

Building a strong balance sheet

We transformed our balance sheet during 2009, refinancing the bank debt, raising £350m through a rights issue, completing our debut corporate bond and generating £280m in operating cash flow.



Simon Lane
Group Financial Director

Net revenue

Group net revenue in 2009 was £997.9m (2008 – £963.7m), an increase of 4% that was attributable, primarily, to the expanded online business.

Cost of sales

Cost of sales includes taxes, levies and royalties relating to the operation of a betting and gaming company such as the horseracing levy, greyhound racing levy and gross profit tax on the Group's net revenue, Amusement Machine Licence Duty (AMLD) payable on gaming machines and royalties to third parties for software. Costs of sales decreased by 5% to £158.2m (2008 – £166.2m).

Net operating expenses

Net operating expenses, excluding exceptional items but including operating income, were £586.4m, an increase of 14%. Of this increase, approximately half relates to the Uniplay assets acquired from Playtech.

Staff costs, which represent approximately half of our total costs, increased by 4%, with increased staff costs in William Hill Online partially offset by rigorous cost control in Retail.

Other increases include property costs, reflecting the higher average number of LBOs trading, depreciation, which now includes the costs of the Sportsbook investment, and marketing investment in William Hill Online.

Other operating income

Other operating income in 2009 was £6.1m (2008 – £6.9m), which includes revenues from the rental of properties and vending.

Exceptional operating expenses

There were exceptional operating expenses of £53.2m in the period (2008 – £5.4m), of which £47.0m are non-cash items. These exceptional expenses comprise £10.2m for William Hill Online integration costs, a write-off of £34.8m of the goodwill held on the balance sheet for Telephone and an £8.2m impairment relating to our estate in the Republic of Ireland. The integration costs are in line with previous guidance. The Telephone and Republic of Ireland charges reflect weaker trading in both areas. We closed 15 shops in the Republic of Ireland during the course of 2009 and are reviewing the remaining 35 shops. As stated above, we are reviewing ways to return Telephone to profitability during the course of 2010.

Interest cover
(bank covenant purposes)

times

5.2 times

Group KPI

2007	5.2
2008	5.1
2009	5.2

Interest cover continues to be well ahead of debt covenant of interest cover greater than three times. Although earnings fell in 2009, interest costs also reduced as net debt was £419.5m lower at £602.6m.

Effective tax rate

%

24.5%

Group KPI

2007	25.2
2008	26.6
2009	24.5

The effective tax rate reduced in 2009 as a result of an increased proportion of profits coming from William Hill Online, which is headquartered in Gibraltar, and from its customers outside the UK.

Share of results of associates and joint ventures

These relate to the Group's share of profit from our associate SIS and our share of losses in respect of the joint venture in Spain. In January 2010, the Group completed the sale of our share in the joint venture to our partner, Codere S.A., for €1. The operating loss recorded from the Spanish joint venture was £3.1m in 2009 (2008 – £5.8m). Our share of profit from SIS was £2.8m (2008 – £2.9m).

Non-operating exceptional items

We recorded exceptional costs of £23.4m (2008 – exceptional profit of £88.0m) in 2009. This included £20.5m fair value loss on our legacy hedging arrangements, of which £2.4m was recorded in the first half and £18.1m in the second half as a result of completing our £300m corporate bond. This is in line with the expected range highlighted at the time of the corporate bond announcement. In addition, £2.9m in exceptional finance costs were incurred as a result of the rights issue and bond issue.

Finance costs

Pre-exceptional net finance costs in 2009 were £55.5m (2008 – £62.5m), reflecting the reduction in our average net debt.

Taxation

Tax on profit in the year was £39.7m (2008 – £59.3m) or £48.5m pre-exceptional (2008 – £58.3). The Group's effective tax rate reduced to 24.5% as a result of a greater proportion of operating profit coming from online activities based outside the UK. The effective tax rate post-exceptional items is 32.8%. This is above the expected rate due to the fact that there is no tax relief for many of the exceptional items. Going forward, the Board expects the Group's pre-exceptional effective tax rate to be similar to the 2009 effective rate of 24.5%, reflecting the lower tax rate for William Hill Online.

Earnings per share

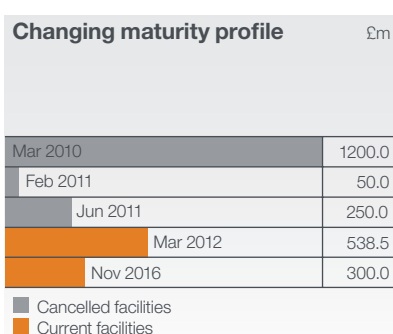
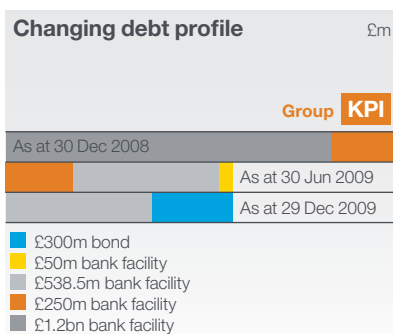
Basic pre-exceptional earnings per share decreased to 20.6p against 31.9p in 2008. On a post-exceptional basis, basic earnings per share fell to 9.5p against 47.3p in 2008. The 2008 earnings per share has been restated to reflect the discounted rights issue in April.

Cash flow and net debt

The Group generated net cash inflow from operating activities before financing and tax of £279.9m, a reduction of £27.5m or 9% on 2008. This decrease was a result of a lower pre-exceptional operating profit.

We invested £36.5m in capital expenditure in 2009, including £14.4m in our LBO estate development programme and £14.0m in William Hill Online integration and product development. We paid £60.2m in net debt service costs, £49.3m in corporation tax, £17.5m in dividends and £17.4m in minority interest to Playtech.

Net debt for covenant purposes decreased to £602.6m at 29 December 2009 (30 December 2008 – £1,022.1m) as a result of using the proceeds of the rights issue and operating cash flow to pay down debt.



Our refinancing activities in 2009

Our debt position prior to the refinancing

At the end of 2008, we had debt facilities totalling £1.45bn with two maturities – £1.2bn in March 2010 and £250m in July 2011. As our net debt:EBITDA ratio was 3.5 times, the only market available to us was bank debt. The average margin on our two facilities was 67 basis points above LIBOR.

Bank debt refinancing

Following six months of extensive negotiations, we finalised new debt facilities that, together with our existing £250m facility, gave us bank debt facilities totalling £838.5m.

Rights issue

To fill the funding gap left by the bank debt refinancing, we undertook a one-for-one Rights Issue to raise £350m. The issue was priced at 105p per share, a 57% discount to the closing middle market price per Ordinary Share on 26 February 2009, the last business day prior to the announcement of the rights issue, and a 40% discount to the theoretical ex-rights price. Acceptances were received from 97.41% of shareholders and the remaining 2.59% of shares were placed in the market. The proceeds of the rights issue were used to pay down debt.

Debut corporate bond

We committed at the time of the rights issue to seek to diversify our sources of debt and, in November 2009, announced the launch of our debut corporate bond. The £300m, seven-year bond was issued with a coupon of 7.125% discounted to yield 7.25% to maturity. The proceeds of the bond were used to pay down debt, in effect to cancel the £50m and £250m facilities due in 2011.

Our average cost of debt

For those banks who entered into the forward-start facility, the margin on the bank debt was increased to LIBOR +300 bps in 2009 and LIBOR +250 bps from March 2010 (depending on the Group's leverage ratios). Our average cost of debt in 2009 was 7.7% and is expected to increase to approximately 10% in 2010 and 2011 as a result of the bond, amortisation of the refinancing fees and our legacy hedging arrangements.

Our net debt position

As at 29 December 2009, our net debt for covenant purposes had been reduced by £419.5m to £602.6m, giving us a net debt to EBITDA ratio of 2.2 times.

Simon Lane
Group Financial Director