

WILLIAM HILL

2011 Q3 INTERIM MANAGEMENT STATEMENT CONFERENCE CALL 27 OCTOBER 2011

PRESENTATION

Ralph Topping - Chief Executive

Hi, it's Ralph here. Good morning, everybody. Thank you for joining us for an update on our third quarter results. We promised you at the half year that there would be no complacency. It's a solid performance; you might even class it as a good one when you factor in how competitive it is out there and how tough our customer is finding it, according to every consumer spending report, which makes depressing reading over breakfast each morning.

For us, it's about investing in the right areas, and product pricing and innovation. And if you take football, for instance, which we've worked hard on ahead of the start of the season, in effect generating a level of betting that's not far short of what we do in a World Cup year.

We've revamped our football product, and we've increased our slips by almost 10%, and our stakes by 24% in August and September. Of course, this is a results business, and results will be what they will be. And when the big six Premier League clubs win 75% of their games, compared to 45% last year, it's going to be tough for bookmakers. But as I always say, results come back to an average, and the weekend when Barcelona, Man United and Chelsea all fail is a good one for us, and if you throw in Man City we'll be wearing big smiles on our faces.

Elsewhere in Retail, we're still delivering sustained machines growth, and we've got more innovation coming through there. I know some of you, or most of you, saw the second-generation Storm cabinet during your visit to Leeds, and the new SSBTs and Video Wall. Trials of all three will be underway before the end of the year.

And online, Sportsbook is still shooting ahead with stakes up 51% this quarter, but gaming is also going from strength-to-strength. Mobile Sportsbook is showing good progress after its launch in July. The numbers we've published today actually don't show the full pictures.

iPads and other tablet devices aren't included because they take the customer to our website rather than the mobile site. We've spent a bit of time reviewing that in recent weeks, and it looks like our turnover would be almost twice the currently recorded level if we included all mobile devices, like some of our competitors do. So we'll keep an eye on this, and bring you better data on that, over time.

Internationally, our investments are doing well. It's early days, but we've taken around 8% to 9% market share in online casino in Italy. I don't promise it'll stay there, but it's a very encouraging start.

Before I hand over to Neil, let me talk about Tel Aviv. This may have been more public than we would have liked, but this was an issue that I'm adamant needed to be addressed. We always intended to better harmonize responsibilities across William Hill Online and not leave things as they were. There, of course, may be some short-term impacts from this disruption, but in the long run, this is in the strategic best interests of this business.

Online is addressing the management gaps by promoting some people, recruiting others, and having the online leadership team on the ground over the coming months in Tel Aviv. Our partners also have a part to play, ensuring everything they control delivers what we need.

Details of the dispute and the disruption have been played out in the press, and I'm sure you've all been titillated by the gossip. For me, now it's time to draw a line under that, and when I say this, I mean it. William Hill Online will be in a much better place for having faced its toughest internal challenge and come through the other side.

Now let me hand you over to my colleague, Neil, for the narrative on the numbers.

Neil Cooper - Group Finance Director

Thank you, Ralph, and good morning to you all. As ever, I won't run through every piece of detail in the statement, but I will cover off the key points, and give you some color where I can.

Staking levels have been good across the Group in the quarter, up 51% year over year in Sportsbook, and down just 0.3% in OTC. As ever, we've looked at the underlying OTC performance to try and get a handle on the long-term trend. Adjusting out the first two weeks of the period, which included the World Cup performance last year, OTC stakes were up 1.6%. Within that, slips were broadly flat, but pence per slip was up over 1%.

The swing in the gross win margin is a big feature of the period. Last year saw an outstanding margin, not only because of the World Cup, but also because we had some great results at the start of the domestic football season. Accordingly, last year we saw 18.2% in the quarter in Retail, and 8.9% in the quarter in Online. Inevitably, this year looks less strong; we've delivered 16.6% in Retail and 6.9% in Sportsbook.

The Sportsbook absolute should look relatively straightforward to you, as we've previously indicated that the increasing mix of pre-match and in-play will naturally bring us to around a 7% mark on a normalized basis.

In OTC, our overall guidance range remained 17% to 18%, so we were below that range. Quarter 3 is often below the full year guidance in a year with no major football tournament, given the predominance of flat rating and that we have football betting for only [around] half of the trading quarter. This was exacerbated this year by the results from the flat track bullies of the Premier League. Horse racing margin held up well.

This quarterly margin movement does mean that, whereas we were 7% ahead in Group net revenue at the half, we are now 2% ahead at this point. The lower net revenue growth year over year, a weak telephone performance, and the increased investment in marketing for Online, which we've flagged previously, means the Group operating profit is down 22% in the period. However, that's down only 3% year to date, and I'll reiterate that we are confident of our full year expectations.

Looking at the two divisions in turn, in Online a 200 basis point swing in the Sportsbook margin meant the strong stake in growth translated to a 17% increase in Sportsbook net revenue. Within this category, in-play turnover was up 61%, and pre-match was up 46%. This now makes in-play around 40% of turnover, or 60% if you exclude horse racing.

As Ralph alluded to, Casino was the strongest of the gaming products with both download and both flash-based casino growing well.

Online costs are in line with our expectations, with a significant increase in marketing spend, primarily for the UK and for Italy. Marketing was running at about 27% of net revenue in the period, compared with 20% this time last year, and it's likely to be around that 27% mark by the time we get to the full year.

In cost of sales, I would also just note that we're now paying tax in Italy, and accruing for tax in Spain and Greece. Operating profit, therefore, was 7% lower than in this quarter last year at GBP24.5 million.

In regards to the problems seen in the division over the last week or so, whilst we don't appear to have seen any net revenue impact from the disruption we saw, I would expect that operating costs will increase in quarter 4 on a one-off basis by between GBP1 million to GBP2 million.

In Retail, the broadly flat staking position offset by the margin drop means OTC net revenue declined 9%.

Machines continued to perform well, up 8.4% year over year in the quarter, on a gross win level, in line with the previous quarter's year-over-year growth rate, which was 8.7%.

Costs, as with Online, are in line with our expectations, up 4%, year over year, and we're reiterating our 3% to 4% guidance for the full year.

The number of shops open at the end of the period was 2,375, and as I know Nigel Hicks is always keen to know, the average for the period was 2,369. So far this year, we've opened 24 outlets and closed 26. That latter number includes the 20 we closed in the Republic of Ireland around the start of the year.

Turning to Telephone, which benefited from the World Cup last year, rolling over that, plus some high-roller wins in Q3 this year, means that we've had an adverse operating profit swing of about GBP4 million in the quarter. We're continuing to keep a close eye on this business, as I flagged at the half year, given the existing goodwill on the balance sheet.

Finally, on the balance sheet more generally, our net debt for covenant purposes has reduced by GBP33 million since the half year. I wouldn't necessarily expect that net debt will reduce much further now before the year end, given the timing of CapEx and dividend payments, and expected working capital movements.

That's everything I wanted to cover. Now I'd like to hand back to Ralph.

Ralph Topping - Chief Executive

Thanks, Neil. When you look at all the numbers it's sometimes easy to lose track of the big picture. And I think, for 2011, the key point is it's a solid performance, and we're on track for the full year.

Looking beyond this year, I think William Hill's in a really interesting space right now, particularly with regulation opening up new markets.

We've a unique opportunity, as well, to take market share in the UK and elsewhere. We've got a good brand, in fact a great brand; a lot of people ask, will it travel, and the initial Italy results seem to suggest that it will.

We've got good technology, a strong sports-betting heritage that continues to be a big differentiator. And we understand what interests and excites sports-betting customers, and we've got people in our business who are exceptionally good at turning that into betting opportunities.

Investing does mean that we are affecting the bottom-line in the short term, but this has to be the right move for this business and, ultimately, for our shareholders. Otherwise, sensible opportunities are going to be missed.

Thank you for your attention. Now I'd like to hand over to the moderator for questions. Louise?

QUESTION AND ANSWER

Operator

Thank you, gentlemen. We will now begin the question and answer session. (Operator Instructions). Richard Carter, Deutsche Bank.

Richard Carter - Deutsche Bank

Couple of questions. Are there any seasonality reasons for the gaming machines potentially slowing down a bit in Q3? It looked like the growth rate slowed down there a bit, and potentially is lower than Q2, in terms of gross win per week.

Secondly, can you talk about phasing of costs? Is there a slightly higher cost phasing in Q3, relative to Q4, especially in Retail?

And also, could you explain why you're paying Greek tax and give us some sort of idea of how much that is?

And then, finally, could you just confirm, did you say you were expecting 27% marketing as a percentage of net revenue in Online for the full year? That seemed a little bit lower than what I was expecting.

Ralph Topping - Chief Executive

Okay, well two, three and four are going to Neil. But the first one, you hit it on the head with seasonality, so I'm not going to go any further than that. I think that's the reason for the machines, and it's a slight seasonality issue. So over to Neil for the phasing of costs, an explanation on the Greek tax, and the marketing as a percentage of Online at 27%.

Neil Cooper - Group Finance Director

Yes, just to be clear on point one, Richard; the year-over-year growth in Q2 was 8.7%, and the year-over-year growth in Q3 was 8.4%. So there's been a very small diminution in growth rate, so what you are seeing in the absolute quarterly numbers is the reflection of the underlying phasing.

Richard Carter - Deutsche Bank

Okay.

Neil Cooper - Group Finance Director

All right. Your second question on phasing of costs in Retail. I think if you look at the three big areas of cost, and how they move from Q3 to Q4, we had a pretty hefty rise in content cost in Q3 last year, which we will be anniversary over, effectively, as at the end of Q3. So I'd expect that that will, in year-over-year terms, improve slightly into Q4, that element.

Labor will run in Q4, year over year, about the same rate as Q3. I'd remind you that we've taken a 2% rise in that metric. And I don't see any reason why rent would be any different, year over year, in Q4 than Q3.

So I think Q3, because of the impact of the SIS cost hike is likely. Clearly, we haven't exited the Q4 yet, but I think it's likely to be as high as it gets, hence our guidance of full year remains 3% to 4%.

In terms of the Greek tax, it's a fairly small number. We're still working through our response on the proposed Greek legislation, in terms of determining how that all moves forward. And I would remind you we're accruing as opposed to paying at this stage, because that will depend on how the Greek legislation goes and how we move forward in that territory.

Richard Carter - Deutsche Bank

You're accruing 30% of net revenue across all products?

Neil Cooper - Group Finance Director

I don't know the percentage, Richard. I know the pound number, but not the percentage. Are you happy to talk offline about that?

Richard Carter - Deutsche Bank

Okay.

Neil Cooper - Group Finance Director

And the last question in terms of marketing. We're expecting that the full-year rate will actually be 28%, not 27%, as it stands. But obviously, that depends on how much net revenue we make, which is, in part, a facet of sports results. So I'm not giving you a cast iron guarantee, but that's directionally what we're looking at.

So that will imply, actually, that our Q4 is a little bit higher than the average seen to date, because we're running -- I think our first-half number was about 26%, Q3 is 27%, and I'm expecting the full year to be 27%, 28%, which is, I think, what we said in our half-year statement. So the implication is Q4 will be a little bit higher, in isolation.

Richard Carter - Analyst

Okay. And then, just finally, there was some talk about the riots impacting Ladbrokes' OTC amount staked. Did you also have any discernible impact from that?

Ralph Topping - Chief Executive

We had 67 shops which were vandalized, if you like. One was set on fire; it was the first one, I think, to be damaged.

Neil Cooper - Group Finance Director

Tottenham.

Ralph Topping - Chief Executive

Up in Tottenham. And then on police advice, right through the country we shut a number of shops for a number of hours per day, at various points. The impact's not worth thinking about, actually.

Richard Carter - Deutsche Bank

Yes, okay. Cheers.

Operator

Gavin Kelleher, Goodbody Stockbrokers.

Gavin Kelleher - Goodbody Stockbrokers

Just two questions from me. In terms of football and the strong amount staked that was seen, both in Retail and Online, was any of that due to recycling, given the results? And, if so, could you give any sort of guide and quantify it?

And in terms of the marketing spend as a percentage of net revenue, I know you've covered it all for this year. Any sort of guidance into next year at this stage?

Ralph Topping - Chief Executive

On the football recycling, you know the weekend trade has been fantastic. And does it encourage it people to come back the following week? I think you've got to say it does. But if a guy's won GBP100 on a football coupon at the weekend, I think he'd find it very hard to keep that GBP100 to the following weekend. So I think it might get recycled then at some pubs and wherever else during that time.

It does show, though, that they're keen on the football products that we've got out there, which we've revamped this year, and we're pleased with that.

So the interesting point for me is the slips up 10%. So a lot of interest in the football product, especially in the big four, or five, or six teams, and the emergence of Man City this season and all the stories that go with that, and some of the big scores. It's made it quite an exciting start for everybody, and people are having a bet on it.

So I'm pleased with it. I don't buy the recycling theory in its entirety on football, because of the space between matches.

Neil Cooper - Group Finance Director

Gavin, in terms of the marketing, I think what we've said generically is, firstly, in the long run we expect to be around the 25% mark, because a lot of our business in Sportsbook, in particular, is focused in the UK; 75% of Online per se is UK. And clearly, with the strength of the brand, we don't need to advertise at the same level to get the same impact.

What has driven the marketing ratio up in the second half this year has been the entry into Italy, predominantly. So the marketing ratio for next year will be impacted, depending on what we do in regards to territories that are currently regulating.

Spain is a territory that we're looking at. We may well be wanting to get licensed to move forward in Spain, and that will cost. Obviously, Germany the regulation is moving around like a yo-yo at the moment. So we're waiting to see how that rolls out.

So I think, at the moment, the marketing ratio will depend on our attitude and response to the pace of regulation. If we get into Spain on day one, early next year, I would expect not a material reduction in the rate for next year, but that is dependent on our decisions around regulation and market entry.

Ralph Topping - Chief Executive

All right, Gavin, are you happy?

Gavin Kelleher - Goodbody Stockbrokers

Yes, happy.

Operator

Vaughan Lewis, Morgan Stanley.

Vaughan Lewis - Morgan Stanley

The first one on the retail estate, it seems to be flat year to date, basically. Should we still expect the 1% to 2% growth that you've been talking about, or has that been moderated a bit by the tougher trading conditions?

And then a couple Online; in Israel should the costs come down next year now that you've got more direct control of that business?

And then, can you give us an idea about what the seven managers that have left, what their roles were? And were they planning to set up a rival business; was that the issue?

And then a second one in Online, on Italy, are you planning to ramp up the Sportsbook as well, or is this very much a Casino strategy in Italy?

Ralph Topping - Chief Executive

I'll start with the last one. In Italy we're going to have a Sportsbook in Italy. It's not just a Casino only. I always like it when you come on, Vaughan Lewis, because you always say, I've got a couple of questions, and then you ask me six (laughter).

On the seven managers, they've got various roles there which -- Director of retention, and Online marketing officer, and various bits and pieces. The reality is there that we've got not just a dependency on seven guys, because underpinning those guys are some very good people, and the quality of the team underneath those guys is good. So we'll be promoting some of the hungrier people, underneath them, into new roles.

And we're also on with recruiting the CMO, Chief Marketing Officer, which was Eyal Sanoff's role. And we've got six external candidates already for that role. So in the medium term, I'm not too worried about that. We'll be able to get a high quality individual to take over that role.

You asked about Israel. What was the other question on Israel?

Vaughan Lewis - Morgan Stanley

Whether the costs come down next year now you've got more control of it. There seemed to be some wastage of costs maybe.

Ralph Topping - Chief Executive

Yes, I think the figures for Israel will be hidden in the fuller figures in Online in some respects. But yes, I think the fish still have a future (laughter). The rabbi's gone and the fish [feeder] have gone, so yes, costs have already come down.

Neil Cooper - Group Finance Director

I think, Vaughan, you've got to keep this in perspective. There's been a bit of newspaper [bandyage] about some odds and sods, but they're small beer in the scheme of things. So what you put in your model is up to you, but if I was running a model I wouldn't be putting big cost reduction is as a result of this activity.

As Ralph has said, we're seeking to replace and/or promote to replace the positions that have gone. So I don't think there's any structural or wholesale change anticipated. And, just to reiterate, we continue as we always have been to be absolutely committed to our Tel Aviv operation.

Ralph Topping - Chief Executive

Also on that front, I think one thing I'd point out is these guys were on huge bonuses, earnouts, in this business over the next two years. So there is a potential saving to the business in those, depending, of course, on performance and whether the business hits its quite hard targets.

But as far as the situation goes, and I'm sure there's going to be some other questions on Israel, there's a hell of a good atmosphere in the office now is all I will say. And a lot of work to be done, a lot of work to be sorted out, but we have the senior managers over there doing that.

Neil Cooper - Group Finance Director

You had a Retail question didn't you, Vaughan?

Vaughan Lewis - Morgan Stanley

Yes, the estate seems to be flat year on year.

Neil Cooper - Group Finance Director

I think, just to be clear, we have had 20 shops closed in the Republic, which is obviously a non-UK closure. So if you look at the UK, I think we've opened 26 shops and closed 3 or 4. So I think the numbers will be distorted by what we've done in Ireland this year, which will have the effect of flattening the growth rate this year. There's no reflection -- we're not reigning in our ambitions to open around 1% to 2% a year. That continues. You will always have timing where you get more in one year and less in another. But you shouldn't read, from the current numbers, any change in our strategy. It's simply just a fact of Ireland as much as anything.

Vaughan Lewis - Morgan Stanley

One-off in Ireland.

Ralph Topping - Chief Executive

One thing you should look at, Vaughan, and we've perhaps not stressed enough, is that total Retail turnover's up 4.6%. When you add that to what we're doing in Sportsbook, and even if you look at telebetting that's flat year on year in turnover terms, the business is in not bad condition. Anybody saying they were up 4.6% in turnover would be happy, I think.

Vaughan Lewis - Morgan Stanley

Ralph, can I just check, you last comment on Israel. I think you said the atmosphere in the office is very good. Just to check that is what you said. And are you confident that all the good people that you've kept are loyal to William Hill then, rather than to anyone else?

Ralph Topping - Chief Executive

Yes, something we've always known that we've got a loyal workforce in Israel, when I think what they were put through over the course of the last couple of weeks. The full story on that will emerge, over time, but I've never encountered anything like it. This was not an industrial dispute. This was an ordering of the workforce to leave the building. The workforce came back quickly in big numbers when we contacted them, and are back in even bigger numbers now. So it is a good atmosphere, and Henry Birch and Jim Mullen have done a great job out there for us.

Vaughan Lewis - Morgan Stanley

Great, thank you.

Operator

Andrew Lee, Jefferies & Co.

Andrew Lee - Jefferies & Co

Three if I can. In Casino, could you just give us some guidance on the split of that growth by regulated versus unregulated, maybe if you can by table games versus slots?

Secondly, is Israel or the staff costs, GBP1 million to GBP2 million, is that in exceptionals, or is that just normal course of business please?

And then, finally, in Italy, I guess the market share you've got would imply, probably, flattish in terms of year on year in Italy. But could you just tell us whether it's coming from the William Hill brand versus potentially the purchased asset brands last year? Thank you.

Ralph Topping - Chief Executive

On the Casino one, we're not going to give you the split, Andy. And I'll hand over to Neil for Israel now for the questions.

Neil Cooper - Group Finance Director

Yes, just to be clear, Andy, it's not personal. This is only a Q3 IMS; it's not a full set of results. So we're obviously going to restrict our comments to the information that we've made publicly available in the release.

In terms of Israel, firstly, these are projections. There may well be -- I wouldn't suggest that those are all committed costs. There are some costs there for potential actions arising from the events which we may, or may not, spend. So I'm not going to get off the fence at the moment on whether we do that as an exceptional or not. If nothing else, because if it's at the low end of that, it's a little bit small for an exceptional item in terms of Group materiality limits. So we flagged it. Whether it goes out for exceptional or otherwise is, frankly, just a presentational point. And until we're clear on what the final wash up is, and what the nature of those wash up costs are, I'm not going to tell you that I've made my mind up yet.

In terms of the third question, Italy. The first thing to say is that the quarter-on-quarter impact of Italy, if you take into account the marketing, so on an EBIT basis, it has gone backwards, because of the bow wave of marketing that's going in at the moment. The regulated Italian Casino is williamhill.com, so it is all under the William Hill brand.

Andrew Lee - Jefferies & Co

Great. And just on Casino, I know you're not going to do it by regulated, unregulated, is either table games or slots, are either of them powering ahead faster than the other? Or is it a mix of all of them?

Neil Cooper - Group Finance Director

I think all we'll say, Andy, is that we've seen very good growth in both download and in the flash-based Vegas-style casino games, similar levels of growth for the quarter.

Andrew Lee - Jefferies & Co

Great, thanks.

Operator

Ivor Jones, Numis Securities.

Ivor Jones - Numis Securities

I don't remember you talking about high rollers on the Telephone before, but I've a very dodgy memory. Does that represent a change of strategy? And did you say it was a GBP4 million loss on Telephone, or a GBP4 million swing, so we're to assume --?

Neil Cooper - Group Finance Director

GBP4 million swing. Bearing in mind, firstly, you've got a strong World Cup in the numbers last year which is part of the swing. And, secondly, we haven't talked about high rollers because, firstly, we don't do a lot. And, secondly, in absolute terms they're not huge. But obviously the Telephone business performance in the quarter, which is I think a small loss, means that the swing can be exacerbated by fairly small amounts of cash.

Ralph Topping - Chief Executive

We have talked about high rollers in the context of Telephone and indicated that we don't have high rollers, mega-rollers, to the extent of other organizations. But we've got a number of higher-than-average players in Telephone, substantially higher-than-average players, and there can be a seasonal swing in their favor. Last year it was markedly in our favor. This year it's been a little bit in their favor.

Neil Cooper - Group Finance Director

But I would stress, Ivor, that it's material in the scale of the Telephone performance. But Telephone is not making a lot of money right now.

Ralph Topping - Chief Executive

The other thing we've introduced, Ivor, is Best Odds Guaranteed to remain competitive on Telephone, because we're seeing a definite swing towards mobile betting, and away from telephone betting. And we just want to manage that swing as positively as we can. We offer in our online betting Best Odds Guaranteed.

So given where we are in terms of Telephone, and we've pitched Best Odds Guaranteed there at a certain staking level for clients. In and below that certain staking level they don't get it; that has also been introduced. We'll see how that settles down in the full year.

Ivor Jones - Numis Securities

So let me take more careful notes this time then, Ralph. You're not taking, and you've never taken the mega rollers. And your risk you're prepared to take on high rollers hasn't changed period over period.

Ralph Topping - Chief Executive

No, we're not interested in that.

Ivor Jones - Numis Securities

Okay. I was interested, Neil, in what you said about Italy profit going backwards. Could you just talk about Italy, Spain and Greece, whether, post tax, and I suppose you'll have to have some sort of allocation of cost, they're positive in terms of profit or not, after duty?

Neil Cooper - Group Finance Director

In terms of Italy, what we've said, very clearly, is that we expect, because of the marketing costs, to be modestly negative for a period of time, until we get through the bow wave of initial marketing spend. Spain, I think, we anticipate that we can trade profitably on a regulated basis in Spain having regard to the [tax] regime. But obviously, we haven't entered into Spain on a regulated basis as yet. So I can't talk about actuals.

And, Greece, we are reviewing at the moment. The issue with Greece for us is that the regulation, as it stands, is not ideal. But, frankly, is equally moving very quickly. So it's difficult to be definitive at any particular stage. We just have to wait to see how we want to move forward there, once it's clear what the regulation's going to look like.

Ivor Jones - Numis Securities

So the profits coming out of the Online business, they're all essentially, despite the fact that those three territories contribute little or are loss making.

Neil Cooper - Group Finance Director

Well, by definition, yes.

Ivor Jones - Numis Securities

Okay. Mobile's grown strongly. Why do you think? Is it stuff you have done, or is it just a change in consumer behavior?

Ralph Topping - Chief Executive

I think it's both, Ivor. I think the advent of iPad and tablets and the move away, if there is a move away, from computers towards very slim notebook type technology is a help; portability helps. I just think it's an inevitable trend, and so we're putting a lot into mobile. We believe it's got -- not just in the UK and Europe -- somewhat big opportunities, but also in the USA and other parts of the world. I'm just back from Tanzania, and everything there is conducted through mobile; same in South Africa.

So I think it has a big future, and we're seeing some of that being embraced by clients. So it's the technology, and it's what we are doing.

Ivor Jones - Numis Securities

And given the growth, what is it that you can't do that you might need to acquire for mobile?

Ralph Topping - Chief Executive

I think it's always important that you keep your eye on where you're short in your own estimation, and whether or not you can add to your business to give yourself a stimulus. But at the minute, we've got two opportunities; we've got an opportunity to grow organically, and we're happy with that at the moment.

Ivor Jones - Numis Securities

But in terms of a particular skill that you might need to --

Neil Cooper - Group Finance Director

Ivor, sorry, as you're aware from public statements, we need to be extremely cautious about what we comment on in this area. So I think we've probably commented enough.

Ivor Jones - Numis Securities

In your statement there's a phrase that I didn't understand about Casino. Growth's been excellent, up 41%, including 40% from products, Sportsbook. Is that saying that all of the 41% comes from cross-sell to Sportsbook, or (multiple speakers)?

Neil Cooper - Group Finance Director

No, we have two categories within Casino. The flash-based Vegas-style games, and then the download-style games. And actually, we've seen very good growth in both categories. Now typically, the flash-based games are a more straightforward cross-sell opportunity for sports betting customers because there's a very quick load time --

Ralph Topping - Chief Executive

They're embedded in the site.

Neil Cooper - Group Finance Director

And in some cases they're embedded on the sports betting tab.

Ivor Jones - Numis Securities

So what did the 40% growth contribute to the 41% growth (multiple speakers) each other?

Neil Cooper - Group Finance Director

We've never commented on the absolute size of either of those elements of Casino, and if I tell you the answer to that I will have done. So we're not going to --

Ivor Jones - Numis Securities

Is the thing that grew 40% a material part of the 41%, or are you saying a very small number grew a lot?

Neil Cooper - Group Finance Director

Yes, both elements are material, download and flash. And actually we are reviewing whether we start disclosing this at the moment, and I think the likelihood is we will be disclosing this at the year end in terms of the two different strands of the Casino operation, because they're both substantial. So if you can hold back your native curiosity 'til the end of the year, we'll help you a little bit more then.

Ralph Topping - Chief Executive

Just [typically], Ivor, the flash has been growing strongly over the last three years, so we [don't] want to split the numbers a wee bit more for you.

Ivor Jones - Numis Securities

Last one, Ralph, Neil, you know how easily we can get misled by journalists. In relation to Tel Aviv, can you just talk about exactly what the Tel Aviv-based part of the business does, and how important it is for the Group? I think you said that Henry and Jim are running it at the moment. What should they have been doing, and does that have implications for the rest of the business if they're not doing their day job?

And finally -- sorry.

Ralph Topping - Chief Executive

Let's take one question at a time. The first answer is online marketing.

Ivor Jones - Numis Securities

Is it all the online marketing for William Hill Online, or is it part of it?

Ralph Topping - Chief Executive

Most of it; the bulk of it is done there. If you're looking at Jim and Henry, they run the business from Gibraltar; they could easily run the business from Tel Aviv, but we wish to run the business from Gibraltar. They're over there during this period, because there's some restructuring to be done there in terms of replacement of managers, the selection of new human resources, and the appointment of the CMO.

And I think initially they're over, both of them together, but we'll see them split it out, responsibility, over the course of the next two or three months 'til we appoint the new person.

Ivor Jones - Numis Securities

Okay. And the last one was, clearly the business you acquired had some quite lively business practices, as evidenced by the 32Vegas litigation, and there was some suggestion that William Hill Group hadn't had access to all of the marketing operation systems. Are you confident now, or when will you be confident that the business practices in marketing are in line with the Group's policies?

Ralph Topping - Chief Executive

To be fair on that, we wished to access, for a fairly routine internal audit, the systems over there and we were denied. We're into the systems at the moment. Are we expecting to find anything substantially wrong there? No. But if there are any odd or unusual practices we'll be putting an end to them, Ivor.

But we haven't, I would say, come across them in the normal course of events, as you would have expected, through either customer complaints or observations on the web, which is open to eyeball. So we'll wait and see what we find. But the aim was always to get control and get access.

Neil Cooper - Group Finance Director

And, Ivor, just for the avoidance of doubt, my understanding is the litigation around 32Red relates to activities that occurred before William Hill Online was created.

Ivor Jones - Numis Securities

I think 32Vegas was closed after you bought it, but --

Ralph Topping - Chief Executive

Yes, shortly after, yes.

Ivor Jones - Numis Securities

Great, thank you very much.

Operator

Ed Birkin, Barclays Capital.

Ed Birkin - Barclays Capital

A quick one on Israel. I know you're probably fed up of talking about it. But the managers that got let go, and the resignation of the CMO, do they have any non-compete clauses?

Ralph Topping - Chief Executive

Yes.

Ed Birkin - Barclays Capital

They do. Thanks.

Operator

Ian Neill, Alchemy Partners.

Ian Neill - Alchemy Partners

Just a quick one from me. You mentioned in your introduction, Ralph, that you're seeing a highly competitive marketplace. That's something I haven't seen you highlight particularly in your previous releases, and I may be reading too much into this. But I'm just wondering whether anything specific has changed that's led you to increase the emphasis there.

And I suppose I'm wondering whether the merged Betfred/Tote entity is having any impact, or something along those lines.

Ralph Topping - Chief Executive

Second one, no. The marketplace is competitive, especially in horse racing around festivals, and the big events where there's usually a whole panoply of offers to attract punters to whatever websites or, indeed, into shops. So the thing is, it is increasingly competitive around big events. We were flat, actually, in this quarter in horse racing at the big festivals, but outside the festivals we grew our percentage by 0.5%, and that's maybe an indication of what I was really talking about there.

Ian Neill - Alchemy Partners

So it's more in the online space that you're --

Ralph Topping - Chief Executive

The online space has always been highly competitive. I think we're seeing a wee bit more of that in the retail environment as well, but around festivals --

Neil Cooper - Group Finance Director

To be fair, Q3 saw a Sportsbook turnover growth rate in line with the first half, and net revenue for Online as a whole actually strengthened in growth in Q3 versus the first half. So I think the comment was as much, if I'm honest, on drafting about the consumer environment in the UK, which is not great. And you can easily convince yourself that life's going to get worse for the average punter in the UK.

Ralph Topping - Chief Executive

I think one's a consequence of the other actually, because if the punters have not got money in their pocket, then the bookmakers are trying to get the money out their pockets, and therefore, trying to make good offers around the big festivals, and big events. So it's something you should look at, and just pick up your Racing Post, which I'm sure you get every day, and just take a look at the offers that are there around big football matches and big horse racing meetings.

Ian Neill - Alchemy Partners

Okay, understood. Thanks.

Operator

Roohi Siddiqui, BofA Merrill Lynch.

Roohi Siddiqui - BofA Merrill Lynch

A few question from me. Firstly in Italy, are slot games in Casino regulated as yet? And if not, then to whether your product at the moment is just stuff like roulette?

Neil Cooper - Group Finance Director

I think that's the case.

Roohi Siddiqui - BofA Merrill Lynch

Okay fine, thank you. And can I just confirm, in terms of machine density per shop, presumably that was up in line with H1?

Neil Cooper - Group Finance Director

That hasn't -- we've been running about 3.8 machines per shop for the best part of three years now, I would think, and that hasn't changed over this year really.

Roohi Siddiqui - BofA Merrill Lynch

Right okay. Guys, the other thing I just wanted to check, in terms of the cost base, going back to gaming taxes in Italy, could you give us a sense of now, how much of the businesses in total, derive from Italy, Greece and Spain, so we can --?

Neil Cooper - Group Finance Director

To be fair, Roohi, we've never commented on that, and we're going to continue to be consistent in that regard. I'll remind you that what we have said is that no market makes up more than 5% of our net revenue, other than, obviously, the UK.

I've told you I think previously, on Ivor's question, about the fact that Italy, year over year, is actually down because of the impact of the marketing, and in absolute terms is negative as we roll through this bow wave. To be fair, if I gave you the amounts we're paying on tax, then you can divide by the target tax rate, and get to the amount that we're making in profit, which would defeat the object of not disclosing it. So I'll leave that one alone, if you don't mind.

Roohi Siddiqui - BofA Merrill Lynch

Okay. And in terms of the over-the-counter gross win margin, the decline that you guys had in Q3 looks like it was about 160 basis points. And just looking at Ladbrokes, the Q3 margin, and that seems to have been on 90 basis points. So is it because you have more football mix, or is it because you guys have been more aggressive on pricing?

Ralph Topping - Chief Executive

I think it's fairly consistent with what we've seen in previous years, and it is down to the mix of business.

If we look at the post big football tournament performance, the last three times, so three years, 2005, '07 and '09, the average is about 15.4%. So you could look at it another way, and say we've outperformed the previous average for years after a big football event in Q3, so it's 16.6%, relative to the other businesses.

There is a different business mix at William Hill we believe, to other organizations. So we're not unduly worried about the performance of 16.6% compared to the average of 15.4%, so --

Neil Cooper - Group Finance Director

Really, one option is to go back to '09, and look at '09 on '11 to get a sense of the trend, because clearly, that will not be distorted by the World Cup in the middle.

Roohi Siddiqui - BofA Merrill Lynch

Okay, no, that's fair enough. And sorry, just one final question, which is on Israel. I'm sorry to be a pain about this, but just to clarify, in terms of what happened, you asked to do an internal audit, and you were denied access to the computer systems, is that right? Doesn't this lead you to think there might be some kind of shady business going on?

Ralph Topping - Chief Executive

No, it doesn't. It leads us to -- actually what happened was, one individual, over a period of time, refused us access, despite various ways in which we tried to persuade that individual to give us access. Our patience ran out, and an ultimatum was given. That individual chose to resign. Two weeks later, a number of people encouraged the workforce by various means, to leave the business.

Now, was that done for other purposes? I believe, yes. And we're keeping an eye on that situation, and have the non-compete clauses at our discretion to exercise through the courts, should we wish to do so.

Roohi Siddiqui - BofA Merrill Lynch

Great, thank you.

Operator

Chris McGale, BTIG.

Chris McGale - BTIG

Two parts to this question. One is, how come your Casino side is so much better than Ladbrokes, in terms of they saw a decline in net revenues, in both poker and bingo, and had an 11% outcome in Casino?

And secondly, given the very strong growth in in-play, I think it was up 61% in quarter 3, what do you see, or is it too early at this point, or can you comment on your blue sky expectations for 2012, around Euro 2012, and the Olympics?

Ralph Topping - Chief Executive

Well, the Olympics will not give us anything, so that's for [Waitrose] shoppers in the south east of England, the Olympics.

In-play, it's too early to say where we're going for 2012; we wouldn't commit to that. And as for answering questions on why our business, relative to another organization, is much better, that's a real imponderable, and it takes me into swampy ground, and I'm not going there, because I'm not feeling well, all right?

Chris McGale - BTIG

Okay, thank you.

Operator

Nigel Hicks, Liberum Capital.

Nigel Hicks - Liberum Capital

Thank you very much for the average shop numbers, that's very kind. Can I ask a very simple question? When you talk about year to date, is that to now, or to the end of September?

Neil Cooper - Group Finance Director

No, to the end of the third quarter.

Nigel Hicks - Liberum Capital

Sorry, just going back to the Tel Aviv thing, has no-one visited Tel Aviv, in terms of knowing whether there was Rabbi or fish, or whatever all the stories are? Had you guys gone there, and how tight was the control?

Ralph Topping - Chief Executive

Yes, we've met the Rabbi and we've been introduced to the fish, yes.

Nigel Hicks - Liberum Capital

No, previously I mean.

Ralph Topping - Chief Executive

Yes.

Nigel Hicks - Liberum Capital

Right, okay. Does any of this give any rise to different thoughts or issues, going forward, with regard to a year's time for the call option etc?

Ralph Topping - Chief Executive

No.

Nigel Hicks - Liberum Capital

No, okay. Does it improve thoughts on it?

Ralph Topping - Chief Executive

Listen, we had some good support from Playtech, last week, in particular Mor Weizer. And we've said before that the relationship between the two companies has been good, post court case.

It was good during the court case, but nobody ever chose to believe us on that one, so I'll put that down to the cynicism of journalism and the even strong cynicism with financial analysts. But the relationship was good.

The two Chairmen were in contact, two Chief Executives were in contact, and there was some help provided for us, when we were over in Tel Aviv, and there is even more help being provided, post the event. So I'm not going to do anything other than praise Playtech for what they helped us with.

Nigel Hicks - *Liberum Capital*

Okay. Any words on October at all? You're hitting quite tough comps in margin again.

Ralph Topping - *Chief Executive*

Yes, October you need to wrap up warm if you've been abroad, because you get a cold, that's the only thing I'll say about it.

Neil Cooper - *Group Finance Director*

Nigel, I know you follow the football results very closely. What's your view from what you've seen so far?

Nigel Hicks - *Liberum Capital*

Mixed, I think, but I'd say generally positive, when you've got -- it's good to see Liverpool draw and Chelsea lose, in any case.

Can I ask about margins, in-running, pre match, and also mobile, is that a trend in mobile that you're seeing? Is mobile a high volume, low margin thing, like in-running, maybe.

Ralph Topping - *Chief Executive*

What we'll do is we'll give you all that information next February when we stand up in front of you. I'm not going to do it before.

Neil Cooper - *Group Finance Director*

I would just say, though, Nigel, look, the absolute margin in Sportsbook for the quarter was 6.9%. We've guided to 7% on a normalized basis. And, frankly, I know clearly the margin split between the two channels, and it was pretty much as you'd expect in the quarter.

Ralph Topping - *Chief Executive*

All I would say is, we like what we see in mobile, Nigel, and leave it to February, yes.

Nigel Hicks - *Liberum Capital*

Okay. People have, obviously, previously talked about cannibalization of online from on-retail, is there a cannibalization from, if you like, PC because of mobile? Or is it a net gain? Obviously, I know you're seeing big increases, but --

Neil Cooper - *Group Finance Director*

Nigel, we've obviously hosted an analysts' conference fairly recently where we covered some of these things. I think just to recap what we said, it is far too early to be definitive about this, so don't go away and start changing your models.

But I think there is some indication that mobile betting, in some senses, a portion of it is incremental. It's an increased share of wallet, so it is not just a simple case of switching. Now, that may just be because some of the earlier [adopters] behave differently than the mass market, which is why we need to be cautious in looking at early trends and drawing a longbow to how this will look when it's mature. But I think certainly enough for us to believe that it isn't just a defensive opportunity; there may be some aggressive opportunity there as well.

Nigel Hicks - *Liberum Capital*

Okay. And is there --

Neil Cooper - *Group Finance Director*

It is too early to be scientific about it.

Ralph Topping - *Chief Executive*

One of the things, when you think about the mobility of it all is the WiFi accessibility across the country, which helps. And I think that's a big influence on things, going forward. But it is far too early to arrive at.

Nigel Hicks - *Liberum Capital*

And can you give any indication of mix between Sportsbook and other on mobile?

Neil Cooper - *Group Finance Director*

I think it's predominantly Sportsbook.

Nigel Hicks - *Liberum Capital*

Okay. Can you just also, mobile amount staked, you put a query about the Racing Post thing, can you just explain what you mean by the twice as much on a [different] basis?

Ralph Topping - *Chief Executive*

Well, the figures we've previously published, they've all been about the apps and the business taken through the apps, rather than including the technology through which the business is placed. So in our figures, you won't see anything referencing accessing our business through iPads, or any other gadgets. So the figures are on a comps basis with other companies, I think, not on a like for like. So --

Nigel Hicks - *Liberum Capital*

So you're saying yours is just mobile, not iPads?

Neil Cooper - *Group Finance Director*

It's iPads if it goes through the mobile app. But if it comes straight into the dotcom website, it's not in the numbers. And that's the point of difference we think we're seeing with some other people.

Nigel Hicks - *Liberum Capital*

Okay.

Neil Cooper - *Group Finance Director*

But, to be fair, it's like, like for likes in the early days. An industry norm for reporting evolved as analysts ask questions and tease out what have you got in/what haven't you got it, and we're going a bit through that process on mobile, I would suggest. So over time, it'll be clear who's reporting on what and people will, I think, naturally align themselves.

Nigel Hicks - *Liberum Capital*

Okay. And just finally, just on machines, I wasn't quite sure how well the previous question was answered on machines, but it's a slower rate of growth as, I suppose, from a high level. But Ladbrokes is now catching up; it's only GBP20-odd or GBP30-odd behind. Does it need the next Storm development to move it on another 10% to 15%?

Ralph Topping - *Chief Executive*

What we said, that we get an uplift with -- historically, we've had an uplift when we've introduced a new machine, and we expect that to happen. So time alone will tell, Nigel. Congratulations to Ladbrokes on their big increase in machines, and I'm sure they're be addressing their drop in over-the-counter turnover even as we speak.

Neil Cooper - *Group Finance Director*

Nigel, by the way, to be fair, just to reiterate, Q2 we grew 8.7%; Q3 we grew 8.4%. So you're entirely at liberty to describe that as a fallaway in the growth rate, but it's a tad harsh.

Nigel Hicks - *Liberum Capital*

Okay. Sorry, I thought it was 5.4%, but it doesn't matter.

Neil Cooper - *Group Finance Director*

It was 8.7% in Q2; 8.4% in Q3.

Nigel Hicks - *Liberum Capital*

Okay. Is there still quite a differential between your suppliers? And can you just remind me when any contracts come up?

Ralph Topping - *Chief Executive*

Global Draw contract comes up for review this year.

Nigel Hicks - *Liberum Capital*

The end of this year?

Ralph Topping - *Chief Executive*

Yes.

Nigel Hicks - *Liberum Capital*

And the first part of the question?

Neil Cooper - *Group Finance Director*

We've haven't commented on -- we did it last year at the premiums, Ralph, but we haven't commented on it this year.

Nigel Hicks - *Liberum Capital*

Okay, thank you.

Ralph Topping - *Chief Executive*

We're going to wrap up, guys. One last question.

Operator

Ian Neill, Alchemy.

Ian Neill - *Alchemy Partners*

Just to follow up quickly on what I was talking about earlier. In response to what you've seen in the market, are you increasing the bonuses and special offers you're doing? And is that impacting your win margin?

Ralph Topping - *Chief Executive*

No, I think we've said we're more in the way of price led on big events, rather than bonus led. And we're happy with what we've done on that. So no, it's --

Neil Cooper - *Group Finance Director*

We haven't had any material change in free bets or bonusing, Ian.

Ralph Topping - *Chief Executive*

We've not given money away that way, no.

Ian Neill - *Alchemy Partners*

Okay, excellent. Thanks.

Ralph Topping - *Chief Executive*

All right.

Neil Cooper - *Group Finance Director*

Thank you, everybody.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating, you may now disconnect.

