Financial Reporting LAB

Clear & Concise

Lab case study report:

William Hill – accounting policies

February 2015

Financial Reporting Council

Contents

Lab case studies

Findings of Lab Clear & Concise case studies are based on the views of some of the participant companies' investors and analysts. How companies apply fresh approaches to their reporting should take into account the views of their own investors, the complexity of their own business and structure, materiality considerations, the dynamics of the sector and the accounting standards and other requirements in place at the time. Documenting the rationale for the approach taken is likely to assist with internal governance and enable companies to provide considered responses to questions from auditors, investors and regulators.

Project summary

It takes courage to do things differently.

William Hill PLC (William Hill, or the Company) took a fresh approach to disclosure of its accounting policies from 2011 onwards; defining and disclosing very few significant policies, in contrast to many other companies which present a longer list. In its 2011 financial statements, the Company presented its significant policies as those relating to:

- revenue recognition;
- intangible assets – licences[1];
- going concern; and
- exceptional items.

The Company continues to provide access to its complete list of disclosed accounting policies (Complete List) outside the financial statements. This was first done by reference to its website for the 2011 and 2012 annual reports, and in the 2013 annual report was done by way of an appendix to the annual report.

This case study report examines the views of a number of William Hill's investors and analysts in relation to the changes. In this context the term 'investors' refers to the investors and analysts that participated in this case study.

These included eight of the Company's institutional investors and analysts, together with three retail investors in the Company (see the section 'Participants and process' for more information).

William Hill's investors indicate they generally want to understand which policies are significant for each company they invest in or analyse, and want easy access to a fuller list when needed. Investors indicate an appendix to the annual report is most accessible.

The investors largely concur with the company's judgement in identifying those policies that are significant for William Hill's business. Two investors suggest that a small number of other policies may be considered significant for the Company. Nonetheless, all of the investors indicate that the financial statements as a whole (including the primary statements and related notes and excluding the Complete List), contain sufficient information to understand the business and its performance.

No investors indicate they would like all accounting policy disclosure removed from the financial statements and placed online.

Investor opinions differ on whether disclosures on the basis of preparation provide useful information, or are only useful when the preparation basis is different to the norm (i.e. historical cost with the exception of certain assets and liabilities held at fair value), or when a company changes its basis.

Investors encourage more companies to be courageous in improving their accounting policy disclosures.

Lab comment

Companies are required to disclose their significant accounting policies in the financial statements, although they are free to locate them anywhere in those statements, such as in each relevant note or together in a separate note. While many of the investors in this case study are of the view that William Hill discloses all of its significant policies in the Statement of Group Accounting Policies (which includes disclosure of critical accounting judgements and key sources of estimation uncertainty), some take into consideration policy information included in the notes to the financial statements when concluding sufficient information has been provided.

It is suggested that this case study report be read in conjunction with the *Accounting policies and integration of related financial information* report, published in July 2014 by the Financial Reporting Lab (the Lab). This report contained the following clear messages for companies from a wide group of investors that are pertinent to this case study:

- provide prominence to significant accounting policies. This requires management to exercise judgement to identify the significant policies. The report contains attributes of a significant policy articulated by investors, including materiality of amounts and importance to the nature of the business; and
- enhance the quality of significant accounting policy disclosures. The report contains a list of qualities that the investors believe characterise good significant policy disclosure.

[1] In the 2013 financial statements this policy is only included in the intangible assets note, to remove duplication (see page 8 of this report). See pages 12 – 13 for the 2013 Statement of group accounting policies.

Context and introduction

In June 2014, the Financial Reporting Council (FRC) launched its 'Clear & Concise' reporting initiative, which builds on the *Cutting clutter* report published in 2011. The initiative aims to ensure that annual reports provide relevant information for investors in an easy to locate and understandable format. In August 2014, the Lab published a report Towards Clear & Concise Reporting, which examines the steps companies took in the 2013 reporting season to improve the clarity and conciseness of annual reports.

The Lab intends to publish a series of case studies on steps individual companies have taken, or are taking, in relation to 'Clear & Concise' reporting, and the views of their investors and analysts in response.

William Hill, having experimented with accounting policy disclosure in its annual reports between 2011 and 2013, including defining the Company's significant policies, was approached by the Lab to participate in this case study on 'Clear & Concise' reporting of accounting policies. The case study also builds on the Lab's report Accounting policies and integration of related financial information. In that report, the Lab found that investors support the prominence of significant accounting policies and enhanced quality of significant accounting policy disclosures.

This case study report examines William Hill's experimentation with reporting, and considers the views of institutional investors, analysts, and retail shareholders, all of whom are familiar with the Company. Hence, these investors are able to provide insightful views on William Hill's reporting in the context of the Company's business (see the 'Participants and process' section for more information).

The aim of this Lab case study report is to provide insight for companies on views of the William Hill's investors in relation to:

- identification of the Company's significant accounting policies; and
- placement of the Company's significant and non-significant accounting policies within the annual report and on the website.

For more information on the FRC's 'Clear & Concise' initiative see the FRC's website: https://frc.org.uk/Our-Work/Headline-projects/Clear-Concise.aspx.

William Hill PLC profile

Founded in 1934, William Hill is a UK headquartered betting and gaming company, employing more than 17,000 people and generating revenues of c.£1.5bn a year. The investor base is weighted towards institutional investors.

Segments:

	Retail £m	Online £m	Telephone £m	US £m	Australia £m	Other £m	Group £m
Amounts wagered	2,874.1	3,165.0	252.0	310.2	1,177.1	22.4	7,800.8
Payout	(1,967.1)	(2,718.7)	(235.5)	(287.5)	(1,090.4)	(15.1)	(6,314.3)
Revenue	**907.0**	**446.3**	**16.5**	**22.7**	**86.7**	**7.3**	**1,486.5**

Retail – UK bookmaker with around 2,350 licensed betting offices that focus on a wide range of sporting and non-sporting events, gaming machines and numbers-based products including lotteries.

Online – UK online betting and gaming business, providing access to William Hill's products through their smartphone or tablet.

Telephone – UK access to products by telephone and by text services.

US – Established in June 2012 providing land-based and mobile sports betting services in Nevada, and is the risk manager for the State of Delaware's sports lottery.

Australia – Online betting businesses in Australia, offering sports betting products online, by telephone and via mobile devices.

Source: William Hill PLC

Listing: FTSE 250 Market Cap: £3.2bn

Sector/Sub-sector: Travel & Leisure / Gambling

Source: London Stock Exchange 22 January 2015

Significant accounting policies

Company process

The Company was inspired by the FRC's 'Cutting clutter' initiative to remove immaterial disclosures from its annual report. Accounting policy disclosures, which in 2010 comprised eight pages, were identified as an area where the majority of the disclosure could be moved to the company website.

The Company felt that it was making available a complete set of accounting policies, with non-significant policies being voluntarily provided in addition to the significant policies. It undertook a process of identifying which of its accounting policies were 'significant', and, in accordance with IAS 1 *Presentation of Financial Statements* (IAS 1), required to be disclosed in the financial statements.

In applying IAS 1, William Hill considered the following factors in relation to each policy in the context of its business:

- the materiality of the item(s) the policy relates to;
- the Company's internal assessment of financial reporting risk areas as reported to the Audit Committee by management;
- the amount of internal discussion required to value, classify or otherwise assess each item covered by the accounting policy;
- the extent of discussion with external auditors on the assessment of the item; and
- the extent of questions received from shareholders in relation to the policy and item(s) to which each policy relates.

The Company's financial reporting team initiated and performed the review of accounting policies. The Company's Audit Committee considered and approved the criteria for identifying the significant policies and the resultant disclosure. William Hill also discussed the process and proposed changes with its external auditors and sought their views early in the audit cycle.

The Company's process resulted in the retention of the following accounting policies identified as significant in its 2011 financial statements:

- revenue recognition;
- intangible assets – licences[2];
- going concern; and
- exceptional items.

[2] In the 2013 financial statements this policy is only included in the intangible assets note, to remove duplication (see page 8 of this report). See pages 12 – 13 for the 2013 Statement of group accounting policies.

IAS 1 guidance on significant policies

IAS 1 guidance includes considering whether:

- disclosure would assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position;
- the nature of the company's operations means that the users of its financial statements would expect certain policies to be disclosed for that type of entity;
- an accounting policy may be significant because of the nature of the entity's operations, even if amounts for current and prior periods are not material;
- a policy is selected from alternatives allowed in IFRSs; and
- a policy is not specifically required by IFRS but the entity selects and applies it in accordance with IAS 8.

The IASB is conducting a research project on materiality as part of the Disclosure Initiative, including significant accounting policy disclosures. The IASB has heard concerns that the guidance to identify significant policies is not helpful and accounting policy disclosure practices are often identified as poor. The IASB is considering whether to improve guidance in this area.

Investor views

Institutional investors comment that William Hill is seen as the leader in good reporting in its sector in Europe, with high quality and clear disclosure.

The predominant investor view is that William Hill appropriately selected its significant accounting policies in its 2011 annual report.

Investors confirm that the information in the financial statements read as a whole (excluding the Complete List shown outside the financial statements) provides sufficient context to enable them to understand the business and its performance.

Two investors indicate that a small number of additional policies could possibly be considered significant in the context of William Hill's business. These, in order of frequency of mention from highest to least, are:

- pensions;
- property;
- goodwill; and
- taxation.

Although these two investors indicate the above additional policies may be considered significant, they are content with the level of disclosure in relation to each of these areas in the financial statements, without taking into consideration the Complete List.

The relevant notes on the above items provide sufficient information on the policies and estimates to satisfy the investors. For example, the property, plant and equipment note identifies in the table that the policy is to record such assets at cost and the information in the note can be used to approximate the average life of assets in each category (see page 14 of this report).

In addition, information on pensions, goodwill, and taxation (for all of which there is no policy choice) is included in the Key Sources of Estimation Uncertainty disclosures in the Statement of Group Accounting Policies, providing further information on key estimates made in applying the associated accounting policy (see page 13 of this report).

Investors unanimously agree that William Hill's significant accounting policy disclosures are sufficiently detailed and entity-specific to adequately explain how the Company accounts for its significant transactions. Investors particularly commented that the revenue recognition policy disclosure is clear and enables them to understand the key revenue streams. Investors note that William Hill's significant policies are generally clearer than those of its peers.

Investors confirm they would like companies to follow the lead of William Hill, and identify which of their accounting policies are significant and give these more prominence than other policies.

"We wanted to remove clutter from our annual report and provide our investors clarity in relation to our key accounting policies."

William Hill

"William Hill's policies are very clear."

Investor

"William Hill is undoubtedly the best reporter in the sector. They provide balanced and clear information."

Investor

"Significant policies are those where there is a lot of discretion – a lot of judgement required."

Investor

"I think they have got the key accounting policies."

Credit rating agency

IAS 1 also requires companies to disclose, in their summary of significant policies, the basis (or bases) used in preparing the financial statements. The requirement tends to result in boilerplate disclosure, with the majority of companies, including William Hill, disclosing "The financial statements are prepared on a historical cost basis with the exception of certain assets or liabilities held at amortised cost or fair value in accordance with accounting policies", or words to that effect.

Investors hold two views in relation to this disclosure. One view is that, despite the disclosure rarely changing and being similar for the majority of companies, the disclosure remains useful as a reminder of the basis of preparation. The alternative view is that disclosure is only useful when the preparation basis is different to the norm, or where a company changes its basis.

"We felt some investors would value having access to our complete list of accounting policies and therefore wanted to make them available outside the financial statements."

William Hill

"I prefer to see policies all together in note 1; otherwise it's easy for companies to hide something."

Investor

"If I'm reading an electronic version, it doesn't matter to me if all policies are included, as I use the search function. But if I'm reading hard copy I want it shorter for ease of reference – only significant policies."

Sell-side

General comments from investors participating in this project

Investors read accounting policies of a company in detail the first time they analyse the company or when they first look at a sector. They do this to obtain a thorough understanding of significant accounting policies for an industry and a given company, and the key estimates and judgements made in applying those policies that impact the reported numbers.

Comparison is sometimes conducted between companies in a sector to identify differences in accounting policy, or application of policy that materially impacts the comparability of reported results.

Nearly half of the investors indicate that they normally do not refer to the policies again unless there is a change in accounting policy or when they are asked a question about policies.

However, half of the investors indicate that they often refer to accounting policies in financial statements while reading the annual report, or as required (for example, when wanting to compare policies with other companies).

Investors indicate that they concentrate on policies that require a lot of judgement or estimation in their application (some investors described them as policies with 'the most discretion'). Although dependent on the company and industry, the policies investors in this case study are most commonly interested in when analysing financial statements, from most to least mentioned, are:

- revenue recognition;
- depreciation and amortisation;
- pensions;
- intangible assets;
- exceptional items;
- associate and joint venture accounting; and
- capitalisation of development costs.

Placement of accounting policies

Experimentation with placement

William Hill continued to disclose the significant accounting policies in its Statement of Group Accounting Policies in 2011 and 2012, placing them immediately after the primary statements in the financial statements. As a result of removing the non-significant policies from the Statement of Group Accounting Policies, the number of pages containing accounting policy disclosure in the financial statements reduced from eight in 2010 to two in 2011 and 2012.

The Company continued to make available the non-significant policies. It provided a Complete List of its policies on its website in 2012 and included a link to that list in its Statement of Group Accounting Policies in the 2011 financial statements.

The disclosure and placement style remained largely unchanged in the 2012 financial statements, but in the 2013 financial statements the Company experimented further by:

- removing the intangible assets – licences policy from the Statement of Group Accounting Policies. This removed information duplicated in the related note (see page 15 of this report); and
- moving the Complete List of accounting policies from the website to an appendix to the annual report, which improved accessibility for readers of its hard copy annual report and readers of the PDF. The website statistics revealed very few views of the online-only version of the Complete List for the 2011 and 2012 annual reports (20 and 94 of each year, respectively, including internal Company views).

William Hill's Accounting Policy Placement Styles

	INCLUDED WITHIN THE ANNUAL REPORT			OUTSIDE THE ANNUAL REPORT
Financial Year	**Statement of Group Accounting Policies**	**Notes to the Financial Statements**	**Appendix to Annual Report**	**Company Website**
2010	All disclosed policies; All critical accounting judgements and key sources of estimation uncertainty	Some policy and estimate disclosure	N/A	N/A
2011 2012	Key accounting policies; All critical accounting judgements and key sources of estimation uncertainty	Some policy and estimate disclosure	N/A	All disclosed policies; All critical accounting judgements and key sources of estimation uncertainty
2013	Key accounting policies; All critical accounting judgements and key sources of estimation uncertainty	Some policy and estimate disclosure	All disclosed policies; All critical accounting judgements and key sources of estimation uncertainty	N/A

The table above summarises the presentation styles William Hill has experimented with in relation to its accounting policy disclosures between 2010 and 2013.

Investor views

As indicated in the table on the previous page, William Hill has utilised three different placement styles in recent years:

1. Complete List of policies presented in its Statement of Group Accounting Policies in the financial statements;
2. significant policies presented in its Statement of Group Accounting Policies and a Complete List provided online with a link to this from the financial statements; and
3. significant policies presented in its Statement of Group Accounting Policies and a Complete List provided in an appendix to the annual report.

Investors predominantly prefer the third placement style as they want prominence given to the significant policies, but want to retain ready access to the Complete List which is provided by an appendix to the annual report. The desire for the annual report to contain all information also contributes to this being preferable over placing non-significant policies on the website. This preference of placement style applies to companies in general, with these investors wanting to see more companies adopt this style.

An alternative view provided by some investors is that, while wanting the significant policies presented prominently in the financial statements, they prefer the Complete List to be online rather than in an appendix. Investors offer two reasons for this preference:

- investors who exclusively read annual reports through electronic mediums consider placing the accounting policies on the website, separate from the annual report, to be most accessible and to have the most utility. For example, it is possible to have the accounting policies web page open in a separate tab or screen while reading the annual report, enabling a reader to easily refer to the policies without jumping around the annual report; and
- additional information should not be added to the annual report, but placed on the website.

Finally, one investor expresses the view that having all policies placed together is best, as it has been the norm for corporate reporting for a long time and it may otherwise help companies to hide information if non-significant policies are placed somewhere different to significant policies.

Although William Hill's 2013 placement style is preferred of those experimented with by the Company, just over one third of the investors would like to see each of the significant policies placed in the related note(s) to the financial statements as this presents the context and the numbers together. Financial statement notes often contain some accounting policy and estimate disclosures to provide context to numbers (eg. William Hill's property, plant and equipment note – see page 14 of this report, and intangible assets – licences – see page 15 of this report), so moving policy information to the note can eliminate duplication.

"Having key policies in the financial statements and other policies in an appendix is transparent and easy to navigate."

Credit rating agency

"There is a fine balance between having key information in the annual report and not having too much, but I would rather more in the annual report that I can skip over, than less. Therefore, I prefer the complete list in an Appendix."

Investor

"I prefer the policy to be in the relevant note because whenever I read a policy I refer back to the note."

Investor

No investors indicate that they would like <u>all</u> accounting policy information removed from the financial statements and placed online, and regulations do not currently allow companies to do so.

The Company also discloses its critical accounting judgements and key sources of estimation uncertainty within its Statement of Group Accounting Policies, immediately after the significant policy disclosures.

Investors have no single preference and express three views in relation to William Hill's placement of this information:

- with relevant headings, separate identification of critical accounting judgements and key sources of estimation uncertainty and accounting policy disclosure aids readers to find relevant information quickly;
- it may be possible for management to mislead investors by disclosing the information separately, as it is more difficult to relate the separate disclosures and some of it could be missed by the investor; and
- the use of electronic search functions to find relevant information can make investors agnostic to placement.

"For complete clarity I think that the Key Sources of Estimation and Uncertainty should appear as they currently do, provided that there is appropriate cross-referencing from within the financial accounts."

Retail investor

What is the Lab?

The Financial Reporting Lab has been set up by the Financial Reporting Council to improve the effectiveness of corporate reporting in the UK. The Lab provides a safe environment for listed companies and investors to explore innovative reporting solutions that better meet their needs.

Lab reports do not form new reporting requirements. Instead, they summarise observations on practices that investors find useful to their analysis and encourage companies to consider adopting the practices if appropriate in the context of their own reporting. It is the responsibility of each reporting company to ensure compliance with relevant reporting requirements.

The published reports and further information on the Lab can be found on the FRC's website:

www.frc.org.uk/Lab

Do you have suggestions to share?

The Lab encourages readers of this report to provide comments on its content and presentation. As far as possible, comments will be taken into account in shaping future projects. To provide comments, please send us an email at:

FinancialReportingLab@frc.org.uk

Participants and process

A key requirement to ensure a successful case study is to obtain participation from a company that has changed its reporting to improve clarity or conciseness, and to obtain support from the investors in the company.

The Lab approached William Hill to participate in a case study in relation to its accounting policy disclosures. The Company readily accepted our invitation to participate as an opportunity to obtain insight on its investors' views of its annual report.

Involvement of investors

There has been a considerable amount of support for this project from the investment community. The Lab held mainly telephone interviews with individuals from the following organisations, which were selected by the Company:

Investors

- AXA Investment Managers
- Fidelity Worldwide Investment
- Threadneedle Investments

Sell-Side

- Declined to be credited
- JP Morgan
- Declined to be credited

Credit Rating Agency

- Moody's
- Standard & Poor's

In addition, the Lab obtained retail investor views with the support of, and from three members of, the UK Shareholders' Association.

The investors are all investors in, or analysts of, the Company, and are therefore familiar with the Company and its reports. The institutional investors and analysts generally follow a number of companies in the Betting and Gaming sector in UK and Europe, together with companies in other leisure sectors.

Investor use of annual reports differs, but in this case study five of the investors 'dip in' to annual reports for information of interest; four investors indicate they read annual reports in their entirety; two investors indicate they rarely refer to annual reports.

Five of the investors (including the three retail investors) prefer to read annual reports online, while three prefer paper format and the remaining three utilise both mediums. This indicates that companies need to continue to provide the annual report in both mediums to meet investor needs.

Project process

A meeting was held with the Company to understand the motivation for the experimentation with accounting policy disclosure and the process the Company undertook.

A list of questions to ask investors was then developed and sent to the institutional investors together with relevant extracts of William Hill's annual reports, in advance of each investor interview.

Retail shareholders were sent the same information as institutional investors and asked to submit responses in writing to the Lab.

Retail shareholder responses were combined with interview results to reflect investor views in this report. There were no differences in views between retail and institutional investors in this case study.

"We found the Lab project to be an invaluable opportunity to gain an insight into our investors' views and needs. The process did not require a significant time commitment and we thank the FRC for inviting us to participate."

William Hill

Investors

The term 'investors' is used in this case study report as shorthand to refer to the investment community participants in this case study, which includes a range of individuals in their capacity as investors or their role in analyst organisations that work in the interest of investors.

The investors do not represent a statistical sample and results cannot be extrapolated to reflect views of a wider population. The differing views of investors should be considered by companies in the context of the audience for their own reporting.

Appendix: Annual report excerpts

Statement of group accounting policies, *2013 annual report pages 90-92*

STATEMENT OF GROUP ACCOUNTING POLICIES

GENERAL INFORMATION

William Hill PLC is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Greenside House, 50 Station Road, London, N22 7TP. The nature of the Group's operations and its principal activities are set out in the Strategic Report on page 2 and note 2.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with our accounting policies.

BASIS OF ACCOUNTING

The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. The Group financial statements have also been prepared in accordance with IFRS adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The Group financial statements have been prepared on the historical cost basis, except where certain assets or liabilities are held at amortised cost or at fair value as described in our accounting policies. The key accounting policies adopted are set out below.

ADOPTION OF NEW AND REVISED STANDARDS

In preparing the Group financial statements for the current period the Group has adopted the following new IFRS and amendments to IFRS and IFRS Interpretations Committee (IFRIC) interpretations, which have not had a significant effect on the results or net assets of the Group:

IFRS 7 (revised)	Financial instruments: Disclosures
IFRS 13	Fair value measurement
IAS 1 (revised)	Presentation of financial statements
IAS 19 (revised)	Employee benefits
IAS 34 (revised)	Interim financial reporting

The key impact of IAS 19 (revised) 'Employee Benefits' has been to remove the separate assumptions for expected return on plan assets and discounting of scheme liabilities. This is replaced with a net interest cost based on the net defined benefit liability and the discount rate, measured at the beginning of the year. Accordingly, this replaces the separate disclosures of interest cost on the defined benefit obligation and the expected return on plan assets with a single net interest expense line. Adoption of IAS 19 (revised) also introduces a new term, "remeasurements", for the actuarial gains and losses on the defined benefit obligation, being the difference between actual investment returns and the return implied by the net interest cost, in the Statement of Comprehensive Income. This has not had a material impact on the Group's financial statements.

STANDARDS IN ISSUE BUT NOT EFFECTIVE

A complete list of standards that are in issue but not yet effective is included with our full accounting policies in an appendix to the Annual Report.

We do not anticipate that there will be a material impact on the Group's financial statements from standards that are in issue but not yet effective.

KEY ACCOUNTING POLICIES

Below we set out our key accounting policies. A complete list of our accounting policies is included in the Annual Report as an appendix on pages 133 to 140.

REVENUE RECOGNITION

Amounts wagered does not represent the Group's statutory revenue measure and now comprises the gross takings receivable from customers in respect of individual bets placed in the period in over the counter LBO, Telephone, US, Australian and Online sportsbook businesses and net revenue for the period for LBO machines and Online casino, poker and bingo products. This represents a change in treatment of LBO machines wagering, for which gross takings was previously utilised. This change has been made in order to improve consistency across the Group's segments and is reflected in current and prior period results. The presentation of net revenues, which is the Group's statutory revenue measure, is unaffected by this change.

Revenue is measured at the fair value of the consideration received or receivable from customers and represents amounts receivable for goods and services that the Group is in business to provide, net of discounts, marketing inducements, VAT and other sales related taxes, as set out below.

In the case of the LBO (including gaming machines), Telephone, US, Online sportsbook, Australian and Online casino operations (including games on the online arcade and other numbers bets), revenue represents gains and losses from betting activity in the period. Open positions are carried at fair value and gains and losses arising on this valuation are recognised in revenue, as well as gains and losses realised on positions that have closed. Revenue from the online poker business reflects the net income ('rake') earned from poker games completed by the period end.

In the case of the greyhound stadia, revenue represents income arising from the operation of the greyhound stadia in the period, including sales of refreshments and tote income.

Other operating income mostly represents rents receivable on properties let by the Group, bookmaking software licensing income and hotel revenues and is recognised on an accruals basis.

GOING CONCERN

As highlighted in notes 21 and 22 to the financial statements, the Group meets its day to day working capital requirements from positive operational cash flow and its available cash resources. These are supplemented when required by additional drawings under the Group's bank loan facilities, which are committed until November 2015. Whilst there are a number of risks to the Group's trading performance, the Group does not have any material financial repayment obligations before November 2015. The Group's strategic forecasts, based on reasonable assumptions, indicate that the Group should be able to operate within the level of its currently available committed facilities and its banking covenants.

After making enquiries and after consideration of the Group's existing operations, cash flow forecasts and assessment of business and regulatory risks, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

EXCEPTIONAL ITEMS

Exceptional items are those items the Group considers to be non-recurring or material in nature that should be brought to the reader's attention in understanding the Group's financial performance.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in the Statement of Group Accounting Policies included on pages 133 to 140, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Impairment of goodwill and intangible assets with indefinite lives
Determining whether goodwill or intangible assets with indefinite lives are impaired requires an estimation of the value in use of the cash-generating units to which the goodwill or intangible assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Note 12 provides information on the assumptions used in these financial statements. Actual outcomes could vary.

Retirement benefit costs
The determination of the pension cost and defined benefit obligation of the Group's defined benefit pension schemes depends on the selection of certain assumptions which include the discount rate, inflation rate, salary growth and mortality. Differences arising from actual experience or future changes in assumptions will be reflected in subsequent periods. Note 32 provides information on the assumptions used in these financial statements.

Valuation of antepost bet liabilities
In assessing the fair value of open bet positions, the directors use their judgement in selecting appropriate valuation techniques and inputs, based upon actual experience and the profile of the bets placed. The outcomes of bets are inherently uncertain; consequently, any difference will be reflected in subsequent accounting periods.

Taxation
Due to the multinational nature of the Group and the complexity of tax legislation in various jurisdictions in which the Group operates, the directors must apply judgement in estimating the likely outcome of certain tax matters whose final outcome may not be determined for a number of years and which may differ from the current estimation. In forming that judgement, the directors make assumptions regarding the interpretation and application of tax laws to the circumstances of those specific items.

These estimates are updated in each period until the outcome is finally determined through resolution with a tax authority and/or legal process. Differences arising from changes in estimates or from final resolution may be material and will be charged or credited to the income statement in the period of re-estimation or resolution.

Valuations and useful economic lives of assets on acquisition
In assessing the fair value of assets and liabilities acquired in business combinations, the directors use their judgement in selecting suitable valuation methods and inputs and in estimating the useful economic lives (UELs) of assets. The range of inputs considered in these valuations varies according to the item being valued and typically includes discount rates and the forecast future performance of the business being acquired, both of which involve a degree of estimation.

UELs are reviewed on a periodic basis and changes are recognised prospectively through an adjustment to the asset's amortisation charge in the income statement. A change in UEL of an asset, including the allocation of a definite life to an asset which previously had an indefinite life, may result in a materially different amortisation charge in that and subsequent years.

Lab comments

William Hill's 2013 Statement of Group Accounting Policies is presented on the previous page and to the left on this page, comprising three pages of the financial statements. The pages contain:

- first page – general information, basis of preparation, and new IFRS requirements disclosures;
- second page – significant accounting policies; and
- third page – critical accounting judgements and key sources of estimation uncertainty.

The equivalent Statement of Group Accounting Policies in the 2011 and 2012 financial statements comprised two pages in each year. The difference in the number of pages in 2013 is mainly due to:

- lengthier disclosure in relation to new IFRS requirements due to a number of new standards being adopted in the year; and
- valuations and useful economic lives on acquisition added as a key source of estimation uncertainty in 2013.

In 2010, the Company's Statement of Group Accounting Policies contained William Hill's Complete List of accounting policies which comprised eight pages.

By defining the accounting policies that are significant to its business, William Hill sought to significantly reduce the number of pages in the financial statements dedicated to accounting policies, and improve clarity to investors of the policies that are key to understanding the reported results of the business.

Property, plant and equipment note, *2013 annual report page 103*

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost:			
At 28 December 2011	330.2	151.6	481.8
Acquisitions	0.5	0.8	1.3
Additions	27.2	13.6	40.8
Disposals	(10.4)	(58.2)	(68.6)
At 1 January 2013	347.5	107.8	455.3
Acquisitions	–	4.7	4.7
Additions	37.5	16.0	53.5
Disposals	(7.5)	(0.1)	(7.6)
Effect of foreign exchange rates	–	(1.0)	(1.0)
At 31 December 2013	377.5	127.4	504.9
Accumulated depreciation:			
At 28 December 2011	144.6	122.0	266.6
Charge for the period	21.8	7.5	29.3
Disposals	(10.1)	(58.2)	(68.3)
At 1 January 2013	156.3	71.3	227.6
Charge for the period	24.3	10.0	34.3
Disposals	(6.0)	(0.2)	(6.2)
At 31 December 2013	174.6	81.1	255.7
Net book value:			
At 31 December 2013	**202.9**	**46.3**	**249.2**
At 1 January 2013	191.2	36.5	227.7

The net book value of land and buildings comprises:

	31 December 2013 £m	1 January 2013 £m
Freehold	**40.0**	41.1
Long leasehold	**7.6**	6.4
Short leasehold	**155.3**	143.7
	202.9	191.2

Of the total net book value of land and buildings, £4.0m (1 January 2013: £3.6m) relates to administrative buildings and the remainder represents licensed betting offices in the UK and betting locations in Nevada. The cost of assets on which depreciation is not provided amounts to £5.5m representing freehold land (1 January 2013: £6.0m).

The carrying amount of the Group's fixtures, fittings and equipment includes an amount of £nil (1 January 2013: £0.2m) in respect of assets held under finance leases.

At 31 December 2013, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £4.0m (1 January 2013: £2.4m).

Lab comments

While the Company has not identified its accounting policy on property, plant and equipment as a significant accounting policy, the following policy information can be seen from the property, plant and equipment note:

- it is clear from the first section of the table that the Company's policy is to record property, plant and equipment at cost, as opposed to fair value which is a choice allowed in the accounting standard;
- the depreciation rate / useful economic life for each of the two groups of assets shown in columns is able to be approximated using the depreciation charge for the year and opening cost, cost of additions and disposals for the year;
- the information on land and buildings in the lower table indicates the values attributable to leased assets (note that there is no policy choice in lease accounting); and
- similarly, the text below the tables informs the reader that no fixtures, furniture and equipment is subject to leasing arrangements.

This demonstrates that embedding policy information can be done relatively 'efficiently' by adding key references within the note.

Removing duplication: intangible assets – licences

Intangible assets note excerpt, 2012 annual report page 85

12. INTANGIBLE ASSETS

	Goodwill £m	Licence value £m	Intangibles arising on acquisitions £m	Computer software £m	Total £m
Cost:					
At 28 December 2011	913.6	484.6	19.9	83.8	1,501.9
Acquisitions	19.2	–	16.1	–	35.3
Additions	–	–	–	20.5	20.5
Exchange rate movements	(0.8)	–	(0.6)	–	(1.4)
At 1 January 2013	932.0	484.6	35.4	104.3	1,556.3
Accumulated amortisation:					
At 28 December 2011	41.6	–	12.7	49.2	103.5
Charge for the period	–	–	5.0	14.4	19.4
At 1 January 2013	41.6	–	17.7	63.6	122.9
Net book value:					
At 1 January 2013	**890.4**	**484.6**	**17.7**	**40.7**	**1,433.4**
At 27 December 2011	872.0	484.6	7.2	34.6	1,398.4

The amortisation period for the Group's computer software is between three and ten years. The use of a ten-year life in respect of some of the software is supported by warranties written into the relevant software supply contract.

Licences are judged to have an indefinite life and are accordingly not amortised but are subject to annual impairment reviews. The directors consider that the Group's licences have an indefinite life due to: the fact that the Group is a significant operator in a well established market; the proven and sustained demand for bookmaking services; and the Group's track record of successfully renewing its betting permits and licences.

Statement of Group Accounting Policies excerpt, 2012 annual report page 75

INTANGIBLE ASSETS – LICENCES

Betting licences are recorded at cost or if arising in an acquisition at their fair value. They are judged to have an indefinite life and are accordingly not amortised but are subject to annual impairment reviews. The directors consider that the Group's licences have an indefinite life due to: the fact that the Group is a significant operator in a well established market; the proven and sustained demand for bookmaking services; and the Group's track record of successfully renewing its betting permits and licences.

Lab comments

In 2012, the accounting policy for intangible assets – licences was included both in the key accounting policy disclosures and in the intangible assets note. The excerpts to the left show the duplication in the 2012 annual report, with the policy repeated in the second paragraph under the table in the note. This was identified by William Hill while preparing the 2013 annual report and as a result, the Company removed the duplication from the key policy disclosures. This resulted in the policy being described in the intangible assets note only, as shown in the excerpt below.

Intangible assets note excerpt, 2013 annual report page 101

12. INTANGIBLE ASSETS

In order to better present the composition of assets recognised in acquisitions, the category formerly named "Intangibles arising on acquisitions" has been split into two categories. The presentation in comparative periods is on a consistent basis.

The amortisation period for the Group's computer software is between three and ten years. The use of a ten-year life in respect of some of the software assets is supported by warranties written into the relevant software supply contract.

Licences are judged to have an indefinite life and are accordingly not amortised but are subject to annual impairment reviews. The directors consider that the Group's licences have an indefinite life due to: the fact that the Group is a significant operator in a well-established market; the proven and sustained demand for bookmaking services; and the Group's track record of successfully renewing its betting permits and licences.

Acquired technology platforms include bookmaking-related software platforms and systems recognised at fair value in business combinations. There are no individually material items within this category.

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