

Merrill Lynch Conference
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UK Gambling: "Frozen in time?"
Peter Reynolds – Rank Group Plc

Good afternoon ladies and gentlemen. First of all I must apologise for David Boden's absence but he is unfortunately otherwise engaged and so as Director of IR for Rank Group, I am here in his stead. I would like to thank Andrew and Ian for giving us the opportunity to speak to you today and while I am under strict instructions to keep to my allotted time, I hope to share with you Rank's views on some of the more recent developments in the deregulation process. In particular, I would like to focus on one of the potential issues surrounding current plans for deregulation and why, as an industry, we must be careful to control and manage carefully the growth in the number of gaming machines if we are to maximise the benefits of deregulation in the long term. What nobody wants is a situation as has happened in Australia where a lack of control initially is now leading to tighter controls being imposed.

SLIDE 2

I am sure that you are all very familiar with Rank's gaming activities but I thought a brief overview might be helpful. Currently, Rank is the only gaming company with the full suite of gaming products: bingo, casinos and sports betting.

- In bingo, Mecca is the second largest operator in the UK – we have 122 clubs and around 1.1 million members
- In casinos we are also the second largest operator with 34 casinos across the UK and have two new licences which will open this year. With approximately 800,000 members, we operate under the Grosvenor and Hard Rock brands.
- Finally, in sports betting the Group also owns Blue Square one of the UK's leading internet and telephone betting businesses which also offers its customers a variety of internet games.

If I had been given an opportunity to suggest a title for this section of the conference I think I would have called it "Deregulate not Proliferate". While delighted that the deregulation process is well underway and we fully expect to benefit from the proposed changes, we are also absolutely determined that in all of the excitement, as an industry we do not lose sight of the very principles which have helped create one of the world's most respected gaming markets. Yes we want deregulation, but have always said that it needs to be conducted within a carefully controlled environment.

SLIDE 3

The Government has also aired similar concerns and so I thought it might be worth a quick reminder of what some of the key objectives for deregulation are on this slide.

The over-riding concern is to ensure that there is not an explosion of problem gambling and that the probity of the industry is maintained at the highest level. The focus of my talk today is the apparent position of Government and why we feel that there appear to be some inconsistencies between their objectives and their current stance on the basis of recent pronouncements. In particular the paper issued in August by both the Department of Culture Media and Sport and the Office of the Deputy Prime Minister, the so called "casino proliferation paper".

SLIDE 4

The paper itself was a bit of a bolt from the blue as far as the industry was concerned. To the best of our knowledge, the document was published without any prior consultation with the industry. As we are led to understand it, the paper was very much “their own thinking” and was released to prompt some earnest debate about the issues involved.

Just to remind you the paper put forward a “position” on a number of key issues that will affect casinos post deregulation. Having digested its contents we began to assess the potential impact and, like the curate’s egg, the paper was good in parts.

SLIDE 5

Increasing the limit from 2,000 to 5,000 sq ft is sensible – it will avoid numerous small businesses from trying to convert their premises into casinos and thereby avoid undue proliferation on the high street. I am afraid that versus the original Budd Report, that is the extent of the “good” parts of the paper as far as Rank is concerned. I now want to highlight for you some of the areas we are concerned with and why we believe they are inconsistent with the original objectives set and which it is widely agreed are vital for a smooth transition.

The paper set out a proposed two tier system whereby casinos below a certain size will be restricted as to the scale and breadth of gaming products they can offer, principally in machines, whereas above a certain size there will be no restrictions. This would have a number of consequences.

SLIDE 6

First, and perhaps most important is the possible risk of a dramatic increase in problem gambling. It is expected that such a two tier structure will result in a number of new large, resort-style casinos being built with an associated uncapped number of machines. If there were just ten such casinos in the UK, then that could result in 20-40,000 slots on their own, before any growth in existing casinos.

My point here is that we believe that it is not the location of slots which is important when considering the potential impact on problem gambling, but the absolute number of slots in existence. In addition, in very large casinos where there are very high numbers of customers every day, spotting problem gamblers becomes an almost impossible task – one that is much easier for the local casino operator who tends to know his regular customers.

SLIDE 7

The next issue is one of consumer choice. Being unable to link across small casinos will prevent smaller operators from offering the same level of prize as customers would undoubtedly be able to play for at larger, single-site casinos. Therefore existing, smaller casinos will be prevented from offering customers the same breadth and variety of gaming machine as are available in large or resort casinos. A further consequence of increased demand but limited numbers of machines may be congestion within the casino – not something which is likely to enhance the perceived service levels within UK casinos.

SLIDE 8

Allowing unlimited slots in any casino is going to result in a machine dominated environment – look at any other gaming market and, without sensible controls, that is what happens. Here in the UK we are

very proud of the ambience and atmosphere which comes with walking into any UK casino. This is something which the industry is keen to hold onto and ensure that we don't drift into creating large sterile machine sheds. Our surprise has been that this has also been an objective of DCMS however we cannot follow the logic of allowing unlimited slots but seeking to prevent machine dominated casinos!

SLIDE 9

Finally comes the implications for planning. It is essential in our view that there are very clear and statutory guidelines given to each of the regional development authorities on how to review licence and planning applications for new casino developments. After all this is a completely new area of expertise and without firm guidance from the Gambling Commission which **MUST** be taken into account, there is a danger that the UK market will damage much of what has taken so long to create. The Gambling Commission must be given strong powers in order to ensure that casino development is consistent in its approach across the country and that there are no regional anomalies. So what would we recommend?

SLIDE 10

First we agree that a ratio of machines to tables is an effective way of both limiting the number of gaming machines whilst helping to maintain the very character of UK casinos. However, we believe that a preferred route would be to fix the number of machines per table, irrespective of the size of casino.

We would however suggest a ratio higher than 3 per table and think that a ratio of 8 per table, as originally envisaged but which is below that found elsewhere, would allow operators to broaden their machine offering by presenting a variety of different machines with different levels of stake and prize, but still maintain control of the total number of machines in operation. As all casinos would have a fixed ratio, the total number of machines would be lower than by allowing large casinos an unlimited number of machines. This structure will allow all UK consumers an equal opportunity to access the same opportunities to gaming, whilst maintaining control over the total number of machines in operation.

SLIDE 11

Finally, linking across casinos will allow all casino customers to play for large prizes – this is of course something which bingo players have enjoyed for many years. Indeed certain casino customers already enjoy playing for large prizes via Progressive Stud Poker which links across casinos to provide progressive jackpots and which in our case has paid out large individual prizes of up to nearly £300,000. Opening up the opportunity for machines will simply allow a broader audience to participate for similar levels of prize.

SLIDE 12

In summary, we are delighted that the move towards deregulation is well under way and think that given our market position, it will bring exciting opportunities for Rank Group. As I said at the outset, the key for Rank, and the industry in general, is to maximise the benefits of deregulation in the long term and avoid a “too far, too fast” situation, leading to a subsequent reversal. To that end, we intend to continue working hard to ensure that the regulatory model strikes a sensible balance between government, customers, operators and their shareholders.

Thank you.