830 |
| Tom Singer | 2,915 | 3,245 | 50 | 3,295 | 6,210 |
| John Brown | 175,893 | 4,773 | 2,238 | 7,011 | 182,904 |

The following table sets out the transfer value of the directors' accrued benefits under the scheme calculated in a manner consistent with "Retirement Benefit Schemes – Transfer Values (GN 11)" published by the Institute of Actuaries and the Faculty of Actuaries.

| Name of director | Transfer value 1 January 2002 £ | Real increase in transfer value in the period net of contributions £ | Other changes to transfer value £ | Increase in transfer value in the period net of contributions £ | Contributions made by the director £ | Transfer value 31 December 2002 £ |
|---|---|---|---|---|---|---|
| David Harding | 32,811 | 19,326 | 1,277 | 20,603 | 4,838 | 58,252 |
| Tom Singer | 16,147 | 11,853 | (897) | 10,956 | 4,838 | 31,941 |
| John Brown | 2,906,846 | 72,898 | 126,725 | 199,623 | 8,386 | 3,114,855 |

The transfer values disclosed above do not represent a sum paid or payable to the individual director. Instead they represent a potential liability of the pension scheme.

Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above tables.

**Approval**

This report was approved by the Board of directors on 10 March, 2003 and signed on its behalf by:

**Barry Gibson**
Chairman of the Remuneration Committee
10 March, 2003

# Statement on Corporate Governance

The Company is committed to the principles of corporate governance contained in the Combined Code on corporate governance which is appended to the Listing Rules of the Financial Services Authority and for which the Board is accountable to shareholders.

## Statement of compliance with the Code of Best Practice

Since flotation, the Company has been in compliance with the Code provisions set out in section 1 of the Combined Code on corporate governance except for the following matters:

- Section A.3.2. – The independent non executive directors constitute half, rather than a majority, of non executive directors on the Board. The independent non executive directors are Messrs. Scott, Allvey and Gibson. The remaining non executive directors are Messrs. Mackenzie and Chotai who are directors of CVC and Cinven entities respectively, and Mr Brown.
- Section B.2.2. – Mr Brown, although Non Executive Chairman, is not considered to be independent as he was previously Chief Executive of the Group. Although not considered independent, Mr Brown is a member of the Remuneration Committee. The independent non executive directors consider that his guidance is important in assessing the performance of the executive directors and other members of senior management, and therefore in properly determining their remuneration.

## Statement about applying the Principles of Good Governance

The Company has applied the Principles of Good Governance set out in section 1 of the Combined Code by complying with the Code of Best Practice as reported above. Further explanation of how the principles have been applied is set out below and, in connection with directors' remuneration, in the Directors' Remuneration Report.

## The Board

The Board comprising eight members, determines the strategic direction of the Group and reviews its operating and financial position. The Board has a formal schedule of matters specifically reserved to it, which can only be amended by the Board itself and which is reviewed annually. The Board meets at least eleven times during the year.

## Directors

Appointments to the Board are the responsibility of the full Board, on the recommendation of the Nominations Committee. All directors submit themselves for re-election by rotation with one third of the directors retiring each year. The Board may also, in accordance with Article 115 of the Company's Articles of Association, appoint a person who is willing to act as a director, either to fill a casual vacancy or as an additional director, such appointment being only effective until the next Annual General Meeting.

The Board comprises individuals with wide business experience of various sectors of industry. They have access to all information relating to the Group; the advice and services of the Group Company Secretary, and, as required, external advice at the expense of the Group.

There is a clear division of responsibility between the Chairman and the Chief Executive. The roles of the Chairman, Chief Executive and directors are defined so as to give no individual unfettered powers of decision-making.

The Higgs Report published in January 2003 on the Role and Effectiveness of Non Executive Directors proposes significant changes to the Combined Code. The Board notes that following the Financial Reporting Council's acceptance of these proposals a new version of the Combined Code will apply to reporting periods starting on or after 1 July, 2003 and hence will seek to affect the transition to full compliance in the light of emerging best practice.

## Relations with shareholders

The Board remains committed to maintaining good relationships with both institutional and private shareholders. There is regular dialogue with institutional shareholders, although care is exercised to ensure that any price sensitive information is released at the same time to all shareholders, in accordance with the requirements of both the Financial Services Authority and the London Stock Exchange.

The Board regards the annual general meeting as an important opportunity to communicate directly with all shareholders. Board members, including the Chairmen of the Remuneration, Nominations and Audit Committees attend the meeting and are available to answer questions.

In order that shareholders present are aware of the other shareholders' voting intentions, the details of proxy votes will be announced at the Annual General Meeting.

## Board committees

The Remuneration Committee, the Nominations Committee and the Audit Committee are standing committees of the Board.

## Remuneration Committee

The role and operation of the Remuneration Committee is set out in the Directors' Remuneration Report on pages 14 to 18.

## Nominations Committee

The Nominations Committee is chaired by Mr Scott and includes Messrs. Allvey and Gibson. The Nominations Committee's principal function is to carry out a formal selection process of candidates and subsequently to propose to the Board any new appointments, whether executive or non executive directors.

As part of this function, it considers the composition of the Board, the demands made on the Board and its committees and the requirements of good corporate governance.

The Nominations Committee meets as necessary but at least annually before or after regular meetings of the Board, to consider proposals for Board appointments.

## Audit Committee

The Audit Committee is chaired by Mr Allvey and includes Messrs. Scott and Mackenzie. It meets at least four times a year and its principal functions are to:

- review and advise the Board on the Group's interim and annual financial statements, its accounting policies and on the controls operating over its financial and business risks;
- review the nature and scope of the work to be performed by the external and internal auditors, the results of that work and management's response; and
- meet with the executive directors and management, as well as privately with both external and internal auditors. The Chairman of the Audit Committee reports the outcome of meetings to the Board.

Following Sir Robert Smith's publication of his report on audit committees and Combined Code guidance in January 2003, the Board notes the report proposes a new audit committee section in the Combined Code, which is expected to relate to financial years starting on or after 1 July, 2003. The Board will seek to comply with the revised Combined Code in the light of emerging best practice.

## Internal control

The Board has overall responsibility for the Group's internal control systems and for monitoring their effectiveness. Implementation and maintenance of the internal control systems are the responsibility of the executive directors and senior management, and are subject to periodic review which is documented. The Group's internal audit department maintains a database recording the system of internal controls in every division or department throughout the Group. The performance of internal control systems is reviewed regularly by the Audit Committee.

The Board monitors the process by which critical risks to the business are identified and managed. It assesses the effectiveness of internal control systems on the basis of:

- established procedures, including those already described, which are in place to manage perceived risks;
- regular reports by management to the Audit Committee on the adequacy and effectiveness of internal control systems and significant control issues;
- the continuous Group-wide process for formally identifying, evaluating and managing the significant risks to the achievement of the Group's objectives; and
- presentations of the results of internal audits and work undertaken by other departments to the Audit Committee.

The Group's internal control systems are designed to reduce, rather than eliminate, the risk of failure to meet business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss. In assessing what constitutes reasonable assurance, the Board has regard to materiality and to the relationship between the cost of, and benefit from, internal control systems.

The Board regularly reviews the actual and forecast performance of the business compared with the annual plan, as well as other key performance indicators.

Lines of responsibility and delegated authorities are clearly defined. The Group's policies and procedures are regularly updated and distributed throughout the Group as well as reporting compliance to the Audit Committee.

The Chief Executive and Nominations Committee oversee the policies for employee selection, advancement and development and have direct involvement in senior management appointments. Succession planning and contingency arrangements operate for senior management and have been reviewed by the Board.

## Assessment of business risk

A corporate risk matrix has been developed and approved by the Audit Committee and the Board. The matrix records the key risks facing the business and assesses the likelihood of the risks crystallising and their potential materiality. Responsibility for management of the risks is attributed typically at senior management level.

## Internal audit

Internal audit advise management on the extent to which systems of internal control are effective; are adequate to manage business risk; safeguard the Group's resources; and in conjunction with the Group Company Secretary, ensure compliance with legal and regulatory requirements. It provides objective assurance on risk and control to senior management and the Board.

Internal audit's work is focused on areas of greatest risk to the Group, as determined by a structured risk assessment process involving executive directors and senior management. The output from this process is summarised in an audit plan which is approved by the Audit Committee. The head of internal audit reports regularly to the Group Finance Director and Audit Committee.

The role of the internal audit function and the scope of its work continues to evolve to take account of changes within the business and emerging best practice.

The Board is responsible for Group compliance matters, and is advised in this respect by the Audit Committee, head of internal audit and Group Company Secretary.

## Going concern

The directors have prepared the financial statements on a going concern basis consistent with their view, formed after making appropriate enquiries, that the Group is operationally and financially robust.

# Statement of Directors' Responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;

• make judgements and estimates that are reasonable and prudent; and

• state whether applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control and safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# Independent Auditors’ Report

## To the members of William Hill PLC

We have audited the financial statements of William Hill PLC for the 52 weeks ended 31 December 2002 which comprise the consolidated profit and loss account, the consolidated balance sheet, the Company balance sheet, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the statement of accounting policies and the related notes numbered 1 to 34. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors’ Remuneration Report that is described as having been audited.

This report is made solely to the Company’s members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company’s members those matters we are required to state to them in an auditors’ 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 and the Company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

As described in the statement of directors’ responsibilities, the Company’s directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors’ Remuneration Report. Our responsibility is to audit the financial statements and the part of the Directors’ Remuneration Report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors’ Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors’ Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors’ remuneration and transactions with the Company and other members of the Group is not disclosed.

We review whether the corporate governance statement reflects the Company’s compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board’s statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group’s corporate governance procedures or its risk and control procedures.

We read the Directors’ Report and the other information contained in the annual report for the above period as described in the contents section including the unaudited part of the Directors’ Remuneration Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors’ Remuneration Report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors’ Remuneration Report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors’ Remuneration Report described as having been audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the 52 weeks then ended; and
- the financial statements and part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

**Deloitte & Touche**
**Chartered Accountants and Registered Auditors**

London
10 March 2003

# Consolidated Profit and Loss Account

| | Notes | Before exceptional items £m | Exceptional items (note 3) £m | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|---|---|---|
| **Turnover** | 1 | 3,365.3 | – | 3,365.3 | 2,452.2 |
| Cost of sales | | (2,949.3) | – | (2,949.3) | (2,087.2) |
| **Gross profit** | 1 | 416.0 | – | 416.0 | 365.0 |
| Net operating expenses | 2,3 | (277.0) | (20.1) | (297.1) | (257.9) |
| **Operating profit** | 1 | 139.0 | (20.1) | 118.9 | 107.1 |
| Share of associate's operating profit | 4 | 2.4 | – | 2.4 | 4.9 |
| **Profit on ordinary activities before finance charges** | | 141.4 | (20.1) | 121.3 | 112.0 |
| Net interest payable | 3,5 | (60.6) | (29.0) | (89.6) | (87.7) |
| Other finance income | 6 | 0.7 | – | 0.7 | 3.0 |
| **Profit on ordinary activities before tax** | 7 | 81.5 | (49.1) | 32.4 | 27.3 |
| Tax on profit on ordinary activities | 10 | (22.9) | 11.7 | (11.2) | (8.9) |
| **Profit on ordinary activities after tax** | | 58.6 | (37.4) | 21.2 | 18.4 |
| Dividends paid and proposed | 12 | (36.3) | – | (36.3) | – |
| **Retained (loss)/profit for the period** | 26 | 22.3 | (37.4) | (15.1) | 18.4 |
| **Earnings per share (pence)** | | | | | |
| Basic | 13 | 16.9 | | 6.1 | 6.9 |
| Diluted | 13 | 16.8 | | 6.1 | 6.9 |

All amounts relate to continuing operations for the current and preceding financial periods.

# Consolidated Statement of Total Recognised Gains and Losses

| | Notes | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|---|
| Profit for the financial period | | 21.2 | 18.4 |
| Actuarial loss recognised in the pension scheme | 24 | (36.6) | (28.8) |
| Deferred tax attributable to actuarial loss | 24 | 11.0 | 8.9 |
| Currency translation differences on foreign currency net investments | | 0.1 | (0.1) |
| **Total recognised gains and losses relating to the period** | | (4.3) | (1.6) |

# Consolidated Balance Sheet

| | Notes | 31 December 2002 £m | 1 January 2002 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 14 | **728.9** | 702.8 |
| Tangible assets | 15 | **99.0** | 90.8 |
| Investments | 16 | **4.4** | 10.5 |
| | | **832.3** | 804.1 |
| **Current assets** | | | |
| Stocks | 18 | **0.3** | 0.3 |
| Debtors: amounts recoverable within one year | 19 | **14.1** | 11.0 |
| Debtors: amounts recoverable after one year | 19 | **3.0** | 3.6 |
| Cash at bank and in hand | | **44.6** | 104.8 |
| | | **62.0** | 119.7 |
| **Creditors:** amounts falling due within one year | 20 | **(145.5)** | (111.1) |
| **Net current (liabilities)/assets** | | **(83.5)** | 8.6 |
| **Total assets less current liabilities** | | **748.8** | 812.7 |
| **Creditors:** amounts falling due after more than one year | 21 | **(470.3)** | (851.2) |
| Share of net liabilities of associate | 16 | **(1.2)** | – |
| **Net assets/(liabilities) excluding pension liability** | | **277.3** | (38.5) |
| **Pension liability** | 24 | **(28.0)** | (2.2) |
| **Net assets/(liabilities) including pension liability** | | **249.3** | (40.7) |
| **Capital and reserves** | | | |
| Called-up share capital | 25,26 | **42.2** | 27.2 |
| Share premium account | 26 | **311.3** | – |
| Merger reserve | 26 | **(26.1)** | (26.1) |
| Other reserves | 26 | **2.1** | – |
| Profit and loss account | 26 | **(80.2)** | (41.8) |
| **Shareholders' funds/(deficit)** | 27 | **249.3** | (40.7) |
| Equity interests | | **249.3** | (41.7) |
| Non-equity interests | | **–** | 1.0 |
| | | **249.3** | (40.7) |

The financial statements were approved by the board of directors on 10 March 2003 and are signed on its behalf by:

**D C I Harding**
Director

**T D Singer**
Director

# Company Balance Sheet

| | Notes | 31 December 2002 £m | 1 January 2002 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 16 | **38.2** | – |
| | | **38.2** | – |
| **Current assets** | | | |
| Debtors: amounts recoverable within one year | 19 | **868.2** | – |
| Cash at bank and in hand | | **–** | – |
| | | **868.2** | – |
| **Creditors:** amounts falling due within one year | 20 | **(74.2)** | – |
| **Net current assets** | | **794.0** | – |
| **Total assets less current liabilities** | | **832.2** | – |
| **Creditors:** amounts falling due after more than one year | 21 | **(470.3)** | – |
| **Net assets** | | **361.9** | – |
| **Capital and reserves** | | | |
| Called-up share capital | 25, 26 | **42.2** | – |
| Share premium account | 26 | **311.3** | – |
| Other reserves | 26 | **2.1** | – |
| Profit and loss account | 26 | **6.3** | – |
| **Equity shareholders' funds** | | **361.9** | – |

The financial statements were approved by the board of directors on 10 March 2003 and are signed on its behalf by:

**D C I Harding**
Director

**T D Singer**
Director

# Consolidated Cash Flow Statement

| | Notes | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|---|
| Net cash inflow from operating activities | 28 | **137.3** | 133.2 |
| Dividend from associate | | **5.7** | – |
| Returns on investments and servicing of finance | 29 | **(48.4)** | (47.1) |
| Taxation | | **(9.5)** | (0.7) |
| Capital expenditure and financial investment | 29 | **(20.4)** | (28.0) |
| Acquisitions | 29 | **(20.8)** | – |
| Equity dividend paid | | **(12.1)** | – |
| Net cash inflow before financing | | **31.8** | 57.4 |
| Financing | 29 | **(92.0)** | (37.4) |
| (Decrease)/increase in cash in the period | 30 | **(60.2)** | 20.0 |

# Statement of Accounting Policies

A summary of the Group's principal accounting policies, which have been applied consistently throughout the period and the preceding period, is set out below.

## Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

## Basis of consolidation

The consolidated financial statements include the audited accounts of the Company and all of its subsidiary undertakings drawn up to the same period end as the Group.

In preparation for the flotation of the Company, a reorganisation took place on 15 April 2002, whereby William Hill PLC (the Company) acquired the entire share capital of William Hill Holdings Limited ("WHH"). WHH had been owned by a combination of certain funds managed by Cinven Limited (Cinven), certain funds managed by CVC Capital Partners (CVC), companies and funds that co-invest with Cinven and/or CVC and certain members of management. In April 2002, such shareholders agreed to exchange their shares in WHH for shares in the Company as part of a group reorganisation. This transaction was accounted for using merger accounting as required by Financial Reporting Standard (FRS) 6 "Acquisitions and mergers". Consequently, the consolidated profit and loss account and balance sheet have been presented on a pro forma basis as if the new holding company has been in existence throughout both the current and corresponding periods.

The results of subsidiaries acquired or sold are consolidated for the periods from the date on which control passed.

## Acquisitions

On the acquisition of subsidiary undertakings and businesses the excess of the purchase consideration over the fair value of tangible fixed assets, other assets and liabilities acquired represents an intangible asset comprising licence value, goodwill and brand value which is capitalised.

## Intangible fixed assets

Intangible fixed assets represent licence value, goodwill and brand value. It is not considered appropriate to show these components as separate asset categories.

The Companies Act 1985 requires goodwill and intangible assets to be amortised over a finite period. The directors consider that the Group's intangible assets have an indefinite life, due to their long-term nature. Consequently, the directors consider that to amortise the assets would not provide a true and fair view, and so the financial statements depart from this specific requirement of the Companies Act 1985. If this departure from the Companies Act 1985 had not been made the profit for the financial period would have been reduced by amortisation. The amount of this amortisation cannot be quantified because of the indefinite life of these assets.

The non-amortisation of the intangible assets means that they are subject to annual impairment testing in accordance with FRS 10 "Goodwill and Intangible Assets" and FRS 11 "Impairment of Fixed Assets and Goodwill".

## Tangible fixed assets

Tangible fixed assets comprise the assets which can be physically replaced and are stated in the consolidated balance sheet at cost, less provision, if any, for impairment together with additions at cost, less cumulative depreciation.

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 |

## Web site development costs

Design and content development costs are capitalised only to the extent that they lead to the creation of an enduring asset delivering benefits at least as great as the amount capitalised. If there is insufficient evidence on which to base reasonable estimates of the economic benefits that will be generated in the period until the design and content are next updated, the costs of developing the design and content are charged to the profit and loss account as incurred.

## Investments

Fixed asset investments are shown at cost less provision for impairment.

Own shares held in trust, to the extent that they are used to satisfy share option schemes, are amortised over the periods of awards to which they relate. Shares that are not yet allocated to individuals are carried at cost or marked to market value if the directors consider there has been a permanent diminution in their value.

## Associates

Shares in associated undertakings are accounted for using the equity method. The consolidated profit and loss account includes the Group's share of pre-tax profits and attributable taxation of associated undertakings. In the consolidated balance sheet, the investment in associated undertakings is shown as the Group's share of net assets or liabilities of associated undertakings and the unamortised element of goodwill relating to the acquisition of associated undertakings. Goodwill arising on the acquisition of associates is accounted for in accordance with the policy set out under intangible fixed assets.

## Stocks

Stocks represent stocks of consumables in stores. They are stated at the lower of cost and net realisable value.

## Tax

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

## Turnover

Turnover in respect of the LBO, telephone and interactive sportsbook businesses (including FOBTs and numbers bets) represents amounts receivable in respect of bets placed on events which occurred by the period end. Turnover from AWPs (excluding VAT) and the interactive casino operation represents net takings from customers.

# Statement of Accounting Policies

## Leases

Rental costs under operating leases are charged to the profit and loss account in equal amounts over the periods of the leases. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

## Pensions

The Group operates a defined contribution scheme and a defined benefit scheme open to eligible employees in the Group. The assets of the schemes are held and managed separately from those of the Group.

For the defined contribution scheme the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

For the defined benefit scheme the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or income. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

## Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rate ruling at the date of the transaction or at an average rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

The results of foreign subsidiaries are translated into sterling at the average rates of exchange and the assets and liabilities at closing rates of exchange. Differences arising from the retranslation of opening net assets and from translating results at average rates and assets and liabilities at closing rates are reported in the statement of total recognised gains and losses.

## Finance costs

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

## Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

## Derivative financial instruments

Derivative instruments utilised by the Group are interest rate swaps. The Group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies. Amounts payable or receivable in respect of interest rate swaps are recognised as adjustments to interest expense over the period of the contracts.

Termination payments made or received are spread over the life of the underlying exposure in cases where the underlying exposure continues to exist. In other cases termination payments are taken to the profit and loss account.

# Notes to the Financial Statements

## 1. Segmental information

The Group's turnover, profits and operating net assets arise primarily from customers in the United Kingdom with an immaterial amount generated from customers outside the United Kingdom and therefore segmental information by geographical location is not presented.

Analysis of net assets by product channel has not been presented as it is not considered practical to perform this allocation. The Group does not produce such information internally or make decisions based on this or similar information.

Segmental information by product channel is shown below:

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| **Turnover** | | |
| – Retail | **2,460.4** | 1,721.6 |
| – Telephone | **489.1** | 419.5 |
| – Interactive | **389.3** | 273.7 |
| – Other | **26.5** | 37.4 |
| | **3,365.3** | 2,452.2 |
| **Gross win** | | |
| – Retail | **418.9** | 416.7 |
| – Telephone | **50.9** | 48.0 |
| – Interactive | **54.9** | 35.4 |
| – Other | **3.0** | 2.5 |
| | **527.7** | 502.6 |
| **Operating profit** | | |
| – Retail | **111.9** | 93.2 |
| – Telephone | **17.3** | 15.5 |
| – Interactive | **20.5** | 9.2 |
| – Other | **0.8** | (0.6) |
| – Central costs | **(11.5)** | (10.2) |
| | **139.0** | 107.1 |
| – Exceptional costs | **(20.1)** | – |
| | **118.9** | 107.1 |

Retail comprises all activity undertaken in LBOs including AWPs and FOBTs.

Turnover and operating profit amounting to £15.7m and £1.0m respectively have been consolidated into these results in respect of acquisitions described in note 17.

# Notes to the Financial Statements

## 1. Segmental information (continued)

The segmental analysis of gross win set out above is shown before deducting GPT, duty, levy, VAT and other cost of sales to arrive at gross profit. A reconciliation from gross win to gross profit as presented in the profit and loss account is set out below:

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| **Gross win** | **527.7** | 502.6 |
| GPT, duty, levy, VAT and other cost of sales | **(111.7)** | (137.6) |
| Gross profit | **416.0** | 365.0 |

## 2. Net operating expenses

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Administrative expenses | **301.1** | 262.5 |
| Other operating income | **(4.0)** | (4.6) |
| | **297.1** | 257.9 |

## 3. Exceptional items

Exceptional operating costs are as follows:

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Management and staff bonuses crystallising on flotation | **13.4** | – |
| Professional fees | **3.0** | – |
| Advertising, printing and postage | **1.7** | – |
| Other costs | **2.0** | – |
| | **20.1** | – |

All costs were incurred in respect of the flotation of the Company. In addition, further professional fees of £12.7m were charged directly to share premium in connection with the flotation.

## 3. Exceptional items (continued)

Exceptional interest costs are as follows:

| | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| High yield bond redemption costs | **14.2** | – |
| Unamortised finance fees written off on high yield bond redemption | **4.7** | – |
| Unamortised finance fees written off on refinancing of bank facilities | **3.7** | – |
| Unamortised finance fees written off on redemption of unsecured loan notes 2009 | **6.3** | – |
| Other costs | **0.1** | – |
| | **29.0** | – |

Exceptional interest costs were incurred in relation to the restructuring of the Group's finances, which was undertaken as part of the flotation process. This encompassed the redemption of 95% of the high yield bonds, the redemption of all of the unsecured loan notes 2009 and the negotiation of new bank facilities.

A tax credit of £11.7m has been recognised in respect of the exceptional operating cost and interest costs. This represents the reduction in corporation tax payable arising from the deductions, which the Group expects to be able to make in respect of these exceptional items.

## 4. Share of operating profit in associated undertaking

| | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Share of operating profit in associated undertaking | **2.4** | 4.9 |

## 5. Net interest payable and similar charges

| | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| **Interest receivable:** | | |
| Interest receivable | **2.7** | 4.6 |
| Share of associate's net interest receivable | **0.2** | 0.1 |
| **Interest payable and similar charges:** | | |
| Interest on bank loans and overdrafts | **(26.2)** | (23.1) |
| Interest on guaranteed unsecured loan notes 2005 | **(0.1)** | – |
| Interest on high yield bonds | **(7.9)** | (16.2) |
| Interest on unsecured loan notes 2009 | **(27.1)** | (50.5) |
| Amortisation of finance costs | **(2.2)** | (2.6) |
| | **(60.6)** | (87.7) |
| Exceptional interest (note 3) | **(29.0)** | – |
| | **(89.6)** | (87.7) |

# Notes to the Financial Statements

## 6. Other finance income

| | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Expected return on pension scheme assets | **7.4** | 8.8 |
| Interest on pension scheme liabilities | **(6.7)** | (5.8) |
| | **0.7** | 3.0 |

## 7. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated after charging/(crediting):

| | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Depreciation – owned assets | **16.7** | 16.6 |
| Hire of equipment | **0.6** | 0.3 |
| Operating lease charges: | | |
| – Land and buildings | **25.7** | 24.1 |
| – Other (including AWPs and FOBTs) | **9.0** | 6.1 |
| Profit on sale of fixed assets | **(0.1)** | (0.8) |
| The following fees were payable to Deloitte & Touche: | | |
| Audit fees and related work | | |
| Group audit – UK | **0.2** | 0.2 |
| Other mandatory work including interim report review | **–** | 0.1 |
| | **0.2** | 0.3 |
| Fees for other services | | |
| Flotation of the Company | **1.2** | – |
| Financial system implementation | **0.6** | 0.3 |
| Tax | **0.3** | 0.1 |
| Acquisition due diligence | **0.1** | – |
| System reviews | **–** | 0.7 |
| | **2.2** | 1.1 |

All the above fees payable to Deloitte & Touche were charged to profit and loss account with the exception of £0.6m in respect of financial system implementation which is included in tangible asset additions and £0.1m in respect of acquisitions which is included in intangible asset additions.

The audit fees payable to Deloitte & Touche 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 by the Company and its subsidiaries.

The Group audit fee includes £10,000 in respect of the Company's audit.

## 8. Staff costs

The average monthly number of persons employed, including directors, during the period was 10,699 (53 weeks ended 1 January 2002 – 9,894) all of whom are engaged in the administration and provision of betting services.

Their aggregate remuneration comprised:

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Wages and salaries | **130.4** | 115.5 |
| Social security costs | **9.8** | 9.4 |
| Other pension costs (note 24) | **41.5** | 30.3 |
| | **181.7** | 155.2 |

Included in other pension costs is £36.6m (53 weeks ended 1 January 2002 – £28.8m) relating to actuarial losses which have been charged to the statement of total recognised gains and losses.

The Group operates an Inland Revenue approved employee share option scheme and has taken advantage of the exemption given in UITF Abstract 17 "Employee share schemes" from recognising a charge in the profit and loss account for the discount on the options.

# Notes to the Financial Statements

## 9. Directors' remuneration and interests

### Directors' remuneration

Details of directors' remuneration for the period are provided in the audited part of the Directors' Remuneration Report on pages 14 to 18.

### Directors' interests

The directors who held office at 31 December 2002 had the following interests in the ordinary shares and loan notes of William Hill PLC (WH PLC), William Hill Holdings Limited (WHH) and William Hill Investments Limited (WHI):

| | Name of Group undertaking and description of shares or debentures | **31 December 2002** Beneficial | Non-beneficial | 1 January 2002 Beneficial | Non-beneficial |
|---|---|---|---|---|---|
| | | **Number** | **Number** | Number | Number |
| **Chairman** | | | | | |
| John Brown | "A" shares in WHH | – | – | 207 | 410 |
| | "B" shares in WHH | – | – | 207 | 410 |
| | Shares in WH PLC | **1,120,698** | **2,219,740** | – | – |
| **Executive directors** | | | | | |
| David Harding | Shares in WH PLC | – | – | – | – |
| Tom Singer | Shares in WH PLC | – | – | – | – |
| **Non executive directors** | | | | | |
| David Allvey | Shares in WH PLC | **8,889** | – | – | – |
| Yagnish Chotai | "A" shares in WHH | – | – | 12 | – |
| | "B" shares in WHH | – | – | 11 | – |
| | Shares in WH PLC | **20,505** | – | – | – |
| Barry Gibson | Shares in WH PLC | **15,556** | – | – | – |
| Donald Mackenzie | "A" shares in WHH | – | – | 84 | – |
| | "B" shares in WHH | – | – | 75 | – |
| | Shares in WH PLC | **139,516** | – | – | – |
| Charles Scott | "A" shares in WHH | – | – | 6 | – |
| | "B" shares in WHH | – | – | 6 | – |
| | Shares in WH PLC | **32,484** | **53,333** | – | – |

In addition, Mr Scott held an interest in nominal value £288,000 of unsecured loan notes 2009 issued by WHI at 1 January 2002 which were redeemed during the period for a total consideration of £133,559.

No changes took place in the interests of directors between 31 December 2002 and 10 March 2003.

### Directors' share options

Details of directors' share options are provided in the Directors' Remuneration Report on page 17.

## 10. Tax on profit on ordinary activities

The tax charge comprises:

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| UK corporation tax at 30% | **11.9** | 6.4 |
| Consortium relief receivable – prior periods | **(1.5)** | (0.4) |
| Overseas tax | **–** | 0.1 |
| Share of associated undertaking tax charge | **0.5** | 1.5 |
| Total current tax charge | **10.9** | 7.6 |
| Deferred tax – origination and reversal of timing differences | **0.3** | 1.3 |
| Total tax on profit on ordinary activities | **11.2** | 8.9 |

The effective tax rate in respect of ordinary activities before exceptional items was 28.1% (53 weeks ended 1 January 2002 – 32.6%).

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 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Profit on ordinary activities before taxation | **32.4** | 27.3 |
| Tax on Group profit on ordinary activities at standard UK corporation tax rate of 30% (53 weeks ended 1 January 2002 – 30%) | **9.7** | 8.2 |
| Accelerated capital allowances | **(1.0)** | (2.2) |
| Pension charge in excess of contributions | **–** | 0.3 |
| Adjustment in respect of prior periods | **(1.5)** | (0.5) |
| Permanent differences | **3.7** | 1.1 |
| Held over gains crystallising | **–** | 0.7 |
| Total current tax charge | **10.9** | 7.6 |

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%.

# Notes to the Financial Statements

## 10. Tax on profit on ordinary activities (continued)

The elements of deferred tax shown on the balance sheet are as follows:

| | 31 December 2002 £m | 1 January 2002 £m |
|---|---|---|
| Accelerated capital allowances | **(4.7)** | (5.7) |
| Held over gains | **1.7** | 2.1 |
| Deferred tax asset shown in debtors (note 19) | **(3.0)** | (3.6) |
| Deferred tax on pension liability (note 24) | **(11.9)** | (0.9) |
| | **(14.9)** | (4.5) |
| Movement in the period: | | |
| (Asset)/liability at beginning of period | **(4.5)** | 3.1 |
| Acquired during period | **0.3** | – |
| Amount charged to profit and loss account | **0.3** | 1.3 |
| Amount credited to statement of total recognised gains and losses | **(11.0)** | (8.9) |
| Asset at end of period | **(14.9)** | (4.5) |

The current rate of corporation tax of 30% has been used to calculate the amount of deferred tax. Provision has been made for all deferred tax assets and liabilities in respect of accelerated capital allowances, held over capital gains and short term timing differences, arising from transactions recognised in the financial statements of the current and previous periods.

No provision has been made for the deferred tax liability of £2.3m (1 January 2002 – £1.4m) rolled over into non-depreciating assets as it is the intention to retain these assets for the foreseeable future. Tax on these rolled over gains would only become payable if the assets were sold without further rollover relief.

Deferred tax assets of £22.7m (1 January 2002 – £22.7m) in respect of carried forward tax losses have not been recognised, as it is not expected that taxable profits will arise in the immediate future in the companies with the losses.

The Company has no provided or unprovided deferred tax assets or liabilities.

## 11. Profit attributable to William Hill PLC

The profit after tax for the period dealt with in the financial statements of the parent company, William Hill PLC, was £42.6m (53 weeks ended 1 January 2002 – £nil). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

## 12. Dividends paid and proposed

| | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Equity shares | | |
| – interim paid of 2.9p per ordinary share paid on 4 December 2002 | | |
| (53 weeks ended 1 January 2002 – nil) | **12.1** | – |
| – final proposed of 5.8p per ordinary share payable on 5 June 2003 | | |
| (53 weeks ended 1 January 2002 – nil) | **24.2** | – |
| | **36.3** | – |

Under an agreement signed in November 2002, The William Hill Holdings 2001 Employee Benefit Trust, which holds 4.4m ordinary shares representing 1% of the Company's called-up ordinary share capital, has agreed to waive all dividends due to it.

## 13. Earnings per share

The basic and diluted earnings per share are calculated based on the following data:

| | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Profit after tax for the financial period | **21.2** | 18.4 |
| Exceptional items | **37.4** | – |
| Profit after tax for the financial period before exceptional items | **58.6** | 18.4 |

| | Number (m) | Number (m) |
|---|---|---|
| Basic weighted average number of shares | **347.6** | 267.9 |
| Dilutive potential ordinary shares: | | |
| Employee share awards and options | **1.7** | – |
| Diluted weighted average number of shares | **349.3** | 267.9 |

The basic weighted average number of shares excludes shares held by The William Hill Holdings 2001 Employee Benefit Trust, as required by FRS 14 "Earnings per share." The effect of this is to reduce the average number of shares in the 52 weeks ended 31 December 2002 by 5.4m (53 weeks ended 1 January 2002 – 2.8m).

An adjusted earnings per share based on profit for the financial period before exceptional items has been presented in order to highlight the underlying performance of the Group.

# Notes to the Financial Statements

## 14. Intangible assets

| Group | £m |
|---|---|
| Cost and net book value: | |
| At 2 January 2002 | 702.8 |
| Additions (note 17) | 26.1 |
| **At 31 December 2002** | **728.9** |

Intangible fixed assets represents licence value, goodwill and brand value. It is not considered appropriate to show these components as separate asset categories.

The Company does not own any intangible fixed assets.

## 15. Tangible assets

| Group | Land and buildings £m | Fixtures, fittings and equipment £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|
| Cost: | | | | |
| At 2 January 2002 | 100.4 | 73.7 | 4.2 | 178.3 |
| Additions | 12.3 | 7.3 | 0.9 | 20.5 |
| Acquisition of subsidiary undertakings | 4.0 | 0.6 | 0.1 | 4.7 |
| Disposals | (2.6) | (1.7) | (0.9) | (5.2) |
| **At 31 December 2002** | **114.1** | **79.9** | **4.3** | **198.3** |
| Accumulated depreciation: | | | | |
| At 2 January 2002 | 29.1 | 56.3 | 2.1 | 87.5 |
| Charge for the period | 9.4 | 6.3 | 1.0 | 16.7 |
| Disposals | (2.4) | (1.7) | (0.8) | (4.9) |
| **At 31 December 2002** | **36.1** | **60.9** | **2.3** | **99.3** |
| Net book value: | | | | |
| **At 31 December 2002** | **78.0** | **19.0** | **2.0** | **99.0** |
| At 1 January 2002 | 71.3 | 17.4 | 2.1 | 90.8 |

## 15. Tangible assets (continued)

The net book value of land and buildings comprises:

| | 31 December 2002 £m | 1 January 2002 £m |
|---|---|---|
| Freehold | **28.2** | 21.2 |
| Long leasehold | **5.5** | 5.8 |
| Short leasehold | **44.3** | 44.3 |
| | **78.0** | 71.3 |

Out of the total land and buildings, £2.3m (1 January 2002 – £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 (1 January 2002 – £13.2m representing freehold land and buildings).

The Company does not own any tangible fixed assets.

## 16. Investments

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 31 December 2002 £m | 1 January 2002 £m | 31 December 2002 £m | 1 January 2002 £m |
| Subsidiary undertakings | (a) | **–** | – | **38.2** | – |
| Associate undertakings | (b) | **–** | 2.4 | **–** | – |
| Own shares held under trust | (c) | **4.4** | 8.1 | **–** | – |
| | | **4.4** | 10.5 | **38.2** | – |

**(a) Subsidiary undertakings**

| Company | £m |
|---|---|
| Cost: | |
| At 2 January 2002 | – |
| Additions – acquisition of William Hill Holdings Limited | 38.2 |
| **At 31 December 2002** | **38.2** |

# Notes to the Financial Statements

## 16. Investments (continued)

It is the opinion of the directors that the total value of the Company's investment in its subsidiaries is not less than the amounts at which they are stated in the balance sheet. The principal subsidiaries, their country of incorporation, ownership of their share capital and the nature of their trade are listed below:

| | Country of incorporation | Proportion of all classes of issued share capital owned by the Company | Nature of trade |
|---|---|---|---|
| **Directly owned** | | | |
| William Hill Holdings Limited | Great Britain | 100% | Holding company |
| **Held through intermediate companies** | | | |
| William Hill Investments Limited | Great Britain | 100% | Holding company |
| William Hill Employee Shares Trustee Limited | Great Britain | 100% | Corporate trustee |
| William Hill Trustee Limited | Great Britain | 100% | Corporate trustee |
| Baseflame Limited | Great Britain | 100% | Holding company |
| Will Hill Limited | Great Britain | 100% | Holding company |
| William Hill Finance Limited | Great Britain | 100% | Finance company |
| Windsors (Sporting Investments) Limited | Great Britain | 100% | Investment holding |
| William Hill Organization Limited | Great Britain | 100% | Betting services and investment holding |
| Camec Limited | Great Britain | 100% | Betting services |
| Laystall 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 |
| Camec (Provincial) Limited | Great Britain | 100% | Betting services |
| Camec (Scotland) Limited | Great Britain | 100% | Betting services |
| Camec (Southern) Limited | Great Britain | 100% | Betting services |
| James Lane Group Limited | Great Britain | 100% | Betting services |
| William Hill (IOM) Limited | Isle of Man | 100% | Betting services |
| Brooke Bookmakers Limited | Great Britain | 100% | Betting services |
| William Hill (Essex) plc – formerly H&K Commissions (Bookmakers) plc | Great Britain | 100% | Betting services |

## 16. Investments (continued)

| | Country of incorporation | Proportion of all classes of issued share capital owned by the Company | Nature of trade |
|---|---|---|---|
| **Held through intermediate companies** | | | |
| The Regal Sunderland Stadium Limited | Great Britain | 100% | Greyhound stadium operation |
| William Hill Index (London) Limited | Great Britain | 100% | Non trading |
| Vynplex Limited | Great Britain | 100% | Property investment |
| William Hill (Supplies) Limited | Great Britain | 100% | Property investment |
| William Hill (Resources) Limited | Great Britain | 100% | Property investment |
| William Hill (Goods) Limited | Great Britain | 100% | Property investment |
| William Hill (Products) Limited | Great Britain | 100% | Property investment |
| William Hill (Effects) Limited | Great Britain | 100% | Procurement |
| William Hill (Stock) Limited | Great Britain | 100% | Procurement |
| William Hill (Wares) Limited | Great Britain | 100% | Procurement |
| Matsbest Limited | Great Britain | 100% | Procurement |
| Matsdom Limited | Great Britain | 100% | Procurement |
| Matsgood Limited | Great Britain | 100% | Procurement |
| Gearnet Limited | Great Britain | 100% | Procurement |
| Evenmedia Limited | Great Britain | 100% | Procurement |
| Eventip Limited | Great Britain | 100% | Procurement |
| Goodfigure Limited | Great Britain | 100% | Procurement |
| Motionrange Limited | Great Britain | 100% | Procurement |
| Regionmodel Limited | Great Britain | 100% | Procurement |
| Deviceguide Limited | Great Britain | 100% | Procurement |
| Trackcycle Limited | Great Britain | 100% | Procurement |
| Bookhost Limited | Great Britain | 100% | Procurement |
| William Hill Offshore Limited | Ireland | 100% | Betting services and investment holding |
| William Hill Call Centre Limited | Ireland | 100% | Call centre |
| William Hill Bookmakers (Ireland) Limited | Ireland | 100% | Non trading |
| William Hill International Limited | Antigua | 100% | Non trading |
| Betwilliamhill.com Limited | Antigua | 100% | Non trading |
| Ixora Limited | Antigua | 100% | Service company |
| William Hill Internet Ventures Limited | Antigua | 100% | On-line casino |
| William Hill Casino NV | Curacao | 100% | On-line casino |
| William Hill (IOM) No. 3 Limited | Isle of Man | 100% | Investment holding |

# Notes to the Financial Statements

## 16 Investments (continued)

### (b) Associated undertakings

| Group | Goodwill £m | Provision for impairment of goodwill £m | Share of net assets/ (liabilities) £m | Total £m |
|---|---|---|---|---|
| Cost: | | | | |
| At 2 January 2002 | 24.0 | (24.0) | 2.4 | 2.4 |
| Share of profit before taxation | – | – | 2.6 | 2.6 |
| Share of taxation | – | – | (0.5) | (0.5) |
| Dividend received | – | – | (5.7) | (5.7) |
| **At 31 December 2002** | **24.0** | **(24.0)** | **(1.2)** | **(1.2)** |

At 31 December 2002 William Hill Organization Limited, a principal subsidiary of the Company, held an investment of 19.0% 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/(liabilities) is shown above.

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 2002.

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

William Hill Organization Limited 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.

### (c) Own shares held under Trust

| Group | £m |
|---|---|
| Cost and net book value: | |
| At 2 January 2002 | 8.1 |
| Shares sold by Employee Benefit Trust on Company flotation | (2.8) |
| Redemption of preference shares held by Employee Benefit Trust | (0.2) |
| Amortisation of shares | (0.7) |
| **At 31 December 2002** | **4.4** |

On 1 August 2001, the Company's subsidiary, William Hill Holdings Limited ("WHH") established the William Hill Holdings 2001 Employee Benefit Trust (Trust). The Trust was funded by a non-interest bearing loan of £8 million from William Hill Organization Limited. The Trust was established to promote future incentive arrangements for employees.

On 7 August 2001, all of the funds of the Trust were used to acquire 1,234 A ordinary shares and 1,234 B ordinary shares and an option to purchase 222,102 preference shares in William Hill Holdings Limited held by certain existing and former management of the Group.

## 16. Investments (continued)

As part of the transactions accompanying the flotation of the Company:

- the A and B ordinary shares in WHH were exchanged for 6,680,876 ordinary shares of 10p each in the Company;
- the option to purchase preference shares in WHH was exchanged for an option to purchase an equal amount of preference shares in the Company;
- the option to purchase the preference shares was exercised by the Trust;
- the preference shares were redeemed by the Company; and
- the Trust sold 2,316,667 ordinary shares realising a surplus of £2.2m which was credited directly to reserves.

The Trust held 4,364,209 ordinary shares in the Company at 31 December 2002 (1 January 2002 – 6,680,876 ordinary shares). The market value of these shares, which are listed on the London Stock Exchange was £9.7m at 31 December 2002. Dividends on these shares are waived. Expenses incurred by the Trust are settled directly by the Group.

Details are given in the Directors' Remuneration Report on page 15 of the Executive Director Incentive Plan (EDIP) and Long Term Incentive Plan (LTIP). At 31 December 2002, options had been granted over 1,833,333 shares under the provisions of the EDIP which will be satisfied by shares held in the Trust.

## 17. Acquisition of investments

### H&K Commissions (Bookmakers) PLC

On 6 September 2002, the Group acquired all of the issued share capital of H&K Commissions (Bookmakers) PLC ("H&K") for total cash consideration of £20.9m including costs of £0.2m. The capitalised goodwill on this transaction was £19.2m representing licence value and goodwill. This goodwill is subject to an annual impairment review in accordance with FRS 10 and FRS 11.

H&K earned a profit after taxation of £2.0m in the 18 month period ended 31 December 2002 (12 months ended 1 July 2001 – £0.1m), of which £0.9m arose in the period from 2 July 2001 to 6 September 2002. The summarised profit and loss account for the period 2 July 2001 to 6 September 2002, shown on the basis of the accounting policies of H&K prior to the acquisition, is as follows:

| | £m |
|---|---|
| Turnover | 44.7 |
| Profit on ordinary activities before tax | 1.6 |
| Tax on profit on ordinary activities | (0.7) |
| **Profit on ordinary activities after tax** | **0.9** |

There were no other recognised gains or losses in the period.

### The Regal Sunderland Stadium Limited

On 6 September 2002, the Group acquired all of the issued share capital of The Regal Sunderland Stadium Limited ("Sunderland Stadium") for a total consideration of £8.5m comprising guaranteed loan notes of £8.4m and acquisition costs of £0.1m. The capitalised goodwill on this transaction was £5.7m. This goodwill is subject to an annual impairment review in accordance with FRS 10 and FRS 11.

The Sunderland Stadium earned a profit after taxation of £0.3m in the six month period ended 31 December 2002 (12 months ended 30 June 2002 – £0.2m), which included a £0.1m loss which arose in the period from 2 July 2002 to 6 September 2002. The summarised profit and loss account for the period 2 July 2002 to 6 September 2002, shown on the basis of the accounting policies of the Sunderland Stadium prior to the acquisition, is as follows:

| | £m |
|---|---|
| Turnover | 0.6 |
| Loss on ordinary activities before tax | (0.1) |
| Tax on loss on ordinary activities | – |
| **Loss on ordinary activities after tax** | **(0.1)** |

There were no other recognised gains or losses in the period.

### Other acquisitions

The Group also purchased three shops during the period for total cash consideration of £0.7m, principally representing goodwill and the value of the relevant licences. The other net assets acquired with these shops were negligible.

# Notes to the Financial Statements

## 17. Acquisition of investments (continued)

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

| | Book values | | | | |
|---|---|---|---|---|---|
| | H&K £m | Sunderland Stadium £m | Total £m | Fair value adjustments £m | Fair value to Group £m |
| Fixed assets | | | | | |
| Intangible | 0.5 | – | 0.5 | 25.6 | 26.1 |
| Tangible | 0.6 | 2.1 | 2.7 | 2.0 | 4.7 |
| Current assets | | | | | |
| Stocks | – | 0.1 | 0.1 | – | 0.1 |
| Debtors and prepayments | 0.1 | 0.3 | 0.4 | – | 0.4 |
| Cash | 1.8 | 0.1 | 1.9 | – | 1.9 |
| Total assets | 3.0 | 2.6 | 5.6 | 27.6 | 33.2 |
| Creditors | | | | | |
| Bank borrowings | – | (1.0) | (1.0) | – | (1.0) |
| Creditors and accruals | (1.3) | (0.5) | (1.8) | – | (1.8) |
| Provisions | | | | | |
| Deferred tax | – | (0.3) | (0.3) | – | (0.3) |
| Total liabilities | (1.3) | (1.8) | (3.1) | – | (3.1) |
| Net assets | 1.7 | 0.8 | 2.5 | 27.6 | 30.1 |
| Satisfied by: | | | | | |
| Cash | | | | | 21.7 |
| Loan notes | | | | | 8.4 |
| | | | | | 30.1 |

The £25.6m fair value adjustment to intangible assets represents license value, goodwill and brand value of £19.2m in respect of the acquisition of H&K, £5.7m in respect of the Sunderland Stadium and £0.7m in respect of three other shops purchased during the period. The Group's policy is not to show these components as separate asset categories (see statement of accounting policies). The fair value adjustment of £2.0m to tangible assets results from a review of the carrying value of the Sunderland stadium, which was valued at depreciated replacement cost in accordance with FRS 7 "Fair values in acquisition accounting." No reorganisation costs have been incurred in respect of these acquisitions.

Net cash outflows in respect of the acquisitions comprised:

| | £m |
|---|---|
| Cash consideration | 21.7 |
| Cash at bank and in hand acquired | (1.9) |
| Bank borrowings acquired | 1.0 |
| | 20.8 |

## 18. Stocks

| | 31 December 2002 £m | 1 January 2002 £m |
|---|---|---|
| Raw materials and consumables | **0.3** | 0.3 |

The Company does not hold any stocks.

## 19. Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | **31 December 2002 £m** | 1 January 2002 £m | **31 December 2002 £m** | 1 January 2002 £m |
| Trade debtors | **1.9** | 2.9 | **–** | – |
| Amounts owed by Group undertakings | **–** | – | **868.2** | – |
| Deferred taxation (note 10) | **3.0** | 3.6 | **–** | – |
| Other debtors | **1.5** | 0.5 | **–** | – |
| Prepayments | **10.7** | 7.6 | **–** | – |
| | **17.1** | 14.6 | **868.2** | – |

Amounts falling due after more than one year included above are:

| | Group | | Company | |
|---|---|---|---|---|
| | **31 December 2002 £m** | 1 January 2002 £m | **31 December 2002 £m** | 1 January 2002 £m |
| Deferred taxation (note 10) | **3.0** | 3.6 | **–** | – |

## 20. Creditors: amounts falling due within one year

| | | Group | | Company | |
|---|---|---|---|---|---|
| | **Note** | **31 December 2002 £m** | 1 January 2002 £m | **31 December 2002 £m** | 1 January 2002 £m |
| Bank loans | 22(a) | **39.6** | 45.7 | **39.6** | – |
| Guaranteed unsecured loan notes 2005 | 22(b) | **8.4** | – | **–** | – |
| High yield bonds | 22(c) | **7.7** | – | **–** | – |
| Trade creditors | | **14.8** | 15.2 | **–** | – |
| Amounts owed to Group undertakings | | **–** | – | **9.8** | – |
| Corporation tax | | **8.5** | 6.9 | **–** | – |
| Other taxation including social security | | **9.2** | 8.2 | **0.4** | – |
| Other creditors | | **3.1** | 2.5 | **–** | – |
| Accruals and deferred income | | **30.0** | 32.6 | **0.2** | – |
| Proposed dividend | | **24.2** | – | **24.2** | – |
| | | **145.5** | 111.1 | **74.2** | – |

Included in trade creditors is an amount of £6.8m (1 January 2002 – £6.3m) in respect of amounts due to clients representing deposits received and customer winnings. This is offset by an equivalent amount of client monies included in cash at bank and in hand.

# Notes to the Financial Statements

## 21. Creditors: amounts falling due after one year

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **31 December 2002 £m** | 1 January 2002 £m | **31 December 2002 £m** | 1 January 2002 £m |
| Bank loans | 22(a) | **470.3** | 245.5 | **470.3** | – |
| High yield bonds | 22(c) | **–** | 144.9 | **–** | – |
| Unsecured loan notes 2009 | 22(d) | **–** | 460.8 | **–** | – |
| | | **470.3** | 851.2 | **470.3** | – |

## 22. Borrowings

**(a) Bank loans:**

| | **31 December 2002 £m** | 1 January 2002 £m |
|---|---|---|
| Less than one year | **40.0** | 46.4 |
| One to two years | **50.0** | 35.3 |
| Two to five years | **425.0** | 169.7 |
| Over five years | **–** | 44.2 |
| | **515.0** | 295.6 |
| Less: expenses relating to loan | **(5.1)** | (4.4) |
| | **509.9** | 291.2 |
| Less: included in creditors: amounts falling due in less than one year (note 20) | **(39.6)** | (45.7) |
| | **470.3** | 245.5 |

At the same time as the flotation, the Group refinanced its bank facilities, securing a total facility of £660m, split into two tranches:

- tranche A comprising a term loan of £210m repayable over five years;
- tranche B comprising a revolving facility of £450m 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 Group's year-end changes from year to year and every five years there is a 53-week "year." On the basis of the Group's expected year-end dates, the maturity profile changes such that £nil falls due in less than one year, £40m falls due within one to two years and £475m in two to five years.

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 31 December 2002 was 1.2%. The Group had the following interest rate hedging arrangements at 31 December 2002 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 £60.0m at 31 December 2002 reducing to £12.5m by 23 December 2004 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 £67.5m at 31 December 2002 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%.

A commitment fee of half the applicable margin is payable on the undrawn element of the revolving facility. The revolving facility drawn down at 31 December 2002 was £305.0m.

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

## 22. Borrowings (continued)

**(b) Guaranteed unsecured loan notes 2005:**

| | 31 December 2002 £m | 1 January 2002 £m |
|---|---|---|
| Less than one year | 8.4 | – |

As part of the acquisition of the Sunderland Stadium (note 17), guaranteed unsecured loan notes 2005 ("2005 Notes") of £8.4m were issued by the Group to the vendors.

Holders of the 2005 Notes may require the Group to redeem the 2005 Notes at par on 1 July 2003 and thereafter on any interest payment date falling prior to 31 March 2005, by giving 30 days written notice. Unless previously redeemed the 2005 Notes will be redeemed by the Group on 31 March 2005 at par.

Interest is paid quarterly and is set at 1% below base lending rate until 6 September 2003 and 0.5% above base lending rate thereafter.

National Westminster Bank plc have guaranteed payment of the principal and certain of the interest (up to a maximum of £0.2m) under the 2005 Notes up to 6 September 2003. The Group pays 1.25% per annum of the guaranteed amount to National Westminster Bank plc for this guarantee.

**(c) High yield bonds:**

| | 31 December 2002 £m | 1 January 2002 £m |
|---|---|---|
| Less than one year | 7.7 | – |
| Over five years | – | 150.0 |
| Less: expenses relating to loan | – | (5.1) |
| | 7.7 | 144.9 |

As part of the refinancing process accompanying the Company's flotation, the Group repaid £142.3m of its £150.0m high yield bond. This transaction required a premium of £14.2m to be paid to bondholders, which has been charged to exceptional interest.

Interest on the remaining high yield bonds which are unsecured accrues at a rate of 10.625% per annum and is payable semi-annually in arrears on 30 April and 31 October each year.

Under the terms of the Group's new banking facilities, the Group is committed to redeem the outstanding high yield bonds on 30 April 2003.

**(d) Unsecured loan notes 2009:**

| | 31 December 2002 £m | 1 January 2002 £m |
|---|---|---|
| Over five years | – | 467.4 |
| Less: expenses relating to loan | – | (6.6) |
| | – | 460.8 |

On 29 March 1999 William Hill Investments Limited issued £1,065.0m unsecured loan notes 2009 ("2009 Notes") with an initial price of £342.9m. The redemption date was 31 March 2009 or, if earlier, on a sale or listing of the Group. The redemption price was the nominal amount of the 2009 Notes, or if redeemable earlier than 31 March 2009, such amount as will provide the holders of the 2009 Notes an internal rate of return of 12% per annum on the subscription price of the 2009 Notes being redeemed from 31 March 2000 to the redemption date. As part of the refinancing process accompanying the Company's flotation, the Group redeemed the 2009 Notes.

**(e) Overdraft facility:**

The Group has an overdraft facility with National Westminster Bank plc of £5m (1 January 2002 – £5m). The balance at 31 December 2002 was £nil (1 January 2002 – £nil).

# Notes to the Financial Statements

## 23. Derivatives and other financial instruments

The operating and financial review provides an explanation of the role that financial instruments have had during the period in creating or changing the risks the Group faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts, and the strategies for achieving those objectives that have been followed during the period.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: disclosures" ("FRS 13"). For this purpose non-equity shares issued by the Company are dealt with in the disclosures in the same way as the Group's financial liabilities but separately disclosed. Certain financial assets such as investments in subsidiary and associated companies are also excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures. Borrowings are included gross of the related expenses.

**(a) Interest rate risk – financial assets**

Financial assets comprise cash at bank and in hand. Interest on floating rate financial assets is based on the overnight deposit rate available in the money markets.

Financial assets at 31 December 2002:

| | **Total £m** | **Floating rate financial assets £m** | **Fixed rate financial assets £m** | **Non-interest bearing financial assets £m** |
|---|---|---|---|---|
| Currency: | | | | |
| Sterling | 40.7 | 33.3 | – | 7.4 |
| Other currencies | 3.9 | – | – | 3.9 |
| | 44.6 | 33.3 | – | 11.3 |

Financial assets at 1 January 2002:

| | Total £m | Floating rate financial assets £m | Fixed rate financial assets £m | Non-interest bearing financial assets £m |
|---|---|---|---|---|
| Currency: | | | | |
| Sterling | 99.7 | 64.4 | 20.0 | 15.3 |
| Other currencies | 5.1 | 0.3 | – | 4.8 |
| | 104.8 | 64.7 | 20.0 | 20.1 |

The fixed rate financial asset had an applicable interest rate of 3.95% and matured on 28 February 2002.

## 23. Derivatives and other financial instruments (continued)

**(b) Interest rate risk – financial liabilities**

Financial liabilities at 31 December 2002 (after taking into account interest rate swaps):

| | Total £m | Floating rate financial liabilities £m | Fixed rate financial liabilities £m | Non-interest bearing financial liabilities £m | Fixed rate financial liabilities: Weighted average interest rate % | Fixed rate financial liabilities: Weighted average period for which rate is fixed Years |
|---|---|---|---|---|---|---|
| Currency: | | | | | | |
| Sterling | 531.1 | 133.4 | 397.7 | – | 6.6 | 4 |

Financial liabilities at 1 January 2002 (after taking into account interest rate swaps):

| | Total £m | Floating rate financial liabilities £m | Fixed rate financial liabilities £m | Non-interest bearing financial liabilities £m | Fixed rate financial liabilities: Weighted average interest rate % | Fixed rate financial liabilities: Weighted average period for which rate is fixed Years |
|---|---|---|---|---|---|---|
| Currency: | | | | | | |
| Sterling | 914.0 | 195.6 | 717.4 | 1.0 | 10.8 | 6 |

Further details of interest rates on long term borrowings and interest rate swaps are given in note 22. Three month LIBOR is the benchmark rate for determining interest payments on the floating rate financial liabilities.

**(c) Currency exposures**

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/(liabilities) at 31 December 2002:

| | Sterling £m | Other currencies £m | Total £m |
|---|---|---|---|
| Currency: | | | |
| Sterling | – | 1.6 | 1.6 |
| Other currencies | (0.4) | – | (0.4) |
| | (0.4) | 1.6 | 1.2 |

# Notes to the Financial Statements

## 23. Derivatives and other financial instruments (continued)

Net foreign currency monetary assets at 1 January 2002:

| | Sterling £m | Other currencies £m | Total £m |
|---|---|---|---|
| Currency: | | | |
| Sterling | – | 2.7 | 2.7 |
| Other currencies | 2.5 | – | 2.5 |
| | 2.5 | 2.7 | 5.2 |

**(d) Liquidity**

The maturity profile of the Group's financial liabilities at 31 December 2002 was as follows:

| | **Total £m** | **Bank loans £m** | **High yield bond £m** | **Guaranteed unsecured loan notes 2005 £m** | **Unsecured loan notes 2009 £m** | **Preference shares £m** |
|---|---|---|---|---|---|---|
| Amounts falling due in: | | | | | | |
| one year or less, or on demand | 56.1 | 40.0 | 7.7 | 8.4 | – | – |
| more than one year but not more than two years | 50.0 | 50.0 | – | – | – | – |
| more than two years but not more than five years | 425.0 | 425.0 | – | – | – | – |
| | 531.1 | 515.0 | 7.7 | 8.4 | – | – |

The maturity profile of the Group's financial liabilities at 1 January 2002 was as follows:

| | Total £m | Bank loans £m | High yield bond £m | Guaranteed unsecured loan notes 2005 £m | Unsecured loan notes 2009 £m | Preference shares £m |
|---|---|---|---|---|---|---|
| Amounts falling due in: | | | | | | |
| one year or less, or on demand | 46.4 | 46.4 | – | – | – | – |
| more than one year but not more than two years | 35.3 | 35.3 | – | – | – | – |
| more than two years but not more than five years | 169.7 | 169.7 | – | – | – | – |
| more than five years | 662.6 | 44.2 | 150.0 | – | 467.4 | 1.0 |
| | 914.0 | 295.6 | 150.0 | – | 467.4 | 1.0 |

## 23. Derivatives and other financial instruments (continued)

The Group had the following undrawn committed borrowing facilities at 31 December 2002 and 1 January 2002:

| | **31 December 2002 £m** | 1 January 2002 £m |
|---|---|---|
| Expiry date: | | |
| In one year or less | **–** | – |
| In more than one year but not more than two years | **–** | – |
| In more than two years but not more than five years | **145.0** | 30.0 |
| | **145.0** | 30.0 |

**(e) Fair value of financial assets and liabilities as at 31 December 2002 and 1 January 2002:**

| | **31 December 2002** | | 1 January 2002 | |
|---|---|---|---|---|
| | **Book value £m** | **Fair value £m** | Book value £m | Fair value £m |
| Primary financial instruments held or issued to finance the Group's operations: | | | | |
| Cash | **44.6** | **44.6** | 104.8 | 104.8 |
| Current portion of long term borrowings | **(56.1)** | **(56.8)** | (46.4) | (46.4) |
| Long-term borrowings | **(475.0)** | **(475.0)** | (866.6) | (880.9) |
| Non-equity preference shares | **–** | **–** | (1.0) | (1.0) |
| Derivative financial instruments held to manage the interest rate profile: | | | | |
| Interest rate swaps | **–** | **(10.0)** | – | 0.5 |
| Interest rate collars | **–** | **–** | – | (0.2) |

Market value has been used to determine the fair value of listed debt. Derivative pricing models have been used to calculate the fair values of interest rate swaps and collars. There is no significant difference between book and fair value of the Group's bank facilities and other borrowings.

# Notes to the Financial Statements

## 23. Derivatives and other financial instruments (continued)

### (f) Hedging

As explained in the directors' report the Group's policy is to substantially hedge its interest rate exposure using interest rate swaps and collars.

Gains and losses on instruments used for hedging are not recognised until the expense being hedged is itself recognised. Total net unrecognised gains and losses on instruments used for hedging and the movements therein are as follows:

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Unrecognised gains and losses on hedges at beginning of period | **0.3** | 0.7 |
| Gains and losses arising in previous periods that were recognised in the period | **(3.3)** | (0.4) |
| Gains and losses arising before beginning of period that were not recognised in the period | **(3.0)** | 0.3 |
| Gains and losses arising in the period that were not recognised in the period | **(7.0)** | – |
| Unrecognised gains and losses on hedges at the end of period | **(10.0)** | 0.3 |
| Gains and losses expected to be recognised in the next financial period | **(3.4)** | (0.3) |
| Gains and losses expected to be recognised after the next financial period | **(6.6)** | 0.6 |

## 24. Pensions

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:

| | **31 December 2002 £m** | 1 January 2002 £m |
|---|---|---|
| Defined contribution scheme (charged to operating profit) | **0.5** | 0.2 |
| Defined benefit scheme (charged to operating profit) | **5.1** | 4.3 |
| Defined benefit scheme (credited to other finance income) | **(0.7)** | (3.0) |
| Defined benefit scheme (charged to statement of total recognised gains and losses) | **36.6** | 28.8 |
| | **41.5** | 30.3 |

At 31 December 2002, company contributions of £nil (1 January 2002 – £0.2m) remain outstanding in respect of the defined contribution scheme.

## 24. Pensions (continued)

**Defined benefit scheme:**

A full actuarial valuation was carried out at 31 October 2001 and updated to 31 December 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

| | **31 December 2002** | 1 January 2002 | 26 December 2000 |
|---|---|---|---|
| Rate of increase of salaries | **3.25%** | 3.5% | 3.7% |
| Rate of increase in pensions in payment | **2.25%** | 2.5% | 2.7% |
| Discount rate | **5.5%** | 5.75% | 6.0% |
| Inflation assumption | **2.25%** | 2.5% | 2.7% |

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

| | **31 December 2002** | | 1 January 2002 | | 26 December 2000 | |
|---|---|---|---|---|---|---|
| | **Expected return %** | **Value £m** | Expected return % | Value £m | Expected return % | Value £m |
| Equities | **5.85%** | **85.1** | 6.35% | 113.6 | 7.0% | 128.3 |
| Bonds | **5.5%** | **6.3** | – | – | – | – |
| Total market value of assets | | **91.4** | | 113.6 | | 128.3 |
| Present value of scheme liabilities | | **(131.3)** | | (116.7) | | (101.5) |
| (Deficit)/surplus in scheme | | **(39.9)** | | (3.1) | | 26.8 |
| Related deferred tax asset/(liability) (note 10) | | **11.9** | | 0.9 | | (8.0) |
| Net pension (liability)/asset | | **(28.0)** | | (2.2) | | 18.8 |

The contribution rate for 2002 was 13.5% of pensionable earnings. From January 2003 the contribution rate has increased to 17% of pensionable earnings. This rate is subject to regular review. The scheme is now closed to new members and has been replaced by a money purchase scheme in respect of new joiners.

**Analysis of the amount charged to operating profit:**

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Current service cost | **5.0** | 4.3 |
| Past service cost | **0.1** | – |
| Total operating charge | **5.1** | 4.3 |

**Analysis of the amount credited to other finance income:**

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Expected return on pension scheme assets | **7.4** | 8.8 |
| Interest on pension scheme liabilities | **(6.7)** | (5.8) |
| Net return | **0.7** | 3.0 |

# Notes to the Financial Statements

## 24. Pensions (continued)

**Analysis of the amount recognised in statement of total recognised gains and losses (STRGL):**

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Actual return less expected return on pension scheme assets | **(35.0)** | (23.5) |
| Experience gains and losses arising on the scheme liabilities | **(1.4)** | 3.3 |
| Changes in assumptions underlying the present value of the scheme | **(0.2)** | (8.6) |
| | **(36.6)** | (28.8) |

**Movement in (deficit)/surplus during the period:**

| | **31 December 2002 £m** | 1 January 2002 £m |
|---|---|---|
| (Deficit)/surplus in scheme at beginning of period | **(3.1)** | 26.8 |
| Movement in period: | | |
| Current service cost | **(5.0)** | (4.3) |
| Contributions | **4.2** | 0.2 |
| Past service costs | **(0.1)** | – |
| Other finance income | **0.7** | 3.0 |
| Actuarial losses | **(36.6)** | (28.8) |
| Deficit in scheme at end of period | **(39.9)** | (3.1) |

**History of experience gains and losses:**

| | **52 weeks ended 31 December 2002** | 53 weeks ended 1 January 2002 | 52 weeks ended 26 December 2000 |
|---|---|---|---|
| Difference between the expected and actual return on scheme assets: | | | |
| Amount (£m) | **(35.0)** | (23.5) | (17.8) |
| % of scheme assets | **(41%)** | (20%) | (14%) |
| Experience gains and losses on scheme liabilities: | | | |
| Amount (£m) | **1.4** | 3.3 | 6.7 |
| % of the present value of the scheme liabilities | **(1%)** | 3% | 7% |
| Total amount recognised in STRGL | | | |
| Amount (£m) | **(36.6)** | (28.8) | (10.9) |
| % of the present value of the scheme liabilities | **(28%)** | (24%) | (11%) |

## 25. Called-up share capital

| | 31 December 2002 Number of shares | 31 December 2002 £m | 1 January 2002* Number of shares | 1 January 2002* £m |
|---|---|---|---|---|
| **Authorised:** | | | | |
| Ordinary shares of 10p each | **800,000,000** | **80.0** | – | – |
| "A" ordinary shares of 10p each | – | – | 135,350,000 | 13.5 |
| "B" ordinary shares of 10p each | – | – | 135,350,000 | 13.6 |
| Preference shares of 10/2707p each | – | – | 2,707,000,000 | 0.1 |
| Deferred shares of 10/2707p each | – | – | 54,140 | – |
| | | **80.0** | | 27.2 |
| **Called-up, allotted and fully paid:** | | | | |
| Ordinary shares of 10p each | **421,811,111** | **42.2** | – | – |
| "A" ordinary shares of 10p each | – | – | 135,350,000 | 13.5 |
| "B" ordinary shares of 10p each | – | – | 135,350,000 | 13.6 |
| Preference shares of 10/2707p each | – | – | 2,707,000,000 | 0.1 |
| Deferred shares of 10/2707p each | – | – | 54,140 | – |
| | | **42.2** | | 27.2 |

* The above comparative information is produced to comply with the requirements of merger accounting, whereby comparative amounts are restated as if the entities had been combined at the last balance sheet date.

The actual authorised share capital of the Company at 1 January 2002 was £1,000 divided into 1,000 ordinary shares of £1 each of which one share was issued, £nil paid.

The following alterations to the authorised and issued share capital of the Company have taken place since 1 January 2002:

– on 15 April 2002, the ordinary share of £1 in issue was transferred by the original subscriber to Coal Pension Venture Limited Partnership for £1 paid in cash, and one further ordinary share of £1 was allotted to CVC European Equity Partners II LP also paid in cash;

– on 15 April 2002, the authorised share capital of £1,000 was sub-divided into 10,000 ordinary shares of 10p each;

– on 15 April 2002, the authorised share capital of 10,000 ordinary shares of 10p each was re-designated as 10,000 "A" ordinary shares of 10p each;

– on 15 April 2002, the authorised share capital was increased from £1,000 to £27,170,002 by the creation of:

(i) 135,340,000 additional "A" ordinary shares of 10p each;

(ii) 135,350,000 "B" ordinary shares of 10p each;

(iii) 2,707,000,000 redeemable preference shares of 10/2707p each; and

(iv) 54,140 deferred shares of 10/2707p each.

Following the above changes, the Company's authorised share capital was £27,170,002 divided into 135,350,000 "A" ordinary shares and 135,350,000 "B" ordinary shares of 10p each, 2,707,000,000 preference shares of 10/2707p each and 54,140 deferred shares of 10/2707p each. All such shares were issued and are fully paid. The consideration received for each share issued was a similar share in William Hill Holdings Limited.

# Notes to the Financial Statements

## 25. Called-up share capital (continued)

The shareholders in the Company resolved at an extraordinary general meeting of the Company held on 28 May 2002 that, on 20 June 2002 (the date of admission to the official list of the UK Listing Authority), each of the 135,350,000 "A" ordinary shares of 10p each and 135,350,000 "B" ordinary shares of 10p each would be redesignated as one ordinary share of 10p, having the rights set out in the new Articles of Association adopted at the extraordinary general meeting of the Company held on 28 May 2002. The shareholders also resolved that the authorised share capital of the Company be increased to £80,000,000 by the creation of an additional 528,299,980 ordinary shares of 10p each, having the rights set out in the new Articles of Association adopted at the extraordinary general meeting of the Company held on 28 May 2002.

On 20 June 2002, following admission to the official list of the UK Listing Authority, all of the 2,707,000,000 redeemable preference shares of $^{10}/_{2707}$p each were redeemed for £1,000,000 and all of the 54,140 deferred shares of $^{10}/_{2707}$p each were repurchased for 1p. The unissued authorised preference shares and deferred share capital were then reclassified as ordinary share capital of 10p each, so that the authorised share capital of the Company was £80,000,000 comprising 800,000,000 ordinary shares of 10p each.

### Share options

Options have been granted under the following share option schemes to subscribe for ordinary shares of the Company as shown below:

| | Number of shares under option | Price per share | Exercise period |
|---|---|---|---|
| SAYE 2002 | 5,566,448 | £1.80 | Between 2005 and 2010 |
| Float bonus | 945,432 | – | 5 years following announcement of 2003 financial year results |
| Executive Directors Incentive Plan | 1,833,333 | – | Between 2003 and 2008 |

## 26. Reserves

| | Share capital £m | Share premium account £m | Merger reserve £m | Other reserves £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| * At 2 January 2002 | 27.2 | – | (26.1) | – | (41.8) | (40.7) |
| Shares issued | 15.1 | 324.9 | – | – | – | 340.0 |
| Redemption of preference shares | (0.1) | (0.9) | – | – | – | (1.0) |
| Share issue costs | – | (12.7) | – | – | – | (12.7) |
| Shares to be issued | – | – | – | 2.1 | – | 2.1 |
| Surplus on sale of shares realised by Employee Benefit Trust | – | – | – | – | 2.2 | 2.2 |
| Retained loss for the financial period | – | – | – | – | (15.1) | (15.1) |
| Actuarial loss recognised in the pension scheme | – | – | – | – | (36.6) | (36.6) |
| Deferred tax arising thereon | – | – | – | – | 11.0 | 11.0 |
| Currency translation differences on foreign currency net investments | – | – | – | – | 0.1 | 0.1 |
| **At 31 December 2002** | **42.2** | **311.3** | **(26.1)** | **2.1** | **(80.2)** | **249.3** |

* The above comparative information is produced to comply with the requirements of merger accounting whereby comparative amounts are restated as if the entities had been combined at the last balance sheet date.

| | Share capital £m | Share premium account £m | Merger reserve £m | Other reserves £m | Profit and loss account £m | Total £m |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| At 2 January 2002 | – | – | – | – | – | – |
| Shares issued | 42.3 | 324.9 | – | – | – | 367.2 |
| Redemption of preference shares | (0.1) | (0.9) | – | – | – | (1.0) |
| Share issue costs | – | (12.7) | – | – | – | (12.7) |
| Shares to be issued | – | – | – | 2.1 | – | 2.1 |
| Retained profit for the financial period | – | – | – | – | 6.3 | 6.3 |
| **At 31 December 2002** | **42.2** | **311.3** | **–** | **2.1** | **6.3** | **361.9** |

**Profit and loss reserve:**

| | **31 December 2002 £m** | 1 January 2002 £m |
|---|---|---|
| Profit and loss account excluding pension liability | **(52.2)** | (39.6) |
| Pension liability | **(28.0)** | (2.2) |
| Profit and loss account including pension liability | **(80.2)** | (41.8) |

# Notes to the Financial Statements

## 27. Reconciliation of movements in equity shareholders' funds/(deficit)

| | 31 December 2002 £m | 1 January 2002 £m |
|---|---|---|
| Profit for the financial period | **21.2** | 18.4 |
| Other recognised gains and losses relating to the period (net) | **(25.5)** | (20.0) |
| | **(4.3)** | (1.6) |
| Dividends | **(36.3)** | – |
| Issue of share capital including share premium | **340.0** | – |
| Redemption of preference shares | **(1.0)** | – |
| Share issue costs | **(12.7)** | – |
| Shares to be issued | **2.1** | – |
| Surplus on sale of shares realised by Employee Benefit Trust | **2.2** | – |
| Net addition/(reduction) to equity shareholders' funds | **290.0** | (1.6) |
| Opening equity shareholders' deficit | **(40.7)** | (39.1) |
| Closing equity shareholders' funds/(deficit) | **249.3** | (40.7) |

## 28. Reconciliation of operating profit to net cash inflow from operating activities

| | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| Operating profit after exceptional items | **118.9** | 107.1 |
| Depreciation | **16.7** | 16.6 |
| Profit on sale of fixed assets | **(0.1)** | (0.8) |
| Amortisation of Executive Directors' Incentive Plan | **0.7** | – |
| (Increase)/decrease in debtors | **(2.6)** | 2.6 |
| Increase in creditors | **0.8** | 3.4 |
| Cost of shares to be issued | **2.1** | – |
| Defined benefit pension cost less cash contributions | **0.8** | 4.3 |
| Net cash inflow from operating activities | **137.3** | 133.2 |

The H&K and Sunderland Stadium acquisitions each contributed £0.5m to net cash inflow from operating activities in the period between 6 September 2002 (date of acquisition) and 31 December 2002. No other significant cashflows were created by these acquisitions in this period.

## 29. Analysis of cash flows

| | 52 weeks ended 31 December 2002 £m | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| **Returns on investments and servicing of finance:** | | |
| Interest received | **2.7** | 4.5 |
| Interest paid | **(36.9)** | (51.6) |
| Exceptional interest cash outflow | **(14.2)** | – |
| Net cash outflow | **(48.4)** | (47.1) |
| **Capital expenditure and financial investment:** | | |
| Purchase of fixed assets | **(20.8)** | (21.2) |
| Purchase of unlisted investments | **–** | (8.0) |
| Sale of tangible fixed assets | **0.4** | 0.2 |
| Sale of business operation | **–** | 1.0 |
| Net cash outflow | **(20.4)** | (28.0) |
| **Acquisitions:** | | |
| Purchase of subsidiary undertakings | **(21.7)** | – |
| Net cash acquired with subsidiary undertakings | **0.9** | – |
| Net cash outflow | **(20.8)** | – |
| **Financing:** | | |
| Issue of ordinary shares | **340.0** | – |
| Expenses of issue of ordinary shares | **(12.7)** | – |
| Redemption of preference shares | **(1.0)** | – |
| Sale proceeds of Employee Benefit Trust share sale | **5.2** | – |
| New borrowings net of finance costs | **519.0** | – |
| Loan facilities repaid | **(942.5)** | (37.4) |
| Net cash outflow | **(92.0)** | (37.4) |

# Notes to the Financial Statements

## 30. Analysis and reconciliation of net debt

| | 2 January 2002 £m | Cash flow £m | Other non-cash items £m | **31 December 2002 £m** |
|---|---|---|---|---|
| **Analysis of net debt** | | | | |
| Cash at bank and in hand | 104.8 | (60.2) | – | **44.6** |
| Debts due within one year | (45.7) | (9.7) | (0.3) | **(55.7)** |
| Debts due after more than one year | (851.2) | 433.1 | (52.2) | **(470.3)** |
| Total | (792.1) | 363.2 | (52.5) | **(481.4)** |

Other non-cash items of £52.5m comprise guaranteed unsecured loan notes 2005 issued in acquiring the Sunderland Stadium of £8.4m, interest on the unsecured loan notes 2009 accruing from the start of the period to their date of redemption of £27.1m and written off and amortised debt issue costs of £17.0m. The written off and amortised debt issue costs include an exceptional amount of £14.7m in respect of finance fees on debt which was repaid in the period.

| | **52 weeks ended 31 December 2002 £m** | 53 weeks ended 1 January 2002 £m |
|---|---|---|
| (Decrease)/increase in cash in the period | **(60.2)** | 20.0 |
| Decrease in gross debt less amortisation of debt issue costs | **423.4** | 37.4 |
| Change in net debt resulting from cash flows | **363.2** | 57.4 |
| Issue of guaranteed unsecured loan notes 2005 | | |
| to acquire Sunderland Stadium | **(8.4)** | – |
| Accrued interest on unsecured loan notes 2009 | **(27.1)** | (50.5) |
| Debt issue costs written off and amortised | **(17.0)** | (2.4) |
| | **310.7** | 4.5 |
| Opening net debt | **(792.1)** | (796.6) |
| Closing net debt | **(481.4)** | (792.1) |

## 31. Financial commitments

The Group had capital commitments as follows:

| | **31 December 2002 £m** | 1 January 2002 £m |
|---|---|---|
| Contracted but not provided for | **7.9** | 7.6 |

The Company had no capital commitments at 31 December 2002 (1 January 2002 – £nil).

## 31. Financial commitments (continued)

The Group has annual commitments under non-cancellable operating leases as follows:

| | **31 December 2002** | | 1 January 2002 | |
|---|---|---|---|---|
| | **Land and buildings** | **Other** | Land and buildings | Other |
| | **£m** | **£m** | £m | £m |
| Payments due within one year for leases which expire: | | | | |
| Within one year | **2.6** | **–** | 2.0 | – |
| Within two to five years | **4.5** | **10.4** | 4.3 | 6.3 |
| After five years | **20.4** | **–** | 18.3 | – |
| Total | **27.5** | **10.4** | 24.6 | 6.3 |

The Company had no commitments under non-cancellable operating leases at 31 December 2002 (1 January 2002 – £nil).

## 32. Contingent liabilities

At 31 December 2002 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 but it has an indemnity from other parties for each of those parties' proportion of the liability. The guarantees are to the value of:

| | **31 December 2002** | 1 January 2002 |
|---|---|---|
| | **£m** | £m |
| Guarantees | **0.6** | 0.8 |

**Litigation**

The Group is engaged in one significant legal proceeding, which it is defending vigorously and in which it is fully indemnified in the event of loss by Cryptologic Inc. of Canada. The claimants are Menashe Business Mercantile Limited and Dr. Julian Menashe and the claim relates to the use of a patent in relation to the online casino. The matter has, unless otherwise determined earlier, been set down for a hearing by the High Court in November 2003.

## 33. Post balance sheet events

On 3 March 2003, the Group acquired the entire issued share capital of Team Greyhound (Brough Park) Limited for total cash consideration of £5.5m and assumed net indebtedness of £0.9m.

## 34. Related party transactions

The Company is taking advantage of the exemption granted by paragraph 3(c) of FRS 8 "Related Party Disclosures" not to disclose transactions with companies within the Group which are related parties.

During the period the Group made purchases of £15.0m (53 weeks ended 1 January 2002 – £13.3m) from Satellite Information Services Limited, a subsidiary of the Group's associated undertaking, SIS. At 31 December 2002 the amount payable to Satellite Information Services Limited by the Group was £nil (1 January 2002 – £nil). The Group also surrendered tax losses for £1.5m (53 weeks ended 1 January 2002 – £0.3m) via consortium relief to its associated undertaking. The amount owed to the Group in respect of these losses at 31 December 2002 was £nil (1 January 2002 – £nil)

Monitoring fees of £0.1m (53 weeks ended 1 January 2002 – £0.3m) payable to Cinven Limited and CVC Capital Partners Europe Limited were charged in the period and £nil has been included in accruals and deferred income in the balance sheet at 31 December 2002 (1 January 2002 – £0.2m).

On 7 August 2001 an Employee Benefit Trust established by the Group purchased 617 "A" shares and 617 "B" shares and an option to purchase 111,051 preference shares from each of Mr Brown and Mr Lambert (a former director of WHH) for a total consideration of £8.0m.

As part of the refinancing transactions accompanying the flotation, on 17 June 2002 the Group redeemed £494.4m of unsecured loan notes 2009, being £247.2m to each of certain funds and investors managed or advised by Cinven Limited and CVC Capital Partners, who are shareholders of the Company.

# Five year summary

| | 2002 £m | 2001 £m | 2000 £m | 1999 £m | 1998 £m |
|---|---|---|---|---|---|
| **Summarised results:** | | | | | |
| Turnover | 3,365.3 | 2,452.2 | 2,042.4 | 1,877.9 | 1,805.8 |
| Operating profit before exceptional items (including associates) | 141.4 | 112.0 | 84.6 | 74.4 | 94.0 |
| Operating profit after exceptional items (including associates) | 121.3 | 112.0 | 84.6 | 73.2 | 92.0 |
| Profit/(loss) on ordinary activities after exceptional items and before taxation | 32.4 | 27.3 | 3.0 | (59.0) | 17.7 |
| Profit/(loss) for the financial period | 21.2 | 18.4 | 0.9 | (56.2) | 16.3 |
| **Summarised balance sheets:** | | | | | |
| Assets employed: | | | | | |
| Fixed assets | 832.3 | 804.1 | 788.4 | 784.4 | 731.4 |
| Net current (liabilities)/assets | (83.5) | 8.6 | 14.6 | (2.0) | (8.1) |
| Creditors: amounts falling due after more than one year | (470.3) | (851.2) | (860.0) | (836.8) | (693.6) |
| Share of net liabilities of associate | (1.2) | – | (1.0) | (4.9) | (8.3) |
| Provision for liabilities and charges | – | – | – | – | (0.8) |
| Pension (liability)/asset | (28.0) | (2.2) | 18.7 | 26.6 | – |
| Net assets/(liabilities) | 249.3 | (40.7) | (39.3) | (32.7) | 20.6 |
| Financed by: | | | | | |
| Shareholders' funds/(deficit) | 249.3 | (40.7) | (39.3) | (32.7) | 20.6 |
| **Key statistics** | | | | | |
| † EBITDA (£m) | 158.1 | 128.6 | 98.6 | 87.5 | 104.6 |
| * Basic earnings/(loss) per share (pre-exceptionals) | 16.9p | 6.9p | 0.3p | (0.8)p | 6.0p |
| * Diluted earnings/(loss) per share (pre-exceptionals) | 16.8p | 6.9p | 0.3p | (0.8)p | 6.0p |
| Dividends per share | 8.7p | – | – | – | – |
| Share price – high | £2.87 | – | – | – | – |
| – low | £1.96 | – | – | – | – |

† EBITDA represents profit on ordinary activities before finance charges, tax, depreciation and amortisation and excludes exceptional items and impairment of goodwill.

* Earnings per share figures for 2000, 1999 and 1998 are based on a notional weighted average number of shares of 270.7m.

# Glossary

| | |
|---|---|
| amusement with prize machines or AWPs | electronic slot machines into which customers insert coins to play games of chance; current UK regulations allow up to two AWPs in each LBO, each of which can pay cash prizes of up to £25 |
| BAGS | Bookmakers' Afternoon Greyhound Services Limited, a non profit making company set up by various bookmakers, including William Hill |
| betting duty | a duty charged by the UK Government, until October 2001, on off-course turnover payable by bookmakers pursuant to the UK Betting and Gaming Duties Act 1981 (as amended). Since October 2001, betting duty is based on bookmakers' gross win (see GPT below) |
| Budd Report | the report published in July 2001 as a result of an independent review commissioned by the UK Government to examine controls on gambling in Great Britain and chaired by Sir Alan Budd |
| Company | William Hill PLC |
| DCMS | Department of Culture, Media and Sport |
| FOBTs | self service terminals situated in LBOs offering fixed odds bets |
| Gaming Board | The Gaming Board for Great Britain, the regulatory body for casinos, bingo clubs, gaming machines and larger lotteries (including all local lotteries but excluding the National Lottery) |
| gaming machines | electronic machines into which customers insert coins to play games of chance; the March 2002 Government Paper differentiated these machines into four categories ranging from Category D with a maximum stake of 10p and maximum prize of £5 to Category A with unlimited stakes and prizes |
| gross profit tax or GPT | a duty charged by the UK Government of 15% of a bookmaker's gross win, introduced in October 2001 |
| gross win | total customer stakes less customer winnings |
| horse racing levy | a levy attributable to bets taken on horse racing and payable to the Horserace Betting Levy Board, primarily for purposes of augmenting the prize money available for winning horses and providing certain racecourse amenities |
| LBO | licensed betting office |
| Levy Board | the Horserace Betting Levy Board, a corporate body operating in accordance with the provisions of the Betting, Gaming and Lotteries Act 1963 (as amended) |
| Levy Scheme | a statutory levy attributable to bets taken off-course on horse racing and payable to the Levy Board, primarily for the purposes of augmenting the prize money available for winning horses and providing certain racecourse amenities |
| NJPC | National Joint Pitch Council |
| SIS | Satellite Information Services (Holdings) Limited or its subsidiary Satellite Information Services Limited, as the context requires |
| sportsbook | bets accepted on sporting and other events |
| William Hill or the Group | the Company and its subsidiaries, or any of them, as the context may require |

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of shareholders of William Hill PLC will be held at the New Connaught Rooms, Covent Garden Exhibition Centre, 61-65 Great Queen Street, London WC2B 5DA on Thursday, 29 May 2003 at 10.00 a.m. Each of the resolutions to be considered at the meeting will be ordinary business, being:

1. To receive the directors' report and accounts for the fifty-two weeks ended 31 December 2002.
2. To approve the Directors' Remuneration Report.
3. To declare a final dividend of 5.8p for each ordinary share.

To elect the following directors who offer themselves for re-election under the Company's Articles of Association:

4. David Harding.
5. Tom Singer.
6. Charles Scott.
7. To re-appoint Deloitte & Touche as auditors of the Company and to authorise the directors to determine their remuneration.

By Order of the Board

**Nigel Blythe-Tinker**

Group Company Secretary

4 April 2003.

Notes:

(a) In line with best practice in corporate governance, as now reflected in the new Remuneration Report Regulations 2002, the Board has presented its Directors' Remuneration Report to shareholders in the annual report and accounts. The Directors' Remuneration Report gives details of the directors' remuneration for the 52 weeks ended 31 December 2002 and sets out the Group's overall policy on directors' remuneration. As required by the Remuneration Report Regulations, the Company's auditors have audited those parts of the Directors' Remuneration Report capable of being audited and their report may be found in the annual report and accounts. The Board considers that appropriate executive remuneration plays a vital part in helping to achieve the Group's overall objectives and, accordingly, and in compliance with the Remuneration Report Regulations, shareholders will be invited to approve the Directors' Remuneration Report.

(b) The dividend will be payable to shareholders on the Company's register of members at 6.00 p.m. on 9 May 2003 for payment on 5 June 2003.

(c) The Company's Articles of Association state that a third of the directors should retire at each annual general meeting. Information on the directors, including those offering themselves for re-election, is provided in the section of the annual report and accounts on the Board of Directors.

(d) The Company's register of members on 29 May 2003 is conclusive evidence of the right of a member to vote.

(e) A member entitled to attend and vote may appoint a proxy or proxies to attend and, on a poll, vote on his/her behalf. The form of proxy must be left at the office of the registrars of the Company at least 48 hours before the meeting. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

(f) The two documents referred to below are available for inspection during normal business hours on any weekday at the Company's registered office at Greenside House, 50 Station Road, Wood Green, London N22 7TP. They will also be available for inspection at the New Connaught Rooms on 29 May 2003 until the conclusion of the Annual General Meeting:

    (i) the register of directors' interests; and

    (ii) copies of the service contracts between the Company and the directors.

# Key dates

- Record date for final dividend – 9 May, 2003
- Annual General Meeting – 29 May, 2003
- Payment date for final dividend – 5 June, 2003
- Date of announcement of interim results for 2003 – 8 September, 2003

## Internet Betting

Racing/Sports: www.williamhill.co.uk
Mobile Internet: www.williamhill.co.uk/wap/
On-line Casino: www.williamhillcasino.com
On-line Poker: www.williamhillpoker.com

## Telephone Betting

Debit: 0800 44 40 40
Credit: 0800 289 892

## Retail Betting

Nearly 1600 shops throughout the UK
Customer Helpline: 0875 18 17 15

**William Hill PLC**

Greenside House, 50 Station Road, Wood Green, London N22 7TP
Tel: 020 8918 3600  Fax: 020 8918 3775