

## Managing our risks

### 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 Board is supported by Executive Management and the Head of Internal Audit who collectively play a key role in risk management, monitoring the overall risk profile and regularly reporting to the Board through the Audit and Risk committee.

The process of risk identification and monitoring is achieved through a series of risk workshops and a corporate risk register. The Board, through the Executive Management team, has also determined clear policies as to what William Hill PLC considers to be acceptable levels of risk. These policies support our management in using their expertise to identify risks that could undermine performance and to devise ways of bringing them to within acceptable levels. Where we identify risks that are not acceptable, we develop action plans to mitigate them with clear allocation of responsibilities. Progress towards implementing these plans is monitored by the responsible Executive and reported to the Audit and Risk Management Committee, and the Board.

We have summarised here the top risks identified in our corporate risk register. These are assessed on the basis of impact, likelihood and control effectiveness.

Potential risk	What's the issue?	What could this mean for the business?	What are we doing to mitigate the issue?
Failure to manage effectively the William Hill Online joint venture	William Hill Online, which is jointly owned by William Hill (71%) and Playtech Limited (29%), is a critical part of the Group's growth strategy. The joint-venture structure may inhibit the Group's ability to execute our international growth plans and it is critical that we manage the relationship effectively.	The future strategic direction of William Hill Online needs to be jointly agreed between William Hill and Playtech Limited. Differing views could inhibit growth, potentially by slowing down or removing options that might otherwise have been preferred choices.	We have a strong working relationship with Playtech, both corporately and as a software partner for William Hill Online. A joint venture shareholder board provides the forum for managing the relationship formally. In addition, various members of the William Hill and Playtech management meet regularly.
Increasing regulation in online gambling	The regulatory position in online gambling is changing rapidly, particularly in Europe where several countries are implementing new tax and regulatory regimes. These changes could inhibit growth or access to those markets, or result in a regulatory breach and sanctions if not identified in a timely manner.	Approximately 25% of William Hill Online's revenue was derived from unregulated countries in the second half of 2010. As countries regulate, existing markets could become unattractive, either in terms of the tax regime or if the appropriate products are not regulated. Investing to establish a leadership position in a new market can impact short-term profitability.	We are actively involved in understanding and contributing to government thinking on regulatory matters and building relationships with regulatory bodies directly and through representation in relevant professional and trade associations. We also continually monitor the changing legal landscape and adapt our international strategy on a country-by-country basis. We have no over reliance on any one single market for revenues.

Over-reliance on third parties	We are dependent on a number of suppliers for key operations and systems and their failure could cause significant damage to the business. Multiple supplier failure would be a catastrophic issue for the business.	The significance to the Group of these suppliers is such that we need to manage their performance and service levels closely and to ensure their own operations, security and/or processes are not introducing additional risks to William Hill.	We have processes for identifying and monitoring all business critical suppliers and we develop appropriate contingency plans. All significant contracts and service level agreements go through a robust procurement process. We manage key supplier performance proactively and processes are under review to strengthen this further. We have strong working relationships with all of these key parties.
Failure to maximise UK and international online growth opportunities	The UK currently accounts for approximately 75% of William Hill Online's revenues. Increasing our UK market share is a key growth driver in our short- and medium-term strategy. International growth is a key part of our online strategy, alongside targeting the UK.	The growth expectations for William Hill Online rely on further increasing our market share and extending into international territories. Failure to maximise these opportunities would seriously impact William Hill Online's and, hence, the Group's growth potential.	An extensive product development programme is ongoing to differentiate our sports-betting offering with cross-sell opportunities in gaming. We perform detailed analysis of market opportunities and have established marketing and distribution channels in many markets through our gaming operations that we can exploit. Country managers with specific experience of international market development have been recruited and we offer a broad range of language, payment and other product services to increase broader international appeal.
Impact of the challenging economic climate	The current economic climate remains challenging and uncertain. Economists predict a tough economic environment for consumers in 2011, which could particularly affect areas of discretionary spend, such as gambling. This economic environment also increases the risk of inflation, job losses and pay freezes.	William Hill operates in an area of discretionary spend and a reduction in our customers' spending capacity could impact our revenues. This is particularly pertinent in Retail where our customers are disproportionately drawn from the C2DE socio-economic groups, who could be impacted by inflation and the recent VAT increase in the UK. In addition, inflation could result in an increase in our cost base.	We aim to mitigate the economic effects by being competitive, maintaining our market leading position and managing costs. We are also enhancing our market leading position and revenue growth through extensive new product development, marketing activities and expansion into new online markets. We have optimised shop staffing and opening hours, renegotiated supplier contracts and, as necessary, closed unprofitable shops. Through international growth, we aim to reduce our dependence on one territory, the UK.
Inadequate business continuity systems and/or recovery processes in the event of a disaster	The business has a high level of dependence on technology and advanced information systems that support both corporate functions and principal operating systems, such as the williamhill.com website and the over-the-counter betting and gaming machines systems in the shops. Many such systems are centralised in key buildings.	Should continuity arrangements prove inadequate in the event of a building or technology systems failure, this could create severe disruption throughout the business and impair our ability to transact our betting and gaming activities.	Business continuity and disaster recovery plans are in place for all critical systems but not all switchover plans have been fully tested outside of the Retail system. The Retail system has a proven, robust recovery procedure in place and is tested on a number of occasions throughout the year. Department plans are in the process of being updated and activities are ongoing to address identified gaps. Policies are also being revised and the issue of regular testing is being addressed.

<p>Failure to maintain a fit-for-purpose systems infrastructure</p>	<p>The business has a high level of dependence on technology and advanced information systems that support both corporate functions and principal operating systems, such as the williamhill.com website and the over-the-counter betting and gaming machines systems in the shops.</p>	<p>Failure to manage effectively the performance, resilience and capacity of the systems infrastructures could inhibit growth and/or result in operational issues or vulnerabilities that could be exploited.</p>	<p>The Group takes its dependence on information technology very seriously and has recently appointed a Chief Technology Officer, which is a Group position. A multi-year IT strategy has been approved by the Board and includes core infrastructure programmes. A significant capital investment continues to be made in IT systems each year. A medium-term development plan is being implemented for Online to ensure adequate systems to support the growth strategy.</p>
<p>Poor operational execution / performance in William Hill Online</p>	<p>William Hill Online is a core element of the Group's growth strategy. It is a relatively new operation, having been established in December 2008, and continues to evolve. A new management team has been created and the operations and systems have been expanded both substantially and rapidly. We are also dependent on third parties for the quality of some products and systems.</p>	<p>A major failure in a key operational function, system or website and/or poorly defined operational processes, customer support frameworks, workflows and performance metrics could seriously compromise our ability to provide customers with a high level of customer service and support operational excellence, which could affect financial performance.</p>	<p>A Quality Management Framework is being rolled out across the William Hill Group, starting with William Hill Online. This includes interfaces with key development partners and website development content management. A programme is ongoing that is also expected to improve the systems development and operational processes for key revenue-generating systems. There is a focus on operational excellence, specifically around brand management and customer services.</p>
<p>Major privacy or data protection failure</p>	<p>The Group holds substantial amounts of highly confidential data, particularly relating to customers of William Hill Online (including Telephone). There is a risk of data protection failures from either internal or external (including third party) sources.</p>	<p>A major failure in this area could affect customers' perception of the Group's reputation as a trusted betting and gaming company, which could, in turn, affect customers' willingness to transact with the Group. [Litigation/prosecution risk?]</p>	<p>The protection of customer data is a high priority for the Group and we have put in place comprehensive security policies, procedures and standards to reduce the risk that information could be lost or stolen. These cover the handling of both electronic and paper-based customer information and we carry out security awareness training with employees. Our equipment for sensitive systems is built to internationally accepted security standards and we have rolled out a proactive monitoring system that alerts us to suspicious activities. We are compliant with Payment Card Industry Data Security Standards for UK-based aspects of the Group. The programme to achieve compliance within William Hill Online is underway.</p>
<p>Adverse changes in UK taxation and duties</p>	<p>In the current economic climate, governments may seek to tax the gambling industry more to increase their revenues.</p>	<p>There are ongoing discussions about changing the basis of gaming machine taxation and about dual-licensing of offshore online operators, although that consultation did not touch on taxation. Any changes in taxation would be difficult to mitigate and could lead to the closure of shops in the UK.</p>	<p>We are involved with various industry bodies in making representations to government, including how significant tax changes risk further shop closures and redundancies. Senior management are responsible for regulatory issues and work with a lobbying agency on relationships with political decision-makers.</p>