

Managing our risks

Potential risk	What's the issue?
<p>→ The challenging economic climate continues to impact trading.</p>	<p>In 2009, the economy reduced yields in Online and amounts wagered in Retail OTC. With economists expecting unemployment across the UK and elsewhere in Europe to continue to increase in 2010, this could continue to affect our performance.</p>
<p>→ Change to a gross profits tax on machines in Retail at a rate higher than our tax neutral position.</p>	<p>Gaming machines are taxed at 17.5% VAT plus AMLD. HM Treasury has proposed changing to a gross profits tax. It indicated it plans to do this at a neutral rate but the tax rate has yet to be defined. For bookmakers, a tax neutral is around 18% but for other parts of the gambling industry the rate is different, with bingo and casino industries at 15%–16%. This is making it difficult for Government to implement a tax neutral rate without hurting some part of the industry.</p>
<p>→ Ineffective brand identity hinders growth, particularly in online.</p>	<p>The William Hill brand is well-recognised and trusted in the UK but has limited traction elsewhere. Brand is a key driver in attracting and retaining Online customers and will be an important factor in our international expansion efforts.</p>
<p>→ Failure to take advantage of online international markets.</p>	<p>International growth is part of our Online strategy. At this point, 40% of our revenues come from gaming customers outside the UK but our Sportsbook is still UK-centric.</p>
<p>→ Countries fail to regulate online gambling or do so in a way that prevents William Hill Online from operating effectively.</p>	<p>The regulatory position on online gambling is rapidly changing, particularly in Europe where various countries are moving towards regulation. We currently target countries through our new .com site but greater potential exists in regulated markets that are open to competition.</p>
<p>→ Failure to establish a market-leading in-play betting product online.</p>	<p>As part of our efforts to expand Online, we aim to leapfrog our competitors in the breadth and depth of our in-play product, which is a rapidly growing market.</p>

Risk management process

The Board routinely monitors risks that could materially and adversely affect William Hill's ability to achieve strategic goals, financial condition and results of operations. The key risks are described here.

A full list of risks is provided in the investor relations section of our corporate website at www.williamhillplc.co.uk. Summarised in the table below are the key risks identified through our corporate risk matrix, which is produced following a detailed review by Internal Audit and senior management, and is approved annually by the Audit and Risk Management Committee. For more details, see the Statement on Corporate Governance on page 59.

What could this mean for the business?

A top-line decline in Retail has a disproportionate effect on EBIT as we have a high fixed-cost base. Lower yields in Online increases competition for new customers.

For William Hill, a tax neutral rate would be 18–19%. For each 1% above or below our tax neutral rate, this would increase or decrease our EPS by approximately 2%.

If we were unable to establish a strong brand presence in Europe, it could hinder our ability to expand rapidly in markets outside the UK.

We expect significant growth in Online to come from international markets over the coming years.

Regulation can bring certainty and the opportunity to advertise in a country, which typically drives faster market growth. However, it can have a short-term impact from taxation and competitive restrictions.

A significant amount of Online revenue growth is projected to come from in-play betting. Failure to deliver could reduce our ability to hit EBIT targets.

What are we doing to address the issue?

Through targeted product development and marketing activities, we aim to compensate for the economic effect. In addition, we tightly control our Retail operating costs, including optimising opening hours and shop staffing, renegotiating key supplier contracts and, if necessary, closing unprofitable shops.

The bookmakers, through the ABB, have made the case for a 15% rate for the whole industry to stimulate growth. Senior management are responsible for regulatory issues and work with a lobbying agency, Open Road, on relationships with political decision-makers. We are also involved in various industry bodies making representations to Government, including how significant tax changes risk shop closures and redundancies.

We have appointed a new senior manager responsible for brand across the Group. We plan to increase our investment in marketing activities in 2010 to enhance brand awareness, particularly Online.

William Hill Online conducts extensive market opportunity analysis and applies a portfolio approach, mixing lower growth, more developed markets with higher risk, higher growth opportunities. We use four routes to target markets: (a) take a licence; (b) operate through our .com site; (c) establish a partnership with a local supplier; or (d) acquire an existing company. We also have established marketing and distribution channels through our gaming operations that we can use for the whole of Online.

We continually monitor the changing legal landscape for online gambling and adapt our international strategy appropriately on a country-by-country basis. We do not take customers from the US and Turkey, and we operate across the European Union under the principle of freedom to provide services across borders.

We established new trading teams, proprietary algorithms and new price feed mechanisms in 2009 to automate our in-play product, enabling us to expand our markets and improve our margins. Further enhancements are being rolled-out in 2010.