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Operator: Welcome to the William Hill Plc Q1 Interim Management Statement conference call. At this time all participants are in a listen-only mode. I would now like to turn the call over to your host, Ralph Topping. Please go ahead.

Ralph Topping: Good morning everyone. Thanks for joining us for this early morning conference call. I have with me a gentleman called Steve [Gant] who's second in command in finance. As everyone knows, Simon Lane moved on at the end of April and Niel Cooper, who is currently at Bovis, is joining us on 10th May, so Steve's standing in today in case you want to throw any difficult questions at us. He'll be taking those difficult questions. I'll make a few opening remarks and then we'll open up for questions.

It's early days, early part of the year, but I'm satisfied with our performance so far in 2010. The announcement actually covers the first 13 weeks for the trends during the subsequent four weeks have continued to be encouraging.

Online is the big story and we're pleased to see the strong growth from the first seven weeks has translated into pretty good momentum. Sportsbook is particularly satisfying and we've worked hard on the Sportsbook to increase the breadth and the depth of our product and also to improve our trading systems, particularly on In-Play. Together with good increased in customer numbers that started playing last year. These changes are now delivering good growth. Turnover was actually up 51% in the First Quarter. Net revenue was up 79%. In-Play was 32% of Sportsbook turnover in the period and that's a 77% increase year-on-year. In gaming, Casino is continuing to deliver a good performance with net revenue up 11% and Bingo continues to deliver substantial net revenue growth and that's up 53%. We all know the challenges of the setup, so I won't dwell on that. Our Poker net revenue was down 11% in the period. We're continuing to deliver good increases in new accounts; they're up about 31% and giving a 15% increase in unique active players. Overall for Online that performance results in a 51% increase in operating profit to £23 million.

If I can turn to Retail, I'm encouraged to see that overall turnover levels were up 4% in the period. That's taking the amounts wagered over the counter and on machines together. As ever, our main focus is on gross win in the cash, that's the cash the customer leaves behind, but in this climate I believe that turnover is a good measure of what I call patronage, so I'm pleased to see both [unclear] 2009 as a whole was broadly flat. Machines continue to do well; they're up 9% and I can confirm that whereas just over half the Storm cabinets have been rolled out by the end of 2009 Storm is helping the growth in the period. We actually completed the rollout on schedule and have more than 6,200 machines across the estate.

Over the counter gross win is down 11% with the margin sticking within our usual trading range at 17.7%. In fact, last year's margin was much, much higher at 18.8% and that's contributing to the decline in gross win. Amounts wagered were down 5% with a decline of pence per slip [proof] around about 3% and that compares with a decline of 6% a year ago. Neither of these sporting results nor the weather, apart from first five weeks, had a significant year-on-year effect in the period. As you'd expect from William Hill, we've continued to be tight on costs, in particular the pay freeze in Retail is continuing until October and that's helping us keep operating costs flat in the period.

On Telephone net revenue was flat on a higher margin. The costs have been tightly controlled so we're at a broadly breakeven position on Telephone with plans to address that in the rest of the year.

Overall that gives us Group net revenue growth of 1% and operating profit growth of 3%, which in my view in the current climate is a satisfying start to the year.

That's all I really want to cover this morning, so now I'd like to hand over the call moderator for questions.

Operator: We will now begin the question and answer session. If you have a question, please press *1 on your touchtone phone. If you wish to be removed from the queue, please press the # key. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Vaughan Lewis from Morgan Stanley is online with a question.

Vaughan Lewis: On the Retail side it's good to see that the turnover's up; are you able to split that between football and spend per head at all, are you seeing customers come back into the shops yet?

Ralph Topping: The only way I've got of doing it unfortunately is what we've got tagging our customers in terms of football [one], but I always look at Saturday and weekend performance as an indicator of the strength of the business. I've got to say there's been a rebound in our Saturday performance over the last four or five weeks especially. Whether you can read that in your trend for the rest of the year bearing in mind we've had during that period good racing in terms of Scottish Grand National, Whitbread, Lincoln Handicap, etcetera, and a very interesting run in the premier leagues. Whether you can read that across the rest of the year, only time will tell, but I'm pleased with the Saturday performance.

Vaughan Lewis: Then on the Online side, the strong growth that you're getting in Bingo, is that on William Hill Bingo or is that on another brand?

Ralph Topping: That's on our Bingo.

Vaughan Lewis: Finally, on the Online side, have you made any comment about what you're expecting to do in France with the new regulations there and can you give any indication about the size of the French business today?

Ralph Topping: I can say that our European business is about 20% of revenues; France is, as we all know, a big market, but I think when you've got an effective gross profit tax of about 65%, I think that calls for organisations to review the situation very closely and we're keeping our options open. I think France is probably at a similar stage definitely two years ago. The tax structure for sports betting is not conducive, not attractive at 65% effective rate, it's daft, and of course Casino has no licence and for the moment it's a wait and see on our part.

Vaughan Lewis: You might be able to maintain your current customer base from offshore.

Ralph Topping: I think it's an option that's left open to us at the moment and as and when we decide on anything we'll be very open with the marketplace, but at the moment, quite frankly, it's a wait and see.

Jeffrey Harwood: I've got two questions on the Sportsbook. Was the strong growth base in the UK and in the international business and the improvement…

Ralph Topping: I'll answer that before you go on, Jeffrey. The answer is yes and yes.

Jeffrey Harwood: The improvement in the gross margin, obviously the In-Play margin's well up, but do you think there's been a structural improvement in the pre match margin too?

Ralph Topping: Football, actually, over the first 13 weeks, the margin actually dropped in football. Is there a reason, any need to panic on that? No, there isn't. Our margin improvement, we saw strength in margin in horseracing products and in other sports. We're absolutely confident in our pricing now since we improved our research and development team and automated and are now in a position where we ought to make a lot in our pricing for [unclear] running, so I have no real concerns over the margin. I obviously expected the margin to [tickle] up and again it's fairly early in the year and I've no real concerns about the margin. I'm delighted to see the improvement, but lets see how it settles down over 52 weeks.

Ed Birkin: Looking at Sportsbook, obviously you relaunched in December '08 and Q1 '09 was very patchy. You've obviously been making improvements continuously, but when do you think you'd call it properly up and running as in we have normalised comps versus very easy comps in the Sportsbook?

Ralph Topping: There haven't been easy comps at all. I think we showed growth in Sportsbook First Quarter of last year year-on-year and I think we certainly didn't expect to see the growth that we've got at the moment and we're delighted with it and I think it shows that we're getting our [end] product ready and I think testing the breadth and depth of the product as well. I keep referring it to a kangaroo, the Sportsbook; we're growing the kangaroo tail on Sportsbook with more markets and more opportunities and we're seeing that reflected in the number of bets per customer and the volume of business that we're transacting, so I wouldn't say it's a weak comparative period last year. I don't know where people are getting that from. I think we saw the Sportsbook take off from about week 6 last year and we've seen a big increase in our business levels year-on-year, so I think they are in a normal trading period and I expect to see Sportsbook grow further as we go through the next two years.

Ed Birkin: Current trading, are we right to assume that you haven't seen any improvement in Poker?

Ralph Topping: Poker in the last few weeks has been not bad. It's perhaps been better than the figures we've been reporting and I tend not to look at figures for 25-day periods as some organisations do, but if I was looking at the last 25 days on our Casino, then we're very happy with our Casino over the last 25 days. It's showing good double digit growth year-on-year.

Ed Birkin: Finally, your OTC has improved from 7 weeks to 13 weeks; can you tell us what the contribution from Cheltenham was. Is it effectively a good Cheltenham Festival, is it a differential between you're down 13% to down 11% or has it been a general improvement?

Ralph Topping: You've got to watch with how Cheltenham gets hyped up. Cheltenham is a very busy period for us and we had a very good Cheltenham Festival this year, but the impact of Cheltenham on our numbers, I think we've had very good weeks apart from Cheltenham during that period of time, so I'm delighted with the overall performance. We had a good Cheltenham. It's better than having a bad one, I can tell you that.

Ed Birkin: Finally, on your turnover, you said you think it's a good measure of patronage, but is that turnover not just partly a factor of recycling due a lower gross [room] margin in the quarter?

Ralph Topping: I wish it was as simple as that. I used to subscribe to that theory. At this stage in the year I'm delighted to see a 4% increase in turnover. It's a bit unexpected for us and it's a sign that people are coming back into our shop, but are we seeing that greater [unclear]. I'll refer you to my earlier answer to the question. I think we're seeing indications, especially around Saturdays, weekends of increased patronage and machines are still growing and there's a bigger recycling effect in machines, I think, than maybe over the counter.

Simon Zekaria: You mention in your statement that you're on track to meet your full year objectives. I wonder if you could just elaborate on that what those objectives are.

Ralph Topping: Probably financial objectives; they're the most important ones. Any other objectives would go around … [unclear] to the business at the moment, so financial objectives.

Simon Zekaria: Specifically, can you say the detail on those financial objectives; can you give more detail on that?

Lyndsay Wright: We don't publish specific financial objectives, but there's a consensus out there which is that the Group EBIT level is at about 266 and the Board is comfortable with that level.

Ralph Topping: That wasn't me talking in another voice; that was…

Simon Zekaria: Who was that, sorry?

Ralph Topping: Lyndsay, our IR Director.

Mark Lloyd: I think you launched some localised sites in Italy, Greece and Germany around about Q1. I was wondering if you could give a little bit of colour on each as to what you're learning about each market. I don't know if I missed it at the start, but you've given the Retail amounts wagered. At the time of your prelims the amounts wagered OTC was -6 and I was wondering if you haven't already, what is it now?

Ralph Topping: The OTC is -5. It's very early to say, but there was an earlier question which asked me about growth in other markets. I can say that where's the growth coming from? As you know, we're launching 21 localised markets this year. Some are doing better than others, but of the number that's been launched so far, I would say about we're seeing good numbers coming through from about four out of six that talk about [unclear] proportion, so 70% of an excess of where we thought we would be with that and a few are lagging behind, but again, I would go back and say it's very early stages, but some of the key markets we're doing well, Greece especially.

Mark Lloyd: One final question: Sportsbook, it seems to have phenomenal growth at the moment, where do you think that's coming from?

Ralph Topping: I always said that give us a platform, we had the brains in the business and sports betting is in our DNA and there was a frustration for a number of years and I still hope we could provide clients, because of a dalliance with NextGen and also we were on an old fashioned website because of our platform. I think the growth is coming from the increase in products, the depth of the product we're offering and the length of the kangaroo's tail now and the availability if In-Play betting and there's much, much more to come from us in this space, so I'm delighted with the numbers where we are in terms of Sportsbook. We're ahead of where I thought we'd be at this stage and there's continuing development work going on. In fact, we relaunched part of our business the other night to make it easier for clients to bet with us and using push technology, which we didn't make a song and dance about. It went out seamlessly and nobody noticed anything, any difference in terms of site performance and we've had good responses back from clients already as to how easier the site is to use. I think there are obviously incremental changes that were made. I do believe in depth and breadth of product and I do believe that the more product you put out, a greater choice you give the consumer, the more they respond to that. That to me is essentially what the internet's about and that's what our offerings are about.

Mark Lloyd: Do you think you're taking it from other competitors or is it more of a transition from Retail to Online?

Ralph Topping: No, I have a fairly fixed view on the Retail client going Online, which I don't fully subscribe to that viewpoint. I think the truth is there'll be a mix of things that'll be clients that we get from other businesses, but also there is an increasing number of people due to greater broadband penetration, they're now gambling online and the recreational players, the kind of people we're seeing are £5 to £10 to £20 clients. Our growth has not been driven by a large increase and large players; it's been driven by recreational clients and that's reflected in our growth in bets, which again is a great indication of increased patronage, so you've got to look at the two together, increase in bets and an increase in the number and turnover run, so all in all we're ahead of where I thought we'd be, delighted with the progress and we'll pick up.

Nigel Parsons - Evolution: Last time I asked you this question about the online management incentives, you said you were reviewing them. Have you considered what you wanted to do and why? What is your conclusion and why have you come to that conclusion?

Ralph Topping: We've adjusted the numbers, but not up; we've set a different target for the guys, which I think takes into account the effect of year 1. It is a much more sensible target for year 2 through to 5. It is still a tough target for them and I think they will be doing well to hit that target. It is a stretched target for them.

Nigel Parsons: Will you be publishing those details eventually.

Ralph Topping: I don't think so; I don't think I've got any plans to publish those details at the moment.

Nigel Parsons: It was in the prospectus originally, wasn't it?

Ralph Topping: Only if we do a prospectus; I don't think we have any plans to do that.

Tej Randhawa - Citi: A question on your machine side; I think last time round obviously you were reporting current trading plus 7%. If you look at the last 6 weeks it has obviously improved a lot further since that. Can you give us an idea how your Storm cabinets are performing against your non-Storm cabinets?

Ralph Topping: It is +4% round about; not a lot in it but it will be round about 3-4% difference.

Tej Randhawa: 3-4%; and that growth that you're seeing is still mainly being driven by Storm, or are there any other intangible factors involved in that growth?

Ralph Topping: I think machines are available every minute of our working day and I think increasingly there are people who are being attracted to machines, the smaller staking clients, but they're still playing the machines. It is an increase in the popularity of machines, driven by the availability of the machine, which we are delighted with. We've actually got damn good machines as well, and very good games on them. Whether or not we are getting clients from other businesses, I have no way of marking clients to identify them as Ladbrokes punters or Betfred punters. It would be much easier if we adopted that indelible ink marking on people's heads so that we could confirm that or not, but we haven't put that into practice yet. The growth has been there and it has been growth year-on-year for the last 3 or 4 years, which we're pleased with. The last 7 weeks is up about 7-8%, from memory.

James Hollins – Daniel Stewart: Firstly, I wonder if you could give me an idea if you've been caught up in any of the rumoured problems in Europe of payments providers walking away from the online business.

Ralph Topping: I'll tell you that is 'no'.

James Hollings: Great; secondly, are you and your debt providers comfortable enough with your current financing and outlook to look at some mid-scale acquisitions?

Ralph Topping: 'Yes' is the answer to that.

Nigel Hicks – Liberum Capital: Have you seen any disruption whilst you've done the roll-out of Storm in the First Quarter?

Ralph Topping: There is always an adjustment period; business has dipped but I have to say with a strong roll-out it has been much less than usual.

Nigel Hicks: A Storm that was in before the end of the year would have done better than whatever was in there during the changeover period?

Ralph Topping: Usually it is a 4 or 5 week period where you see a dip as people get used to the system. We haven't seen that 4 or 5 week dip at all; it has been a much shorter period.

Nigel Hicks: Can you give what the average machine numbers were in Q1 and the gross win per machine per week?

Ralph Topping: I think I can come back to you on that … Steve is looking through a book, Nigel. Have you another question while we are waiting?

Nigel Hicks: It is probably one for Neil Cooper when he is there, rather than you in the interim FD role…

Ralph Topping: Shall we wait?

Nigel Hicks: It is just that the cost of your debt, I would say, is higher than the cost of your equity; and I wonder if you can keep coming through with the online growth that we are seeing and if retail obviously hits weaker comps going forward certainly in the next 6 months, whether it is something you should consider. It is not often people's debt is more expensive than their equity.

Ralph Topping: I think it is one of the issues that Neil will be looking at when he does join; I think happy after he has got his feet under the table, a couple of months for him to … he won't be going out and meeting people; it is one of the questions you should pose to him once he has had a bit of time to sit down and think about things. He is in here, he'll do a different kind of job from the one we asked Simon to do over the last 2 or 3 years. The figure for machines is 814.

Nigel Hicks: 814; and the average number?

Ralph Topping: It is 8767, give or take 1 or 2.

Nigel Hicks: The 814 is compared with…?

Ralph Topping: With last year's 758.

Nigel Hicks: We haven't actually seen Q1 numbers previously; thank you.

David Jannings – Davies: Given the very strong growth in the online sports book, Ralph, what do think the scope is to increase cross-sell of gaming products? Is the focus right now very much on growing your sports betting customer base before being more aggressive in terms of cross-sell?

Ralph Topping: Cross-sell at the moment is pretty good, because I think we've got more flash games now, easy download games, which we are showing a great increase in our business there. As we develop our CRM proposition and as we put more flash games out on the site and we've got more branded games out there as well now, then I think we're confident we will see that number grow.
So cross sell has always worked for us; we have always believed that the sports book is the calling card for casino and games, and so it proves to be, but I think there's more that can come out of that business there with flash based games.

Nigel Parsons: Ralph, is your decision to cut your online management incentives linked to a changing view of the outlook for Poker?

Ralph Topping: No.

Nigel Parsons: What's it linked to?

Ralph Topping: In terms of changing … it's very important to keep brains in the business; it's very important to keep people with ability in the business. I've always said that William Hill is run by no more - at any point in time - no more than 12 people have an influence on William Hill – significant influence on the direction of William Hill at any one point in time. Where we sit at the moment, we've probably got six or seven people within our management team overall that are sitting in our Gibraltar business and our Tel Aviv business, that are important to the future of that business, and we want to retain them. In readjusting our incentive scheme we had to take that into account; you lose two to three of these people and you do yourself particular damage; so there has to be an upside for the people who are working in this business; we have to take a more entrepreneurial approach, and the bonus system reflects that.

You know something – these guys will earn more than I do.

Nigel Parsons: I've heard that they could make themselves multi-millionaires.

Ralph Topping: Yes, these guys will earn more than I do. If these guys hit the numbers we're talking about, it's a small number of people and they can share in the upside of the business. Personally speaking, I'm delighted to see if that happens.

Nigel Parsons: Have they been bid for by other organisations? Is that part [of your] response?

Ralph Topping: Look, this is a very small pool and whatever they do privately I'm sure they've had approaches from other organisations, but what we do in terms of remuneration, basic salary, annual incentives and long-term incentives, I think are better than the marketplace. The other thing you've got to remember about our environment at the minute; we've worked very hard on this. We've changed the culture significantly in the last two or three years and William Hill is a much more appealing place to work for people than it perhaps was three or four years ago. Incentive arrangements are all part of that, but the work environment is important as well. They're working with smart people; smart people like working with smart people. I'm sure it's the same at your organisation.

Nigel Parsons: [Lately].

Ralph Topping: Absolutely, I agree.

Nigel Hicks: I think I maybe missed the date that you gave out on Football and Horse margins in the Quarter.

Ralph Topping: I don't think we gave it out, so I don't think you missed it. Horse racing margin was up I think 1% and Football … we're normally expecting Football margins to be about 20-25%. It's currently about 20% at the moment – at the 20% or just over 20% at the moment, so it's lighter than usual.

Nigel Hicks: Have you seen anything particularly in April because weren't they quite … there were lots of wins by the big three in the run in last year in the Premiership; it's been a bit more mixed this year; is it helpful?

Ralph Topping: Well not really, no; I don't look at too short a period, Nigel, I think. I'm neither up nor down with the football performance in that short a timeframe, but I haven't actually been sitting there depressed on a Saturday night in my croft up in Scotland as I watched the results coming in, so nothing to report there, Nigel, that's given me any concern.

Nigel Hicks: The numbers you gave us last year were the two months more or less to the end of Feb, and you had something like a 20.2% margin. That's where the damage was done in terms of relative to this year's Q1 against Q1 last year.

Ralph Topping: I think that was number, yes, and when you look at where we were in terms of – although I'm not going to play down, or play up rather, the impact of the weather, because overall the number of fixtures that were cancelled were probably pretty much the same, but the impact on the period was generally the first five weeks and last year was when we had the higher margin at 20.2.

Nigel Hicks: You're clearly now going into weaker comps, certainly for the next six months, on margin?

Ralph Topping: Yes, yes.

Roohi Siddiqui: Good morning; I have two questions if I may - I'll make them short. The first thing is on your average weekly gross win in machines. You gave a figure of 758 for last year as a whole. Could you give us a sense of whether that was different between the Quarters, or sort of broadly the same?

Ralph Topping: That was year-to-date last year and the year-to-date this year is 814, so it wasn't for the year as a whole. Sorry, what was your supplementary?

Roohi Siddiqui: The number of shops in the UK and your overall estate; what are you sort of targeting for 2010, the increase in shops?

Ralph Topping: We'll have an increase in new licences of around about 40 plus - maybe 40, 50; but we'll see some closures within that. I would expect to see maybe eight or 10 shops shut this year and so net about 40 shops.

Roohi Siddiqui: Okay great, thank you.

Ralph Topping: Thank you very much; that's all I want to cover. We'll be available through the day if you have any further questions. Thanks very much for your time everybody.