

THE BUSINESS FOR GAMES



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GLOBAL GAMES AND GAMING MAGAZINE | SPECIAL ISSUE



# UK MARKET REPORT

## STATES OF GAMING PLAY ACROSS THE UK

Arcades, Licensed Betting Offices, Casinos, Online and Interactive, Single Sites and Bingo



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THE AWP  
MODEL AWARD FOR 2012



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UK MARKET REPORT



I do not have a strong view on the Super Casino debate, but I do think that in time Government will have to re-think the legislation surrounding our sector. Some areas have several licences, that due to the level of competition will probably never be used, whereas other parts of the country are a long way from the nearest club. In a modern progressive society, this does not make sense to me.

**Phil Urban, Managing Director, Grosvenor Casinos - Pg 50**

## STATES OF GAMING PLAY ACROSS THE UK

Arcades, Licensed Betting Offices, Casinos, Online and Interactive, Single Sites and Bingo

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## STIFF UPPER LIP



Gaming Publishing is a UK-based company, so it may surprise the reader that this is the first time that we have tackled a UK market report in the 10 years of G3 magazine. The fact is, the UK has for many years been one of the world's least inspiring gaming markets.

At the launch of G3 in 2003, the UK market was preparing for the Gaming Act of 2005, having butchered the optimistic Budd Report, which had looked to deregulate the UK gaming market and establish a legislative framework that would have propelled the UK market to the forefront of the global gaming industry.

Unfortunately, a shift in power in government and a sustained national press campaign thwarted plans to radically re-energise the gaming sector, though these plans were admittedly largely in favour of large casino resort locations. Lobbies against the proposals managed to scupper the plans, but without gaining any ground for themselves. Resort casinos were jettisoned and a compromised plan to build large and small licence casinos, running alongside 1968 Act casinos became the backbone of the 2005 Act.

The effect on the UK sector was shocking and instant. International operators that had been lining up to enter the UK, with mergers and acquisitions either planned or prematurely realised, immediately began to flounder. Offices closed, redundancies were widespread and a hasty retreat was beaten back to safety from a market that had promised so much, but spectacularly failed to deliver.

The effect on bingo, the pub sector and arcades has been no less detrimental, with the smoking ban and recession hitting a stagnating gaming industry the hardest. Manufacturers have closed their doors and factories by the dozen. The largest names in the industry have either shut up shop or been 'consolidated' into streamlined gaming brands.

And yet, despite everything thrown at it, the UK market remains important. The Internet gaming sector is the envy of the world, having properly regulated an open market system (though tax revenue will ultimately guide the future direction of the sector), licensed betting offices have shown that innovative product can inspire players and casinos, given the ability to offer a world-class product to its customers, have rewritten the rulebook.

The pub sector has undoubtedly taken a hit, but innovation in analogue gaming, digital content and a new regime change driven by the Novomatic Group and attracting the interest of that other gaming giant, the Gauselmann Group, has put the UK back under the spotlight of the international gaming market.

The country might have let the opportunities of deregulation slip through its fingers, just as the global recession came to bite its vulnerable parts, but the resilience and ingenuity of the gaming sector is proving a match for the challenges it faces. The UK market should be thriving rather than surviving, but if you look at the innovation taking place in the face of adversity, this is a positive success story that needs to be heard.

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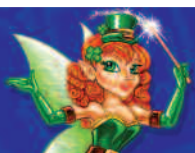
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3 PLAYER



LADY LUCK  
AROUND  
THE CLOCK



LADY LUCK B3



LADY LUCK  
HAPPY HOUR



BANK RAID  
3 PLAYER





## THROUGH THE LOOKING GLASS

G3 interviews the UK largest supplier of Category C gaming machines, the domestic success story, **Reflex Gaming**. Speaking to Reflex's **Quentin Stott**, he explains the rise of the company in a falling market and what the future holds for the industry

**How is it that Reflex Gaming is currently the biggest supplier of Category C machines in the UK?**

It has come about due to a combination of factors. We set out our stall last year to enter the Category C sector, and in preparation we invested in new people and in our design and development infrastructure, including expanding our premises in Newark, Nottinghamshire.

Reflex has always had very strong connections with the grass roots of the industry – with the players and the operators – and we carried out extensive market research before introducing our first pub machine, Alice's Wonderland. Everything came together and we found we were in the right place at the right time with the right product.

Undoubtedly our success was aided by the fact that the Category C manufacturing landscape altered dramatically last year once Barcrest (part of Scientific Games) announced it would no longer produce reel-based machines.

This left one remaining large producer of machines, which attempted to use the situation to force a change to the operating model. We provided not only an alternative to this, but one that was more competitively priced and which outperformed all the other machines on the market.

Thankfully, we managed to follow up the success of Alice's Wonderland with more top-earning games and by our third machine, Chops and Change, we realised that we were producing the lion's share of the Category C sector.



**QUENTIN STOTT,**  
Managing Director,  
Reflex Gaming.

"There has certainly been a great deal of consolidation in the UK pub sector and overall economic conditions remain tough on the high street. But I feel that pub companies have revised their focus and are finding themselves again. That isn't to say that there won't be more closures, unfortunately; more that the energy and drive of the stronger pubs is being translated into a more compelling offer for pub-goers and I believe this trend will continue as retailers invest in creative new ways to drive footfall."

**Reflex is developing its own brands in a market that was once almost solely dominated by licensed IP. Why are games such as Chops and Change and Alice in Wonderland proving so successful?**

This is a fashion-led industry and the big brands had dominated Cat C machines for a long time. We didn't have access to this sort of intellectual property for our first games and ironically this probably made our machines more noticeable to the players!

Once they tried our games they discovered some refreshing new elements that held their interest. Ultimately, themed games can hold

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DRAMATICALLY  
LAST YEAR.**

traction for quite a while but there is always room for good gameplay – with or without licences.

We certainly don't rule out the possibility of using licensed IP going forward for Cat C machines – there is definitely a place for it in game design but it should not be the be all and end all.



**Renowned as a rebuild specialist, Reflex is launching its own cabinet in 2013. What reasons lie behind the development and what are you bringing to the market in terms of the technology?**

Yes, we are known as rebuild specialists, but we do already have our own cabinets for other types of machines. The move to create our own Cat C cabinet is primarily driven by the desire to be completely self-sufficient at both ends of the supply chain. It means that we can increase the overall market numbers of reel-based games without the need for donor cabinets.

In addition, it means that we can introduce new technology into this sector that has not yet been seen in the UK pub machine market. This is an



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"I don't think Reflex Gaming plays an active part in driving the success of the pub sector per se, but certainly our machines do complement the efforts made by pub companies to provide an enjoyable and varied customer experience."

**QUENTIN STOTT,**  
Managing Director,  
Reflex Gaming.

exciting new opportunity to push the sector forward and offer more to our customers. We plan to develop cabinets that will allow for the remote downloading of software updates for both the game and its peripheral components. This will ensure that pubs have the speediest resolution to any issue and it will also make life easier for the operator.

This will also enable the same kind of back office reporting, auditing and machine management more normally associated with video PC-based machines.

**The UK pub sector, once described as in terminal decline, appears to have stabilised and there's renewed interest and vigour in the sector. What have been the factors in**

**your view that have brought about these changes and what part has Reflex played?**

There has certainly been a great deal of consolidation in the UK pub sector and overall economic conditions remain tough on the high street. But I feel that pub companies have revised their focus and are finding themselves again. That isn't to say that there won't be more closures, unfortunately; more that the energy and drive of the stronger pubs is being translated into a more compelling offer for pub-goers and I believe this trend will continue as retailers invest in creative new ways to drive footfall.

I don't think Reflex Gaming plays an active part in driving the success of the pub sector per se, but certainly our machines do complement the efforts

made by pub companies to provide an enjoyable and varied customer experience.

For example, our Digislots Cat C video compendium is a digital offering that is both visually different and exciting for players and has the technology to allow for remote game downloads and data reporting. This will mean operators can do more to and get more from the machines, so they can build up a picture of each individual site, from the information on the games being played. This kind of profiling of players' habits will inform future game development and operation to everyone's benefit.

**You've taken a non-dongle position while you're major competitor is insisting on dongle sales. How much do you think this**



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**has been a factor in Reflex's success and would you change your stance as dongle prices fall and resistance wanes?**

As I mentioned before, the dongle situation certainly aided our entry into the Category C sector. Effectively it meant we were pushing on an open door when we were coming in, as there was a backlash that led to operators looking round for an alternative.

As for the future, I don't think we need to change our stance on the dongle. Reflex Gaming is a lean company that is confident in the profitability of the current industry model and we will do what we can to support all its existing layers. We are also aware of other companies coming into the sector and

"Reflex Gaming is a lean company that is confident in the profitability of the current industry model and we will do what we can to support all its existing layers. We are also aware of other companies coming into the sector and starting to produce Category C reel-based games."

**QUENTIN STOTT,**  
Managing Director,  
Reflex Gaming.

starting to produce Category C reel-based games. We actually welcome a situation which sees choice in the market as it will drive innovation for the good of all.

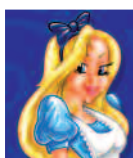
**You have great content, a deep understanding of your player base and a leading position in the market - how do you build upon this success and how big can Reflex Gaming grow?**

Our main focus at present is on sustainability – we have got to remain close to the market and keep on producing winning machines. This is also why the introduction of our own Category C cabinet is so important to us, as it will ensure we continue to react to market demand going forward. Our main priority is not to dilute our

focus this sector of the market and to keep on investing in R&D, having said that, we don't have a cap in mind as far as future growth is concerned.

**You have Novomatic on your right and Gauselmann soon to be on your left - as an independent company competing in the middle, how do your customers perceive Reflex Gaming and how important is that independence to them?**

I think our customers appreciate our independence, as some of the larger manufacturing groups have the muscle to force changes to the way the industry is structured and this could have serious consequences for some of the smaller independent operators who are already working to very tight margins. We play straight through the



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"The main barrier to growth for the street sector now is legislation. The Government needs to decide whether it wants to support UK gambling business as a legitimate, taxable entity or whether it wants to let the opportunities go overseas."

**QUENTIN STOTT,**  
Managing Director,  
Reflex Gaming.

middle and it is not within our interest to change the status quo as far as the existing business model is concerned. We are happy to work and support the existing structure.

**It's a big, broad question, but what is the future for the UK street sector - where is the market heading? There's been various attempts made to force change upon the sector, which has resisted all kinds of initiatives in the past. Do you see the sector turning around, building its player base and regaining some of its former glory?**

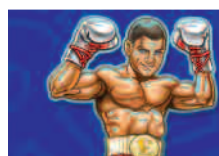
A lot of companies are refocusing at the moment and strengthening their positions after a period of turbulence and uncertainty. Any attempt to force change on the sector will have to be for the good of the majority of the players

in the market, otherwise it will be met with resistance, as we have seen. The main barrier to growth for the street sector now is legislation - we need to have a level playing field with other forms of gambling both on the high street and online. The Government needs to decide whether it wants to support UK gambling business as a legitimate, taxable entity or whether it wants to let the opportunities go overseas.

You supply machines to arcades, bingo halls, single sites and LBOs; you have game content on iOS devices downloadable via Apps from the Apple store and you have your own cabinet in development alongside a digital solution designed in partnership with operators. How do you describe Reflex

Gaming today and what are your ambitions for the company in the future?

Today, Reflex Gaming is in a very good position, straddling all the major gaming channels as you point out. We now want to build on our success by reinvesting in our infrastructure, our people and our technology. We want to concentrate on the fundamentals, which are our relationships with customers and our games. Then we hope to develop into a premier brand across all gaming sectors. Ultimately, we would like to see our expertise in the UK market lead us into some penetration overseas and to this end we will be looking at various jurisdictions and talking to other companies in those sectors.



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## THE EMPIRE STRIKES BACK

Renewed interest in the gaming industry in the UK is seeing the market across all sectors radically being reconstituted into a leaner, more efficient and much more focused industry than ever before

At its height in the 19th and 20th centuries the British Empire encompassed almost a quarter of the world's land surface and was the largest empire in history. British influence is still prevalent in terms of language, culture and the legal systems in many parts of the world.

Today the UK consists of four countries – England, Scotland, Wales and Northern Ireland plus three Crown dependencies, Guernsey, Jersey and the Isle of Man which are associated with the UK but not constitutionally part of

it. The UK also has 14 British Overseas Territories. The United Kingdom is made up of the island of Great Britain, the north eastern part of Ireland and many smaller islands.

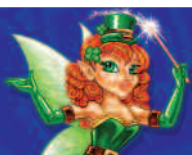
Northern Ireland is the only part of the UK which shares a 360km land border with the Republic of Ireland and the rest is surrounded by the Atlantic Ocean in the west and north and the North Sea in the east, the English Channel in the south separating England from France and the Irish Sea in the west joining Ireland.

Today, the UK is striving to recover from the global economic slump and a coalition government has introduced austerity measures to tackle a large budget deficit.

The coastline of Great Britain is 17,820 km long and is now connected to continental Europe via the Channel Tunnel which stretches 50 km underwater to the coast of France.

England accounts for just over half of the total area of the UK covering 130,395 sq.km and has a population of 53 million and as such is one of the most densely populated countries in the world with 383 people per sq.km.

Scotland accounts for just under a third of the total UK area covering 78,772



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sq.km and includes nearly 800 islands. Its population is 5.3 million and the highest mountain is Ben Nevis with Edinburgh as its capital and political centre.

Wales accounts for less than a 10th of the total UK area with 20,779 sq.km and is mostly mountainous. Highest mountains include Snowdon and there are several islands off the mainland. Population in Wales is 3.06 million.

Meanwhile Northern Ireland has a population of 1.81 million and is just

14,160 sq.km in size and is mostly hilly. It includes Lough Neagh the largest lake in the British Isles and Slieve Donard is its highest peak.

The UK is a developed country and has the world's seventh largest economy by nominal GDP and was the world's first industrialised country and is the third largest economy in Europe after Germany and France.

The UK's service sector makes up around 73 per cent of GDP whilst London is one of three 'command

The British gambling industry saw a gross gambling yield in financial year 2011-2012 of some £5.8bn which was an increase of £0.2bn from the previous year.

## QUICK GLANCE

**CASINOS:** 146  
**CASINO SLOTS:** 2,723  
**CASINO TABLES:** 1,200 approx  
**GGR CASINOS:** £868.1m  
**LOTTERIES:** National Lottery  
**LOTTERY RETAILERS:** 28,000  
**LOTTERY GGR:** £227.2m  
**SINGLE SITES:** 51,000 pubs  
**GAMING MACHINES:** 53,000  
**ARCADES:** 1,820  
**FECs:** 315  
**ARCADE GGR:** £275.4m  
**FEC GGR:** £76.3m  
**RACETRACKS:** 60  
**BETTING SHOPS:** 9,065  
**GAMING MACHINES IN LBOs:** 35,852  
**BETTING GGR:** £3bn  
**BINGO HALLS:** 697  
**GAMING MACHINES IN BINGO:** 30,707  
**TOTAL BINGO GGR:** £634.7m  
**ONLINE GAMBLING:** Permitted  
**LICENCES:** 293  
**CUSTOMER ACCOUNTS:** 14.6 million  
**GGR:** £717.1m  
**TOTAL GGR:** £5.8bn



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## NUMBER OF MACHNES BY LOCATION

LOCATION	B1	B2	B3	B4	C	D	TOTAL
Casinos	2,656	61	7				2,723
LBOs		35,662		9	174	9	35,852
Bingo			4,138	193	14,615	11,761	30,707
AGCs			6,980	84	21,232	14,390	42,666
FECs					2,350	26,216	28,566
Clubs				4,200	600	100	4,900
Pubs					51,700	1,500	53,200
<b>TOTAL</b>							<b>198,600</b>

centres' alongside New York and Tokyo. Other key sectors include manufacturing and the automotive industry and aerospace industry. Agriculture produces around 60 per cent of food needed and the country is rich in natural resources such as coal, petroleum gas, limestone, iron and salt.

Tourism is extremely important and some 30 million tourists last year and the UK is ranked as the seventh major tourist destination in the world. US visitors make up the highest spenders who come to the UK on holiday whilst popular tourist destinations include the Tower of London as the most visited attraction in the county. The French

The biggest sector is the non-remote betting industry which has a 52 per cent share, this is followed by the casino sector with 15 per cent, the remote gambling sector with 12 per cent, bingo with 11 per cent, arcades with six per cent and lotteries with four per cent.

are the highest in terms of volume of visitors with 3.6 million last year followed by Germans then Americans. Visitor spend amounted to £17.9bn with an average spend per visit of £584.

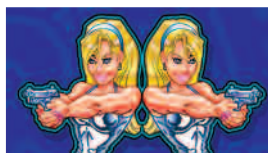
Today the UK is striving to recover from the global economic slump and a coalition government has introduced austerity measures to tackle a large budget deficit. Unemployment topped 22 per cent by January 2012 whilst UK government debt rose from 44 per cent of GDP in 2007 to 82.9 per cent of GDP in 2011.

Gambling has always been a huge part

**GAMBLING HAS ALWAYS BEEN A HUGE PART OF BRITISH CULTURE. 35.5 MILLION ADULTS GAMBLE IN THE UK AND IT IS A SIGNIFICANT PART OF THE ECONOMY. GAMBLING SPEND PER ADULT IS SAID TO BE AROUND £193.**

of British culture. Some 35.5 million adults gamble in the UK and it is a significant part of the UK economy. Gambling spend per adult is said to be around £193.

The British gambling industry saw a gross gambling yield in financial year 2011-2012 of some £5.8bn which was an increase of £0.2bn from the previous year. The biggest sector is the non-remote betting industry which has a 52 per cent share, this is followed by the casino sector with 15 per cent, the remote gambling sector with 12 per cent, bingo with 11 per cent, arcades with six per cent and lotteries with four per cent. There are a total of 109,666



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### INFO PANEL

**Country:** United Kingdom  
**Capital:** London  
**Total Area:** 243,610 sq.km  
**Population:** 63,047,162  
**Median age:** 40.2 years  
**Male:** 39 years  
**Female:** 41.2 years  
**Ethnic groups:** White (92.1%), Black (2%), Indian (1.8%), Pakistani (1.3%), Mixed (1.2%)  
**Religions:** Christian (71.6%), Muslim (2.7%), Hindu (1%), other (1.6%)  
**Languages:** English (plus regional languages)  
**Currency:** British Pounds (GBP)  
**Government type:** Constitutional Monarchy and Commonwealth Realm  
**Head of State:** Queen Elizabeth II  
**Head of Government:** Prime Minister David Cameron  
**Cabinet:** Cabinet of Ministers appointed by the Prime Minister  
**Elections:** Monarchy is hereditary. Following legislative elections the leader of the majority party usually becomes the Prime Minister.

### GROSS GAMING YIELD ACROSS ALL UK GAMING SECTORS

SECTOR	GGY 2010-2011	GGY 2011-2012	CHANGE
<b>NON-REMOTE SECTOR</b>	£4.7bn	£4.8bn	2 %
Arcades	£392m	£351m	-10 %
Betting	£2.9bn	£3bn	2 %
Bingo	£625.5m	£634.7m	1 %
Casinos	£796.4m	£868.1m	9 %
<b>REMOTE BETTING, BINGO AND CASINOS</b>	£661m	£717.1m	8 %
<b>LOTTERIES (REMOTE AND NON REMOTE)</b>	£168.8m	£227.2m	35 %
<b>TOTAL</b>	<b>£5.59bn</b>	<b>£5.80bn</b>	<b>4 %</b>

people employed across the various gaming sectors.

Prior to 1960 the UK government prohibited most types of gaming until the Betting and Gaming Act in 1960 liberalised the gambling law. It legalised betting shops and led to an explosion of commercial gaming permitting machines in restaurants, bingo halls and members clubs.

Illegal gaming continued in private residences but under the 1968 Act this was restricted to licensed premises and the criminality of the industry was all

but removed. The act also established the Gaming Board which regulated the industry until the 2005 Act replaced it with the Gambling Commission.

The 2005 Act was introduced after the National Lottery Act was born in 1993 and the rest of the industry demanded a 'level playing field' and the call to bring outdated laws more up-to-date.

Because of these concerns a gambling review board chaired by Sir Alan Budd was set up and the Budd Report as it was later known spearheaded the 2005 Act.

The 2005 Act was introduced after the National Lottery Act was born in 1993 and the rest of the industry demanded a 'level playing field' and the call to bring outdated laws more up-to-date.

It came into force fully in September 2007 and was designed to not only consolidate existing gambling legislation, but also update the regulatory structure for online gaming, casinos and FOBTs. It also created a new industry regulator called The Gambling Commission.

It saw some significant changes such as the removal of membership requirements for bingo and casino halls as well as the 24 hour waiting period for membership. It expanded the consumers choice of betting and gaming products and saw the most contentious part of the bill, which was the provision for new 'Destination' or 'Super Casinos' removed from the Act.

Not everyone is happy with all parts of the 2005 Act, however, and in May 2011 an inquiry into the Act was announced by the Department of Culture, Media and Sport (DCMS) following calls from the industry to review certain aspects.

The aim was to look at the financial impact of the act on the sector, the effectiveness of the Gambling Commission, the impact of offshore online gambling operators in the UK and whether the 'Super' Casino licence was functioning, the effectiveness of classification of gaming machines in the act and the impact on levels of problem gambling.



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### ADULT ENTERTAINMENT

A third of all gaming machines in the UK can be found in Adult Gaming Centres, but these locations have found themselves struggling thanks to the adverse effects of the Gaming Act 2005, smoking bans and the recession and are in need of support

THE history of the arcade machine begins with amusement parks in the 1920s and progressed into penny arcades in the beginning of the 20th century. Today they can house anything from video games, pinball, redemption games, billiards and gaming machines.

The growth of the traditional seaside arcade was rapid especially in the late 1930s and early 1940s and most resorts had a promenade of arcades running the stretch of the resort and they became synonymous with British holidays and they also became a huge contributor to the seaside and tourist economy.

During the 1970s the video arcade game technology entered a new realm and as such arcades began to open to cater for such new games and the golden age of the arcade video game began and amusement arcades began to open in towns and cities and hosted games such as Pacman and Space Invaders.

By the 1990s the newly branded Family Entertainment Centre entered the scene challenging the small town amusement arcades with bigger and brighter all in one facilities offering huge game consoles, food, bowling and entertainment under one themed or decorated roof.

The FEC concept was also designed to challenge the booming home console market which was rivalling video arcades in Europe and North America. In the UK seaside arcades began to suffer and whereas pre- 994 games would only cost between 10p and 30p, as the home console market took control bigger and more expensive games had to enter the arcade scene and so the price too was raised having

Today, there are currently some 1,820 Adult Gaming Centres (AGC) and 315 Family Entertainment Centres (FECs) and 536 AGC licences and 199 FEC licences which are operated by 589 operators. The AGC sector employs some 8,797 people, a drop of 45 per cent from the previous year. The FEC sector employs around 2,395 (18 per cent decline). The large drop in the AGC sector employee figures is mainly down to the re-clarification given to motorway service area operators.

a knock on effect on the teen market.

Many arcades fell into decline and arcades were forced to accommodate the more middle aged market and were forced to shift towards their gambling offering. Today most arcades offer gaming machines whilst amusement is a scarce add-on.

By the 2000s arcade amusement games began to launch new features in a bid to attract clients with new ideas such as registration cards, motion simulators and position sensing of the player. Redemption and merchandise games became a staple diet in arcades. By the mid 2000s many struggling seaside amusement arcades were turning the

### ADULT GAMING CENTRES ARE SLOT MACHINE LOUNGES FOUND IN TOWNS AND CITIES DESIGNED FOR 18 YEAR OLDS+ IN DESIGNATED AREAS OR ADULT ONLY CENTRES.

lights out as crippling overheads and declining profits forced them to close.

Meanwhile Adult Gaming Centres are technically slot machine lounges which are found in towns and cities and are designed for the aged 18 and over and either operate in designated areas or are adult only centres. They are often privately owned by family companies who operate between one and 50 sites with the majority being single owner operated sites.



They cater for a predominantly female audience and provide an alternative form of leisure gaming to the LBO for example. Typically they are around 1,000 sq.ft in size and are found on the high street and contain around 40 slots on average. Trading times vary but are usually between 9am and 10pm.

When the video game market collapsed the AGCs, due to limitations on space, they mainly housed slot machines with a bias towards Category C machines and a limited number of Category B machines. Some centres also offer bingo.







Today, there are currently some 1,820 Adult Gaming Centres (AGC) and 315 Family Entertainment Centres (FECs) and 536 AGC licences and 199 FEC licences which are operated by 589 operators. The AGC sector employs some 8,797 people, a drop of 45 per cent from the previous year. The FEC sector employs around 2,395 (18 per cent decline). The large drop in the AGC sector employee figures is mainly down to the re-clarification given to motorway service area operators.

There are some 42,666 machines in AGCs. Back in 2010 there were over

70,000 which dropped to 63,700 in 2011. Total GGY from these machines came to £275.4m last year and gaming machines in AGCs account for 30 per cent of the total number of machines in all gambling sectors.

Meanwhile, there were a total of 28,566 machines in FECs compared to 32,000 in 2010 and 30,800 in 2011. The number of gaming machines account for 20 per cent of the total number of machines in all sectors and GGY amounted to £76.3m.

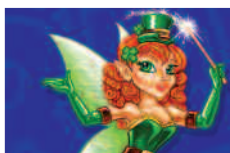
AGCs can have an unlimited number of

AGCs can have an unlimited number of Category C and D machines and for Category B3 and B4 they are permitted a maximum of four B machines or 20 per cent of the total number of gaming machines, whichever is higher.

Category C and D machines and for Category B3 and B4 they are permitted a maximum of four B machines or 20 per cent of the total number of gaming machines, whichever is higher. FECs can have unlimited numbers of Category C or D machines only.

### ARCADE OPERATORS

The AGC sector has seen a few changes over the years. In 2011 the stake limits for B3 machines were increased from £1 to £2 and the number of B3s allowed in AGCs and bingo halls raised to 20 per cent of total machines.



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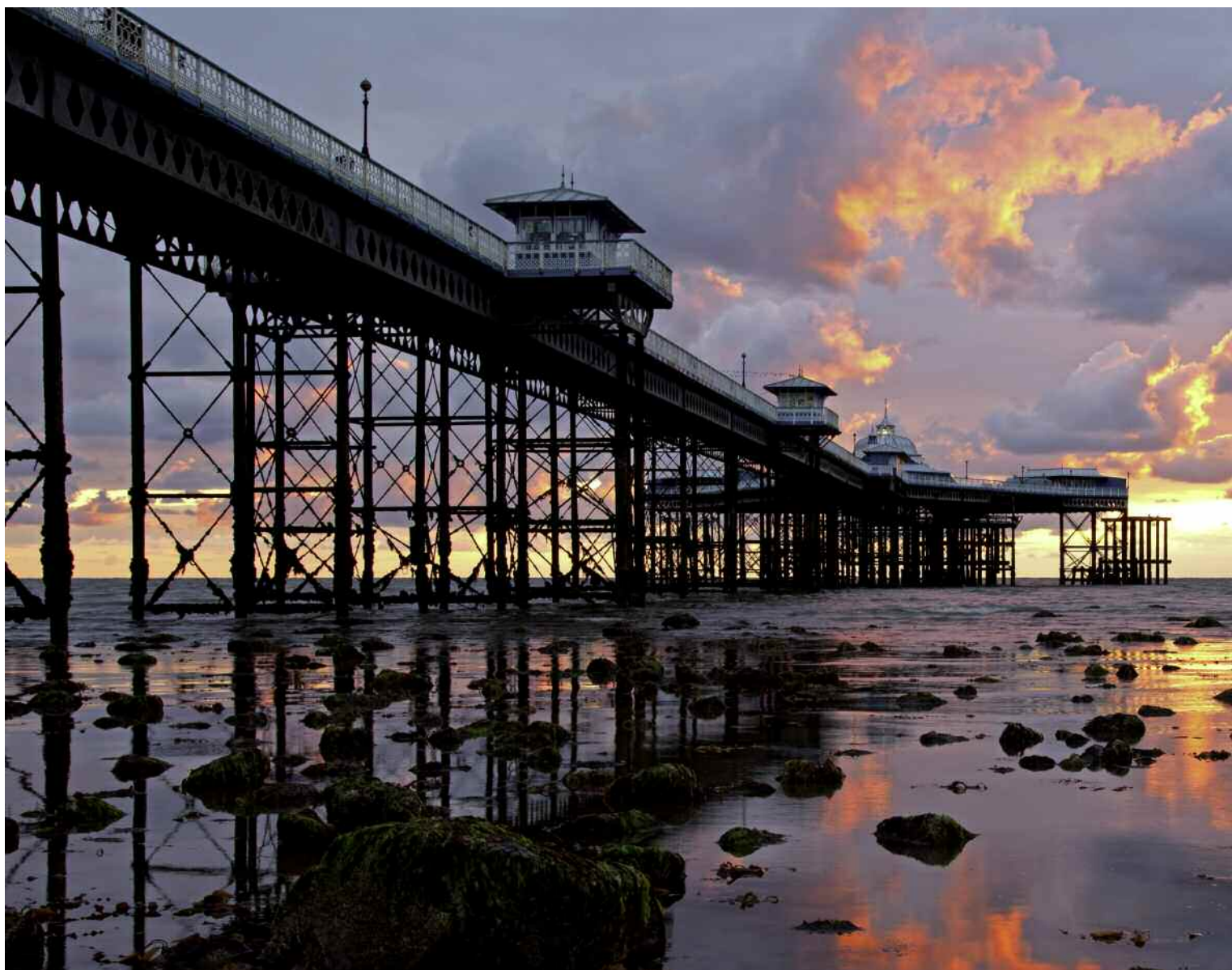


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# Report

## ADULT GAMING CENTRES



The operators were ready for the change and many manufacturers had already embedded the new game software in existing machines ready for the launch and the likes of Barcrest and Blueprint Gaming machines, which were either linked to central servers to make it easy to download the software or were delivered the venue ready for the launch.

The AGC has probably been one of the most adversely affected by the 2005 Act. One of the changes was to remove certain machines, known under the 1968 Act at section 16 and 21 machines, from arcades and bingo halls. These machines had a limit of £2 stake and £25 payout and up to 20 games could be played concurrently on

The AGC has probably been one of the most adversely affected by the 2005 Act. One of the changes was to remove certain machines, known under the 1968 Act at section 16 and 21 machines, from arcades and bingo halls.

the same machines so the total prize could in fact be £500 maximum but with the lower £1 stake.

Under these machines a player would have to stake £40 to win £500 whereas today the stake for the same winnings is as little as £1.

BACTA says the removal of these machines resulted in more than 200 amusement arcades closures and a fall in the number of machines manufactured from 55,000 to around 10,000 per year whilst arcade revenues dropped 20 to 30 per cent.

Now the industry is calling for the permission of B2 machines to be allowed on the same basis as LBOs.

**BACTA SAYS THAT THE REMOVAL OF SECTION 16 AND 21 MACHINES, AS PART OF THE GAMING ACT 2005, RESULTED IN OVER 200 AMUSEMENT ARCADES CLOSING.**

Commercial snooker clubs claim the removal of B3 machines under the 2005 coupled with the smoking ban caused them huge revenue drops and argue they should be allowed to offer B3



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machines with a £2 stake and £500 payout as they are offering a controlled environment as private members club and holding an alcohol licence.

The suggestion is to create a new operator's licence which has so far been rejected by the DCMS.

BACTA represents 90 per cent of the UK coin operated amusement industry and its members range from small family businesses to large corporate companies. Its members provide 26,000 jobs and pay over £500 million in tax revenue every year.

One of the largest operating companies in the UK is Praesepe which was formed in 2007 and is headed by Chief

**BACTA represents 90 per cent of the UK coin operated amusement industry and its members range from small family businesses to large corporate companies. Its members provide 26,000 jobs and pay over £500 million in tax revenue every year.**

### Comment



"There have been more than 300 arcade closures and 1,000 jobs lost since 2007 and amusement machine manufacturing, which was once a thriving business has fallen by more than 55 per cent over that period. With the economy in crisis and the amusement industry being far from either the centre of the government's or DCMS's agenda, our members tell us they feel uncertain about the future. There are several factors that have the potential to dramatically shape the future of the UK amusement industry, such as the inability of the amusement industry to offer the same machines that are offered by LBOs, the recent change in the taxation regime called Machine Games Duty and the expedient rise of online (and usually offshore) gambling. Our members have worked hard but they are battling against unfair competition both from bookmakers and also from offshore gambling companies who are not required to pay the same level of tax or be regulated in the same way. Many of our members have businesses that have passed from generation to generation and are an essential part of the unique British coastal tourism offer.

Many of our members run small, family business and they have been impacted by the new tax. MGD fails to offset irrecoverable VAT so some small arcade businesses will face a huge additional tax bill, with no way to claw it back. In addition MGD has been introduced at a time when arcade owners are already feeling the squeeze. We were surprised that the government decided to change our tax structure, but not prioritise the taxation of offshore gambling immediately.

The last few years have been tough. We would like to see the government provide a more effective and competitive framework for the market to operate. The way that the industry is currently regulated means we are not working on a level playing field with other licensed premises. There has been a great deal of press reporting concerning gaming machines in bookmakers and the government is currently consulting on whether they should take any action. We strongly believe that as the government does not believe there is cause for concern, they must be consistent and allow all adult premises, including arcades, to offer these machines to customers. We have been offering amusement to generations of British customers and have demonstrated our commitment to responsible gambling with strict licence conditions and codes of practice. However, the uneven playing field, both with machines offered in bookmakers and games which can be played on mobile devices, could threaten both our existence and a unique feature of the British seaside experience.

Today we at BACTA are focused on highlighting the inequality both in machines that can be offered in our premises and of taxation. The government didn't listen to our recommendations on MGD and unfortunately the truth is that the new, high rate of taxation at 20 per cent, could drive some members out of business. We would like to see all adult premises being able to offer the same types of machines and internet gambling on television and mobile devices regulated in the same way as land based gaming. From a taxation point of view, we believe that the top rate of tax should be reduced to 15 per cent and irrecoverable VAT should be able to be deducted from the new MGD to be paid to prevent further closures. The government should be consistent and ensure that offshore companies which are allowed to target UK customers are required to pay their fair share of tax to preserve essential services to the UK taxpayer."

**LESLIE MACLEOD-MILLER**, Chief Executive, BACTA

Executive Nick Harding who has worked at Coral, Ball Leisure and the Rank Group before leading the Management Buyout Out of the RAL business from Rank in 1996.

RAL became a leading operator with 129 venues in 2005. This was then sold to Talarius plc and Nick Harding grew this over the next three years to over 200 venues. It was sold to European

Gaming Limited in 2007. The first AGC acquisition for Praesepe was completed in July 2008. This was later re-branded as a 'Cashino'. Further acquisitions followed in 2009 and 2010.

Today the company has 160 AGCs, nine bingo clubs, five FECs and an on-line bingo brand. In October last year the Gauselmann Group acquired Praesepe's mother company Marwyn Gaming



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# Report

## ADULT GAMING CENTRES

### NUMBER OF GAMING MACHINES IN AGCs

MACHINE CATEGORY	NUMBER OF MACHINES	MACHINE GGY '11	MACHINE GGY '12	CHANGE
B3	6,980	£99.7m	£76.3m	-23 %
B4	84	£0.47m	£0.27m	-43 %
C	21,232	£85.7m	£55.5m	-35 %
D	14,390	£24.6m	£13.8m	-44 %
AGGREGATED CATEGORIES		£104.6m	£129.4m	24 %
<b>TOTAL</b>	<b>42,666</b>	<b>£315.3m</b>	<b>£275.4m</b>	<b>-13 %</b>

### NUMBER OF GAMING MACHINES IN FECs

MACHINE CATEGORY	NUMBER OF MACHINES	MACHINE GGY '11	MACHINE GGY '12	CHANGE
C	2,350	£6.3m	£5.9m	-6 %
D	26,216	£60.4m	£64m	6 %
AGGREGATED CATEGORIES		£10m	£6.3m	-37 %
<b>TOTAL</b>	<b>28,566</b>	<b>£76.7m</b>	<b>£76.3m</b>	<b>-1 %</b>

Limited for around €76m which saw the German company take control of Praesepe with Nick Harding remaining at the helm.

Paul Gauselmann said: "The acquisition of Marwyn Gaming is the largest so far in the history of the Gauselmann Group and will decisively inspire our business success in Great Britain. We are now able to offer our self developed games and gaming machines as well in over 170 of our own entertainment centres and bingo clubs. This will create excellent synergy effects."

Praesepe's Nick Harding said: "2012 was a monumental year for everyone involved with Praesepe. At ICE 2012 we struck a strategic alliance with Gauselmann and less than ten months later on October 1st we informed the city of the purchase of our operating sites. The Gauselmann story, which saw Paul Gauselmann launch his business in 1957 and grow it to an internationally acclaimed €1.7bn enterprise, is one of the most inspiring in gaming and one which I genuinely admire.

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**PAUL GAUSELMANN,**  
Gauselmann Group.

"Deals such as this are few and far between and I am of course delighted that an organisation of this calibre and pedigree made such an investment in our business and, for that matter, in UK gaming. I think it's a great testament to what my team has achieved since we launched Praesepe five years ago."

Nobles Leisure is another large operator running several arcades in Glasgow, Dunfermline, Stirling and Falkirk. The Dunfermline Arcade recently celebrated its 25th anniversary. They offer all-cash adult arcades with the latest gaming machines.

The company also operates the Portobello Beach seaside centre in Edinburgh which is a hugely popular beach spot catering for families with an AGC. The company also still owns the Brighton Pier which they bought in 1984 and have invested around £35m in the 112 year old pier to turn it into a leading attraction in the UK with 18 themed attractions and rides, two amusement arcades and retail and entertainment outlets. It was put up for sale by Nobles in 2011.

Namco Operations Europe has 11



FunScape operations in Braintree, Dagenham, Gateshead, Ipswich, London, Luton, Manchester, Norwich, Romford, Newcastle and Tamworth. The centres are FECs which can include anything from bowling, amusement games, pool, soft play areas and karaoke. They offer party packages and group corporate events.

Meanwhile Sega Amusements operates 18 FECs throughout the UK. The company recently teamed up with Bowlplex to launch the new Sega Active Zone across the 18 Bowlplex entertainment centres in the UK. The first Sega Prize Zone opened at Brighton Bowlplex recently.

Sega's Justin Burke said: "We've worked hard to push the boundaries of family entertainment throughout our history and have been the first to introduce many new concepts such as working with key manufacturers in the industry to develop an in-house guarding solution to ensure safe working practices. Throughout our history we've stayed loyal to our core values - innovative, creative and adaptable. This had enabled us to evolve into a company that turns over



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THE AWP  
MODEL AWARD FOR 2012





### Comment



"We now have 160 AGCs, nine bingo clubs, five FECs and an on-line bingo brand, overall employing 1,700 people. All of this makes us one of the fastest growing and most substantial gaming entertainment companies in the UK.

Regarding MGD, many operators, ourselves included, probably took out more machines than they should have done in order to reduce the cost burden of a £1,000 licence. This has meant that businesses have not been trading properly and that the machine mix has been incorrect. MGD gives operators a freer hand in terms of machine selection. Under MGD the mix of machines should be more realistic, players will have a wider selection to play and sites look much busier. One of the important consequences of MGD will be a dilution of our collective obsession with average take per machine and a switch of focus to total net receipts for a site, which is a much healthier and progressive position to take.

Meanwhile tax is very important and I think the government's taxation levels are far too high. We must also continue to be concerned about the overall economic climate and the Coalition government's ongoing addiction to tax and spend policies, which continue to have a stultifying effect on the economy. More than anything else I want to hear a sensible proposal for the first Triennial review for over 10 years and recognition that the Triennial is a process and not a one off exercise. Clearly we must regenerate the UK gaming machine industry and the way that this can be done is an immediate move back to the Triennial process, which served us so well and for so long. The opportunities for the gaming industry lie in taking full advantage of any changes made by the Triennial Review and the opportunity to optimise the number of machines into our venues through the introduction of MGD.

From an operational perspective we need to have the support of the local authorities in order to continue to invest in their towns. We have a current issue in the Kent seaside town of Margate where the Council has refused permission for us to attach an inflatable monkey on the front of our FEC. This is despite the fact that it's brought down every night, despite the fact that it's massively popular with residents and visitors and despite the fact that we have invested more than £300,000 in a part of Margate where the number of boarded-up businesses outnumber those that are trading by a ratio of at least 2:1. We're not going to take this lying down. Marvin the Margate Monkey, as he has been christened, has his own Facebook page, he's sponsoring a game at Margate Football Club and we are having a Fun Day when Marvin, assisted by a troupe of professional dancers, will be hosting a dance-athon along Margate prom dancing Gangnam style and to 'Hey Hey we're the Monkeys.' Our 'Keep Marvin in Margate' campaign is a light-hearted way of illustrating what is a very serious problem. We are backing a town, which has seen better days, we want those better days to return and for that to happen we need and expect the authority to give us some support. The majority of local authorities are in the main helpful but the intransigence of some and their less than supportive attitude to businesses, which employ local people, represent major obstacles to private sector investment."

**NICK HARDING**, CEO, Praesepe

in excess of £27m per year."

Other operators include Oasis Family Leisure with arcades in Manchester, Playland Holdings Ltd, Plymouth Leisure, Shipley Brothers, Stardust Leisure, Dreamland Leisure and FunSpot.

Meanwhile, Sceptre Leisure is one of the largest suppliers of gaming and amusement products in the UK which has grown since it began in 1998 and currently supplies machines to holiday parks, theme parks, caravan parks, bowling alleys, cinemas and leisure centres.

The company formulated a five year agreement with the Gauselmann Group very recently to supply games for Sceptre's operations. Blueprint Gaming has provided much of the software for the Genie machines.

### LEGISLATION

The biggest legislative issue affecting amusement arcades and adult gaming centres in recent months has been that of Machine Games Duty (MGD).

MGD replaces the Amusement Machine

"We are now starting to finesse the new (B3) games, making adjustments to programmes to ensure that the games are right for our players and there is no doubt that we are starting to see players coming back from the local bookmakers into our venues to play these new games."

**NICK HARDING**, CEO, Praesepe.

Licence Duty (AMLDD) system for machines that offer a cash prize. AMLDD is an annual fee levied against individual machines, payable at a flat rate even if the machine is off site for maintenance or repair. MGD is a taxation on the cashbox of machines and is calculated at two different levels - 20 per cent and five per cent.

The lower rate will apply to machines with maximum stakes of 10p and maximum cash prizes of £8. There is

no ability to net off irrecoverable VAT and SWPs have been included.

If any machine consists of both games of skill and games of chance, the machine is considered to be a gaming machine, the category of which is determined by the level of stake and/or prize. So, for example, if the maximum stake is £1 and/or the maximum prize is £70 then it is a category C gaming machine and if the maximum stake is £2 and/or the maximum prize is £500,



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# Report

## ADULT GAMING CENTRES

it is a category B3 gaming machine.

The duty came into effect from February 1, 2013 and it is therefore too early to say whether the dire predictions made by the industry before its implementation have come to pass. MGD was extremely unpopular with the arcade sector, which lobbied furiously against it.

At the time, BACTA President Derek Petrie said: "It's inconceivable that a Government supposedly committed to small business and to tourism has made this decision."

He warned that the new tax could lead to widespread arcade closures. The 20 per cent level for Category C machines was a particular blow to the industry as it was significantly higher than the 15 per cent that BACTA had asked for. But the biggest blow by far was the VAT which has been removed and which can now not be reclaimed on the purchase of new machines.

"This has effectively added 20 per cent onto the cost of buying new machines," said an industry source who added, "the fact that Category C machines were not given a rate somewhere in between five and 20 per cent shows that the Government does not understand our industry or has chosen not to."

The removal of value-added tax (VAT) from the takings of gaming machines brings the UK into line with European Union rules on gambling activity, which provides that gambling should normally be exempt from VAT. The changes do not affect "virtual" on-line fruit machines, and VAT will continue to be payable on the takings from amusement machines.

Andrew Green, Operations Director of Felixstowe-based Pier Amusements said before the introduction of MGD: "It is of paramount importance to provide the right type of machines at the right time in order to maximise our customers' enjoyment of our facilities.

"The introduction of MGD will bring unwelcome complexities to our business, and indeed the whole sector, as it will require changes to the way in which we record the income we take from the machines, in order to determine whether it will remain subject to VAT or liable to the new MGD."



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**ANDREW GREEN,**  
Operations Director,  
Pier Amusements

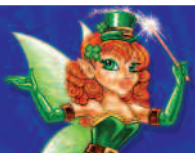
Richard Wild, Director of VAT at business advisers PKF, said: "Not only will the leisure industry now have to deal with a brand new tax, but their VAT profile will change massively, meaning that they can no longer reclaim VAT on the purchase of many machines and will also suffer VAT on a lot of their running costs."

Better news for the industry came in the form of the Triennial Review Consultation, which was published in January this year. It agreed with most of the recommendations made by the arcade industry, including a £100 jackpot for Category C machines. Derek Petrie, former President of BACTA says there is still a way to go before the new stakes and jackpots become a reality however. "This is a consultation and we won't know the outcome until it ends in three months then the response from the DCMS in another two or three. One positive thing is that the DCMS agree with most of our proposals."

### **MGD BRINGS UNWELCOME COMPLEXITIES TO OUR BUSINESS, AS IT REQUIRES CHANGES TO THE WAY IN WHICH WE RECORD MACHINE INCOME.**

The Government's recommendations were as follows:

- Category B1 – £5 stake (industry recommendation) but maximum subject to player tracking and further recommendations from Gambling Commission
- Category B2 – no change, but there is a call for evidence of why the Government should act. Note the action on B2 will not follow the



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same timetable as the Triennial

- Category B3 – no change, i.e. the Government states that as B3s have recently changed, there is no evidence for an increase in prize at this stage.
- Category B3A – agree with industry proposal to increase stake to £2
- Category B4 – agree with industry proposal to increase to £2/£2.50
- Category C – agree with industry proposal to increase prize to £100
- Category D (non-monetary prize) – agree to increase stake to £2 but to limit non-monetary prize to £60
- Category D (pushers) – agree with industry proposal i.e 20p /£20 (combined cash and non-cash where limit is £10 cash)
- Category D (monetary prize) - agree

to 20p stake but restrict maximum prize to £6

As aforementioned, in July 2011 the House of Lords Grand Committee approved two related Category B machine concessions - The Gambling Act 2005 (Gaming Machines in Adult Gaming Centres and Bingo Premises) Order 2011 and Categories of Gaming Machine (Amendment) Regulations 2011.

Both were presented by Baroness Patricia Rawlings of the Conservative Party who proposed that the Category B £1 stake be doubled. She also called for the maximum number of Category B machines (currently four for adult gaming centres and eight for bingo halls) be increased to 20 per cent of the overall machine quota for individual premises.

Baroness Rawlings said that AGCs and bingo clubs have been struggling for a number of years due to difficult trading

**"Not only will the leisure industry now have to deal with a brand new tax, but their VAT profile will change massively, meaning that they can no longer reclaim VAT on the purchase of many machines and will also suffer VAT on a lot of their running costs."**  
**RICHARD WILD,**  
Director of VAT, PKF.

conditions and the economic downturn. She quoted BACTA figures saying that revenues in the industry are down some 36 per cent since 2007 with over 250 arcades and 1300 jobs lost.

She said that BACTA also estimates that gambling machine manufacturing output has dropped by 40 per cent since 2006 with employment down 33 per cent in the sector since 2009.

"Category B gaming machines are an intrinsic part of the business model and generate significant levels of revenue," she said. She called on the Lords to pass the motion so that the industry could, "Adapt and develop its business model."

The concessions to B3 games seemed to have a positive effect on the arcade sector. Nick Harding, the Chief Executive of Praesepe, the UK's largest AGC chain reported that the new B3 games in his sites were even luring players away from LBOs.

"We are now starting to finesse the new (B3) games, making adjustments to programmes to ensure that the games are right for our players and there is no doubt that we are starting to see players coming back from the local bookmakers into our venues to play these new games," he says.

"This work will continue well into next year but the important thing is that this is the first 'positive' that we have seen for four years and I hope that it will give us that pump priming effect that has been long overdue."

Harding also has praised for the new rules on siting the machines. He said: "The other aspect of this deregulation is the move from a fixed four or eight machines in each venue (AGC and Bingo Clubs) to a formulaic approach of one B3 to every four category C or D.

"This is a much more sensible approach and one which means that we can remove the silly subdivisions that we had been forced to licence at larger venues and to put the machine lounges back to the layouts that we had pre the implementation of the act in 2007. A very good example of this is The Crystal Rooms in Leicester Square which has been transformed by the removal of the partition walls and has been restored to its former glory." he added



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## A TRUE CALLING

Issues concerning taxation dominate the bingo sector in the UK at present. Calls to lower bingo duty in line with the National Lottery have pitched the industry against the government, while the introduction of MGD will further impact the sector

Modern day bingo is a descendant of the Lo Giuoco del Lotto d'Italia which was the original Italian lottery played as early as 1530. The game later moved into France in the 1700s and then across Europe in the 1800s. It travelled over the Atlantic to the American market and was put firmly on the map by American salesman Edwin Lowe in 1929 who promoted the game. At that time it was called Beano.

When Lowe returned to his home in New York he took the game with him and story has it that when one player, in her excitement shouted out Bingo, the name stuck. The game was produced and marketed and became hugely successful.

By 1934 there were an estimated 10,000 Bingo games a week and Lowe's company tried hard to keep up with the demand of producing cards. By the 1950s the game was re-imported back to the UK market and in 1961 commercial bingo was legalised in the UK.

There are currently 221 operators which have non-remote bingo licences and between them they operate some 697 bingo halls in the UK varying from large bingo clubs, holiday park bingo clubs, working men's clubs and small high street venues.

The nation's cinemas took advantage of the game first and games were often played in between screenings of movies. Rank's first bingo club was formed at the Odeon Cinema in London's Hackney Road for example.

There has been a decline in the number of clubs and the number of players over the last few years but bingo is still a huge pull especially for female players and clubs have undergone renovations to make them appeal to all ages and genres.

To run a bingo hall operators must obtain a licence from the Gambling Commission. Bingo operators require three types of licences to run a business – an operating licence, a personal management licence and a premises licence.

Charity bingo nights, which can be run with an aggregate of less than £2,000 over a seven day period, do not require a licence.

There are two game requirements – the

Main Stage Bingo Game which is the primary game played in any bingo session involving paper or virtual electronic tickets plus the Interval Bingo Game which is a game played outside of sessions of the main game.

Over three million people made over 48 million visits to bingo clubs last year in the UK and some 70 per cent of players are women.

There are currently 221 operators which have non-remote bingo licences and between them they operate some 697 bingo halls in the UK varying from large bingo clubs, holiday park bingo clubs, working men's clubs and small high street venues.

The bingo industry employs some 13,000 people and the turnover for the sector has dropped slightly from a total of £1.27bn to £1.22bn last year (a three per cent decrease). The biggest drop was in prize bingo with a 19 per cent fall. The Gross Gambling Yield (bingo games) has however seen a one per cent increase from £401m to £404m whilst







## THE BINGO INDUSTRY EMPLOYS 13,000 PEOPLE AND THE TURNOVER FOR THE SECTOR HAS DROPPED SLIGHTLY FROM A TOTAL OF £1.27BN TO £1.22BN LAST YEAR.

GGY (gaming machines) amounted to £230.3m bringing total GGY for the bingo sector to £634.7m, around six per cent of the total gaming and betting market.

There are eight main bingo hall operators, the largest being Gala Coral Group with 138 locations followed by Rank Group-Mecca Bingo Ltd with 103 locations, Cashino Gaming Ltd with 34 micro bingo sites, Luxury Leisure with 24 sites, Park Holidays UK Ltd with 23,

Thomas Estates Ltd with 23 and Top Ten Bingo with 23. The independent operators have 330 bingo halls between them.

The industry is dwindling and between 2005 and 2010 more than 180 bingo clubs closed down.

The 2005 Act affected the bingo sector following the removal of certain machines (known as Section 16 and 21). These machines had a stake limit of £2 and prize limit of £25. They allowed up to 20 games to be played concurrently on the same machine and total prize could be £500. These machines were replaced in the Act by the B3 machines with a £500 prize limit but a lower stake of £1.

When the Section 16 and 21 machines were removed BACTA claimed some 200 amusement arcades closed in 18 months and a fall in the number of these machines fell from 55,000 to around 10,000 per year whilst arcade revenues dropped by 20 to 30 per cent.

The 2005 Act affected the bingo sector following the removal of certain machines (known as Section 16 and 21). These machines had a stake limit of £2 and prize limit of £25. They allowed up to 20 games to be played concurrently on the same machine and total prize could be £500. These machines were replaced in the Act by the B3 machines with a £500 prize limit but a lower stake of £1.

### GAMING MACHINES

Meanwhile gaming machines can be sited on bingo premises and category B3, B4, C and D machines are allowed. B3 machines have a £2 stake and £500 payout and B4 have a £1 stake and £250 payout. The stake for B3 machines was increased back in July 2011 from £1 to £2 to help AGCs and bingo premises and provide a boost to gaming machine manufacturers.

Category C are £1/£70 slots and D machines are 30p/£8 machines with non cash prizes (not crane machines). There are however limits on the number of machine allowed. For B3/B4 there are only a maximum of 20 per cent of the total number of gaming machines permitted. For those with a licence up until April 2014 they can have 20 per cent or eight machines, whichever ever is the greater. There is no limit to the number of category C or D machines.

There some 30,707 gaming machines located in bingo halls and these account for 22 per cent of the total



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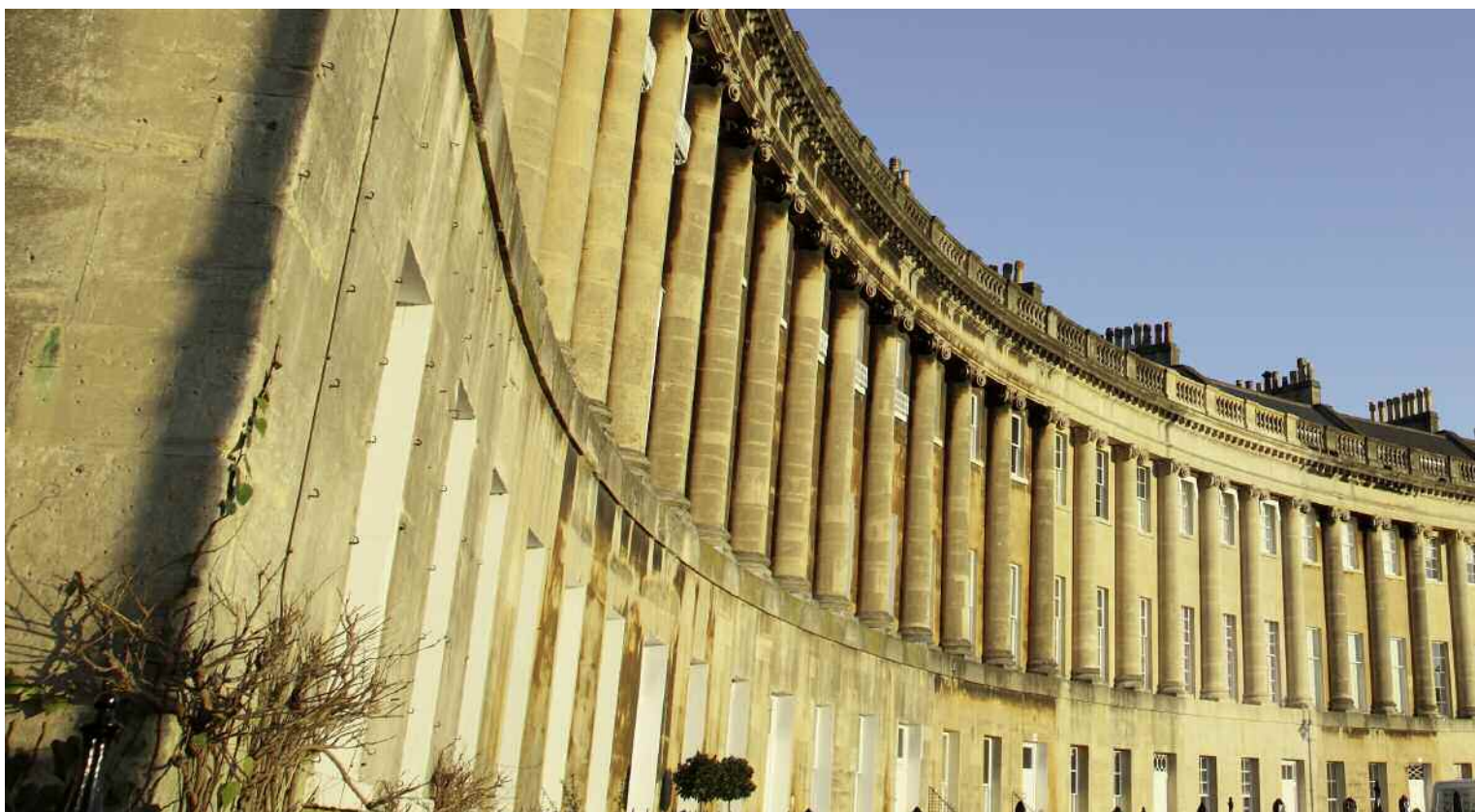


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### MACHINES IN BINGO HALLS

MACHINE TYPE	NUMBER OF MACHINES	GGY 2011	GGY 2012	CHANGE
B3	4,138	£58m	£58.8m	1%
B4	193	£1.7m	£1.4m	-18%
C	14,615	£71.5m	£65.8m	-8%
D	11,761	£5m	£4.9m	-2%
Aggregated categories		£87.7m	£99.3m	13%
<b>TOTAL</b>	<b>30,707</b>	<b>£224.1m</b>	<b>£230.3m</b>	<b>3%</b>

number of gaming machines in the UK market. Gaming machine GGY meanwhile accounted for 11 per cent of all gaming machine GGY. Category C machines in bingo halls accounted for 52 per cent of all category C machine GGY across the market.

There was a marked increase in the number of Category D machines (from 5,014 to 11,761) between 2011 and 2012 primarily due to the use of handheld bingo terminals by one provider and the conversion of an AGC into a bingo hall.

The Bingo Association was formed in 1998 after the merger of the British Bingo Operators Association and the Bingo Association of Great Britain. The group now works with operators and club owners to help represent the industry.

The Bingo Association was formed in 1998 after the merger of the British Bingo Operators Association and the Bingo Association of Great Britain. The group now works with operators and club owners to help represent the industry. There are 51 companies which are members.

Gala recently rejoined the Bingo Association after it withdrew its membership in 2008. The company is backing the association with its fight for a fairer tax regime for the industry.

### THE DCMS SELECT COMMITTEE INVESTIGATING THE GAMING ACT STATES BINGO SHOULD BE TAXED IN LINE WITH OTHER FORMS OF GAMBLING AT THE 15 PER CENT RATE.

Prior to the 2005 Act the bingo industry paid a bingo duty based on turnover and calculated as a percentage of staked money and winnings. It also then paid VAT on participation fees from which others gaming sectors were exempt.

At the moment Bingo pays a 20 per cent Gross Profit Tax rate compared to other sites such as LBOs, high street arcades and online bingo sites which pay a rate of 15 per cent whilst casinos pay 15 and 50 per cent depending on their gross gambling yield.

It is said high taxes are the biggest burden on bingo halls and result in a



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### BINGO TURNOVER AND GGY LAST TWO YEARS

GAME TYPE	TURNOVER 2011	TURNOVER 2012	CHANGE	GGY 2011	GGY 2012	CHANGE
Main Stage Bingo	£676.76m	£654.58m	-3 %	£136.9m	£133.1m	-3 %
Mechanised cash Bingo	£561.48m	£547.72m	-2 %	£247.2m	£256.7m	4 %
Prize Bingo	£32.02m	£25.99m	-19 %	£17.1m	£14.5m	-15 %
<b>TOTAL</b>	<b>£1.27bn</b>	<b>£1.22bn</b>	<b>-3%</b>	<b>£401.3m</b>	<b>£404.4m</b>	<b>1%</b>

closure of one club per month. With the government about to levy an additional £9m per year in terms of MGD the association is campaigning to reduce the tax rate.

The Culture Media and Sports Select Committee which is investigating the Gambling Act 2005 states bingo should be taxed in line with other forms of gambling at the 15 per cent rate.

Chloe Smith, Economic Secretary to the Treasury argues that the bingo tax rate is within the same "effective tax rates as the National Lottery and casinos."

She said: "The National Lottery pays lottery duty at the rate of 15 per cent and a reduction in bingo duty to, for example, 15 per cent would cost the government around £25 million to £30 million per annum."

However other reports state that a reduction in bingo tax to 15 per cent would lead to an increase in the overall tax take benefiting the treasury to over £65m between 2011 and 2014.

Paul Talboys, Chief Executive of the Bingo Association said: "We remain convinced that a fair tax regime which supports UK jobs and stimulates local economies can only be achieved by

The MGD will see an additional annual tax burden of £9m. At the moment the bingo industry generates around £300m a year in tax revenues for the Treasury. The 'break-even' rate for bingo clubs is said to be 16.3 per cent which is much closer to the 15 per cent the amendment proposes.

introducing a single rate of tax for all products governed by The Gambling Act.

"In moving forward to create a sector with a genuinely 'level playing field' it will be essential for all involved that the DCMS and Treasury, who are responsible for creating the framework (regulatory and tax) that the industry operates within, work together in a co-operative and considered manner."

The association says the sector is already going to suffer with the introduction of MGD which will have an impact on bingo halls not to mention pubs and clubs across the country.

The MGD will see an additional annual tax burden of £9m. At the moment the bingo industry generates around £300m a year in tax revenues for the Treasury. The 'break-even' rate for bingo clubs is said to be 16.3 per cent which is much closer to the 15 per cent the amendment proposes.

A MGD rate of 20 per cent would cost each club about £26,000 per club. Some 170 bingo clubs make less than £70,000 a year.

At the moment the bingo sector currently pay 20 per cent Gross Profits Tax on Main Stage Bingo and Interval Bingo plus for Category B3 machines 20 per cent VAT and £2,480 AMLD annually. Category C machines pay 20 per cent VAT and £935 annually AMLD.

### THE OPERATORS

The main bingo operators include:

**GALA CORAL** is the leading bingo operator in the UK with a market share of around 45 per cent. The company is privately owned and also operates within the LBO, casino and online gaming sectors. Group revenues for the end of 2012 were £1.19bn whilst EBITDA was £29.4m. Gala Bingo has been operating for over 20 years and today has 138 clubs and some five million members.

Gala Coral began in 1997 when a management buy in saw 130 Gala Bingo Clubs purchased from Bass. The deal was backed by PPM Ventures. Three years later as the company bought casinos it acquired further bingo locations.

In 2003 private equity firms Candover and Cinven acquired the group for





£1.24bn and they were joined by a third investor Permira in 2005 who also bought a stake in the company.

In 2006 Gala Coral acquired the County Clubs Bingo chain in Scotland and in 2010 a new shareholder group led by Apollo Cerberus, Park Square and York Capital Management took over the company.

Bingo gross profit for the group was nine per cent ahead of the previous year and was £223.3m whilst turnover was £308.7m (five per cent higher than the previous year) and EBITDA £78.1m.

Spend per head was £32.92 which was a four per cent growth on the previous year. In November 2011 Gala bought Noble Organisation's two bingo venues in Middlesbrough and South Shields

This next year the group plans to focus on product and system development and further investment into the Genesis concept and re-launching the Main Stage product.

Prior to the 2005 Act, the bingo industry paid a bingo duty based on turnover, and calculated as a percentage of staked money and winnings, and it also paid VAT on participation fees, from which other sectors of the gambling industry were exempt. This "double taxation" left the bingo sector highly taxed compared to the rest of the industry.

**RANK GROUP-MECCA BINGO** operates within the casino, bingo, online gaming and betting sectors in the UK, Spanish and Belgian markets. In total the group has 103 bingo halls and 35 casinos in the UK with annual group revenues of £567.8m, 2.5 million customers and over 8,000 employees.

The company was formed in 1937 as the Rank Organisation by Arthur Rank who brought several motion picture businesses together under one umbrella.

The company maintained a prominent position in the UK's film industry but ended its association with movies in 2006 when it sold its Deluxe Film Post Production and distribution business.

In 1980s and 1990s through a series of acquisitions Rank began to increase its presence in the leisure sector and by the mid 1990s had investments in cinemas, theme parks, pubs, nightclubs, hotels and holiday camps.

The company entered the casino

market in 1989 after buying one casino and then in 1990 Rank acquired the Mecca Leisure Group and merged its Top Rank clubs with Mecca Bingo.

By 1994 it had entered the Spanish bingo market and today there are 11 Top Rank España bingo clubs and in 1998 Rank bought two casinos in Belgium. In 2003 it acquired Blue Square internet bookmaking company.

Today Mecca Bingo is headquartered in Maidenhead and has 97 bingo clubs and revenues of £237.8m and some 965,000 active members. Its bingo clubs and casinos in the UK account for more than 80 per cent of group revenue.

Of the £237.8m revenue some £41.5m is from Main Stage Bingo, £104.9m is from Interval Games, £65.2m from gaming machines and £26.2m from food and drink.

The company invested a huge amount last year in enhancing its Mecca clubs and modernising their venues. In 2009





they launched the Full House Destination a club model with the aim of modernising the community gaming experience. This featured a lounge for electronic gaming and late night events and a bar and slots arcade. Several venues have already been changed into Full House Destination models and they have seen an higher spend per visitor.

**TOP TEN BINGO** is the third largest bingo operator in the UK market and currently operates 22 clubs. In 2010 it was forced to close some of its branches due to financial difficulties. At its peak in 2006 the company owned over 40 clubs following acquisitions and mergers with Apollo Bingo and Walkers Bingo.

Today it also runs an online site and its online business is marketed by Cashcade Ltd which is behind the huge online bingo site Foxy Bingo, GetMinted casino site and other online gaming and bingo sites.

Games promoted by Cashcade are

operated by Cassava Enterprises, a Gibraltar business whilst the game and banking software is powered by Bridgend, a subsidiary of Cassava.

**CARLTON CLUBS** is headquartered in Inverness and operates 14 bingo clubs across Scotland and the north of England. The company was formed in 2004 when the four main directors bought out the bingo interest of Taylor Clark plc. Since then the company has grown and has dedicated bingo clubs in Inverness and Dunfermline and also operates online bingo gaming.

Meanwhile Cashino Gaming (Praesepe) operates AGCs in the UK plus 34 micro bingo venues in the UK which offers traditional style slot game sand bingo plus bingo machines. Park Holidays UK have 24 caravan holidays park across the southern UK coastline from Devon to Suffolk and these operate bingo clubs and Thomas Estates, which works under the brand of Riva Gaming, also operates bingo clubs and AGCs. The company was set up in 1987 and has 23 bingo clubs.

Bingo operators still hold that they are charged an unfair level of tax compared to the rest of the gambling industry. The UK online industry paid Gaming duty at 15 per cent, whilst casinos paid between 15 and 50 per cent, depending on their gross gaming yield.

### LEGISLATION

Tax burden remains the single biggest constraint on the financial viability of bingo clubs, according to The Bingo Association, which cites taxation as a significant contributor to the closure of on average one club per month, as well as why more than 150 of the Great Britain's bingo clubs remain vulnerable.

Prior to the 2005 Act, the bingo industry paid a bingo duty based on turnover, and calculated as a percentage of staked money and winnings, and it also paid VAT on participation fees, from which other sectors of the gambling industry were exempt. This "double taxation" left the bingo sector highly taxed compared to the rest of the industry.

In 2003, bingo taxation was reformed in order to bring it in line with the

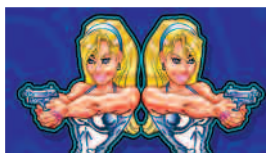
**IN 2009, THE GOVERNMENT INCREASED BINGO GPT FROM 15 PER TO 22 PER CENT. IN 2010 THIS RATE WAS REDUCED DOWN TO 20 PER CENT.**

wider industry: turnover tax was abolished and bingo was subject to a gross profits tax (GPT), charged at 15 per cent. VAT charges were removed later.

In 2009, the Government increased bingo GPT from 15 per to 22 per cent. In 2010 this rate was reduced to 20 per cent because of industry complaints that 22 per cent was too high.

Bingo operators still hold that they are charged an unfair level of tax compared to the rest of the gambling industry. The UK online industry paid Gaming duty at 15 per cent, whilst casinos paid between 15 and 50 per cent, depending on their gross gaming yield.

Gala Coral Group stated that: "It is patently unfair that the 'softest' of all forms of gambling (bingo) is charged the very highest base rate of Gross Profits Tax (20 per cent)."



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### Comment

"The bingo industry in Great Britain currently consists of 476 clubs employing over 13,000 direct employees and has over three million customers making over 48 million visits in 2010. Annually the sector turnover is more than £1.2 billion, however this has declined since FY2009 when a turnover of £1.3 billion was reported. The sector over the last decade has faced a difficult and challenging time which saw the implementation of a new Gambling Act and a UK wide smoking ban but despite these challenges bingo is a unique part of the gambling industry, firmly at the soft end of the spectrum of gambling activities and rooted in the social arena. The bingo club's role in the community is widely recognised with the Portas Review calling bingo clubs 'important community assets and offer safe, fun and inexpensive options to customers for leisure activity.'

The Bingo Association is the trade association of the licensed bingo industry in Great Britain representing the proprietors licensed under The Gambling Act 2005. Formed in 1998 following the merger of the British Bingo Operators Association and the Bingo Association of Great Britain, the association's mission is to represent the industry and to aid and inform sector operation and development.

I was appointed the Chief Executive of the Bingo Association in October 2012 and I joined the association after 29 years service at Mecca Bingo holding senior management roles at an operational level and was sales and marketing director for the last six years. I have been a member of The Association Executive Council since 2009.

The bingo association announced in January this year that Great Britain's largest bingo operator Gala Bingo with its 138 clubs has rejoined the association. Gala's return marks a significant growth in the size of the association. Gala Bingo's added presence will help the association further step up its campaign to tackle the inequitable tax system levied on bingo.

Bingo pays a 20 per cent Gross Profit Tax (GPT) rate while most other forms of gambling (including betting shops, high street arcades and even online bingo sites) pay a rate of 15 per cent. Research has shown that a reduced rate of 15 per cent levied on bingo would significantly increase revenue to the Exchequer by around £35 million over a four year period as well as helping to maintain associated employment and social benefits. Tax burdens remain the single biggest constraint on the financial viability of bingo clubs and is a significant contributor to the closure of an average of one club per month. It also explains why more than 150 of Great Britain's bingo clubs remain vulnerable. At a time when the government is about to levy an additional £9 million per annum tax on the bingo sector through the introduction of Machines Gaming Duty, there is a strong need to reduce bingo GPT, as recently recommended by the Culture, Media and Sport Select Committee in Parliament.

Aside from the tax issue, the Bingo Association believes it is important that we preserve the position of bingo at the softer end of the gaming spectrum and maintain its unique position there. The association will do their utmost to ensure bingo retains its vibrancy and that technology is seen as an opportunity, not a threat, which has the ability to take the industry forward. Specifically this means a modern and attractive suite of industry products and games, a sensible tax regime and recognition of the crucial role bingo plays in the day to day life of our local communities."

.....  
**MILES BARON**, Chief Executive of the Bingo Association

In July 2012, The Culture Media and Sport Select Committee investigating The Gambling Act 2005 published its report "The Gambling Act 2005: A bet worth taking?", in which it stated that 'bingo should be taxed in line with other forms of gambling at 15 per cent.'

Following an extensive review of The Act, its development, implementation,

enforcement and impact on operators and consumers, the Report made a number of significant recommendations, with regard to future developments in the gambling sector. The Report firmly acknowledged bingo's position as soft gambling and supported the original vision, set out in the 2001 Gambling Review Report, that bingo clubs be maintained as social, soft gambling, environments.



Back in 2011, Rank Group, parent company of Mecca Bingo, won a landmark case against the taxman netting a VAT rebate from the government of £253.4m HM Revenue & Customs took the case to the European Court of Justice (Europe's highest court) but it rejected the appeal over the £253.4m awarded to Rank by the UK courts for overpaid VAT on bingo dating back to 1973.

In acknowledging that the bingo sector remains highly taxed in comparison with other sectors, the Report recommended that Treasury make an assessment and investigate the position within the next financial year.

Paul Talboys, Chief Executive, The Bingo Association said at the time, "We are pleased that the Select Committee has recognised that bingo should be taxed at 15 per cent, bringing it in line with the other forms of gambling in the UK. We remain convinced that a fair tax regime which supports UK jobs and stimulates local economies can only be achieved by introducing a single rate of tax for all products governed by The Gambling Act."

Since February this year, the bingo industry now has an additional tax burden in the form of Machine Games Duty (MGD), which replaces AMLD and is levied against gaming machine cashbox at 20 per cent. The Bingo



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Association calculates that this will cost the bingo industry an additional £9m per annum in tax.

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A further claim by Rank Group for £30.8m relating to amusement machines tax is still in dispute, as are further claims by Rank relating to amusement machines totalling £275m, which are expected to take another few years to be heard. The ECJ said the government had breached EU rules on fiscal neutrality by having different rates of VAT for the same game.

Rank said in a statement: "Rank is considering the implications of the ECJ decision with its advisers on its amusement machines claim for £30.8m including interest and will provide an update on this claim in due course."

In the report the DCMS Committee claimed that the bingo sector had benefited from the gaming act in recent years in the following ways:

"Bingo industry representatives told us that they thought their sector had broadly benefited from the introduction of the 2005 Act. The removal of the demand test by the Act required local authorities to permit the opening of new bingo clubs unless they were likely to have an impact counter to the three primary regulatory objectives of the Act; and the Act also removed advertising restrictions and permitted extended opening hours."

The other piece of legislation that had a

After the smoking ban, many were lost to online gaming where they could play and smoke in the comfort of their own home. Of those that stayed in the bingo halls, breaks between games, which previously were used by smokers to play machines, were subsequently used instead to head outside for a cigarette break.

huge impact on bingo halls was the smoking ban which was introduced in 2006. At the time of the ban, it was estimated that around half of the customers attending bingo halls in the UK were smokers. After the ban, many were lost to online gaming where they could play and smoke in the comfort of their own home. Of those that stayed in the bingo halls, breaks between games, which previously were used by smokers to play machines, were subsequently used instead to head outside for a cigarette break.

Bingo clubs have tried various ways to counteract the damage caused to revenues by the smoking ban. In 2011, Mecca Bingo invested significantly in gaming areas outside of the main bingo club where smokers were able to enjoy playing bingo with the latest hand-held electronic bingo equipment. However, undoubtedly the smoking ban was the best thing to ever happen to the online bingo industry.



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# BRAVE NEW WORLD BEGINS IN THE UK

Ashley Lang of Odobo explains why the international gaming community should look to the UK for evidence online real money gambling is the next big growth market

Odobo launched in December 2012 as the new HTML5 game development platform and marketplace for the regulated gambling industry. Just as the Apple, Android and Facebook developer program models were instrumental in bringing creativity and innovation from new developers - and ultimately driving engagement and sales for the host and device manufacturers - Odobo aims to do the same in the regulated gaming industry.

Odobo is one of the new breed of tech start ups in the British Overseas Territory of Gibraltar, the industry-leading regulated online gambling jurisdiction and home to top-tier operators such as bWin.Party, William Hill, 888.com, and service providers, Spielo, IGT, SHFL and Bally.

The regulated online gambling industry market is estimated at £17.6bn annually today and is forecast to exceed £22.9bn by 2015 as markets like the US are poised to introduce new regulations. The UK legalised online gambling in the Gambling Act 2005, while many of the other international markets were still hesitant to regulate. Seven years later and the UK online gambling market is worth over £2.5bn a year and is expected to surpass £3bn by as early as 2015, according to research commissioned by Odobo from Manchester-based researcher H2 Gaming Capital.\*

As online real money gambling is the hottest topic around the world right now, casino operators should look to jurisdictions like the UK for both



**ASHLEY LANG,**  
founder and CEO,  
Odobo.

Ashley Lang brings more than 12 years' experience to the online gambling industry and has held senior executive level and directorship positions with Mansion and bet365. Lang has a strong entrepreneurial track record as co-founder of Green Room Media, is a partner in poker word game AlphaBet, and involved in a number of iOS game developments.

\*Download the Odobo report by visiting:  
<http://odobo.tumblr.com/>

## THE SHIFTING GAMING LANDSCAPE IS SEEING BRICKS AND MORTAR CASINO PLAYERS MOVING ONLINE AND ONTO MOBILE AT INCREASING SPEED.

evidence of the market opportunity and learn from their 'been there done that' expertise.

The shifting gaming landscape is seeing bricks and mortar casino players moving online and onto mobile at ever-increasing speed. Gaming operators, be they land-based or online, are all competing for the attention of consumers and looking for innovative ways to engage them with their brands. With the popularity of tablets and mobile devices, consumer engagement with gaming brands is changing - it's a brave new world, and customers want the freedom to play wherever they like.

While there may still be a desktop PC in the home, less and less are consumers using that device for entertainment and more and more are individuals enjoying the benefits of mobility with gaming entertainment on tablets and mobiles. Consumer habits are changing and they are calling the shots.

Companies like Odobo are addressing this challenge by providing land-based and online gaming operators with 'first mover advantage' via its standardised games publishing platform that allows game developers to create new

innovative content via a well-defined games development kit supported across all devices in HTML5 (terminal, desktop, tablet and mobile).

Odobo has rewritten the rules on the way content is therefore produced, licensed, distributed and monetised for the regulated gambling industry. We provide a simplified downstream distribution and licensing model at the Odobo Marketplace - a b2b app store for operators hungry for new game content.

Even consumers in a land-based casino may still wish to enjoy the mobility of a mobile or tablet device to play their favourite games with the operator. Bricks and mortar casino operators are therefore looking for ways to improve on-property gaming activity and to address the preferences of today's digital consumer by extending the casino floor experience. They are looking for gaming content that can be provided to their players via tablets thereby allowing their customers to wager against the casino from the comfort of their room, poolside, or in the lounge rather than only while seated at a gaming table.

Engaging with customers when they are off-property too means casinos are also looking to social and casual casino gaming entertainment as a marketing channel and an avenue to maintain top-of-mind awareness with their customers.

With standardisation in the games content production via the Odobo platform, game developers have the framework necessary to allow them to focus on producing creative games for the industry, whilst gaming operators have the ability to not only easily access great new content from the Odobo Marketplace, but be safe in the knowledge that they are ready to be played across multiple devices in multiple territories.

Right now what we are witnessing is the digital age for regulated gambling, which will mark new opportunities for anyone previously servicing only one side of the industry. The UK is streets ahead than most countries on this shift due to its more open regulatory framework, so is definitely a region to watch for proof of the commercial opportunity as the rest of the world prepares to show its hand in the online world.



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## A SPORTING CHANCE

The largest form of gambling in the UK by far, Licensed Betting Offices (LBOs) provide a range of betting and gaming opportunities both land-based and online, though the industry faces a series of challenges that could greatly reduce its size

The love of betting is part of the English heritage and the St Leger, the oldest race in the world, was first run in 1776. Towards the end of the 18th century Harry Ogden informed onlookers at Newmarket Heath that he would take wagers against each horse in a race and as such he became known as the first professional bookmaker in the UK market.

Betting shops eventually made an appearance but were then outlawed by the Betting Act in 1853 and only those who attended race meetings could place cash bets. Then in 1886 two gentlemen called Schwind and Pennington formed a partnership as commission agents and in 1902 they were joined by Arthur Bendir, who in effect founded Ladbrokes, a name he chose after spotting a signpost to Ladbroke Hall on his first visit.

The Tote is a British bookmaker with head offices in Wigan and has a long history in horserace betting in the UK after beginning operations back in 1928 after the Racecourse Betting Control Board was set up by the Racecourse Betting Act in 1928 by Winston Churchill.

Bendir changed the rules of betting slightly and aimed the activity at the higher classes and the company became known as the 'bookmaker to the gentry'. In 1956 Ladbrokes was acquired by Cyril Stein and Max Parker whilst the law changed in May 1961 and betting shops were finally legalised.

The industry grew rapidly with some 35 betting shops opening each week at the time with more than 10,000 shops opening within the first six months and peaking at more than 15,000 by 1968. Then in 1986 the first major Act of Parliament for the betting industry in 25 years saw several changes and this relaxed the laws on retail betting and changed the face of the bookmaker.

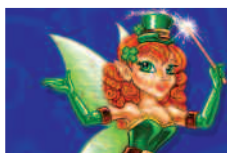
Betting shops were now able to display live television coverage of sports events, serve refreshments and non

alcoholic drinks (albeit from a vending machine) and improve their premises to actively encourage clients into their shops rather than their previous 'den of inequity' image they portrayed.

At this time the big four bookmakers (William Hill, Ladbrokes, Coral and Mecca) began to dominate the industry and they joined with the main racecourses to form the Satellite Information Services which was a television communications enterprise designed to transmit horse and greyhound racing directly into the betting shops. Mecca merged with William Hill in 1988.

Meanwhile the Tote (formerly known as the Horserace Totalisator Board) was also buying shops in the high street.

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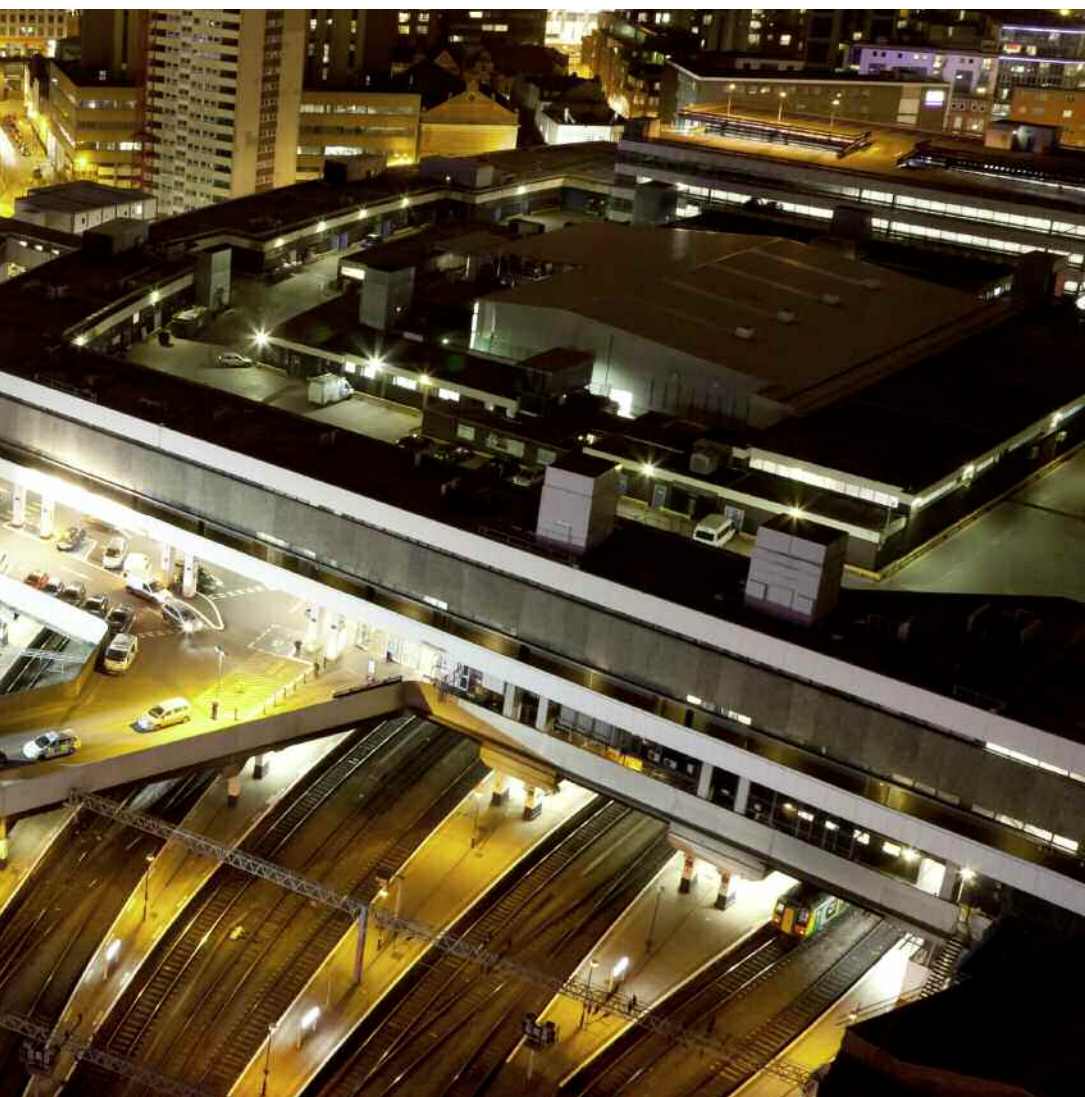


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after beginning operations back in 1928 after the Racehorse Betting Control Board was set up by the Racecourse Betting Act in 1928 by Winston Churchill. His aim was to provide a safe and state controlled alternative to illegal off-course bookmaking.

The Tote opened its first high street betting shop in 1972 whilst Tote Direct was set up in 1992 to channel bets from other high street bookmakers into tote pools.

It was owned initially by the government but in July 2011 following a privatisation programme it was sold to Betfred for £265m and under the brand ToteSport the company now has 514 high street betting shops and outlets on most of Britain's 60 racecourses plus internet and call centre divisions.

It is the only company permitted to run pool betting on horseracing and now has a seven year exclusive licence to operate pools betting on UK racecourses from the date of the privatisation. The company recently branched out into fixed odds betting on other sports plus online casino and bingo operations.

In the beginning its main purpose was to offer on-course pool betting on horseracing with its profits distributed to the improvement of horse breeding and the sport of horse racing.

In 1999 Tote linked up with TV's Channel 4 to introduce Scoop6 game. Today players can now have a tote bet off-course in over 7,000 retail betting shops and also online.

Pool betting gross gambling yield reached £137.4m last year divided

The LBOs in the UK continue to represent the single largest proportion of the UK gambling industry and has a 52 per cent share and brings in a Gross Gambling Yield of around £3bn. Today bets can be made at bookmakers (off-course) or on the tracks (on-course) or remotely.

between dogs (£12.2m), football (£37.1m) and horseracing (£88.2m). Turnover for this sector was £498.5m.

In 1994 when the National Lottery was introduced this became a major challenge for the betting industry and had an adverse affect on profits. It did however see further deregulation permitting betting shops to open on Sundays, display events in their windows, advertise and market their facilities, extend food and snack services, use any size TV screens and also introduce slot machines into their venues.

The following year betting duty was also reduced from 7.75 per cent to 6.75 per cent whilst customer tax was cut from 10 per cent to nine per cent.

In 2007 when the 2005 Gambling Act came into effect betting shop hours were extended to 7am to 10pm and any restrictions on advertising were

### **THE NATIONAL LOTTERY BECAME A MAJOR CHALLENGE FOR THE BETTING INDUSTRY AND HAD AN ADVERSE AFFECT ON PROFITS.**

removed. Bookmakers were also able to offer both Category B2 and Category B3 High-Stake High-Prize games. The B2 replaced the content formerly offered on FOBTs whilst the new B3 category offers lower stakes but the same £500 payout.

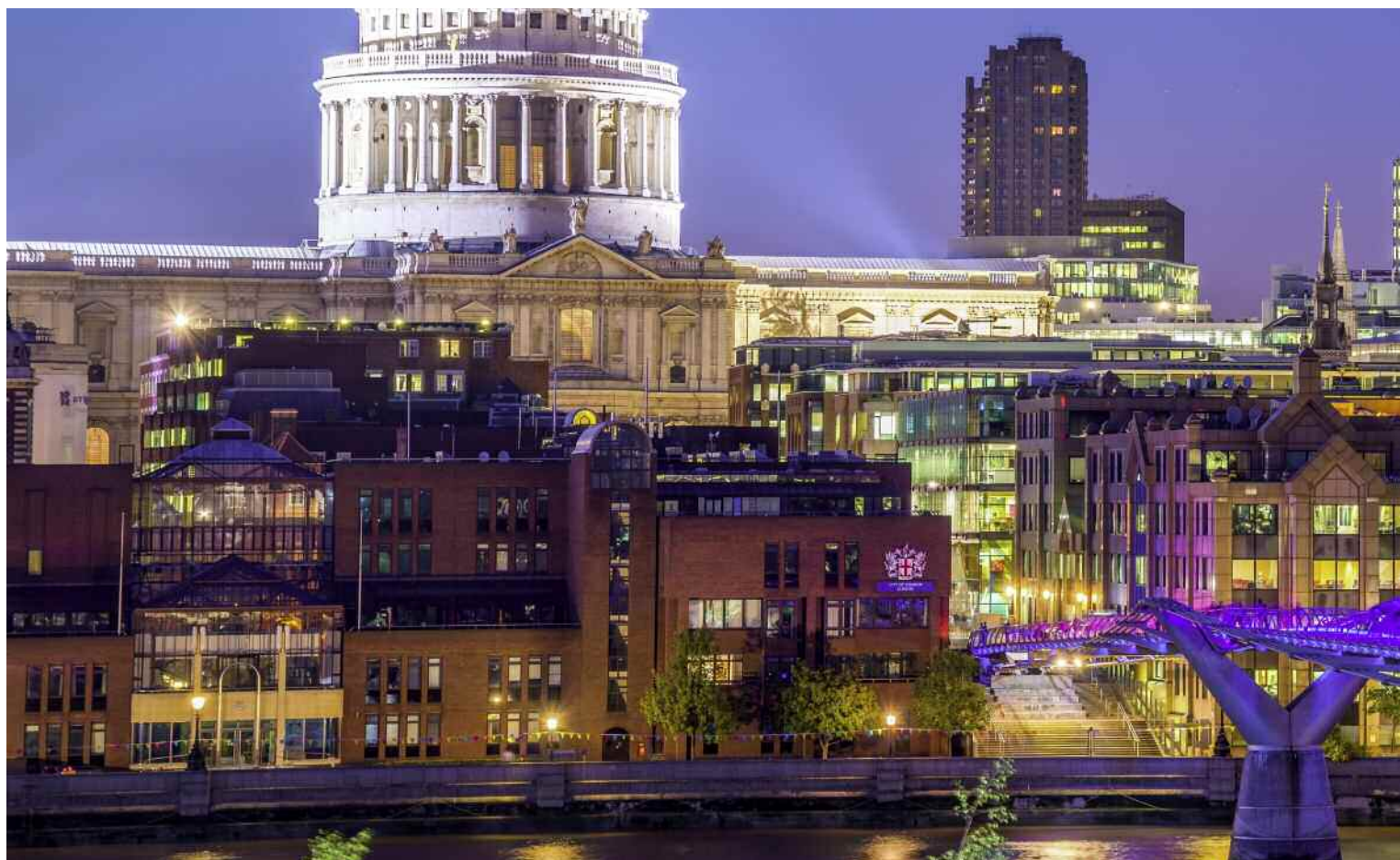
#### **OPERATIONS**

Today, betting shops offer a wide range of products from betting on sports and events such as reality TV shows, gaming, lotteries and virtual racing.

The LBOs in the UK continue to represent the single largest proportion of the UK gambling industry and has a 52 per cent share and brings in a Gross Gambling Yield of around £3bn. Today bets can be made at bookmakers (off-course) or on the tracks (on-course) or remotely.

The British Horseracing Authority





## LBO MARKET DIVISION

OPERATOR	NUMBER OF UK LBOS	NUMBER OF GAMING MACHINES	MACHINE GROSS WIN PER WEEK	RETAIL SECTOR NET REVENUE	MARKET SHARE
William Hill	2,392	9,576	£911	£837.9m	27 %
Ladbrokes	2,151	8,583	£946	£739.5m	24 %
Coral	1,721	6,867	£920	£608m (turnover)	18 %
Betfred	1,350	5,000 (est)	n/a	£268.2m (sports)	15 %
Paddy Power	217	655	£1,210	£101.3m	2 %
Others	1,497	5,171 (est)	n/a	n/a	17 %
<b>TOTAL</b>	<b>9,328</b>	<b>35,852</b>			

governs the horseracing sector and was formed in 2007 following the merger of the British Horseracing Board and the Horseracing Regulatory Authority.

Today, there are 60 horseracing tracks in Britain of which 16 courses offer flat racing only, 24 offer jump racing and 20 offer both types. Showcase racing includes The Royal Ascot, Aintree

There are 60 horseracing tracks in Britain of which 16 courses offer flat racing only, 24 offer jump racing and 20 offer both types.

Grand National and the Cheltenham Festival. There are some 14,000 horses in training competing for over £94m in prize money spread across 1,300 race fixtures held per year and some 9,500 races. The average attendance per fixture is around 3,900 for jump racing and 4,200 for flat racing. Total attendance annually is 5.7 million.

**THERE ARE SOME 14,000 HORSES IN TRAINING COMPETING FOR OVER £94M IN PRIZE MONEY SPREAD ACROSS 1,300 RACE FIXTURES HELD PER YEAR.**

Greyhound racing began to gain momentum in the late 1980s after it was televised although today there has been a 14 per cent decline and today this sector fights hard to keeps its position. There are on average of six meetings per day at some 30 greyhound tracks in Britain.

There are three ways to bet on a racecourse either by Tote, Bookmaker or Racecourse betting shop via on-course and off-course betting operators. In 2012 there were 418 (a drop of 41



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from the previous year) licences held by operators for the betting off-course sector and 614 licences (a drop of 35 from previous year) for the betting on-course sector.

In total there are just over 9,000 betting shops in the UK which are operated by the four main operators whilst other independents operate 1,497 shops between them.

The sector is currently dominated by – William Hill with 27 per cent market share (2,392 shops), Ladbrokes with 24 per cent (2,127), Gala Coral Group with 18 per cent (1,721) and Betfred (including Tote) with 15 per cent (1,350) – and between them they have 7,568 shops which is 84 per cent of the betting shop market. Other operators include Paddy Power which operates a total of 430 retail outlets of which 217 shops are located in the UK with the opening of 44 shops in 2012.

Paddy Power was the first operator to offer Self Service Betting Terminals in its UK shops back in July 2011 and these allow customers more time to

browse and see potential returns on bets plus generate multi legged accumulators which are tailored to customer's preferences. The company has more than doubled the number of terminals installed across its UK and Irish estate since the start of 2012.

Paddy Power's net revenue for the UK retail sector reached £101.3m last year, a 40 per cent increase.

Operating profit for the UK Retail division was £15.3m – 11 per cent of the groups total and which was a 46 per cent rise from the previous year.

Paddy Power's Chief Executive Patrick Kennedy said: "Our retail profits increased by £8.3m or 39 per cent last year with the benefits of improved sports results, new openings and product development more than compensating for the economic conditions, some migration online and increased weather related racing cancellations.

"With less than a three per cent share of the shops in the UK market we also

have a unique opportunity to grow our estate materially in the UK. Even with our selection approach to new openings we successfully opened 44 shops increasing our average UK shop numbers of 28 per cent and operating profits by 29 per cent in constant currency.

"Top line out performance also gives our shops a different level of resilience in the face of any adverse developments relative to the shops of our competitors. Since August 2008 our competitors have closed some 341 shops in Ireland while we have opened 25 units and closed none."

### THE OPERATORS

The betting industry gross gambling yield has remained fairly stable over the years and was around £3bn last year whilst the sector employs 54,449 people.

The Gross Gambling Yield for off-course betting which includes dog and horse racing, footballs and number games reached £1.3bn last year a six per cent decrease from the previous year. This is divided between dog racing (£242m), football (£233m), horse racing (£666m), numbers (£158m) and other types of betting (£93m). Turnover for off-course betting amounted to £9.1bn in 2012 a two per cent increase on the previous year.

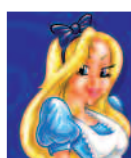
Meanwhile the Gross Gambling Yield for on-course betting decreased by 15 per cent over the last year to £22.6m divided between dog racing (£2m), horse racing (£16.6m) and other types (£3.9m). Turnover for on-course betting reached a total of £265.9m last year a 19 per cent decline.

Sadly, the racing industry is slowly being killed off by progress and there is a continued decline of the racecourse betting sector which, of course, is a reflection of the technological times as many punters are merely betting via their smart phones instead of visiting a racetrack. The same price is offered and they can sit in the comfort and warmth of their home or bar.

The four main bookmakers include:

**WILLIAM HILL** was founded in 1934 before betting was legalised and over the years has grown to employ some 16,000 people in eight countries (UK, Bulgaria, Italy, Spain, Gibraltar, Israel and the Philippines) providing shop,

The sector is currently dominated by – William Hill with 27 per cent market share (2,392 shops), Ladbrokes with 24 per cent (2,127), Gala Coral Group with 18 per cent (1,721) and Betfred (including Tote) with 15 per cent (1,350) – and between them they have 7,568 shops which is 84 per cent of the betting shop market.



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## MACHINES IN LBOs

MACHINE TYPE	NUMBER OF MACHINES 2012	GGY 2011	GGY 2012	CHANGE
B2/B3	35,662	£1.3bn	£1.4bn	11 %
B4	9	£0.11m	£0.08m	-29%
C	174	£0.61m	£0.23m	-63 %
D	9	£0.02m	£0.01m	-21 %
Aggregated categories		£2.24m	£0.50m	-78%
<b>TOTAL</b>	<b>35,852</b>	<b>£1.30bn</b>	<b>£1.44bn</b>	<b>11%</b>

online, mobile and telephone gaming channels. The company is the UK's largest bookmaker with 2,392 LBOs around the country (27 per cent market share) with over the counter service or via 650 self service terminals.

The company is investing in revamping its shops and in 2013 some 200 shops will see Video Walls added, ticker tape-style information panels and price finders. Video Walls are now present in 88 shops and will be added to another 180 this year. The company also plans to open another 40-50 shops this year.

The company is also now in the



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### Comment



"Electronic gaming machines have been in betting shops for over a decade and have become an established and popular product. They have given existing customers something else to enjoy while bringing in new customers too. The machines have grown to represent a significant part of the shop's turnover so reducing the stakes and prizes on offer or removing the machines altogether would hit shops hard and could well lead to some closing down and jobs being lost.

A large number of betting shops operate on very low margins almost 20 per cent of the big five operators' shops make a profit of less than £13,300 a year. Large and small independent chains make an average operating profit of only £19,500 per year while single shop operators, of which there are 230 in total, make an average operating profit of only £4,800 a year. The MGD will cost the Licensed Betting Operators an extra £318 million over the next five years. It will put shops under great pressure and we anticipate their profits to fall by 17 per cent on average as a result. This would make some profitable businesses unprofitable overnight. It goes against the government's policy to encourage economic growth and job creation in the private sector.

Like any other high street retailer we need to continue to serve existing and attract new customers and we hope the government will listen to evidence and facts when making its decisions on stakes and prizes in the coming months. We have and continue to argue with other sectors for no change."

PETER CRASKE, PR Manager, The Association of British Bookmakers

## OF THE 7.3 MILLION BETTORS, RETAIL BETTING ACCOUNTED FOR 85 PER CENT WHILST 53 PER CENT OF ONLINE CUSTOMERS ALSO USED THE SHOPS.

clients would send a bet with a cheque weeks in advance of a race. When betting shops became legal William Hill joined the market in 1966 when betting was still viewed as slightly seedy.

In 1998 William Hill became the first in the industry to launch an online betting facility, Sportsbook, and this changed the face of the industry. Today some one million bets are processed each day with £17.9bn taken in stakes in 2011.

Average profit per LBO is around £82.8m. The company saw operating profits of £330m with net revenues of £1.28bn in 2012 of which the retail sector is accountable for 66 per cent of this of £837.9m.

In January 2012 William Hill awarded an exclusive contract to Inspired

Gaming to provide gaming machines to its LBOs. By June the company had completed the roll out of 2,000 Storm HD + Category B2/B3 gaming machines with Core VIP marketing and rewards. William Hill now operates a total of 9,576 machines.

Core VIP is an advanced marketing and rewards system and allows in-game rewards for all games, even third party titles.

Luke Alvarez, CEO of Inspired said: "We continue to dedicate a considerable amount of R&D to the UK market and our valued customer William Hill. We are pleased with the success of Core VIP which is the first of many SBG technology and game innovations planned for the coming years."

Previously Inspired had supplied 79 per cent of gaming products to William Hill's LBOs through the Storm cabinets which were launched initially between August 2009 and March 2010. The remaining 21 per cent of the estate was filled with the new three screen version of the Storm cabinet. The deal lasts until 2016.

Meanwhile OpenBet has also recently signed a new agreement with William Hill to provide an enterprise licence

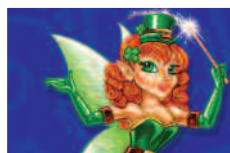
process of acquiring Sportingbet's online businesses in Australia and Spain and in June last year the group was granted non-restricted gaming licences by Nevada Gaming Commission and acquired three sports betting businesses in the US.

Retail still remains the primary betting channel even amongst younger players. Of the 7.3 million bettors in the UK, retail betting accounted for some 85 per cent whilst 53 per cent of online customers also used the betting shops.

The company began as a postal/telephone betting service where

"We continue to dedicate a considerable amount of R&D to the UK market and our valued customer William Hill. We are pleased with the success of Core VIP which is the first of many SBG technology and game innovations planned for the coming years."

LUKE ALVAREZ, CEO Inspired Gaming.



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and fully dedicated support to Promote, the company's next generation of betting content display software.

This will enable William Hill to offer high quality dynamic betting promotions on screen which can be tailored specifically to each shop across the retail estate and adapted to customer types or betting events.

OpenBet Promote delivers cinematic live picture experiences with HD content via unlimited video inputs. The system is PC based and supports up to 255 separate displays and will support William Hill's Albos and Epos systems across the estate.

**LADBROKES** is the second largest bookmaker in the UK and the company origins date back to 1886. Ladbrokes acquired its first shop in 1962 and in 1967 its owner Cyril Stein became Chairman of Ladbrokes and saw the company floated on the London Stock Exchange. At this point the company had more than 100 betting shops.

*"2013 will see us continue to drive investment in areas where we see opportunities to grow the business. We will accelerate our programme of shop openings, focussing on areas of unmet demand. In machines, whilst the market is becoming much more competitive, we expect to generate continued growth through the use of Odds On, more exclusive games and the roll out of the latest new terminal towards the end of the year."*

**RICHARD GLYNN,**  
Chief Executive,  
Ladbrokes.

During the 1970s and 80s the company saw exceptional growth and the purchase of London & Leeds Development Corporation in 1972 saw their entry into property development. By 1973 the company had more than 1,100 betting shops.

In 1984 the company expanded into Belgium through the acquisition of Le Tierce SA which had 400 shops and the following year they purchased the Detroit Race Course. In 1987 Ladbrokes acquired the Texas Homecare DIY chain and Hilton International followed by Vernons in the late 1980s. The number of shops topped 1,800.

In the 1990s Ladbrokes opened Europe's largest betting shop in Birmingham and introduced new innovations whilst Cyril Stein retired in 1993.

Ladbrokes later purchased three casinos from City Clubs and sold its Texas Homecare business to Sainsbury in 1995. Ladbrokes later acquired 114 shops from the AR Dennis chain in the London area and in 1997 they acquired

Coral from Bass with more than 800 betting shops. Due to an anti-competitive law Ladbrokes sold Coral's UK operations two years later but then acquired Stakis to include 54 hotels and 22 casinos.

The Hilton division was sold in 2005 and the company's name reverted to Ladbrokes PLC and the company expanded into Asia, Italy and Spain. In 2010 Richard Glynn was appointed Chief Executive and in January 2013 the company acquired the Betdaq betting exchange for £30m.

Today Ladbrokes operates a total of 2,151 shops in the UK (end 2012) with 1.4 million customers and 957 shops in Ireland, Belgium and Spain and employs some 16,000 people in total. Ladbrokes also operates betting facilities at eight FA Premiership grounds and nine racecourses in the UK. Its telephone betting operation services 85,000 customers and the online site has 800,000 active customers.

The company showed net revenues of



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### LADBROKES OPERATES A TOTAL OF 2,151 SHOPS IN THE UK WITH 1.4 MILLION CUSTOMERS AND 957 SHOPS IN IRELAND, BELGIUM AND SPAIN.

just over £1bn in 2012 (a 7.4 per cent increase) whilst group operating profit was £206m. Growth in the UK retail market was 18 per cent with a net revenue of £739.5m and operating profit of £180.7m. OTC amount staked came to £2.4bn with £11.8 staked on machines. There are now plans to open 100 new shops in 2013.

Richard Glynn, Chief Executive said: "2013 will see us continue to drive investment in areas where we see opportunities to grow the business. We will accelerate our programme of shop

openings, focussing on areas of unmet demand. In machines, whilst the market is becoming much more competitive, we expect to generate continued growth through the use of Odds On, more exclusive games and the roll out of the latest new terminal towards the end of the year.

"During 2013 we will develop a more interactive sports betting proposition for customers including a more accessible Bet in Play offer. The addition of sky services to all shops, Video Walls and the roll out of Self Service Betting Terminals will all be a part of this."

Machine revenue was up by 13.9 per cent to £41.5m with an average of 3.89 machine per shop. Operating profit per shop was up 15.7 per cent to £82,000.

Mr Glynn added: "We have recently started to see signs that the machines market is becoming more competitive and therefore expect growth rates to slow. Despite this we expect to develop and grow machines further in 2013. Through the use of the unique data and

insights that Odds On provides we are now trialling machine bonusing which will allow greater personalisation for machine customers, building on our focus on local market places. We are also accelerating the introduction of new and exclusive games, particularly B3 £2 slots, which are growing at twice the rate of more traditional B2 category games. We will also begin the roll out to all shops of the next generation terminal before the end of the year as well as continuing to grow machine density."

The company had a total of 8,583 machines at the end of last year with £946 gross win per machine each week. Over The Counter (OTC) net revenue was £399.6m and machine net revenue was £339.9m last year.

**GALA CORAL** is the third largest retail bookmaker in the UK. It is owned today by shareholders Apollo, Cerberus, Park Square and York Capital Management.

In 1997 the company bought 130 Gala Bingo Clubs from Bass and in 2000 it acquired 26 casinos from the Hilton Group. In 2005 it acquired Coral Eurobet and by 2007 the group commenced the rollout of betting shops in Italy.

Coral has 1,721 betting shops in the UK and some 6,867 gaming machines and the group saw a turnover last year of £1.19bn which was a six per cent increase on the previous year. Group EBITDA was £280.2m. The Coral sector saw a gross profit in 2012 of £506.1m.

Today, Coral has 1,721 betting shops in the UK and some 6,867 gaming machines and the group saw a turnover last year of £1.19bn which was a six per cent increase on the previous year. Group EBITDA was £280.2m. The Coral sector saw a gross profit in 2012 of £506.1m.

In November 2012 the Inspired Gaming Group extended its contract with Coral and Turf TV. Coral has added Inspired's Virtual Sports feeds to its online sportsbook and increased the number of Virtual Sports available in its 1,600 venues and will now include the full portfolio. Inspired has been providing virtual sports to the UK market for the last 10 years

Turf TV is one of the UK's leading providers of live racing to bookmakers in the UK and has been broadcasting Virtual Sports into UK LBOs for over five years. Coral OTC gross win was six per cent higher last year compared to the previous year whilst machine gross win was seven per cent higher with £920 gross win per machine per week.



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# Report

## LICENSED BETTING

**BETFRED** was founded by brothers Fred and Peter Done in 1967 and they began with just one shop which opened in Salford. By 1997 the company had 100 shops and just three years later this had grown to 200 shops.

The Betfred telephone betting service was launched in 2002 and Betfred.com followed in 2004. Their 800th shop was opened in 2009 and in July 2011 Betfred became the owner of Tote. Today Betfred has a total of 1,350 shops in the UK and provides over 4,600 jobs and saw a gross profit in 2010 of almost £160m.

The company is the horse racing sector's biggest sponsor today and official sponsors of Nottingham, Sheffield and Kinsley dog tracks. They are also the official betting partner of Wembley Stadium and operate as the match day bookmaker on all FA events.

Betfred recently launched Inspired's Virtual Sports Betting content on its mobile website so now customers can bet on Inspired's Virtual Horses, Virtual Greyhounds and Virtual Football via their mobiles. Around 450 virtual sports events are now available to Betfred customers to bet on via mobile per day.

Betfred's Stuart Magowan said: "We're delighted to be adding Virtual Sports to our mobile site. We're committed to providing our customers with more choice and entertainment wherever they are. Virtual sports fans can now access the same high quality experience they get in-venue and online while on the go."

Betfred has offered virtual sports betting since 2001 and upgraded to the bespoke platinum system in 2007 as this allows the bookmaker to self schedule events, control the margins and brand the backgrounds of the events. Betfred offers a large range of virtual Sports and number games in the shops and via Betfred.com and now plans to expand the number of virtual sports available on its mobile site.

Steve Rogers at Inspired Gaming Group said: "Mobile betting especially is growing rapidly largely thanks to better quality networks and handsets. We can now stream virtual events via mobile without any compromise in quality. It's a great mobile betting experience and the frequency of events makes it



The number of gaming machines in betting shops accounted for 26 per cent of the total machines across all UK gaming sectors and GGY accounted for 67 per cent of all GGY.

There are four types of machines permitted in LBOs which are the B2/B3, B4, C and D.

The B2 machines account for 66 per cent of all machine GGY in the betting shops and 80 per cent of turnover in betting shops.

perfect for quick on the move entertainment."

### FOBTS

The 2005 Gambling Act legalised advertising for LBOs but also restricted the number of machines permitted per venue to a maximum of four.

The number of gaming machines in betting shops accounted for 26 per cent of the total machines across all UK gaming sectors and GGY accounted for 67 per cent of all GGY. There are four types of machines permitted in LBOs which are the B2/B3, B4, C and D. The B2 machines account for 66 per cent of all machine GGY in the betting shops and 80 per cent of turnover in betting shops.

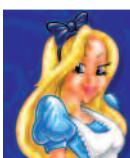
The GGY for gaming machines in betting shops (£1.44bn) was actually greater than the over the counter betting activity (£1.3bn) last year.

The B2 category machines permit a maximum £100 bet and payout of up to £500 and offer games such as roulette, blackjack and poker whilst the B3

machines offer a lower stake of £2 but the same £500 payout.

The Fixed Odds Betting Terminal (FOBT) or B2 machine remains the most controversial form of gambling machine in the UK and it consistently comes under fire with reports of problem gambling associated with these machines and have been called the 'crack cocaine' of the gambling world. The issue is the betting shops open from 8.30am until 9.30pm, the machines feature roulette games, have auto buttons and although they have the same £500 maximum prize as B2s it is possible to stake up to £100 on a single bet whereas other category B machines have a maximum stake of £2. Prior to the 2005 Act these FOBTs were not classed as gaming machines under existing legislation and there was no limit on where they could be placed. However a deal was reached between the DCMS, Gaming Board and Association of Bookmakers to limit the number of FOBTs to four per location.

In October 2011 the UK government announced the reintroduction of a



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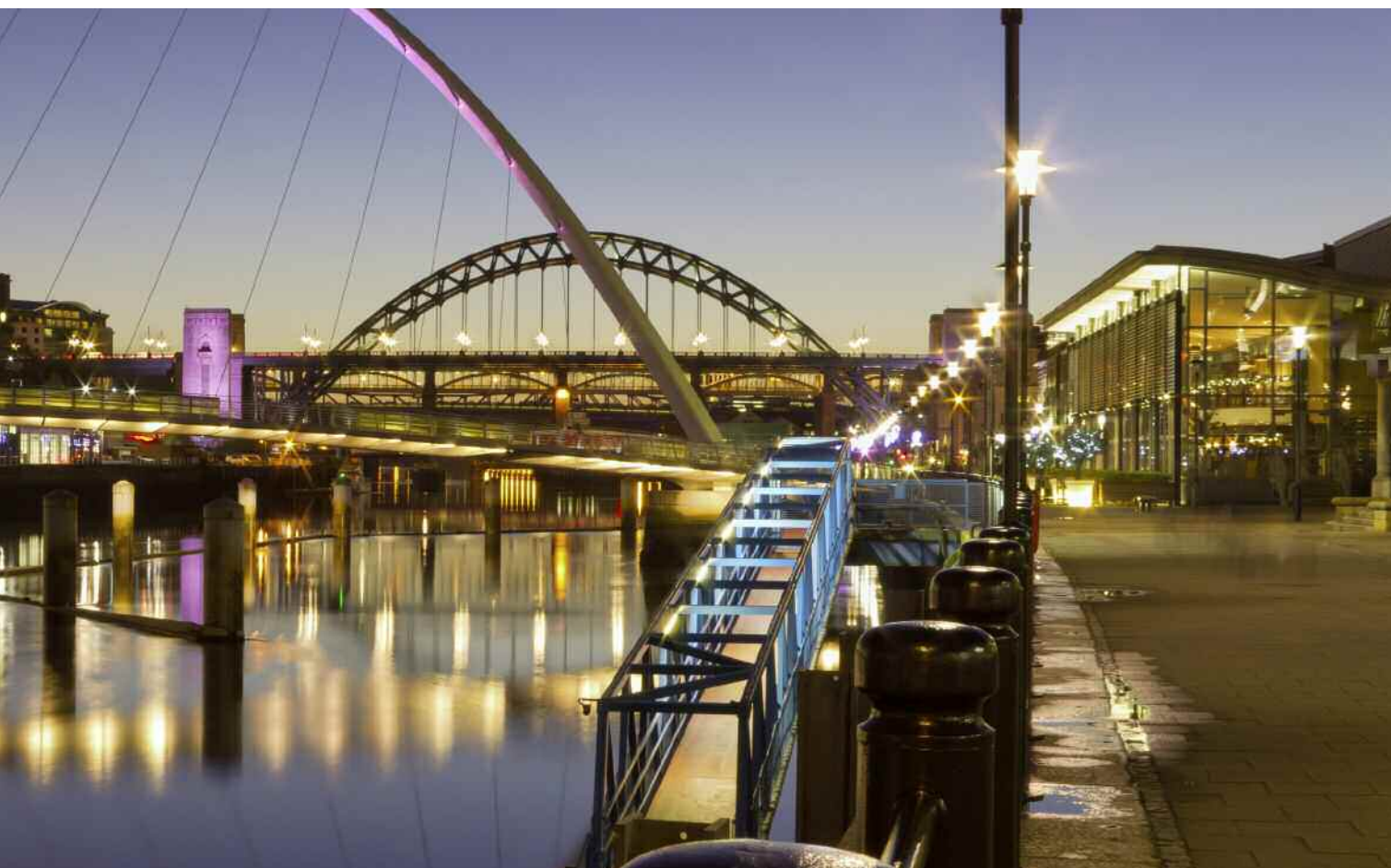


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## **EIGHT MILLION PEOPLE VISIT BETTING SHOPS EACH YEAR AND THE INDUSTRY CONTRIBUTES £3.2 BILLION PER ANNUM TO THE UK ECONOMY.**

triennial review system to look at the stakes and prizes applied to gaming machines via the Gambling Act 2005. The first review has been completed and the government is now consulting on a series of measures changing the maximum stake and payouts for B, C and D machines in various venues and the impact on B2 gaming machines.

A consultation period was opened in January 2013 and closes in April 2013 which invited stakeholders and industry members to put forward their proposals for any changes.

*"There is no empirical evidence that B2 gaming machines cause problem gambling. To the contrary they are a popular product enjoyed by millions of people across the country and B2 machines have been located in betting shops for 10 years without any discernible increase in problem gambling levels."*

**DIRK VENNIX,**  
Chief Executive,  
Association of  
British Bookmakers.

The B2 category is one of the most profitable and revenues from these machines have increased by 22 per cent from 2008/09 and this trend continues, however 'clustering' of betting shops and the impact of these machines on communities is now being addressed.

To bring B2 machines in line with inflation would set the stakes at around £120 and payouts at £600. However the current industry proposals are to keep the B2 stake/payout limits the same whilst increase the B3 machines payout to £1,000. The Association of British Bookmakers is the leading trade association for this sector and members include four of the five biggest operators and 150 smaller independent operators. They have welcomed the debate looking at FOBTs and problem gambling.

Chief Executive of the ABB, Dirk Vennix said: "There is no empirical evidence that B2 gaming machines cause problem gambling. To the contrary they are a popular product enjoyed by millions of people across

the country and B2 machines have been located in betting shops for 10 years without any discernible increase in problem gambling levels. Indeed the 2010 Prevalence Study shows that 70 per cent of B2 customers play once a month or less which is hardly reflective of an addictive product.

"Some eight million people visit betting shops each year and the industry supports 100,000 jobs and contributes £3.2 billion per annum to the UK economy."

According to the ABB a large number of betting shops operate on low margins and 20 per cent of the big five make a profit of less than £13,300 a year. Large and small independent chains make an average operating profit of around £19,500 per year whilst single shop operators (some 230 in total) make an operating profit of £4,800 on average.

It is thought these could now be at risk when Machine Games Duty is introduced in Feb 2013 and is thought



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to cost the LBO an extra £318m over the next five years.

Mr Vennix said: "Through a mixture of gross profits tax, levies, electronic gaming machine tax, Gambling Commission and local authority licensing fees and corporation tax, our industry pays much more in tax than it retains in profit. It pays £949m in tax – which is about £400m more than comparable retail sectors.

Meanwhile, manufacturers of machines for the LBO industry include The Global Draw, which also incorporates Barcrest and Games Media.

The Global Draw was formed in the late 1990s and introduced server based gaming machines for the LBO market and at the time in the mid 2000s supplied around one third of the UK's gaming machines. In 2006 the company became a wholly owned subsidiary of Scientific Games Corporation and has a 43 per cent market share operating some 18,000 machines in some 4,000 venues worldwide with bookmakers and independent operators. The company's annual turnover is £7.7bn.

**"There are a number of operators who would like to offer virtual sports and number games but who either don't have any BMS at all or have a current BMS that doesn't offer virtual bets."**  
**STEVE ROGERS,**  
Inspired Gaming Group.

Following the acquisition of Barcrest the company can now exclusively offer Barcrest games to those LBO operators with Global Draw terminals such as Rainbow Riches Pots of Gold.

OpenBet is also active in the LBO market and the company which was founded in 1996 under the name of Orbis Technologies today offers solutions for both the online and non-remote betting markets.

The company provides software for William Hill, Ladbrokes, Paddy Power, Betfair and Skybet in the UK and PMU in France. The OpenBet Sportsbook is highly successful in the market and backed by liability management tools and the company has 100 partners and 200 customers in the retail and online betting market.

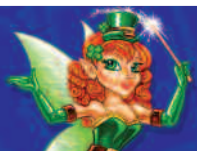
In 2010, Orbris re-branded itself as OpenBet and also purchased Alphameric Solutions for £15.5m which was then re-branded as OpenBet Retail division. Then in 2011 Vitruvian Partners bought the company and now holds the majority holding in OpenBet.

Meanwhile, Malta licensed Cashpoint

## **INSPIRED GAMING GROUP HAS LAUNCHED BETBOX, WHICH IS A NEW BET MANAGEMENT SYSTEM AND EPOS SOLUTION PROVIDING A TURNKEY SOLUTION FOR RETAIL BETTING VENUES.**

was founded in 1996 and has established itself in the German and UK market as a leading supplier of sports betting and entertainment.

It has launched self service sports betting terminals initially in Austria such as the Tipomat Family and MediaWall and has more than 5,000 bet acceptance points in betting shops via self service terminals.



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More recently the company has launched the 'member.card' which is acceptable online, through a mobile application or at the terminal in a Cashpoint betting office throughout Europe.

Cashpoint also signed a new agreement in January with Totepool UK Ltd which will now allow Cashpoint to bet not only on football, tennis, rugby and other sports but also on British horse and greyhound races as well as tote bets. Michael Wondra, CEO of Cashpoint said: "This contract means that our UK sportsbook offering in Great Britain is now complete and we can now give our customers full betting service. We now have a comprehensive and solid betting platform."

Meanwhile, Inspired Gaming Group has recently launched BetBox which is a new bet management system and EPOS solution providing a turnkey solution for retail betting venues.

It enables bets to be placed over the counter on Inspired's virtual sports and numbers games. There are four different BetBox bundles available from a low cost solution to fully bespoke.

For commercial reasons, some betting operators have opened shops in close proximity to their rivals. The industry is strongly competitive and in the retail environment, prices and customer service drive a high turnover, low margin business. In some limited inner city locations this may have given rise to betting shops being clustered together. In a depressed retail environment this may be more apparent, but betting operators are certainly not engaged in a policy of filling empty high street shops just because they can.

### Comment



"Inspired Gaming Group is the UK's premier supplier of gaming machines and platforms, as well as content to the UK LBO marketplace supplying William Hill, Paddy Power and Betfred amongst others. Internal content development houses making up 80 per cent of all plays with leading titles such as Leprechauns Gold, 20p Roulette, Wizard of Oz, Splash the Cash, Bonus Roulette, Temple of Treasure and Extra Bet Roulette. The latest launch for the LBO sector is the Marketing and Rewards Package (Core VIP), which is individually tailored to retailers' needs and now live in the UK with world firsts such as – online terminal registration in game rewards and game specific bonuses. Also further news is the launch of the online slots content with UK LBO customers to complement the already popular virtual events such as horses, football and speedway.

We are proud to announce that Core VIP is soon to be live with William Hill and is already live with Paddy Power allowing retailers to actively reward the right players in the right way to suit their game play needs alongside a structured tier system.

For Inspired new hardware will always be the aspect most people see and feel but actually platform capability and content delivery are just as crucial. Platform developments to introduce a full 'Fortune Family' of events are nearing completion and a year of many new and exciting releases are on the way.

We believe land based will still remain the mainstay of most UK LBO operators for the foreseeable future. It's a community hub and people enjoy the social aspect of gaming in the UK LBO. We will also see a cross over in content and offers between online on-line, retail and a convergence of player base, with brand loyalty being the main focus."

.....  
**LEE GREGORY**, Managing Director, Casino and Bingo, Inspired Gaming Group

The content has seven sports and four rapid number games including virtual horses, greyhounds, football, tennis, keno, bingo and roulette.

Inspired has around 35,000 machines on its Open SBG Core platform and supplies SBG gaming technology and games and virtual sports to the likes of William Hill, Betfred, Ladbrokes, Paddy Power, Bet365 and Fortuna.

Inspired's Steve Rogers said: "There are a number of operators who would like to offer virtual sports and number games but who either don't have any BMS at all or have a current BMS that doesn't offer virtual bets."

In February Inspired announced the sale of its Warrington based amusement and leisure division to Playnation to enable Inspired to invest further into its gaming technology business internationally. Inspired will supply Playnation with server based products.

### LEGISLATION

In the Gambling Act of 2005, LBOs were allowed to site up to four FOBT machines paying out a maximum

jackpot of £500. In July 2012, The Culture Media and Sport Committee released its report into the 2005 Gambling Act. It provided a series of proposals for improving industry legislation. In the report, the committee proposed that local authorities should have the power to allow betting shops to have more than the current maximum of four B2 machines per shop if they believed it would help to deal with the issue of 'clustering'. This is where more than one shop is opened in the same area in order to maximise the allowance of gaming machines.

The Association of British Bookmakers say: "For commercial reasons, some betting operators have opened shops in close proximity to their rivals. The industry is strongly competitive and in the retail environment, prices and customer service drive a high turnover, low margin business. In some limited inner city locations this may have given rise to betting shops being clustered together. In a depressed retail environment this may be more apparent, but betting operators are certainly not engaged in a policy of filling empty high street shops just because they can."



# Report

## LICENSED BETTING

### Comment



"OpenBet Retail supplies more locations with screens and till systems in the LBO sector than any other supplier. We have a long history of product and service supply that is significantly enhanced through the technology and innovation provided by OpenBet online. We are currently developing a range of new products that will enable us to provide operators with a seamless system that bridges the divide between retail and online. There are already a number of exciting developments taking place including the recent announcement with Bally Technologies which will see OpenBet bringing their land based content online. As this segment of the industry evolves there will be a number of new opportunities and OpenBet is well placed to be a leader in that innovation.

We recently launched our ground breaking new screen system Promote which will revolutionise the way LBOs offer sports betting opportunities. It is now being rolled out in William Hill. This solution provides an unparalleled platform to deliver a vibrant, cinematic live picture experience whilst offering the ability to tailor content and promotions to a very localised audience. In line with OpenBet Retail's on-going product development strategy this is a software only solution and one of the major benefits of Promote is that it brings the customer the ability to manage their estate from a central head office. The system supports up to 255 separate displays and has the flexibility to be mapped across up to 40 physical high definition screens. It allows the customer to choose the most appropriate hardware that meets the performance, cost of ownership and business requirements for its estate. Above all it brings the open nature of OpenBet to the land based market. This is the first in a new generation of products which we will be launching, building on the best of both the retail and online platforms.

Traditional LBOs are facing an increasing amount of competition from online operators. It is important for the land based operators to concentrate on providing a service which cannot be provided or rivalled online. These challenges have been faced in other retail sectors and overcome and we are confident about the future sustainability of well run, well invested land based LBO businesses. It is understandable that the growth of online sports betting has been phenomenal with broadband penetration ever-increasing and the advent of the smart phone and tablet having a material effect on the way customers behave. Recent trading updates from the major bookmakers all indicate that the land based business is still providing significant if not the majority of revenues. There is also substantial investment being made in high street locations and this is being fuelled by the blurring of the boundaries between online and retail. OpenBet is providing the products and tools that allow operators to offer a best of breed solution both online and in retail not only in the UK but across the world. The future of the largest well run operators is bright and is assisted by OpenBet's continual innovation in retail and online in all legal sports betting markets. Betting shops are here to stay and they will only improve with time."

.....  
**TIM KENNEDY**, Vice President, OpenBet Retail

John Whittingdale, the Conservative MP who chaired the committee, said his colleagues supported further liberalisation where appropriate and decisions being taken at a local level rather than by central government or by regulators.

"While we recognise the need to be aware of the harm caused by problem gambling, we believe there is considerable scope to reduce and simplify the current burden of regulation," he said. "The 'reluctantly permissive' tone of gambling legislation over the last 50 years now looks outdated. It is also inadequate to cope with the realities of the global market in online gambling, and even seems ill-

equipped to cope with the realities on our High Streets."

There was a massive backlash to the proposals to increase the number of machines in the UK's betting shops, however. The press pounced on the proposal and a series of TV programmes focussed on FOBTs and linked them to problems with violence and gambling addiction. Labour's Deputy Leader Harriet Harman went so far as to claim in August 2012 that her party had made a "mistake" in allowing FOBTs in licensed betting offices in the 2005 Gaming Act and said she believed that the decision has ruined some peoples' lives. The astonishing admissions were made on Channel 4's



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**JOHN WHITTINGDALE**, Conservative MP.

Dispatches programme where Harman called for FOBTs to be banned from betting shops, claiming that they are better suited to casinos.

A month later plans were already afoot to curb the rules on FOBTs. Liberal Democrats' Communities Minister, Don Foster, announced he was seeking a £2 limit on stakes. The attacks on FOBTs showed no signs of diminishing by the end of the year and Panorama aired a documentary in December with more claims against the machines, saying that they turned normal gamblers into problem gamblers, with even staff working in the shops becoming addicted. In January 2013, the DCMS released the Triennial Review



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Consultation and published the Select Committee Response. Despite concessions for most machine types, it was stated that FOBTs will not increase in numbers and the maximum odds for these controversial machines have been frozen.

BACTA's Leslie Macleod-Miller said: "In relation to the response to the Select Committee report, there is little real comment, other than to note that the recommendation from the Select Committee to increase the number of B2 machines in bookmakers has been rejected."

The ABB issued a response to the Triennial Review Consultation as follows:

"We have noted the Coalition statement issued by Don Foster MP today in respect of a review of B2 gaming machines in betting offices. There is no empirical evidence that B2 gaming machines cause problem gambling.

"To the contrary they are a popular product enjoyed by millions of people across the country and B2 machines have been located in betting shops for 10 years without any discernible increase in problem gambling levels. Indeed the 2010 Prevalence Study shows that 70 per cent of B2 customers play once a month or less which is hardly reflective of an addictive product.

"In relation to the response to the Select Committee report, there is little real comment, other than to note that the recommendation from the Select Committee to increase the number of B2 machines in bookmakers has been rejected."

**LESLIE MACLEOD-MILLER, BACTA.**

"Nevertheless the ABB would welcome independent research that will deal, once and for all, with some of the myths and more outrageous claims levelled against B2 machines."

Meanwhile LBOs are also affected by the legislation on Machine Games Duty that came into effect on February 1, 2013. The duty applies to machines that offer a cash prize which is greater than the cost of playing.

The Association of British Bookmakers reacted to these changes saying that, "Despite assurances made during the Committee's inquiry into the Gambling Act that the new rate would be fiscally neutral for the industry, the rate that



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# Report

## LICENSED BETTING

was introduced was 20 per cent. This is significantly higher than the rate we had calculated as being fiscally neutral for the industry and has an extra bottom line cost on our business sector of over £300 million over the next five years."

### LOCAL AUTHORITIES

The betting shop industry also has a number of battles to fight with local government. The Gambling Act 2005 established a dual tier system of regulation with authorities granting betting and other premises licences once an operator has obtained an operating licence from the Gambling Commission.

Local authorities are responsible for deciding whether or not a betting premises licence should be granted to established operators (this decision should be made separately from the planning process).

Objections cannot be made on moral grounds, but local residents and businesses can make representations during the application process. These objections must relate to the licensing objectives (crime/disorder, fairness to customers and protecting children and vulnerable persons) and not be spurious or generalised in nature.

Where the licensing authority is satisfied that there are genuine risks to the licensing objectives they can refuse the licence. Under previous legislation a betting operator had to prove "un-stimulated demand" for betting in a location before a new premises licence was granted. This criterion is no longer something that can be considered.

This reflects the principles of the Gambling Act, which enable more market liberalisation in return for increased levels of regulation (the two tier system detailed above). Before 2007, betting shops were regulated by the local magistrate court, so regulating betting premises is a new responsibility for local authorities.

Local politicians and campaign groups within a number of London boroughs have become frustrated with their own authorities' perceived inability to refuse premises licences. One London borough spent over £60,000 on hearings and appeals that subsequently went in favour of the betting operators concerned. Others have spent a considerable percentage of their

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In February 2013, the borough of Newham became the first in the country to use the 'primary activity' of a betting shop in their decision to reject a licence application. Members of the licensing sub-committee in Newham rejected an application by the owners of the Paddy Power betting chain to open new premises, claiming that the new betting shop was to be in a 'cluster' area of betting shops with gaming machines.

gambling regulatory budget objecting to premise licences that have subsequently been granted.

The Portas Review, published in December 2011, proposed to change the planning use class of betting shops from "A2" to sui generis (a category all of its own). This would mean every prospective betting shop would have to apply for planning permission, giving the local council and local residents the chance to consider the cumulative impact of multiple shops clustered together.

In her review, Mary Portas said "...the influx of betting shops, often in more deprived areas, is blighting our high streets...Currently, betting shops are oddly and inappropriately in my opinion classed as financial and professional services. Having betting shops in their own class would mean that we can more easily keep check on the number of betting shops on our high streets."

In March 2012, the government published their response to the Portas review into High Streets where they rejected the proposal to change the planning category of betting shops.

The ABB said: "Betting shop estates are already under commercial pressure with around 30 per cent of all betting shops suffering marginal profitability. Further planning or regulatory restrictions will increase that cost base for betting operators at a time when the industry is, like other retailers, suffering the effects of the recession. Artificially limiting betting operators from being able to make legitimate commercial decisions about shop relocation or new builds will impact,"

But the arguments, particularly in London, simmer on. In February 2013, the borough of Newham became the first in the country to use the 'primary activity' of a betting shop in their decision to reject a licence application. Members of the licensing sub-committee in Newham rejected an application by the owners of the Paddy Power betting chain to open new premises, claiming that the new betting shop was to be in a 'cluster' area of betting shops with gaming machines.

The council committee claimed that the primary use of the premises would not be traditional betting but machine gaming. Councillor Ian Corbett,



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# Report

## LICENSED BETTING

'We are the first council to invoke the primary clause to reject a licence application, as we are unconvinced that at least half of the gambling on premises would have been traditional betting. We are increasingly concerned about the number of gaming machines in Newham and their impact on our high streets. Not only that, we are concerned at the high proportion of incidents of crime and disorder and that betting shops are part of the problem.'

**IAN CORBETT,**  
Newham  
Councillor.

chairman of the licensing sub-committee, said: 'We are the first council to invoke the primary clause to reject a licence application, as we are unconvinced that at least half of the gambling on premises would have been traditional betting. We are increasingly concerned about the number of gaming machines in Newham and their impact on our high streets. Not only that, we are concerned at the high proportion of incidents of crime and disorder and that betting shops are part of the problem.'

A spokeswoman for Paddy Power commented: 'We do not agree with Newham's reasons for refusing our licence application and are appealing. We are occasionally the victims of crime, but not the cause.'

The ABB said Newham's decision "appears to be at odds with the Gambling Commission's advice and guidance on this issue. There is a misconception that there must be more profit or turnover from betting than machines to satisfy primary gambling activity. That is simply not the case."

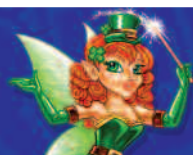
Whatever the truth of the case, it is suspected that a number of betting shops across the UK could be affected by the outcome of the decision.

A spokesman for the Gambling Commission admitted to the press that if betting shops were seen to fall into 'non-compliance' under the 2005 Act, which states that traditional betting must be the primary activity, local authorities could review new and existing licences, which could impact upon every LBO in the country.

Until now, town halls have complained that they can block betting shop applications only if there is evidence that there will be an increase in crime, a threat to the vulnerable, or there is proof of unfair gambling, which is difficult to establish before a shop has opened its doors.

Previous decisions to reject applications have often been overturned on appeal. In many cases, local councils withdraw their objections as they are liable for costs if they lose the case in court. This has led to accusations that councils are being 'bullied' by expensive legal teams brought in by the book-makers. Many councils will now be looking at the outcome of the Newham case with great interest.

Until now, town halls have complained that they can block betting shop applications only if there is evidence that there will be an increase in crime, a threat to the vulnerable, or there is proof of unfair gambling, which is difficult to establish before a shop has opened its doors.



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## URBAN DEVELOPMENTS

G3 interviews **Phil Urban**, Managing Director, **Grosvenor Casinos**, the UK-based business whose acquisition of rival Gala-Coral will make it the largest casino gaming operator in Britain

**GROSVENOR CASINOS IS ONE OF THE MOST SUCCESSFUL GROUPS IN THE UK, WHAT HAVE YOU BEEN DOING SO RIGHT?**

There is no silver bullet when it comes to building any successful business, however I do believe that any business is only as good as the people in it. We have a great team of professional people who are passionate about what they do. So if I had to pick one thing, I would say the success we have had over the last few years has been built on our Team and our desire to do our best to exceed the expectations of our customers.

**THE G CASINO CONCEPT SET A NEW BENCHMARK IN THE UK, GRASPING THE HIGH VOLUME, LOW TICKET 'NETTLE' BEFORE ANYONE ELSE AND PROVING THAT THE MODEL CAN GROW THE PLAYER BASE AND (MOST IMPORTANTLY) BE PROFITABLE. WHAT CURRENTLY DEFINES G CASINO AND HAS IT EVOLVED SINCE LAUNCH?**

We continue to try and evolve all that we do, so the 'G Casino' concept has definitely evolved too. The philosophy is simple, which is to continue to broaden the appeal of our venues by added amenities, entertainment and service levels, whilst still having gaming at their heart. The most successful clubs have managed to balance the needs of our more transactional customers, with those of the leisure-driven visitor. However, we also have to keep our share-holders happy, so we do not over-engineer our businesses, to ensure that we generate returns for them as opposed to just working hard for our landlords!

**THE SUPPORT FROM STAFF AND INVOLVEMENT FROM PLAYERS AT GROSVENOR CASINO EVENTS IS REALLY NOTICEABLE - IT'S SOMETHING THAT LOOKS NATURAL, BUT THERE'S OBVIOUSLY A LOT OF WORK BEHIND THE SCENES TO CREATE THIS INVOLVEMENT BETWEEN THE TEAM AND PLAYERS - WHAT'S THE SECRET?**

**NEW VENUES GROW THE OVERALL MARKET, AND WHILST THEY CAN HURT BUSINESS IN THE SHORT TERM, OVER THE LONG RUN IT IS GOOD FOR THE INDUSTRY.**

No rocket science here. Treat people the way you'd like to be treated, and you won't go far wrong. We want everyone in the Grosvenor Team to enjoy what they do, and when this happens, it is very evident in the way they engage with the customers.

**GROSVENOR CASINOS IS THE VERGE OF BECOMING THE UK'S BIGGEST CASINO OPERATOR. COULD YOU TELL US A LITTLE MORE ABOUT THE STRATEGY BEHIND THE GALA ACQUISITION? GIVEN THE DECISION TO INVEST IN A COMPETITOR, YOU MUST FEEL THAT FIRSTLY THERE IS STILL VALUE IN THE 'OLD STYLE' LICENCES AND SECONDLY, THAT YOU CAN IMPROVE ON WHAT GALA IS CURRENTLY OFFERING? HOW WILL YOU DO THIS?**

Although we have gained clearance from the Competition Commission, Gala and Rank still need to agree the deal, and therefore I cannot comment further.

**WHAT IS THE INTEGRATION STRATEGY WITH REGARDS TO GALA? WILL YOU BE REFURBISHING AS G CASINOS? GIVEN YOUR DESIRE TO EXPAND, WHY DIDN'T YOU GO FOR THE LARGE AND SMALL LICENCES?**

Regarding Gala, please refer to the comment above. As regards the 05 licences, we did bid for and lost out on the Milton Keynes large licence and we have been involved in others. The bottom line is that we will not over pay for a licence.

**DO YOU THINK THE EXISTING CASINOS FROM THE 1968 ACT WILL BE ABLE TO COMPETE AGAINST THE NEW STYLE CASINOS? WHAT ABOUT IN AREAS WHERE NEW AND OLD ARE BOTH IN OPERATION?**

There is clearly an 'un-level playing field' between the 68 Act licences and the 05 licences. I have no doubt that customers will want to go and experience the larger 05 venues, but I see no reason why a 68 Act casino cannot continue to be successful, if its service levels and standards are maintained. New venues grow the overall market, and whilst they can hurt an existing business in the short term, over the long run it is good for the industry.

**DO YOU THINK THE PLAYING FIELD IS LEVEL? IS THERE ANYTHING THAT YOU ARE PUSHING FOR GOVERNMENT TO CHANGE?**

As I said above, the 05 licences do have an advantage over the 68 Act licences, which in the mid-term has to be addressed. We are part of NCIF, and alongside our industry colleagues, we continue to lobby for a number of changes that can benefit the economy, our customers as well as the casino operators. This includes parity in slot machine numbers between the 05 and 68 Act licences, as well as Portability of 68 Act licences.

**IS THE COMPETITION COMMISSION'S STRIPPING OF FOUR GALA CASINOS FROM THE DEAL FAIR? WHAT ABOUT RANK'S UNDEVELOPED LICENCE IN EDINBURGH?**

It is now public knowledge that the



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# Interview

GROSVENOR CASINOS



Competition Commission (CC) ruled that should a deal between ourselves and Gala complete, four clubs and our own cold licence in Edinburgh, cannot form part of that deal. The CC were an impressive body who I think gave us a fair hearing. They have a job to do and I understand the logic of their decision.

**WHAT ARE YOUR VIEWS ON THE GOVERNMENT'S DECISION TO ALLOW LARGE AND SMALL BUT NOT SUPER CASINOS? WAS IT FAIR THAT MANCHESTER, LONDON (WEMBLEY), LONDON (O2), BLACKPOOL, SHEFFIELD, NEWCASTLE, CARDIFF AND GLASGOW ALL GOT NOTHING? DO YOU THINK GOVERNMENT WILL REVISIT THIS AT A LATER DATE?**

I have been in the Casino industry for four years and the one thing I have learnt is to never be surprised by the legislation and decisions of the past! I do not have a strong view on the Super Casino debate, but I do think that in time Government will have to re-think the legislation surrounding our sector. Some areas have several licences, that due to the level of competition will probably never be used, whereas other parts of the country are a long way from the nearest club. In a modern progressive society, this does not make sense to me.

**SEVERAL NICHE CASINOS HAVE OPENED IN THE UK WITH ASPERS WESTFIELD, THE PLAYBOY CLUB AND THE HIPPODROME ALL PITCHING TO DIFFERENT MARKET SEGMENTS. ARE YOU HAPPY TO LET THESE OPERATORS DIVERSIFY WHILST YOU OFFER A SIMILAR PRODUCT THROUGHOUT YOUR ESTATE? HOW WOULD YOU DESCRIBE THE RANK CASINO MODEL? HOW WOULD YOU DESCRIBE THE CURRENT UK SECTOR?**

Of the three clubs mentioned, I would only describe The Playboy Club as at all 'niche'. The Hippodrome and Aspers Westfield are large impressive casinos, both still aiming for broad appeal, and having the scale to also cater for more transactional market segments. Am I happy?...well I enjoy competition and it keeps us on our toes!

However as I stated earlier, our G Casino concept continues to evolve and also caters for a mixture of customer segments and I am confident that they will continue to thrive. Within the London market our flagship sites also continue to grow and can hold their



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# Interview

GROSVENOR CASINOS



own against the new entrants. The UK casino sector is continuing to move forward, slowly changing the perceptions of the industry, and becoming a more accepted and mainstream part of the UK leisure market. We have a long way to go, but all the Operators that you mention are playing their part in leading that change.

**LAST YEAR SAW THE LAUNCH OF GROSVENOR'S FIRST TV AD. HOW SUCCESSFUL WAS THIS? HOW WOULD YOU DESCRIBE YOUR TARGET DEMOGRAPHIC? IS THIS DIFFERENT COMPARED TO YOUR AVERAGE PLAYER?**

We recognise that our digital business is still very small. The above the line advertising was fairly low key, but we have proven that there is an audience we can reach and that we can affect their behaviour, so we are very pleased with the results. Our ambition is to create a leading digital offer that is 'joined up' with the land based business, so that whenever a customer interacts with Grosvenor Casinos, they get a consistent experience and are welcomed as part of the Grosvenor family.

**WE HAVE HEARD REPORTS THAT THE RANK GROUP IS LOOKING TO SELL BLUE SQUARE - WHAT SHOULD CASINO OPERATORS IN**

**"All of our casinos and our digital channels operate under the Grosvenor brand. The Grosvenor G concept is our larger scale venue where we are able to offer a fuller range of amenities.**

The provincial Grosvenor Casinos are smaller in scale and whilst they share the same culture and ethos of the G concept, they cannot offer the same range of amenities."

**Phil Urban,**  
Managing Director,  
Grosvenor Casinos.

**THE UK BE LOOKING TO ACHIEVE WITH THEIR INTERACTIVE/MOBILE/ONLINE OFFER? HOW DOES GROSVENOR CASINOS LOOK TO INTERACT WITH ITS CUSTOMERS AND TEAM IN THE ONLINE SPACE?**

I will not comment on Blue Square. I think all retail and leisure businesses have to embrace the blurring of boundaries between the real and virtual world. Technology will play an increasing role in all our lives, and therefore in land based leisure offers too. So our objective is to make the experience of playing with Grosvenor as consistent and 'joined up' as possible across all of our channels. I am sure we are not alone in recognising this.

**MALAYSIAN-OWNED GENTING HAS RECENTLY REBRANDED ITS FORMER STANLEY CASINOS ESTATE TO GENTING CLUB. WITH RANK MAJORITY CONTROLLED BY GUOCO GROUP, OWNED BY MALAYSIAN BILLIONAIRE QUEK LENG CHAN ARE WE LIKELY TO SEE ANYTHING SIMILAR AT RANK?**

Our majority share-holder has been immensely supportive of everything we have done and will help us to develop all aspects of our business.

**THE GROSVENOR BRAND IN MANCHESTER HAS SWITCHED BACK TO ITS PREVIOUS INCARNATION-SOAMES FOR ITS CHINA**

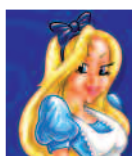
**TOWN PROPERTY ON GEORGE STREET. WHAT IS THE THINKING BEHIND THIS AND IS THIS SOMETHING WE MAY SEE MORE OF IN THE FUTURE?**

All of our casinos and our digital channels operate under the Grosvenor brand. The Grosvenor G concept is our larger scale venue where we are able to offer a fuller range of amenities. The provincial Grosvenor Casinos are smaller in scale and whilst they share the same culture and ethos of the G concept, they cannot offer the same range of amenities.

However, we also operate a few clubs that are known by their own name e.g. The Victoria or the Park Tower in London, and these 'bespoke' clubs are endorsed by the Grosvenor brand. In other words, they too share the same culture and ethos, but they are individual in their respective markets. Our club in George Street Manchester was still known locally as Soames, and we have simply restored its individuality, but once again clearly endorsed by the Grosvenor brand.

**ASIDE FROM YOUR CASINOS IN BELGIUM, DOES GROSVENOR CASINOS FOSTER ANY FURTHER INTERNATIONAL ASPIRATIONS?**

We remain aware of developments across Europe.



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## THE ISOLATION OF REMOTE GAMING

Changes to the taxation of the online sector to a Point Of Consumption tax, which is proposed to come into effect December 2014, could have a massive impact

Although it seems as if the internet has been around for ever it's really only 20 years ago since the marvellous invention of emails made the fax machine obsolete and the World Wide Web brought a library of information to our fingertips.

The government of Antigua passed the Free Trade and Processing Zone Act in 1994 which basically gave the Caribbean territories an opening into the online gambling industry and many Sportsbooks and casinos still run with licences today issued by the islands.

Microgaming was born and the industry began to grow at a remarkable rate and in 1995 CryptoLogic arrived, specialising in transacting money over the internet whilst Boss Media also began developing games for the internet the following year.

In 2000, Gibraltar and the Isle of Man

began to market online sports betting licences followed by Alderney a year later.

Today, the global remote gambling industry is estimated to be worth £20.1bn. This figure is the Gross Gambling Yield generated by all aspects of remote gambling from telephone betting to internet gambling.

In the UK the remote gambling industry was regulated in 2005 with the arrival of the Gambling Act. Today it is made up of remote gambling by bookmakers, large remote only operators, smaller betting operators offering remote facilities, fantasy football style remote pool betting operators, smaller bingo and casino operators and businesses supplying gambling software to operators. Remote gaming has a 12 per cent market share of the total gambling market in the UK.

Some 2,500 online gambling websites can be accessed from the UK and the market is dominated by a smaller group of companies who are located in the UK, Channel Islands, Isle of Man, Malta or Gibraltar. Companies such as Ladbrokes, Gala Coral and Rank also operate land based operations too and the lines between land based and remote business becomes increasingly blurred as technology advances.

## THE TURNOVER FOR THE UK ONLINE GAMBLING SECTOR HAS INCREASED BY 13 PER CENT BETWEEN 2011-12 WITH THE CASINO SECTOR THE LARGEST INCREASE.

By the end of September 2012 there were 293 remote gambling activity licences held by 216 operators. This was divided by the following – Gambling software with 92 licences, general betting real and virtual events with 65 licences, pool betting with 46, general telephone betting 32, casino with 26, betting intermediary with 23 and bingo with nine licences. The sector employs some 7,200 people.

Some 2,500 online gambling websites



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can be accessed from the UK and the market is dominated by a smaller group of companies who are located in the UK, Channel Islands, Isle of Man, Malta or Gibraltar. Companies such as Ladbrokes, Gala Coral and Rank also operate land based operations too and the lines between land based and remote business becomes increasingly blurred as technology advances.

The turnover for the UK remote gambling sector has increased by 13 per cent between 2011 and 2012 whilst the casino sector has shown the largest increase, however this sector still makes up a small proportion of the global market with just 26 licences and most relatively are relatively small.

Meanwhile the overall GGY figures show an eight per cent increase with the casino sector showing the greatest increase again growing from £12m to £19m. The betting exchange sector saw a huge drop put mainly down to the relocation of Betfair to Gibraltar in the first quarter of 2011/12.

The number of customer accounts

(defined as those accounts on which a customer has gambled on in last 12 months) for the year 2011/12 reached 14.6 million, a three per cent increase on the previous year. New player registrations reached 3.8 million which was a 14 per cent increase.

Meanwhile funds in player accounts decreased by 36 per cent mainly again due to the relocation of Betfair. The amount in 2012 came to £170m. Self exclusion figures reached 33,762 last year whilst only 1,486 cancelled their self exclusion after the minimum period.

### THE OPERATORS

Only 20 per cent of the UK online market, principally one company, remains in the UK, Bet365, and operates from Stoke-on-Trent where over the last 10 years it has become the largest private sector employer with 2,000 staff locally.

The majority of other online operators are licensed in Gibraltar or Malta. Bet365 claims it pays around £130m in taxes annually in the UK. They believe

for them to remain in the UK the introduction of Point of Consumption tax is essential. Some 90 per cent of online gambling is provided by companies outside of the UK.

However a report produced by Deloitte said the introduction of a POC tax would prompt growth in a grey market and a 10 per cent POC would lead to 27 per cent of the industry at risk of leaving the market and a 15 per cent tax would see 40 per cent leave.

At the moment UK operators pay 15 per cent on their Gross Profits, 10.75 per cent horse racing levy on British horseracing bets and VAT on their input costs. The majority of offshore operators pay a capped rate of tax thus giving them a significant tax advantage.

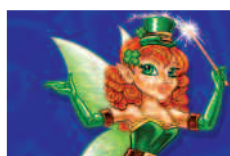
This uneven playing field caused Ladbrokes they say to close its call centre in Aintree and both Ladbrokes and William Hill say a level playing field should be created by extending UK regulation and GPT to offshore operators and betting exchanges and introducing a lower GPT rate to all UK retail and online operators. Some suggest a single rate of 10 per cent GPT should be applied to all gaming products and delivery formats.

Paddy Power's Chief Executive Patrick Kennedy said: "In March 2012 the UK government confirmed its intention to change the tax regime on remote gambling from a 'point of supply' tax on operators based in the UK, for which a 15 per cent rate currently applies, to a 'point of consumption' tax on all remote gambling operators supplying UK customers. It indicated that it currently expects to implement the new regime from December 2014, however the exact timing and rate will be reviewed as part of an ongoing process.

"Depending on the tax rate this change could add significantly to our costs. If the tax was in place at a rate of 15 per cent of net revenue throughout 2012 it would have increased our tax payable by £31m, although opportunities exist to mitigate this gross impact through lower revenue share and marketing costs and potential market share gains from weaker operators forced to exit or compromise their offer."

At the moment there are 26 online companies operating in the UK and the main ones include:

**"In March 2012 the UK government confirmed its intention to change the tax regime on remote gambling from a 'point of supply' tax on operators based in the UK, for which a 15 per cent rate currently applies, to a 'point of consumption' tax on all remote gambling operators supplying UK customers. It indicated that it currently expects to implement the new regime from December 2014, however the exact timing and rate will be reviewed."**  
**PATRICK KENNEDY**  
Chief Executive,  
Paddy Power.



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## GALA CORAL GROUP

Gala Interactive consists of galabingo.com and galacasino.co.uk whilst Coral Interactive consists of coral.co.uk and the telephone betting operation Telebet. In 2011 this also included Eurobet.com which was closed at the end of 2011.

Coral Interactive was set up in 1998 and following a major investment in a new technology platform Coral re-launched the interactive division in 2012 from its new Gibraltar base. It now offers online, mobile and telephone betting.

The Sportsbook permits bets on sporting events around the world, in play betting during a match or game, tournament play and bets on racing. There are online casino, games, bingo and poker sites via coral.co.uk.

Gala Interactive is a newly formed division of the group which came together in 2012 and is also based in Gibraltar and this saw the launch of the new galacasino.com and galabingo.com websites.

*"Everyone has their favourite celebrities and TV chat shows but everyone loves socialising too so this interactive Facebook App and live show combines everything we think playing online bingo is all about. And as no other bingo site has anything like Gala Live TV it really does offer players something they won't get anywhere else."*

**ALISON DIGGES,**  
Bingo Director,  
Galabingo.com

There are over 600 jackpots daily and over £2m paid out to players every day. Galacasino.com also offers 300 plus high definition slots and table games and 40 plus progressive jackpots. Software is provided by Playtech.

Interactive gross profit was up nine per cent for the group with turnover at £72.5m and EBITDA at £35m. The total amount staked on Gala products was £982m and in Coral £704.1m. The Sportsbook gross win margin was 6.6 per cent.

Turnover for the Interactive group was six per cent higher than the previous year mainly due to the strong growth and revenues by coral.co.uk and the introduction of the new Gala interactive website later in the year.

Gala Interactive has shown strong growth in active customers on coral.co.uk, whilst sports betting amounts are 26 per cent higher than the previous year whilst gaming amounts staked were also 31 per cent higher. The group saw a total turnover of £1.18bn and EBITDA of £280m.

## UK OPERATORS PAY 15 PER CENT ON THEIR GROSS PROFITS, 10.75 PER CENT HORSE RACING LEVY ON BRITISH HORSERACING BETS AND VAT ON INPUT COSTS.

The focus for this year is for each of the new interactive sites to establish themselves as leading online betting platform and grow their market share.

GalaBingo recently launched a new Facebook App which features a live broadcast feed with a different celebrity each week. This enables players to watch and participate in exclusive interviews with celebrities during live broadcast. The Facebook App was launched on the Gala Live TV channel in February. Players are invited to



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### REMOTE GAMING TURNOVER AND GGY LAST TWO YEARS

GAME TYPE	TURNOVER 2011	TURNOVER 2012	CHANGE	GGY 2011	GGY 2012	CHANGE
Betting	£13bn	£14.6bn	12%			
General betting				£492m	£636m	29%
Betting Exchange				£154m	£59.2m	-62%
Bingo	£26.7m	£27.1m	1%	£2.2m	£2m	-9%
Casino	£333m	£487m	46%	£12.4m	£19m	52%
<b>TOTAL</b>	<b>£13.4bn</b>	<b>£15.1bn</b>	<b>13%</b>	<b>£661m</b>	<b>£717.1m</b>	<b>8%</b>

The above Gross Gambling Yield for the general betting, betting exchange and casino sectors can then in turn be broken down into the following:

### GGY FOR BETTING SECTORS

TYPE	GGY 2011	GGY 2012	CHANGE
<b>BETTING</b>			
Football	£273.9m	£280.9m	3%
Horses	£109.8m	£97.6m	-11%
Dogs	£9.7m	£6.3m	-35%
Other	£252.7m	£311.2m	23%
<b>TOTAL</b>	<b>£646.3m</b>	<b>£696.1m</b>	<b>8%</b>
<b>CASINO</b>			
Card Games	£1.5m	£0.81m	-49%
Table Games	£3.1m	£4.8m	56%
Peer to Peer	£0.01m	£0.01	29%
Slots	£6.1m	£11.5m	87%
Other	£1.5m	£1.7m	12%
<b>TOTAL</b>	<b>£12.47m</b>	<b>£19m</b>	<b>52%</b>

tweet, post or upload their own questions for the live show via a dedicated link. It was launched by David Hasselhoff which also coincides with the launch of the new 'Hoff' scratchcard exclusive to Galabingo.com.

Galabingo.com's Bingo Director, Alison Digges said: "Everyone has their favourite celebrities and TV chat shows but everyone loves socialising too so this interactive Facebook App and live show combines everything we think playing online bingo is all about. And as no other bingo site has anything like Gala Live TV it really does offer players

something they won't get anywhere else."

**LADBROKES** began life in 1886 as a bookmaker and today has 2,700 betting shops in the UK, Ireland, Belgium and Spain.

Ladbrokes employs some 15,500 people and has total annual stakes of £16bn and annual global revenues of over £970m. Ladbrokes.com was launched in 2000 and today there are over one million unique active digital customer (almost 10 per cent growth) and 67,000 unique active telephone players. The

Only 20 per cent of the UK online market, principally one company, remains in the UK, Bet365, and operates from Stoke-on-Trent where over the last 10 years it has become the largest private sector employer with some 2,000 staff locally.

digital and telephone betting is 18 per cent of Ladbrokes's total business revenue.

In January 2013 Ladbrokes acquired Global Betting Exchange Alderney Limited (GBEA), operators of Betdaq. GBEA is the world's second biggest betting exchange who also provides fixed odds betting platforms to a variety of B2B customers.

The deal was to boost Ladbrokes digital growth strategy and they now have the ability to provide a comprehensive sports betting proposition for customers.

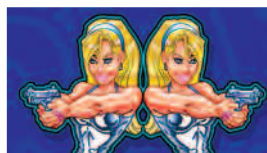
Richard Glynn, Chief Executive said: "The acquisition of Betdaq will allow us to create a more comprehensive sports betting offer, combining the strength of our brand and strengthening Sportsbook with a high quality and scalable betting exchange. With between 20 and 30 per cent of our customers already using betting exchanges, we expect to be able to grow our share of wallet, proving a better value option for exchange bettors.

"Our immediate focus is on improving the existing Betdaq exchange with development wholly provided by a dedicated technology provider. Thereafter we expect to provide an enhanced exchange product as part of the wider Ladbrokes offering. The acquisition is expected to be earning enhancing in 2013."

Ladbrokes's total online gaming net revenue of £178.1m is divided between Sportsbook with 38 per cent and net revenues of £77.8m, casino and games with 35 per cent and net revenues of £75.8m, poker nine per cent and £10.9m and bingo with eight per cent and net revenues of £13.6m.

The casino and games net revenue grew by 3.1 per cent and Ladbrokes has added additional games content from suppliers such as IGT, Openbet, Cryptologic and Realistic on mobile and tablet formats.

Richard Glynn, Chief Executive said: "The growth in Bet in Play remains a key driver of market growth in Sportsbook volumes with the latest in Play Betting survey compiled by the industry monitor Gambling Data indicating an increase of events offered of 23 per cent across the industry. Our



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BIP coverage grew by over 150 per cent in 2012 with circa 70,000 different events and matches offered to our customers.

“BIP volumes grew by 37.8 per cent and represented over 60 per cent of all non racing Sportsbook stakes in the year. The full launch of our new Sportsbook website during the first quarter of 2013 will increase the prominence of BIP whilst also enabling customers to navigate the site more easily and make quicker bet selections and personalise content.”

Ladbroke's telephone betting division sees some 4.3 million calls per year and net revenues of £9.5m and saw £266.6m staked in total.

Mobile net revenue was up 93.6 per cent whilst mobile Sportsbook revenues were 26.5 per cent of the total Sportsbook with over 40 per cent of Sportsbook customers using mobiles during the second half. Mobile gaming net revenue grew by 96.1 per cent with new tablet specific games and casino content including live dealer table games and slots.

Ladbrokes is now aiming to launch its new mobile platform during the second half of 2013 which has been developed

**William Hill is the UK's largest bookmaker and employs 16,000 people in eight different countries. They were founded in 1934 and its online division was established in December 2008 with Williams Hill's Sportsbook led interactive business and gaming assets acquired from Playtech.**

with new API technology and will enable them to develop and launch multiple new mobile apps.

**WILLIAM HILL** is the UK's largest bookmaker and employs 16,000 people in eight different countries. They were founded in 1934 and its online division was established in December 2008 with Williams Hill's Sportsbook led interactive business and gaming assets acquired from Playtech.

Today the joint venture owned by William Hill (71 per cent) and Playtech (29 per cent) included an eight year licence for Playtech's casino and poker software plus the bingo software and mobile betting platform. The company had the option to acquire Playtech's share in the first quarter of 2013 or 2015 and is now offering to pay £424m for the proposed acquisition of Playtech's share in the company.

Today the company offers online gaming via [williamhill.com](http://williamhill.com) and also offers betting and gaming via its shops, online, mobile and telephone services and offers sports betting, casino, poker, bingo and financial betting.

It's Sportsbook is responsible for 35 per cent of its online revenue followed by Playtech Casino (25 per cent),

**PADDY POWER WAS FORMED IN 1988 AND BECAME SYNONYMOUS IN THE UK AND IRISH BETTING INDUSTRY AND OPERATES A TOTAL OF 430 BETTING SHOPS OF WHICH 217 ARE IN THE UK.**

Vegas/Games/Skill with 26 per cent, Bingo (seven per cent) and poker (seven per cent.) For mobile betting William Hill offers the new Sportsbook App which enables an automatic log in and quick links to the most popular bets. The company's Sportsbook App has been the highest rated betting App since it was launched in the Apple App Store in February 2012 and was downloaded some 668,350 times during the first year.

Shake-a-Bet App also enables players to put in the amount they want to bet and aim to win and the App finds the best selections.



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THE AWP  
MODEL AWARD FOR 2012



The latest web based casino, bingo and games mobile sites can also now be found via the newly launched Bingo Android App and Casino Club App whilst text betting was launched in 2011. Some 19 per cent of Sportsbook turnover now comes from mobile devices. Third party Apps have also been launched. The first was the Racing Post App which is available on William Hill's own mobile Sportsbook.

Meanwhile telephone betting offers a quick and easy way to place bets with a Bet-in-Play service and Live Race Commentary.

The company saw a total of £18.8bn wagered in 2011 whilst group revenues reached £1.2bn in 2012 of which the online sector was responsible for £406.7m; retail £837.9m, telephone £16m and other £7.4m.

In 2012 William Hill had 1.8 million unique active players and William Hill's online offering has seen its fourth consecutive year of revenue growth. Around 75 per cent of William Hill's online revenues come from the UK whilst the remaining is spread across 100 other countries.

**BETFAIR** was founded in 1999 and today is one of the leading international

### Comment



and innovative content which will have not only global appeal, but also be territory specific, enabling operators to market more effectively.

"In 1999 interactive gaming was in its infancy and many of the operators online today were reluctant to embrace the technology for fear of it cannibalising their landbased business. However progress changed perception and following on from casinos and Sportsbooks, poker and skill games debuted. There is much talk about social gaming currently so this is one direction the industry may shift, however, as technology blurs the few remaining boundaries between landbased and online, technology needs to address the gaps in marketing to a player from a landbased environment to them playing online or mobile, seamlessly with one single account, purse and bonus credits. JPMi will continue to develop its classic back catalogue of games online as players enjoy recognising the titles they are used to playing in a pub, club or arcade environment, plus it is committed to releasing new

and innovative content which will have not only global appeal, but also be territory specific, enabling operators to market more effectively.

Today, generic AWP manufacturers and the online sector are completely integrated. JPMi was one of the first AWP manufacturers to launch an online division and has benefited from its 40 year terrestrial experience influencing interactive and mobile development. There is no doubt that AWP style games have brought an additional dimension to online gaming.

JPMi is constantly developing innovative new technology and adapting its proprietary engine Gameology. One of the most exciting developments has been the launch of a series of games online under the Max Power brand which has traditionally been extremely popular in Europe, particularly in countries such as the Czech Republic. While players appreciate these games being translated online, it's the development of the progressive jackpot system which is unique, due to the fact that instead of waiting months and months for one player to scoop a prize, smaller jackpots are hit almost daily to enable many players to receive a bonus win."

**ANDREW DAVIES**, Managing Director, JPM Interactive

online sports betting providers and pioneered the first Betting Exchange in 2000.

Betfair's Betting Exchange operates in the sports betting market. Betfair Games and Betfair Poker are incorporated and registered in Malta. The Betfair Games brand comprises of Betfair Casino, Exchange Games and Betfair Arcade. The online casino game operates the 'zero lounge' without a house edge and more traditional casino games whilst Betfair Arcade was launched in 2008 offering easy to play games.

The Betfair Group saw revenues in 2012 of £389.7m with an EBITDA of £75.1m.

The company launched 55 new games for its gaming and poker sites last year and refreshed the casino game sites and expanded the Live Dealer product and also introduced a Mobile Casino.

Betfair was the first betting operator to launch an App in May 2010 and these are offered across all major platforms from Apple, Android and Blackberry with products in 26 App Stores globally and in 17 languages.

Last year some 275,000 customers placed 44 million bets using a mobile

The first online interactive betting service was launched in Ireland in June 2000 via paddy power.com and it was then launched in the UK market the following year. Today the online business remains Paddy Power's fastest growing area of business and today is one of the top five online companies with 79 per cent of its operating profits generated from the online sector.

device last year. This is more than double the previous year. Mobile revenue last year was £22.7m and there were more than one billion bets online with on average 34 bets per second. Net gaming revenue for the Games sector was £56m whilst poker saw net gaming revenues of £22.3m

**PADDY POWER** was formed in 1988 and became synonymous in the UK and Irish betting industry and operates a total of 430 betting shops of which 217 are in the UK.

The company is well known for its telephone betting service launched back in 1996 and today sees net revenues of £22.5m with almost 59,000 active customers in the UK and 83,000 worldwide.

The first online interactive betting service was launched in Ireland in June 2000 via paddy power.com and it was then launched in the UK market the following year. Today the online business remains Paddy Power's fastest growing area of business and today is one of the top five online companies with 79 per cent of its operating profits generated from the online sector.

The company also launched Bet & Watch which enables customers the



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facility to view every Irish and UK horse race live online.

In 2004 Paddy Power launched its casino games site which now includes Paddy Power Instant Casino and Paddy Power Download Casino which was re-launched in 2011 and powered by Playtech. There are over 200 games such as blackjack and roulette, branded games, over 30 jackpot games and rewards schemes. Paddy Power Live Casino meanwhile was launched in 2009 and this offers live streamed versions of blackjack, roulette and baccarat 24/7.

The same year Paddypowergames.com was launched offering slots, virtual sports, video poker and TV themed games and there are over 300 games on offer. The games division saw revenues up by 31 per cent to £85m last year. The company works with 20 different game suppliers and in November last year acquired Bulgarian games developer Cayetano to help develop games particularly for the mobile sector.

In February 2005 the company launched paddypowerpoker.com which has become Ireland's biggest poker room. This was developed with Playtech whilst Paddy Power also now sponsors the Irish Poker Open. The following year Paddy Power bingo was launched with platform operator Virtue Fusion and this now offers multiple bingo rooms and side games.

In 2009 Paddy Power set up a new B2B side to its business which allows B2B partners to offer fixed odds sports betting to their customers through a service managed by Paddy Power. Its first business deal was signed with French horse racing pools operate PMU and Paddy now provides them with sports pricing and risk management.

The group saw a record turnover in 2012 of £5.7bn and operating profit of £136m. Total amount staked was £5.6bn. Net revenue for 2012 for the online division (all markets) amounted to £409.6m a 39 per cent increase on the previous year. The company has 1.6 million active customers worldwide.

The amount staked on Sportsbook increased by 29 per cent to €2bn whilst online gaming and B2B has seen a revenue growth of 23 per cent.



At the beginning of the year Rank announced it was undertaking a 'review of the business' which is generally code for putting it up for sale. Rank says it will now look at the future of its online sports betting business ahead of UK government changes in gambling taxation but will continue to focus on developing its casino and bingo brands.

Paddy Power's Chief Executive Patrick Kennedy said: "Our existing online markets are large, legal regulated markets which have consistently averaged double digit growth rates. We expect smart phones, tablet computers, social media and migration from retail to continue to drive strong online market growth.

"Our markets are becoming less fragmented over time as continuous innovation puts pressure on sub scale operators with consumers naturally migrating to the strongest products, services and brands. Market research in the UK indicates that in the year to September 2012 regular gamblers that use just one brand increased from 48 per cent to 55 per cent of those surveyed while those that use four or more brands fell from 23 per cent to 12 per cent of respondents.

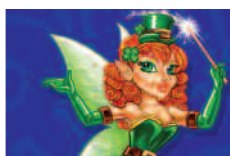
"We invested heavily in our online division to drive and support the growth and to take Paddy Power into new markets. Online operating costs were up £15.8m due to our entry into the Italian online market plus

### **RANK SIGNED A MULTI YEAR ONLINE CONTENT LICENSING DEAL WITH WILLIAMS INTERACTIVE FOR ITS ONLINE BRANDS TO HAVE ACCESS TO THE WMS LIBRARY.**

investments in a new mobile casino product and brand (Roller), a sports betting based social game (BetDash) and proprietary gaming development through Cayetano."

Paddy Power now has 25 Cayetano games since its roll out in July 2012. In October they launched a new casino product Roller for the UK tablet and smart phone gaming market and BetDash went live in August 2012.

**RANK INTERACTIVE** is a remote gaming



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### ONLINE UK MARKET DIVISION

COMPANY	NET REVENUES 2012	AMOUNT STAKED	ACTIVE CUSTOMERS	MARKET SHARE
<b>WILLIAM HILL</b>	£240m	£2.4bn	1.8 million	15 %
<b>LADBROKES</b>	£178.1m	£2.2bn	1.01 million	11 %
<b>BETFAIR</b>	£78.3m	n/a	852,000	11 %
<b>PADDY POWER</b>	£263.1m	£2.1bn	1 million	9 %
<b>GALA CORAL</b>	£72.5m	£1.6bn	100,000 (Gala Bingo)	5 %
<b>RANK INTERACTIVE</b>	£77.7m (revenue)	n/a	326,000	

and betting business belonging to the Rank Group and basically distributes the Mecca Bingo and Grosvenor brands to the digital media providing games online and via mobile and social networks.

The company also comprises of Blue Square (Rank's digital sports betting and gaming brand) and offers games via Meccabingo.com, meccagames.com, bluesq.com, bluesqpoker.com and Gcasino.com.

Its primary market is the UK although it does also provide sites in Spanish, French, Germany, Danish and Swedish. The division was founded in 1999 and today has revenues of £57.7m with 0.3 million customers.

Blue Square was bought by Rank in 2003 for £63m and is Rank's sports betting and gaming brand for the UK market and this serves around 120,000 customers a year through its dedicated bluesq.com website and mobile

Gambling software licence holders had total sales of £74.9m in 2011/12 and a revenue share income of £27.9m.

applications. It offers sports betting, casino, community and slot games. The brand also provides sports betting services to 888.com which are marketed under the 888.com brand.

At the beginning of the year Rank announced it was undertaking a 'review of the business' which is generally code for putting it up for sale. Rank says it will now look at the future of its online sports betting business ahead of UK government changes in gambling taxation but will continue to focus on developing its casino and bingo brands.

It is thought with around 120,000 customers Blue Square never achieved the critical mass against the larger bookmakers and online companies

Meanwhile Rank's Interactive side saw total revenues last year of £77.7m (a 20 per cent growth) and an operating profit of £10.5m with 326,000 customers and 6.2 million customer visits with a spend per visit of £12.36 on average.

Of this revenue total some £59.7m was from bingo and games, £8.4m from sports betting, £8.5m from casino games and £1.1m from poker.

Rank recently signed a multi year online content licensing agreement with Williams Interactive LLC, a subsidiary of WMS meaning Rank's Meccabingo.com and Grosvenorcasinos.com online brands will now have access to the WMS library of online slot games such as The Wizard of Oz, Zeus, Reel em In and Jackpot Party games.

The content is expected to be on the sites by the second half of this year and will be possible with the use of OpenBet's Remote Gaming Interface, a platform used by Rank's online casino websites.

### SOFTWARE PROVIDERS

Gambling software licence holders had total sales of £74.9m in 2011/12 and a revenue share income of £27.9m. This was divided between games software with total revenues (sales and revenue share) of £26.7m and platform software with total revenues of £73.6m.

At one never online and land based used to be a case of never the twain shall meet. Today however many traditional slot manufacturers have now



branched out into the online field in a bid to access this growing market.

JPM for instance has an Interactive division which creates games for the internet industry, server based gaming machines, interactive digital television games and private gaming and entertainment networks.

The company has a patented server based gaming system called Gameology which is the underlying platform to service the market in taking products such as Who Wants to be a Millionaire into the various online sectors.

JPM Interactive was set up in 2005 and together with JPM International has developed over 1,000 skill and AWP games. Today they work with Ladbrokes, Bet365, Littlewoods and Betfred for example. JPMi is also the sole game content provider to the Slovakian national lottery.

The company recently signed an agreement with Microgaming Systems to enable games to be deployed on the Quickfire platform globally.

London based EveryMatrix is an independent software development company looking at developing products for the gaming industry to be used in-house or with third party software. The company was founded in 2008 and main shareholder is CEO Ebbe Groes, who is also the majority shareholder of BetBrain Ltd, and Executive Chairman Stian Hornsletten.

EveryMatrix's clients include BestBet.com, Centrebet, 377Bet, iGame, Ocho, Betcrib.com, GoldClub online and Jetbull.com. The company recently launched a new online gaming facility with Probe Investments called Energycasino.com which features Greentube and Novomatic games. This is the first such venture for Everymatrix as a gaming platform provider.

Ebbe Groes said: "EveryMatrix is a B2B solution provider and we aim at being quick to react when opportunities appear. Flexibility comes in various shapes. It is no longer good enough to have a standard layout available, it must differ from region to region, from country to country, with proper localisation. It's no longer good enough

to cover the main leagues and sports of the world, it's important to cover lower leagues and exotic sports and this is what we're taking into account when optimising OddsMatrix, our award winning white label Sportsbook.

"There's still room for significant growth. It's all about the data available, speed, accuracy and trustworthiness. The growth will be across the board. And it will further increase the gap between small or even medium sized operators and those with ample resources."

Meanwhile, Blueprint Gaming is a 10 year old supplier of gaming machines and digital content to land based venues, server based gaming networks and online and mobile casinos. The company has offices in the UK, US and Philippines and in 2008 the Gauselmann Group acquired a 50 per cent controlling stake in the company in a bid for the Germany company to re-make its mark in the UK sector.

Today, Blueprint works with a number of large operators including 888.com,

### **BLUEPRINT GAMING IS A SUPPLIER OF MACHINES AND DIGITAL CONTENT TO LAND BASED VENUES, SERVER BASED GAMING NETWORKS AND ONLINE AND MOBILE CASINOS.**

Bet365, Betfair, BlueSquare, Gala Coral Group, Ladbrokes, Victor Chandler and William Hill.

In September last year Ladbrokes signed two online supply agreements with Blueprint Gaming and Ash Gaming to supply slot games such as Viz, Zuma, Chuzzle, Bejeweled 2 and Casper from the Blueprint library.

Although Blueprint's game portfolio is relatively small it is a growing company and has a library of branded and non branded games and strives to offer



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### Comment



"According to the Gambling Commission, it regulates around 20 per cent of the British online gambling market and the vast majority of the other 80 per cent is held by companies licensed in jurisdictions Gibraltar, Alderney and the Isle of Man. This makes it difficult to come up with precise figures for the total market, but the consensus seems to be that it is around £2bn per annum. As might be expected of a relatively mature market, growth is steady rather than explosive. Consolidation of the market and operators is gradual but the trend is definitely there. The great unanswered question is what impact the British Government's plans for licensing and taxing on a place of consumption basis will have on what has so far been a safe and stable market. It is not yet certain that they will be able to overcome the practical and legal hurdles, however, if they do the intention is that the implementation of both measures will take place near the end of 2014.

That aside it remains the case that the British market is the most well established in Europe and probably within the world. As such the way that the regulator, consumers and companies behave must provide valuable lessons for other jurisdictions. In such a well-established market it is clear to anyone who assesses the position objectively that none of the government's regulatory objectives are under a credible threat. Minimising the levels of problem gambling is also a core aim for the industry and is something that it can never be complacent about, but it is debatable whether problem gambling levels have really changed much since the original Prevalence Study findings in 1999. Even if there has been a marginal increase there is no evidence that suggests that online gambling is a particular cause of it. Alongside that, and too often forgotten, is the fact that the intense competition in the market place has led to consumers enjoying better value and choice than they have ever done before.

Unfortunately, there is a strong cross-party political wind behind the government's plans and from an industry perspective we must prepare for the worst even while hoping that it can be averted. The regulatory changes in and of themselves will not affect the current situation in any noticeable way. What will impact on the sector is the tax burden that will follow along behind them. Most of the companies are based outside of the UK because that is where they needed to be to remain competitive and viable. That had nothing to do with a regulatory burden that they would readily have complied with and everything to do with the fiscal disadvantages of being based in the UK.

Unless the government can address that issue adequately it is probably doomed to repeat the failings of its predecessors. That will be to the detriment rather than the benefit of consumers. The government seems to be hanging its hopes on blocking mechanisms to prevent non-licensed companies accessing the British market. They seem to be basing that decision on hope. It would be far better if they based it on experience because there is an awful lot of that now and it all points to the fact that unless domestic operators can offer comparable product ranges and value to their offshore competitors then consumers tend to vote with their feet irrespective of what attempts are made to stand in their way. New technologies will only make it easier to circumvent blocking mechanisms. The challenge for government therefore is to find the right tax balance between now and the Budget in 2014."

.....  
**CLIVE HAWKSWOOD**, Remote Gambling Association

something new and different.

Blueprint Gaming's Managing Director Matt Cole said: "The UK is one of the most mature markets, and to remain competitive requires constant innovation. Key developments in the market over the next year are going to a convergence of mobile with the existing gaming offer, and preparation for a more regulated market."

The acquisition of the newly founded Merkur Casino UK also encompasses Restcare Ltd, Baleday Ltd and Beacon Bingo Ltd.

Ulrich Wuseke, CFO and Deputy

"We are pursuing a visionary strategy that is unique in Great Britain. We are offering a broad range of gaming solutions together with Blueprint Gaming UK and the pioneering technologies of the Gauselmann Group."

**ULRICH WUSEKE**, Deputy Chairman, Gauselmann Group

Chairman of the Gauselmann Group said: "We are pursuing a visionary strategy that is unique in Great Britain. We are offering a broad range of gaming solutions together with Blueprint Gaming UK and the pioneering technologies of the Gauselmann Group."

Spielo G2 (formerly known as GTech G2) is a full service provider to the igaming and sports betting industry with offices in London and Gibraltar and in other parts of the world.

The company supplies the likes of Bet365, SkyBet, Betfred, PaddyPower,



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THE AWP  
MODEL AWARD FOR 2012



### Comment

"Galabingo.com is one of the top three bingo sites in the UK market and since its re-launch last July has grown substantially at over 30 per cent in terms of player numbers and revenues. Meanwhile Galacasino.com has also grown substantially since its re-launch in 2012 with well over 100 per cent year on year growth in revenues. At the moment galabingo.com has over 100,000 unique active players monthly and pays out over £2m daily.

Recently we launched Ant and Dec's Saturday Night Takeaway bingo, slot and scratch card, The Hoff exclusive scratch card and slot. Now we have a big focus on creating exclusive branded content to drive acquisitions into galabingo.com.

In January 2013 we launched our mobile version and now we are focusing on mobile product evolution during 2013 to ensure market leading mobile bingo and slot offering as customers shift to playing on tablets and mobile and dual screening. We also recently launched a Gala Live facebook App which allows live streaming of Gala Live into facebook for special celebrity events which so far the Hoff and Louie Spence have recently starred.

The outlook for bingo is very positive with double digit growth trends continuing. Regulation in the UK and elsewhere will impact the market and will more than likely cause market consolidation where the top companies will probably dominate.

Spend on TV advertising continues to drive growth for the top ten sites however it is increasingly difficult to differentiate in the market place. There will no doubt be a huge investment in mobile product offering as players move towards playing games on the move and dual screening. Success will be measured on how quickly companies adapt to the increasingly mobile demands of their customers and the challenge to improve the quality of products available on mobile.

The GBGC estimates that online bingo will grow by over 10 per cent between 2011 and 2015 with the UK market valued at £640m by 2015."

.....  
**ALISON DIGGES**, Marketing Director, GalaCoral Bingo

Stan James and Yahoo Games with products such as G2 Poker, G2 Casino, G2 Bingo and G2 Games and is also active in the lottery sector and is partnered with Norsk Tipping to provide the lottery's first igaming products for the Norwegian market.

William Scott, VP Interactive Business Development at SPIELO G2 said: "The growth of the online gaming in the UK has been exponential across all verticals and the trend only looks set to continue, fuelled significantly by ongoing developments in mobile and social. The rise in ownership and sophistication of tablets and smartphones has meant a massive increase in play time on the devices as well as gaming related mobile searches, marketing and general activity.

"There are a few brands without a social media presence these days, but there has been a bit of a lag in terms of companies nailing their strategies. As understanding of – and expertise in – the area has grown, the industry is beginning to reap the benefits.

"Successful Facebook and Twitter engagement now clearly and directly

**"The UK online gaming market has grown hugely in the past five years, and we think this rate of growth is destined to continue. Indeed, a recent report forecasting the UK market for the next three years from Gambling Data suggested that the market will likely to continue to grow at rates of plus 20 per cent year-on-year for the next two years. This is a huge expansion, and across all products, and helps to explain the rate of innovation that we think we are helping to define through our products."**  
**JEREMY THOMPSON-HILL**, CEO, OpenBet.

contributes to improving an operator's performance. It also helps drive consumer loyalty which is vital given the choice confronting today's educated player. Operators simply must create and implement strong retention strategies and make it as straightforward as possible for their customers to be able to play anytime, anywhere and on any device, through a one wallet solution."

OpenBet works with some of the blue chips companies such as William Hill, Paddy Power, Sky Bet and Ladbrokes and also has a growing list of those in newly regulated markets overseas such as PMU, Loto-Quebec and British Columbia Lottery Corporation.

The latest technology from OpenBet is the SiteServer which is a high scaleable API, which alongside the account management and bet placement functions enables a complete Sportsbook to be implemented. This allows the operator full flexibility and control and provides information dynamically with the ability to react instantly to changes in product and pricing.

Later this year the SiteServer will also



## ONE OF THE KEY ISSUES FOR THE ONLINE GAMING SECTOR IS CORRUPTION IN SPORTS BETTING AND HOW TO TACKLE THE PROBLEM.

bring data search capabilities such as instant free text search technology and price stream to allow instantly refreshable bet in-play markets to help maximise revenues.

Jeremy Thompson-Hill, CEO of OpenBet said: "The UK online gaming market has grown hugely in the past five years, and we think this rate of growth is destined to continue. Indeed, a recent report forecasting the UK market for the next three years from Gambling Data suggested that the market will likely to continue to grow at rates of plus 20 per cent year-on-year for the next two years. This is a huge expansion, and across all products, and



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helps to explain the rate of innovation that we think we are helping to define through our products.

"Of all the innovations, though, it is mobile which is most obviously capturing the headlines. This isn't just in sports – although that sector has very much led the way for mobile, but also casino, games and bingo. All the evidence from the top operators – particularly our clients such as William Hill, Paddy Power, Sky Bet and Ladbrokes – is that much of the mobile growth is incremental, both bringing new customers and encouraging more usage from the current customers.

"For the future we think we will see more mobile improvements and as with SiteServer we are leading the way with making our product customisable, flexible and responsive. This applies to mobile in particular."

One of the key issues for the online gaming sector is corruption in sports betting and how to tackle the problem. In light of the recent European football match-fixing and cricket spot-fixing scandals the industry is now looking at ways of preventing this happening again.

Mr Groes added: "Fixed matches cause major losses for the bookmakers and of course the entire market will suffer if credibility of results gets questioned. The obvious action from the industry would be to arrange a central data exchange to pick up suspicious betting patterns that may be invisible to a single operator but visible on an aggregated scale. The obvious challenge, costs aside, is data security.

"In our opinion questions like this are not best solved by self regulation, no more than bank self regulation is advisable for the financial sector. A joint international effort from betting regulators is needed."

Another issue for online gambling operators is offering large jackpots as this requires player liquidity and jackpot seeding which can often make it impossible for the smaller operators to entice players with a huge jackpot.

Nick Lynes and Stan Stallone of Topjack Games however came up with an idea which would allow any operator to access large 'fully insured' jackpot concept which operators can white label and add to their own menu of games. The company is the first

**"The growth of the online gaming in the UK has been exponential across all verticals and the trend only looks set to continue, fuelled significantly by ongoing developments in mobile and social. The rise in ownership and sophistication of tablets and smartphones has meant a massive increase in play time on the devices as well as gaming related mobile searches, marketing and general activity."**  
**WILLIAM SCOTT,**  
VP Interactive Business Development, SPIELO G2.

online gaming company in the world to offer licensees and players a 100 per cent insured prize payout.

The jackpot system has been approved by the Malta Lotteries and Gaming Authority and also by Lloyds of London which will also insure jackpots of all sizes on all its games and can be applied to anything from instant lotto, slots, bingo, video poker, roulette and keno for example.

The company now supplies games which can be taken individually or as a group of games and its software has been available for white label since January 2012. This means operators can now offer massive jackpots which are not tied to a progressive model. Topjack Games has now agreed terms with William Hill and also has white label deals with Cake Poker, El Penguini Games and Kazzinga.com

Nick Lynes said: "Until now mega jackpots and the liquidity required to grow them have been controlled by a small number of highly coveted software providers. However Topjack Games now offers all operators mega jackpots on all game types.

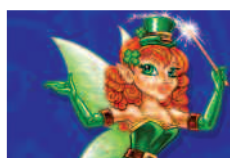
"The online industry now needs more channels to play and more innovation from all software providers and operators themselves."

### LEGISLATION

The Gambling Act 2005 was broadly designed not only to consolidate existing gambling legislation but also to update the regulatory structure for online gambling.

The previous gambling laws dated back to 1963 (betting) and 1968 (gaming) and served well. However, largely because they were overtaken by technology the British Government instigated a comprehensive review of its regulatory regime.

On the specific subject of remote gambling, the UK Government took comfort from the fact that remote betting was well established, firstly through telephone betting and more recently through online betting. There was no evidence that it had presented any noticeable problems from a regulatory perspective. It also took into account that online gaming, predominantly online casinos and poker rooms, were growing in accessibility and popularity.



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The UK Government was left with two options: to regulate this new sector or to seek to prohibit it. For two main reasons it chose regulation. Firstly, as all other sectors of the British gambling industry were regulated it was logical to do the same with this new sector.

Secondly, and especially in the face of evidence which indicated that prohibition merely drove operators and their customers towards perhaps less well regulated jurisdictions, it made sense to offer British and other customers the chance to gamble remotely with fully regulated British-based operators.

The Gambling Act therefore contained provision for a whole new licence category: the remote gambling operator's licence. The Act was drafted with the aim of making it 'future proof' so that there is capacity for the regulator, the Gambling Commission, to react quickly and effectively to any new technologies that might evolve.

The Act did not seek to criminalise consumers who gambled with offshore operators, nor to criminalise those operators for making their services available. It recognised that gambling and other e-commerce products are not capable of complete regulation within national boundaries. Instead it adopted a pragmatic response, which is to enable operators to offer safe products that are fully regulated and give that choice to consumers irrespective of where they are located.

More recently, the draft Gambling (Licensing and Advertising) Bill published by the Department for Culture, Media and Sport (DCMS) in December 2012, proposed that remote gambling be regulated on the basis of where bets are placed - from the 'point of consumption' (POC). It said that the overseas operators would be obliged to tell the Gambling Commission, the regulator of commercial gambling in the UK, about suspicious betting patterns involving UK consumers and that they would need to pay some of the costs of tackling problem gambling and regulation.

The Government said that gambling operators in 'white-listed' countries will not face significant extra costs as a result of the plans and that the reforms were needed for the benefit of consumers.

Hugh Robertson, Minister for sport and tourism, said: "These proposals are an important measure to help address concerns about problem gambling and to bridge a regulatory gap, by ensuring that British consumers will enjoy consistent standards of protection, no matter which online gambling site they visit.

"For example, previous work by the Gambling Commission has highlighted deficiencies in some remote operators' arrangements for preventing underage play, and, for the first time, overseas operators will be required to inform the UK regulator about suspicious betting patterns to help fight illegal activity and corruption in sports betting."

Following from the Government's announcement that it was going to move gambling regulation to a point of consumption basis, the Chancellor announced—in his Budget Statement on 21 March 2012—that a point of consumption tax would be applied to online gambling, meaning that all operators offering online gambling products in the UK would be subject to UK tax.

### **THE DCMS IN DECEMBER 2012, PROPOSED THAT REMOTE GAMBLING BE REGULATED ON THE BASIS OF WHERE BETS ARE PLACED - 'POINT OF CONSUMPTION'**

He also said that double taxation relief would be introduced for remote gambling from April 2012. This would allow online gambling companies to base themselves within the UK, and market products in other jurisdictions without being subject to each jurisdiction's full burden of tax. It is also important, for operators to have removed 'double taxation' as it is a further threat to the economic viability of locating in the UK, as more overseas countries develop their own gambling regulations, including point-of-consumption taxation.

The Chancellor set out his reasons for the changes as follows: "Ninety per cent of online gambling consumed by



"We welcome the proposed changes as currently we regulate less than 20 per cent of online gambling by British consumers and cannot insist on overseas operators providing us with information about suspicious sports betting transactions."  
**PHILIP GRAF,**  
Chairman,  
Gambling  
Commission.

our citizens is now supplied from outside the UK, and the remaining UK operations are under pressure to leave. This is clearly not fair—and not a sensible way to support jobs in Britain. So we intend to introduce a tax regime based on the place of consumption—where the customer is based, not the company—and, from this April, we will also introduce double taxation relief for remote gambling."

Philip Graf, Chairman of the Gambling Commission, said: "We welcome the proposed changes as currently we regulate less than 20 per cent of online gambling by British consumers and cannot insist on overseas operators providing us with information about suspicious sports betting transactions."

Under the UK's current tax regime UK-based betting operators pay a 15 per cent tax based on gross profits on bets, but many high street bookmakers, including Ladbrokes and William Hill, have moved their online operations



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abroad where they are not currently liable for a tax on profits earned. Separately, UK bookmakers must also currently pay a levy on gross profits taken on horse racing bets.

In 2011 a William Hill-commissioned study warned that gamblers could turn to unregulated markets if Government plans to tax betting operators on a POC basis was introduced. The report stated that a 10 per cent POC tax rate would lead to 27 per cent of the industry (primarily smaller operators) being at risk of leaving the market. At 15 per cent, the tax could lead to 40 per cent of the industry leaving the market. It suggested that, were the offshore market to be effectively regulated, the impact of a POC tax could be mitigated as illegal operators—paying less or no tax—would be less able to infiltrate the market.

Since the Budget, the Government has issued an in-depth consultation paper seeking the industry's views on a

specific framework for the effective introduction and enforcement of a POC tax on online gambling. The consultation closed on 28 June 2012, following which the Government intends to bring forward final proposals for implementation of the policy by December, 2014. The time delay reflects the Government's wish for tax changes to be implemented in tandem with regulatory changes, which are within the remit of DCMS, and include preparing the Gambling Commission for its expanded remit in handling the new licensing regime.

In July 2012 the Department of Culture Media and Sport published 'The Gambling Act 2005: A bet worth taking?' a study into the effectiveness of the 2005 Gambling Act, which also discussed the issue. It stated. "The failure of the Department for Culture, Media and Sport to work with the Treasury to set remote gambling taxation at a level at which online operators could remain within the UK

and regulated by the Gambling Commission has led to almost every online gambling operator moving offshore whilst most are still able to advertise and operate into the UK.

"We therefore welcome the announcement, made in the 2012 Budget Statement, that the online industry will be taxed on a point-of-consumption rather than a point-of-supply basis. We also welcome the detailed consultation with the industry since the Budget over the design of the policy framework and look forward to the Government's response.

"To give certainty to online operators, and their investment plans, we urge the Government to adhere to its timetable for implementation by December 2014 and to make plans to deal with any challenges to the proposed new system. However, the Treasury still needs to work with industry stakeholders to establish the correct level for online gambling taxation, taking into account the need to encourage companies to accept UK regulation and taxation and to discourage the formation of a grey market."

In March 2013, the UK newspaper the Mail on Sunday reported that the Treasury could be ready to slash taxation to encourage online gambling companies back into the UK. Although the percentage at which the government will reduce the tax is not yet known, the Mail on Sunday reported that it could be as much as a third; as the current tax system has lost £2.1bn in revenue over the past seven years.

A reduction of five per cent would save the 20 biggest offshore gaming companies £100 million in tax every year. However, many online gaming companies that currently work out of tax havens will be loath to pay the tax even at a reduced rate of 10 per cent.

But for some the deal might be enough of a sweetener to bring them back to the UK and benefit from greater regulation and industry support. By moving back under the control of the UK Gambling Commission, consumers new to online gaming may feel more inclined to give it a try, knowing it is thoroughly and tightly controlled and regulated by the Gambling Commission, which can bring charges against companies in breach of the rules.

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## BETTING ON DIGITAL

The United Kingdom is once again attracting the attention of international gaming suppliers. G3 speaks to **SPIELO International**, a company with one of the widest gaming portfolios, about its plans across each of the sectors in the UK market

With nearly three-quarters of adult Britain participating in gambling, most of them once a week or more (British Gambling Prevalence Survey 2010), there is no doubt that gaming is an important industry in the United Kingdom. SPIELO International has had a presence in this market for more than a decade, and they have recently ramped up their involvement. They also maintain a major office in London which acts as the seat of SPIELO G2, their iGaming and Sports Betting division. Below, they share opinion and insight on the current state of gaming in Great Britain, and what trends to expect in the near future.

### B2/B3 GAMING MACHINES

The United Kingdom is one of the biggest gaming markets in Europe. In addition to SPIELO International's casino business (B1, discussed below), the company has also closely observed

*"We are convinced that we can enrich our customer's content offering by providing proven casino-style games, appropriately adapted for UK players' preferences,"*  
**CHRISTOPH HERZOG**, Senior Business Development Manager, SPIELO International.

the British B2/B3 market since 2008, where they recognised excellent potential for proven content in this gaming segment, as well.

For B2/B3, SPIELO International has focused on a strong showing as a content provider, offering some of their successful and proven casino content to UK gaming operators as well as to UK platform providers. In the past, they offered six games to this market segment (Sphinx, Deal or No Deal, Crazy Fruits, Time for Money, Mystical Journey, and Mighty Miner).

There are major changes within gaming segments B3 and C (adult gaming centres, pubs, etc.) currently underway. Ownership is changing due to international gaming companies buying major UK operators, distributors, and gaming machine manufacturers. SPIELO International believes this

development will also accelerate the transition from analogue to digital gaming offerings, as this pattern has already played out in other European countries, such as Germany and Italy.

There is also a high level of competition in the server-based B2/B3 gaming segment as suppliers don't need to design and distribute a complete product (hardware and software), which usually entails significant financial investment. Suppliers "only" need to build the game software, which involves less capital expenses, and then get this game onto the operator's or retailer's server-based gaming terminals. The trend towards digital content (video vs. stepper reels) seems firmly entrenched, which means this competition for supplying content will intensify.

So it becomes even more important to



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## “THE RIGHT MIX OF EXPERIENCE FROM SPIELO INTERNATIONAL AND BETDIGITAL ALLOWS FOR A NEW CONTENT EXPERIENCE IN THE UK.”

offer unique and exceptional content. In response to this challenge, 2012 heralded an important expansion for SPIELO International when they teamed up with UK company Betdigital, whom they selected as a development partner to port their casino content onto various UK B2/B3 gaming platforms, and whom they chose for their experience in the UK gaming

market. The new UK games benefit from the company's international casino knowhow, combined with local knowledge of UK-specific player preferences. New as the partnership is, two games have already been ported and more will be released in 2013.

“We are convinced that we can enrich our customer's content offering by providing proven casino-style games, appropriately adapted for UK players' preferences,” said Christoph Herzog, Senior Business Development Manager, SPIELO International. “The right mix of experience from Spielo International and Betdigital allows for a new content experience in the UK.”

Betdigital is also enthusiastic about the partnership: “Being selected as SPIELO International's development partner for the UK market was a real honour for us and ratified all our hard work and



“With Betdigital's System X Integration Platform, along with our own in-house developed games currently sitting at Number 1 on Gala Coral and Number 1 on Ladbrokes, it really is an award-winning formula for both companies.”  
**HEATH SAMPLES,**  
CEO, Betdigital.

success in the UK B3 markets to date,” said Heath Samples, CEO, Betdigital.

“Everybody knows the strength of SPIELO International's games, so when they state they intend to launch content into the UK B3 market you sit up and listen. With Betdigital's System X Integration Platform enabling an entry into the UK within eight weeks instead of over a year, along with our own in-house developed games currently sitting at Number 1 on Gala Coral and Number 1 on Ladbrokes, it really is an award-winning formula for both companies,” he continued.

With their extensive library of internationally proven games, and their Betdigital partnership to adapt these to local player preferences, SPIELO International feels well positioned to turn the challenges of the B2/B3 market into growth opportunities.



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# Focus

SPIELO INTERNATIONAL

## IGAMING AND SPORTS BETTING

SPIELO G2, SPIELO International's iGaming and Sports Betting division, offers a comprehensive portfolio of products such as Bingo, Poker, Casino, Games, and Sports Betting. William Scott, Vice President of Business Development for SPIELO G2, shared his insight about the current marketplace:

"The growth of the Sports Betting industry is almost exclusively in the interactive space. That is not to say that retail does not provide a hugely significant (and in some cases larger) source of revenue, but it is more the case of protecting these revenues rather than growing them. Europe is regulating, market by market, bringing huge challenges and potentially decreased revenue for operators – but also significant opportunities.

"People say the UK online bingo market is saturated, but this isn't strictly true. It certainly is a busy market place, but it is not saturated. The acceleration of different devices a player can use to access their favourite brand or game means the online gambling industry can no longer control the pace of growth, but that's not to say it can't be managed. Smaller brands still have the potential to take a larger market share through savvy use of social media, apps, and engagement. You don't have to have the biggest wallet on the street to succeed if you can leverage your creativity and decrease your time to market.

"Finally, in the Online Gaming marketplace, more and more markets are looking to regulate, while land-based establishments are creating strategic partnerships with European-based interactive groups. As a result of this convergence, Account Management is becoming more important than ever as teams spend much of their time servicing client requirements in regulated markets and providing the tools and services to maximise revenue."

## CASINO (B1)

In the casino market, SPIELO International offers an end-to-end gaming solution. From the cabinet to the platform to the software and games, casino operators have the option of purchasing a 100% SPIELO International product.

Though SPIELO International has been involved in the UK Casino market since



2002, it recently increased its presence significantly with five operators and more than twenty properties running the diversity™ multi-game suite, which offers ten games of varying volatility on one machine. Companies that have taken deliveries to date include Asper's, LCI (Caesar's), Rank, Gala, and The Hippodrome. Both Asper's and LCI have SPIELO International games in all of their UK locations. The casinos have installed the Master Collection suites 1 and 2, which were developed specifically for the UK B1 market.

"You don't have to have the biggest wallet on the street to succeed if you can leverage your creativity and decrease your time to market."

**WILLIAM SCOTT,**  
Vice President of  
Business  
Development,  
SPIELO G2.

"We were excited to enter the UK with our diversity multigame product," said Cameron McKeown, Regional Sales Manager for SPIELO International. "diversity is a great looking product that is popular with players across Europe, and now British players are getting to experience it, as well."

The gaming market in the UK continues to offer challenges, but also opportunities for providers that can offer excellent content, relationships, and service.

# VALID REASONING

**Crane Payment Solutions** offers operators and OEMs a broad spectrum of cash solutions for the UK market. G3 speaks to CPS' European Sales Director, **Stephan Rosseneu** about the UK market and its planned acquisition of MEI

### WHAT ARE THE COUNTRY SPECIFIC CHALLENGES FACING THE VALIDATION SECTOR IN THE UK MARKET?

There are a number of challenges that affect operators across the world, such as security, reliability and customer satisfaction. In the UK the number of different types of coins and notes proves its own challenge - for example the £1 coin is one of the thickest coins in the world, at 3.2 mm thick. Coins change regularly too - when the new 5p and 10p coins were introduced, these were steel with nickel plating, so required reprogramming of coin validators.

Bank notes are no different, with a new Royal Bank of Scotland £10 note introduced in 2012, and a new £50 note in England in 2011. There are actually 38 bank notes needed to be accepted by bank note validators in the UK, including seven different £20 notes issued by the Clydesdale Bank in Scotland. Looking ahead there is plenty of talk about the current notes being replaced by plastic notes, which would bring with it its own challenges.

It is important to us that we are ready for any changes to regulations that affect our customers. Crane Payment Solutions continues to play a major role in working with the Bank of England and Royal Mint to ensure we can deliver products with the highest level of security and quality.

**THERE ARE A WIDE RANGE OF DIFFERENT PRICE POINTS FOR DIFFERENT VALIDATORS - HOW DO YOU SPLIT THE RANGE BETWEEN THE DIFFERENT APPLICATIONS/OPERATOR NEEDS AND SHOULD OPERATORS BE SELECTING A PARTICULAR 'DEFAULT' MODEL IN THEIR SECTOR I.E., CASINO OR STREET GAMING?**

The different price points for coin validators vary depending on the end



**STEPHAN ROSSENEU**, Director of European Sales, Crane Payment Solutions.

"There are a number of challenges that affect operators across the world, such as security, reliability and customer satisfaction. In the UK the number of different types of coins and notes proves its own challenge - for example the £1 coin is one of the thickest coins in the world, at 3.2 mm thick."



Crane Payment Solutions' v2 Eagle.

use, with the range of validators varying from low security door mounted mechanical validators, through to more sophisticated 5" validators using unique Multi Frequency Technology (MFT), such as the NRI v<sup>2</sup> eagle.

## MEI WILL JOIN CPS' BRAND PORTFOLIO OF NRI, CASHCODE, TELEQUIP AND MONEY CONTROLS, TO OFFER A COMPREHENSIVE RANGE OF GLOBAL SOLUTIONS.

We would suggest operators in street gaming use a 5" coin mechanism, as these machines are often unattended and these provide the greatest level of security and are mounted away from the machine door to prevent manipulation.

Door mounted 3.5" coin validators can be used on machines in casinos though, where there is a higher level of security around the machine.

**ARE WE AT THE POINT WHERE SPEED IS OF LESS RELEVANCE, WITH ACCEPTANCE CURRENTLY SO FAST THAT THERE'S VERY LITTLE BETWEEN EACH MACHINE? WHAT ARE THE DIFFERENCES THAT OPERATORS ARE LOOKING FOR RIGHT NOW?**

There are a number of situations where speed of acceptance is still important such as in change redemption and casino style machines. Customers expect high speed validation in these machines, via a coin validator such as the NRI v<sup>2</sup> falcon. For bill validators, speed of acceptance is not so important

for the average user. For operators, proven reliability and security are the most paramount factors.

**AS WE SEE TICKET SOLUTIONS LAUNCH IN THE STREET SECTOR IN THE UK, ARE WE GOING TO SEE LESS COIN VALIDATION AND MORE CASHLESS ENVIRONMENTS IN ARCADES AND STREET LOCATIONS?**

Not necessarily - tickets have their place but they won't necessarily be a replacement for coin validation. Ticketing isn't always the ideal solution for operators as often they can't be reinserted for further plays.

Where does oneCheck and oneTrack fit into the UK market right now and how do you see these solutions fitting into operations in the future?

CashCode OneCheck and oneTrack are both available for the UK market, providing operators with a cost effective audit tracking system.

**CASH MANAGEMENT SOLUTIONS HAVE BECOME A BUZZ WORD AMONGST VALIDATION COMPANIES, BUT WHAT ARE THE BENEFITS FOR OPERATORS IN LOOKING TO ADOPT NOT JUST MECHANICAL VALIDATION SYSTEMS, BUT ENTIRE END-TO-END CASH PROCESSING WITH A COMPANY SUCH AS CPS?**

The benefit to operators is in being able to clearly track and audit their cash. To help with this further, we've just launched the NRI w<sup>2</sup> which sits below a set of h<sup>2</sup> hoppers and weighs the number of coins so operators can actively know how many coins are in each hopper.

**HOW DOES THE ACQUISITION OF MEI FIT INTO THE PRODUCT OFFER OF CPS? IS THIS SIMPLY THE BUYOUT OF A COMPETITOR WITH THE SAME PRODUCT RANGE, OR IS THERE AN ADVANTAGE FROM A CUSTOMER PERSPECTIVE TO THE DEAL?**

The proposed acquisition of MEI would strengthen our existing Payment Solutions business, which we have grown through three acquisitions beginning in 2006. MEI will join Crane Payment Solutions' brand portfolio of NRI, CashCode, Telequip and Money Controls, to offer a comprehensive range of global solutions. We believe will further enhance our ability to drive new product innovation and facilitate the integration of bills, coins and cashless payment options to better serve our customers.





## LONELY HEARTS AND CLUBS

The pub market in the UK remains a hotly contested one, despite falling numbers of machines and locations, while the debate over 'analogue' or 'digital' rages on and on

Alcohol has been drunk and served in Britain since the Bronze Age. The origins of what we now know as the pub began during the Roman colonisation as a place where travellers could rest and refresh themselves.

These taverns remained long after the Romans left and during the Middle Ages the pub sign came into existence and by 1446 the Hostellers of London were granted guild status. During the 16th and 17th centuries these taverns mainly sold beer and ale and it wasn't until the Gin Craze began in the 18th century that other forms of alcohol arrived. By the 19th century the Wine and Beerhouse Act was introduced to restrict the hours Public Houses could sell alcohol which changed in 1914 and again in 2003 giving individual authorities the say.

Today, beer is a major British product and a major tax contributor. There are over 1,000 breweries in the UK and beer and pubs contribute £19bn to the UK GDP and generate £10bn in tax revenue. In total it also supports one million UK jobs of which 46 per cent are between the ages of 16 and 24 years.

There are a few different types. Managed pubs are operated by a pub company or brewery company which then employ a salaried manager and pub staff and they determine the style and product range. There are around 8,000 managed pubs in the UK.

There are currently around 51,000 pubs in the UK compared to 60,000 plus in the early 2000s and 67,800 back in early 1980s.

There are a few different types. Managed pubs are operated by a pub company or brewery company which then employ a salaried manager and pub staff and they determine the style and product range. There are around 8,000 managed pubs in the UK.

Around 25,000 pubs are tenanted pubs which are owned by a pub company or brewery and then leased to and operated by a tenant who pays rent. The tenant is responsible for the management of the pub. Some pub companies have introduced franchise agreements in the tenanted estate to give them greater control over the retail offer and standards of a pub operated by a tenant.

The UK also then comprises of free houses and pubs which are independently owned and operated by people or companies.

The UK has traditionally always had a flourishing pub market and in 2012 it

**PUB CLOSURES  
HAVE ESCALATED  
AND ACCORDING  
TO THE BRITISH  
BEER AND Pubs  
ASSOCIATION  
THERE ARE SAID  
TO BE AROUND 18  
PUB CLOSURES  
PER WEEK.**

was estimated some £50bn was spent on eating out whilst customers go out on average around 20 times per month for food or drink.

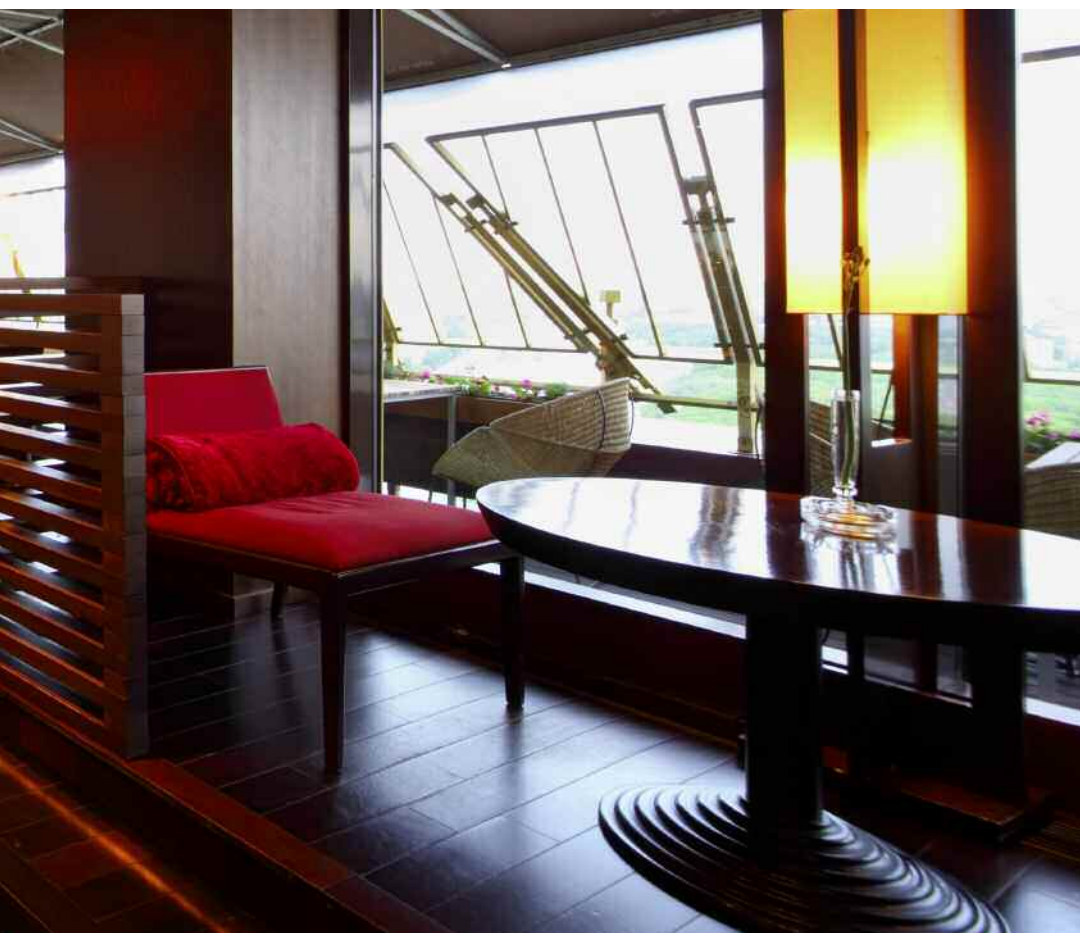
However, out-of-home drinking has seen a 3.5 per cent decline annually and now pubs are having to re-look at their offering as the lure of drink is replaced by the appeal of 'pub grub'. The economic climate has of course had an affect on disposable income and alcohol consumption is in decline as



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people now stay at home and drink whilst the smoking ban also led to a drop in customers.

Today, the UK pub market is not in a great situation. They have been faced with an onslaught of difficulties such as - legislative changes which have increased operating costs; the economic recession; a smoking ban in public places; increases in alcohol duties; food inflation; rising employment costs; competition from cut price supermarket alcohol and an increase in the minimum wage. This has all proved, shall we say, challenging to the UK pub market.

Beer prices don't help. Since 2008 the tax on beer has increased by more than 40 per cent with over a third on every pint pulled now paid in duty and VAT. The average price of a pint of beer in 2003 was £2 of which 62p was tax. This has increased over the years to over £3 a pint with 98p in tax.

Pub closures have escalated and according to the British Beer and Pubs Association 27 pubs a week closed in

2007. At the moment this figure is said to be around 18 pub closures per week.

Market share concentration in the pubs and bars industry is low with the largest four companies accounting for a combined market share of 21 per cent.

Punch Taverns is one of the largest pub operators and currently has around 4,300 pubs nationwide. The company was founded in 1997 when it acquired a portfolio of pubs from the Bass Lease Company.

It has over the last few years seen several merges and de-mergers in a bid to stay afloat. The latest was announced in August 2011 when it de-merged from the Spirit Pub Company. It is currently £2bn debt and announced in 2011 that it would have to let 40 per cent of its pubs go.

Punch now plans to concentrate on its 3,000 core pub estate, whilst letting go some 1,278 pubs over the next five years which will give them around £630m in return. Already they have seen 683 pubs closed bringing them

**"During the year we sold 475 pubs, together with other assets for proceeds of £130m, £1m ahead of book value. The disposed pubs generated just £7.4m of EBITDA over the last 12 months equating to a disposal multiple of 18 times, demonstrating the accretive nature of these disposals."**  
**ROGER WHITESIDE,**  
CEO, Punch Taverns.

£172m over the last 18 months.

Punch CEO Roger Whiteside said: "During the year we sold 475 pubs, together with other assets for proceeds of £130m, £1m ahead of book value. The disposed pubs generated just £7.4m of EBITDA over the last 12 months equating to a disposal multiple of 18 times, demonstrating the accretive nature of these disposals.

"We are on track with our disposal programme in extracting maximum value from our non-core estate in line with book value and reducing our estate down to circa 3,000 core pubs within the next five years. We aim to sell around 400 non-core pubs in the 2012-2013 financial year."

Revenue for Punch Taverns in 2012 amounted to £491.7m compared to £521.7m a year ago. Of this drink revenue was £351.4m, rent was £127.3 and machine income was £13m.

Enterprise Inns is another large pub operator which offers lease and tenanted pubs and was founded in 1991 with initially 368 pubs from Bass. After several acquisitions including those of former Whitbread pubs the company currently has 6,000 pubs with revenues last year of £692m compared to £711m the year before.

Marston's PLC is another of the large independent and brewing and pub retailing businesses in the UK and currently operates some 2,150 pubs and bars via its Marston's Inns and Taverns brand and Marston's Pub Company brand and also operates five breweries.

The 2,150 figure is made up of 1,650 tenanted, leased and franchised pubs and around 500 managed of which 40 are hotels. The company had total revenues last year of £719.7m.

Some say the pub companies overcharge tenants for drinks and rent and it has been estimated that some 23,500 pubs in the UK are run on 'tied' agreements which can force publicans to buy beer at 50 per cent above the market rates and then pay high rents on the pubs they run.

Meanwhile the large breweries such as Greene King and Admiral Taverns have acquired a large number of pubs and bars in an attempt to achieve economies of scale by vertically integrating their operations.



# GAME INNOVATION

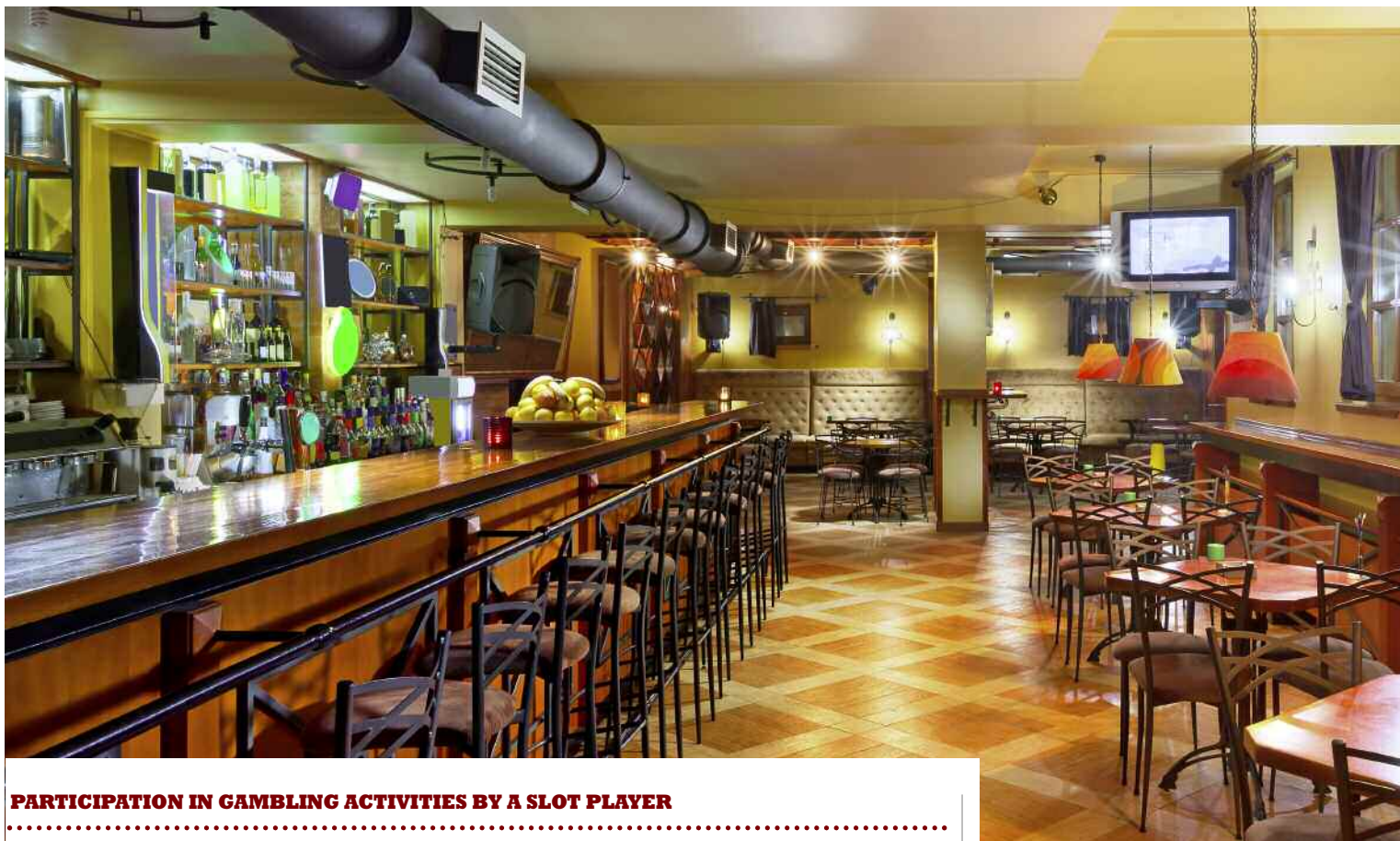


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THE AWP  
MODEL AWARD FOR 2012





## PARTICIPATION IN GAMBLING ACTIVITIES BY A SLOT PLAYER

ACTIVITY	1999	2010
National Lottery	86 %	79 %
Other lotteries	15 %	37 %
Scratchcards	54 %	57 %
Bingo	16 %	17 %
Football Pools	14 %	12 %
Machines in bookmakers	-	18 %
Table games in casinos	11 %	16 %
Online fruit/slots/instant wins	-	22 %
Online with bookmaker	-	9 %
Horse races with bookmaker	33 %	32 %
Dog races with bookmaker	13 %	13 %
Sports with bookmaker	10 %	27 %
Spread betting	-	3 %
Betting exchanges	-	2 %
Private betting	36 %	36 %

**SLOT MACHINE  
PLAY HAS  
DECREASED  
AMONG MEN BUT  
INCREASED  
AMONG WOMEN,  
WITH THE  
SHARPEST  
DECREASE IN MEN  
AGED 16-34.**

### GAMING IN PUBS

There are currently some 190,000 gaming machines in the UK market and 12 different categories of gaming machines which have varying stakes, prizes and locations where they can be sited. There are around 53,000 machines located in pubs.

Under the old Gaming Act 1968 there were three types of gaming machines:

- Jackpot machines which could only be permitted in casinos, bingo halls and members clubs and had a



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maximum stake of 50p (or £2 in casinos) and maximum prize was either £4,000 in casinos, £500 in bingo halls and £250 in clubs.

- AWP's were mainly found in arcades and had a stake of 30p and a payout of £5 in cash or £8 in tokens or non cash prizes.
- All-Cash machines which were located in arcades, bingo halls and betting shops which had a stake of 30p and prize of £25.

The Gaming Act 2005 established a new system for categorising machines followed by some changes in 2009 which saw Category C machines and their stakes and prizes limits raised from 50p/£35 to £1/£70 to help the pub and arcade sectors whilst crane machines and coin pushers also saw their rates increased to £1/£50 and 10p/£15 respectively. Then in 2011 the government increased the maximum limit for B3 machines from £1 to £2 to help boost AGCs and bingo premises revenues.

Slot machines are one of the most

### STAKE AND PRIZES IN THE UK

MACHINE CATEGORY	MAX STAKE	MAX PAYOUT	LOCATED
A	Unlimited	Unlimited	Regional Casinos
B1	£2	£4,000	Casinos
B2	£100	£500	Casinos, LBOs
B3	£2	£500	Casinos, AGC, LBOs, Bingo
B3A	£1	£500	
B4	£1	£250	Casinos, AGC, LBOs, Pubs/Clubs, Bingo
C	£1	£70	Casinos, AGC, LBOs, FECs, Pubs/Clubs, Bingo
D non cash prize	30p	£8	Casinos, AGC, LBOs, FECs, Pubs/Clubs, Bingo, Travelling Fairs
D non cash prize (crane grab machine)	£1	£50	Casinos, AGC, LBOs, FECs, Pubs/Clubs, Bingo, Travelling Fairs
D cash prize	10p	£5	Casinos, AGC, LBOs, FECs, Pubs/Clubs, Bingo, Travelling Fairs
D combined non cash and cash	10p	£8 (max £5 cash)	Casinos, AGC, LBOs, FECs, Pubs/Clubs, Bingo, Travelling Fairs
D combined (coin pusher or penny fall)	10p	£15 (max £8 cash)	Casinos, AGC, LBOs, FECs, Pubs/Clubs, Bingo, Travelling Fairs

popular forms of gambling today. Only lotteries, scratchcards and betting are more popular and in 2010 some 13 per cent of adults had gambled on slots in the past year.

Gaming activities in pubs were traditionally associated with card games such as cribbage and darts whilst other games such as Aunt Sally and then bar billiards also began in the UK in the 1930s.

Gambling machines arrived and are often called 'fruit machines', 'one armed bandits' or AWP's (amusement with prize) which are in all reality Category C (£1 stake and £70 payout) and D machines (£30p/£8).

The type of machines permitted varies. Club or miners' welfare institutes are permitted to house B4, C or D machines with a maximum of three machines in categories B3A or B4 to D and only one of which can be a B3A machine.

In Qualifying alcohol licensed premises (pubs) one or two machines of Category C or D are permitted and in

According to a Gambling Commission report, since 1999 the participation on slot machines has decreased among men but increased among women and by 2010 the proportion of women playing had risen to 38 per cent from 30 per cent a decade earlier. The sharpest decrease was in men aged 16-34 years.

qualifying alcohol licensed premises with a gaming machine permit C or D machines are permitted as specified on their permit.

The current stakes/prizes for the various machines in the UK is set out above (see table Stakes and Prizes in the UK). The number of machine types and Gross Gambling Yield over the last two years is shown in table: Number and Revenue of Slots (see next page).

According to a Gambling Commission report, since 1999 the participation on slot machines has decreased among men but increased among women and by 2010 the proportion of women playing had risen to 38 per cent from 30 per cent a decade earlier. The sharpest decrease was in men aged 16-34 years.

Machine players are identified in five distinct groups - as either those who play in pubs; those who play in amusement arcades, those who play in bookmakers, those who play in other venues and those who play in multiple venues.



### NUMBER AND REVENUE OF SLOTS

MACHINE CATEGORY	NUMBER OF (2011)	NUMBER OF (2012)	GGY 2011	GGY 2012	CHANGE IN GGY
B1	2,540	2,656	£117m	£125.8m	8%
B2	32,922	33,345	£1.2bn	£1.4bn	10%
B3	14,844	13,482	£164.4m	£153.8m	-6%
B4	453	286	£2.29m	£1.75m	-21%
C	52,253	38,371	£164.3m	£127.6m	-22%
D	52,724	52,376	£90m	£82.8m	-8%
<b>TOTAL</b>	<b>155,736</b>	<b>140,516</b>			

Pub machine players are traditionally male, younger and drink higher levels of alcohol and this was the largest group of machine players at 46 per cent.

And the reason they play? It's fun was the biggest reason followed by the ability to win big money.

The profile of a slot machine gambler is shown in the opposite table.

In December 2010 the government announced a reform on taxation on gaming machines and Machine games duty (MGD) was introduced in February 1st this year and replaced Amusement Machine Licence Duty (AMLD)

There are two rates of duty – the 20 per cent rate will apply to machines with a stake of over 10p and prize of over £8 (Category C slots and SWPs). The five per cent rate will apply to machines with a stake of less than 10p and a prize of less than £8 (ie: Category D machines).

Liability for the tax will rest with the tenant or operator in the case of tenanted and leasehold or freehold pubs. For managed companies the liability will rest with the pub operating company. Companies had to be registered between November 2012 and January 11 2013.

After this fines could apply. The amount of MGD is applied to the net cashbox (ie: gross takings less winnings) per machine x 20 per cent. If a machine has a quarterly taking of £2,250 then they will need to pay £450 to the HMRC.

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### THE SITUATION

The single site market is not at its healthiest. Many believe the Gaming Act did little for the single site market but favoured the betting shops and FOBT market.

SWPs are in decline whilst analogue AWP's seem to be holding on to their key market. The pub market is also competing with the intensity of the online gaming market and advent of tablets and mobile phones with can offer a gambling playing field anywhere and anytime.

Although digital products are being churned out in a bid to compete with the advancement in online technology only time will tell to see if they have a long lasting player appeal. Sales of

### THE SINGLE MARKET IS IN TURMOIL AS DUE TO CERTAIN ACTIONS THE OPERATORS HAVE LOST ANY CHANCE TO GET AN INCOME INCREASE.

machines in the UK at the moment stand at around 1,000-12,000 per year according to BACTA.

One manufacturer who wished to remain anonymous said: "At the moment the single market is in turmoil as due to certain actions the operators have lost any chance to get an increase in their income and the pub retailers





### DEMOGRAPHIC PROFILE

	1999	2010
<b>SEX</b>		
Male	70 %	62 %
Female	30 %	38 %
<b>AGE GROUP</b>		
16-34	63 %	56 %
35-54	29 %	33 %
55+	8 %	11 %
<b>MARITAL STATUS</b>		
Married	55 %	55 %
Separated	5 %	5 %
Single	39 %	38 %
Widowed	1 %	2 %
<b>ETHNICITY</b>		
White	n/a	90 %
Asian	n/a	5 %
Black	n/a	3 %
Other	n/a	2 %
<b>EDUCATION</b>		
Profession or above	26 %	33 %
O or A levels	53 %	52 %
Other	5 %	1 %
None	16 %	15 %
<b>MAIN ECONOMIC ACTIVITY</b>		
Paid work	82 %	78 %
Unemployed	4 %	3 %
Longterm disability	4 %	3 %
Looking after family/home	3 %	4 %
Retired	5 %	6 %
Full time education	2 %	3 %
Other	-	2 %
<b>EMPLOYMENT</b>		
Managerial/Professional	n/a	37 %
Intermediate	n/a	10 %
Small employers	n/a	13 %
Technical occupation	n/a	14 %
Semi routine occupation	n/a	26 %

have got everyone subsidising their pub's income. This happened when the operators began to fear that their business would be taken away by another competitor and instead of working with the manufacturer they went to join the pub retailer against the manufacturer. This has given the retailers the upper hand.

"At the moment the market isn't good. New technology has no supporters as the income is not justifying the investment. I can see the future being just one big operator and one manufacturer and a small number of small operators struggling to survive for a little longer.

"The 2005 Act killed the low stake AWP and reduced the number from around 70,000 to 10,000 and the B2 machines wiped out pubs, arcades and bingos."

Retailers are now haggling and pushing operators on price. With the consolidation recently in the manufacturing sector, the distribution side of the UK market is now pretty much governed by small medium sized operators.

Meanwhile there has been a shift in the UK market with the connection between game developers and manufacturing. Many big companies have since disappeared and many



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analogue manufacturers have also left the UK market which has created a gap in the market.

At the end of 2012 there were 72 licences for gaming machine manufacturers in the UK and 492 machine supplier licences.

The main business of machine manufacturing is within the category B-D which includes cranes and pushers. At one time this sector was buoyant, if not overloaded with some 15 to 20 manufacturers supplying the market.

Today the big conglomerates have shrunk this smorgasbord of choice down to a select few and as the UK market shrunk so did the number of companies. Some of the names synonymous with UK manufacturing industry still exist such as JPM, Astra, Barcrest and Bell Fruit but many now operate under a large corporate umbrella.

Astra for example is now owned by the Novomatic Group of Companies. The German company has an annual turnover of €3.2bn and is one of the largest conglomerates in the international gaming field. It was founded in 1980 and today has

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companies in 32 countries and exports gaming equipment to more than 73 countries.

Novomatic operates over 200,000 machines in more than 1,200 group operations such as casinos, electronic casinos or via rental agreements.

Astra Games Ltd began business back in 1992 from its Bridgend base and by 2004 was a major player in the international gaming sector when Novomatic came along and purchased the company.

Astra pioneered the multiplayer concept followed by sit down multiplayers and video multiplayer products.

In July 2012 Astra then purchased the Danoptra Group of companies which includes Gamestec, Bell Fruit Games, RLMS Sales and Mazooma Interactive Games.

Discussions began in 2009 over the buyout and the purchase has now turned Astra into a key UK gaming group which in 2011 had a total turnover of £79.68m and employs over 1,000 people.

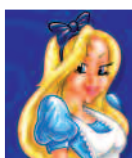
Bell Fruit Games has a history in the UK gaming industry of over 40 years

## **THE NAMES SYNONYMOUS WITH THE UK INDUSTRY STILL EXIST SUCH AS ASTRA, BARCREST AND BELL FRUIT BUT MANY NOW OPERATE UNDER A CORPORATE UMBRELLA.**

and was originally founded in 1963 as a designer and manufacturer of UK AWP machines. In 1999 it underwent some changes and today in the UK is one of the leading players in the AWP, Club Jackpot and SWP markets.

Gamestec is a large gaming and amusement operator in the UK and provides services for over 35,000 machines in 10,500 locations. Gamestec works with a wide range of products across various markets and covers international chains to small independents.

RLMS Sales meanwhile has been in the UK industry for over 30 years and is a



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THE AWP  
MODEL AWARD FOR 2012

### Comment

"Marston's are the UK's leading independent brewing and pub retailing business and we have 2,000 pubs offering a welcoming environment and good value for money food and drink. We have around 1,300 AWP's in our managed sites and 700 in our tenanted sites which are a mix of digital and analogue.

I think it's an exciting time for the Category C market in UK pubs. Over the last year we've seen new AWP manufacturers enter the market and substantial developments in the digital AWP offer. This has led to an increased choice for the retailer and will push manufacturers to develop their products further.

We have yet to see the full impact that MGD will have on income but there is no doubt it will add pressure on SWP that are already struggling. However there is an opportunity for the SWP product to be developed to offer digital Category C games to broaden and increase their appeal.

Category C AWP's continue to be our most important product for delivering income. Marston's has been the forerunner of digital AWP's in the UK pub market and we expect to continue to grow our holding of digital in the future. We recognise that we are in competition with mobile gaming – a customer can sit in one of our pubs and gamble through their phone or tablet – so we have to give them a reason to walk over to a gaming terminal and that will be achieved through product development to offer exciting, engaging games to deliver a unique experience.

The UK industry has gone through an enormous amount of change recently and I think that will continue with the progress of digital Category C products. Young adults today have grown up in a world of touchscreen phones, high definition TVs and interactive gaming. They will be familiar with the technology used in a digital AWP but an analogue machine will perhaps look a bit alien to them. The analogue AWP is still very important for us but digital is the future."

**JOHN WALKER**, Leisure Machines Manager, Marston's PLC

"My personal satisfaction at the conclusion of this deal is that we have grown Astra by a well considered acquisition and in the process have secured over 1,000 UK jobs and give some of the most iconic company names in the UK gaming entertainment industry their chance to shine once again."

**ZANE MERSICH**, CEO, Astra Games, speaking at the time of the Gamestec, BFG and Barcrest acquisition:

key distribution company with a range of products whilst Mazooma Interactive Games works in partnership with many customers across all sectors of the UK and overseas to develop games on a variety of digital platforms.

It was established 15 years ago and although it is initially from a land based background is now more focused on providing digital content to the internet gaming sector, bookmakers and international markets.

Zane Mersich, CEO of Astra said at the time of the acquisition: "My personal satisfaction at the conclusion of this deal is that we have grown Astra by a well considered acquisition and in the process have secured over 1,000 UK jobs and give some of the most iconic company names in the UK gaming entertainment industry their chance to shine once again."

Other companies in the UK market include Barcrest which is a subsidiary of the Scientific Games Corporation. Last year the company joined its three subsidiaries – Barcrest, Global Draw and Games Media to operate as one division under the new title of SG Gaming. The formation of this company brought together some 700 employees across 12 countries to

operate under one brand. The move will also enable SG Gaming to build on its existing position in the LBO, arcade and bingo markets. However, in April, SG Gaming announced that it had completed the sale of its Games Media pub business to Astra, with the entity now incorporated into the Gamestec division, with SG Gaming now concentrating on the LBO, arcade, bingo and interactive sectors.

JPM International is one of the oldest names around in the UK single site market and in its 40 year history has developed a wide range of slots for both the UK and international markets. Today it is made up of two additional brands – Crystal and JPM Interactive.

JPM is currently delivering some classic JPM features on its machines such as Magic 6 which is a six reel multi stake game for the UK club sector. The company claims since the removal of AMLD this has generated a surge of interest in the B4 club sector.

JPM's Paul Bursnell said: "Our Category B4 distributor PWS exhibited Magic 6 at the recent EAG exhibition not only achieving excellent operator feedback but writing orders at the show. It's gratifying to know that the extent of our sustained commitment to

the domestic analogue sector has not been lost of the UK operators."

Reflex Gaming is a gaming development company which today is the largest producer of gaming machines for the UK market and provides slots for the pub, club, AGC and bingo sectors. It was set up in 2004 and has been concentrating on supplying Category C machines and is currently producing around 200 machines a week which equates to over two thirds of the total weekly machine volume sales in the UK.

The move into the retail sector with reel based products was due to a response from development in the UK market which saw BFG become sole supplier of any real size in this sector.

So when Reflex got the support from some 10 operators this then enabled them to introduce a range of products including titles such as Alice's Wonderland and also Lady Luck Double Take and today Reflex is launching one new pub game a month.

Electrocoin is also one the companies supplying the pub sector and supplies around 1,000 machines per year including reel and video based AWP's such as brands Take It or Leave It, The



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Big Easy or Vegas Strip via its distributors of which the main ones include Gamestec and Sceptre Leisure.

Meanwhile CLMS is a data processing and machine consultancy business for the UK based licensed retailers. They have around 30,000 machines on their database including 12,000 Category C gaming machines and their clients include JD, Wetherspoons, Whitbread, Green King and Marstons.

Colm Taylor of CLMS said. "The machine supply side of the business has, and continues to be, stressed on the cost side. Manufacturers are trying to increase their prices, while retailers continue to negotiate for reduced cost of supply. This is only being resolved by a growth in the number of 'recycled' cabinets and peripherals.

"New machines are not therefore 'newly manufactured' but simply represented with new game content. Subject to model performance this pattern is likely to continue. The suggested migration from analogue to digital is still some years away and the digital products struggle to deliver a retailer profit at least as good as their analogue traditional reel based products.

"The UK single site business faces a very uncertain and difficult future. Supplier profit margins are lower than ever, as new entrants (principally Novomatic) try to secure increased market presence. Retailer profits are under pressure and many are looking to growth in food sales as the most likely route for future growth. This will impact on gaming machine income. A review of stakes and prizes will help the sector in the short term, but medium to long term the prevailing difficult market conditions remain unchanged."

Rudd Gaming is a large supplier and was formed in 1989 by Bob Rudd with just one depot in Newcastle upon Tyne. Today the company has a further four depots in Leeds, Keswick, Warrington and Newark. The company operates around 4,000 pieces of gaming and amusement equipment as well as fulfilling several service contracts.

### LEGISLATION

The landscape of the single site sector is shifting – partly through legislation but mostly through economic challenges.

"The UK single site business faces a very uncertain and difficult future.

Supplier profit margins are lower than ever, as new entrants (principally Novomatic) try to secure increased market presence. Retailer profits are under pressure and many are looking to growth in food sales as the most likely route for future growth. This will impact on gaming machine income. A review of stakes and prizes will help the sector in the short term, but medium to long term the prevailing difficult market conditions remain unchanged."

COLM TAYLOR,  
CLMS

Over one third (34 per cent) of the nations pubs and bars are defined as 'at risk of failure' in the next 12 months, according to research released last September by R3, the insolvency trade body. This figure is compared to a national cross-sector average of 23 per cent of businesses 'at risk'.

Lee Manning, R3 President, commented: "There is a considerably higher proportion of pubs and bars at risk, when compared to the cross-sector average. The recession has gone on far longer than could have been predicted and it is getting harder for people to find the money to spend on discretionary items. For many, going to the pub after work is being replaced by buying cheaper alcohol in the supermarkets, and the strain on pubs and bars is really showing."

## THE RECESSION HAS GONE ON FAR LONGER THAN COULD HAVE BEEN PREDICTED AND IT IS HARDER FOR PEOPLE TO FIND THE MONEY TO SPEND ON DISCRETIONARY ITEMS.

In London, the proportion of pubs and bars 'at risk' is even higher, at 37 per cent, showing that not even the capital city is immune to the effects of tightening purse strings. The only other region worse affected than London is the South East, where 39 per cent of pubs and bars are 'at risk'.

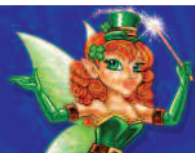
Just this month the new Greater London Assembly report cited the reasons for the decline of London's pubs as the following:

- Above inflation alcohol tax
- Supermarket alcohol offers
- The smoking ban
- Economic downturn
- Increase in online shopping
- Struggling pub chains



- Planning laws that make the conversion or demolition of pubs the easiest option

The pub sector has long looked to the Government to help tackle competition from cheap alcohol sold in supermarkets and things were looking positive when David Cameron promised 12 months ago: "We are going to introduce a new minimum unit price [for alcohol]. For the first time it will be illegal for shops to sell alcohol for less than this set price per unit."





He said his plan would result in 50,000 fewer crimes each year and 900 fewer alcohol-related deaths a year by 2020. To reinforce the point, he added: "I know this won't be universally popular. But the responsibility of being in government isn't always about doing the popular thing."

In November 2012 the Home Office published a consultation on delivering the Government's policies to cut alcohol fuelled crime and anti-social behaviour. In the forward, The Rt Hon Theresa May MP Home Secretary said,

"We need to continue the work to tackle the drink fuelled antisocial behaviour and crime blighting our communities. So we are launching a 10 week consultation, seeking views on five key areas, including minimum unit pricing, ensuring for the first time that alcohol can only be sold at a sensible and appropriate price."

However this month the Prime Minister practically admitted he was abandoning his plan to put a minimum price on a drink.

**"If this turns out to be the outcome, there are still many issues to discuss. We have always supported a ban on below-cost selling and a tax system that encourages lower-strength drinks."**  
**BRIGID SIMMONDS, CEO, British Beer & Pub Association.**

In the House of Commons, Mr Cameron was directly confronted by the Conservative MP Sarah Wollaston, a former GP, who asked about reports that the Prime Minister had had a change of heart and was preparing for a U-turn on the issue.

But, rather than provide reassurance, he told her: "There is a problem with deeply discounted alcohol in supermarkets and other stores and I am absolutely determined that we will deal with this."

"We published proposals, we are looking at the consultation and the results to those proposals, but, be in no doubt, we've got to deal with the problem of having 20p or 25p cans of lager available in supermarkets. It has got to change."

He failed to mention minimum alcohol pricing once. Afterwards, the Prime Minister's spokesman effectively admitted that the plan was dead.

Brigid Simmonds, Chief Executive of the British Beer & Pub Association, gave this reaction to the trade press, "If this turns out to be the outcome, there are still many issues to discuss. We have always supported a ban on below-cost selling and a tax system that encourages lower-strength drinks."

However there was some good news for the beleaguered pub industry in the March Budget as the Chancellor not only cut the unpopular Beer Tax escalator he even took a penny off the price of a pint!

This will be paid for by big tax rises on wine and spirits, George Osborne announced.

Brigid Simmonds, said, "This is absolutely brilliant news, and it will make George Osborne the toast of Britain's pubs. By cutting the tax on beer, he has moved to boost jobs in Britain's pubs at a time when it is most needed."

"In also abolishing the Beer Tax escalator, the Chancellor has ended a hugely damaging policy that would have made Britain's beer the most heavily taxed in Europe."

There is still some way to go however. At the Business in Sport and Leisure conference held in November 2012 the following statistics were discussed.



- MGD payable on fruit machines in pubs will cost the sector an extra £14m.
- Pension Auto Enrolment will cost £500m
- The Alcohol Escalator £700m
- Late Night Levy on pubs £100m (where pubs pay a fee to help police late opening)
- MGD was introduced on machine cashbox in February this year and it is not only an extra burden on the pub industry but also on the operators who supply machines into the pubs.

### **PURCHASE PRICE NEEDS TO REFLECT THE MARKET RENTAL OR CASH BOX SHARE FOR CATEGORY C MACHINES AND THAT INCLUDES REELS AND DIGITAL.**

#### **PAYING THE PRICE**

Many independent operating companies are feeling squeezed by the retailers who run the pub chains who are demanding the same stringent testing and siting procedures for 'fruit machines' even though the numbers of pubs, and therefore number of machines, have reduced drastically thanks to the recession. This situation is exacerbated by the arrival in the UK of some of the larger overseas groups, such as Novomatic and Gauselmann, who have either bought into the operating sector or are rumoured to be eyeing up acquisitions.

As the Chairman of the Independent Operators' Association Peter Weir said, "The process of Category C machine development, production and testing requires evaluation, commitment and partnership. The market requires a low-cost machine base, which is reflected in rents and shares that are available to site and operate these machines. In other words, the machine purchase price needs to reflect the market rental or cash box share for Category C machines and that includes



**"The process of Category C machine development, production and testing requires evaluation, commitment and partnership. The market requires a low-cost machine base, which is reflected in rents and shares that are available to site and operate these machines."**  
**PETER WEIR,**  
Chairman, IOA.

both reels and digital models.

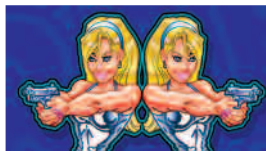
"The obvious concern is that there has been a decline in the number of manufacturers along with the numbers of AWP's and a decline in the number of machine operators along with a decline in the number of pubs. For the Category C model to survive, we need a robust commercial model, if we do not have this, we may be faced with some form of European commercial model that may well restrict choice for the market place. Then the decision-making power base will shift and that will dictate the commercial model for the rental and the cash box share distribution."

Nick Wheeler Corporate Sales Manager at leading UK operator Kossway also

believes that if the UK industry is to be protected, then testing needs to be looked at. He said: "There is going to a reduction in numbers due to the closure of premises, unless we all want to be left with dongle charges or worse, operators and retailers need to support new entrants into the Cat C market."

"The testing process needs looking at, smaller manufacturers simply cannot afford to make a machine for test and then have them all returned, of course performance is key, but all interested parties must work together to give the industry choice now and in the future."

Another blow for pubs and the machine industry is the inclusion of SWP (skill with prizes) machines in the new tax regime. Previously SWPs paid



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### Comment

"Due to the recent acquisition of Gamestec, Bell Fruit and RLMS by the Novomatic group, the supply chain has somewhat changed. Historically Bell Fruit has been the main manufacturer but with the acquisition, a 'dongle' technology was brought into the market which led to the product being 60 per cent more expensive. This in turn has led the birth of several other manufacturers in this sector, most notably Reflex Gaming who since September 2012 will have sold over 1000 machines. The others such as JPM, Crown Direct, 24/7 and Blueprint have also brought models to the market place with success to one degree or another. We are now in exciting times with manufacturers being more innovative and using the new technical regulations, however we must ensure the whole industry supports this from the retailers to the operators in order for this to continue.

Concerning the introduction of Machines Games Duty, on a machine position basis it should be a positive, it will also help at the poorer income performing houses, as we no longer have the fixed cost of AMLD, this could also potentially open the pub up to further density increases as we can now be more flexible. On a downside the administrative burden (that was passed to the operators in many cases) has caused issues with some pubs struggling to register, and due to the back log at HMRC the operator and pub company not being able to check online accurately has caused some tensions at times. There are certainly some of the administrative processes that HMRC need to look at and improve, for example their 'change of tenancy in a pub.' system. A further negative is that some pub chains may have problems with re-claiming VAT.

Meanwhile traditional AWP's are performing very well and the birth of the new manufacturers has really re-vitalised this. Some development on the peripheral technology on the machines looks good and promising as well such as live hoppers, new RDC units, increased reliability in note recyclers all help maximise the uptime of the machines. SWPs continue to decline and innovation here is a must and whilst we are seeing some tests nothing has come to fruition here yet and this has had a massive negative effect on income for operators and pub companies, some argue millions a year.

Online gaming is ultimately a massive threat to all sectors, you can already gamble high stakes and prizes on your mobile in a pub, yet we are restricted with stakes and prizes with our AWP. We need to adopt our products to ensure they compliment any online game and we are already seeing this with some of the 'social games' available for iPad and iPhone.

For the future Analogue versus Digital is an interesting debate. Currently the traditional analogue AWP is still the best performer, according to league tables, therefore as a rule of thumb most pub estates will predominantly be reel based machines. However there are several benefits in theory of having a digital machine in the venue, for both operator and player, which cannot be overlooked such as less activity cost and a wider range of game content for players which again in theory should attract more players to the machines. At this moment in time 'digital AWP's' can be described as a niche product however it could be argued the niche is getting bigger. But until digital AWP starts outperforming analogue in numbers, estates will still remain with the traditional reel based product."

**NICK RUDD**, Managing Director, Bob Rudd Gaming and Amusement Machines

no amusement machine licence duty (AMLD).

BBPA Chief Executive Brigid Simmonds said: "This is a bitter blow. For this new tax to be revenue neutral it should not have been more than 15 per cent. It will cost the pub sector £14m in extra taxes next year. Fruit machines and quiz machines are an important part of the fabric of British pubs, a vital income stream, and valued by customers."

Given the crippling taxation discussed above it may seem ironic that the pub industry has been rapped by MPs who claim that it is not doing enough to stop pubs from closing.

However last September the Business

Select Committee heaped special criticism on the large pub companies in a report. It even went as far as suggesting that since self-regulation has failed, statutory regulation must be introduced.

The government is unhappy about the "beer tie" system where landlords are forced to buy alcohol from one source and which it is claimed pushes the prices up for pubs.

The report said: "The purpose of this inquiry into pub companies was to assess whether or not the industry had delivered on its promise of meaningful reform. As with previous inquiries, modest improvements have been made. However, the fact that it has taken a number of select committee inquiries to

**"For this new tax to be revenue neutral it should not have been more than 15 per cent. It will cost the pub sector £14m in extra taxes next year. Fruit machines and quiz machines are an important part of the fabric of British pubs, a vital income stream, and valued by customers."**

**BRIGID SIMMONDS**, CEO, British Beer & Pub Association.

prompt these improvements demonstrates the deep-seated problems which lie at the heart of the industry.

"While the new codes of practice are a step in the right direction, they only address a limited number of areas. In many areas we do not believe that there has been a genuine commitment to reform. Many of the potential benefits of the new code, which were identified by our predecessor committees, have been undermined by a process of implementation which can only be described as half-hearted."

The BBPA rejected the committee's findings but beer campaigners predicted that a new statutory code would mean lower prices and fewer pub closures.



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THE AWP  
MODEL AWARD FOR 2012



## THE WIN-WIN-WIN SCENARIO

The **Inspired Gaming Group** has pioneered the multi-win sector in the UK casino market with its hugely successful Sabre roulette solution

### WHAT'S NEW FOR THE CASINO SECTOR IN TERMS OF TECHNOLOGY FROM INSPIRED?

Demand from the UK casino sector for our Sabre Multi-Win Roulette (MWR) product is still extremely high. We have around 1,000 Sabres installed with Genting, Gala Casinos and several independent casinos in the UK, with our unique four-wheel roulette software that allows play on live or auto roulette wheels and has many Easy Bet features.

Our customers often tell us that Sabre MWR is setting the benchmark in their venues in terms of product capability and performance. From the data we collect it's clear that Sabre MWR is generating double-digit revenue growth year on year.

Inspired has a historical reputation for performance in Electronic Roulette. Sabre MWR was built on the successes of its predecessor, as well as in-depth player and User Interface (UI) analysis. The result is something that players are extremely compelled to play over other Electronic Roulette products.

Two differentiators key to the success of Sabre are: The way it looks and feels, and how easy it is to play roulette. Sabre has a large 26" primary screen with high quality HD graphics and a comfortable playing position. The panoramic main screen, 7" secondary Player Portal screen and



**LEE GREGORY,**  
UK Managing  
Director at Inspired  
Gaming Group.

"We launched a new casino product called Sabre Synchro at ICE 2013, which allows four different types of casino games to be played simultaneously. Unfortunately UK legislation doesn't allow our virtual betting content to be installed in casinos, but more content variants will be coming soon for Sabre Synchro."



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Easy Play features all appeal to players. Everything they need is at their fingertips without having to switch screens, including both the normal and racetrack layout. My favourite way to describe this is “play what you see”. It’s a simple as that.

The Player Portal displays game results, hot and cold numbers and is touchscreen to even allow betting via this screen. Easy Bet features include Repeat Bet, Complete Bet, Favourite Bet, Double Bet, Previous Bet, and Potential Win.

In the last 12 months we have also been installing an upright variant of our Multi-Win Roulette on our Storm HD cabinet. This product has the same winning Multi-Win Roulette content but also has a menu of B2/B3 slots to appeal to more of a slots player profile. This product sits in the slots area of the casino and is subject to the 20-machine cap, which means we have less volume installed than Sabre but it’s still a key revenue driver for our customers.

### **NEW CASINOS ARE OFTEN LOOKING FOR THE WOW FACTOR SO OUR LARGE-SCREEN WINNING NUMBER DISPLAYS BECOME VERY IMPORTANT FOR ATTRACTING PLAYERS AND ENHANCING THE “BIG CASINO” FEEL.**

Storm HD Casino is a complimentary product to our Sabre, but our customers still see it as a core part of their machine offer.

Our analysis and research tells us that Storm Casino is particularly popular with players who are familiar with the Inspired LBO Storm B2/B3 products found in William Hill, Betfred, and Paddy Power, but want to play at night or in a different type of venue.

In the next 12 months we will be using our powerful yield management tools to deliver increased revenue growth through advanced game and menu

management. For example, we can schedule different menus by region or time of day, we can schedule them to mirror the local LBO menu, offer seasonal game promotions and nationwide slots tournaments.

We launched a new casino product called Sabre Synchro at ICE 2013, which allows four different types of casino games to be played simultaneously. Unfortunately UK legislation doesn’t allow our virtual betting content to be installed in casinos, but more content variants will be coming soon for Sabre Synchro. This is a key product for international casino markets.

### **WHERE DOES THE UK’S CASINO OFFERING GO FROM HERE?**

With several large new casinos opening in the UK in the coming years, we are positive about seeing growth in the UK casino sector and all of our current installs are generating double-digit growth year on year.

Existing casinos are looking to get the maximum entertainment from the space they have. Sabre Multi-Win Roulette has a reputation for generating the highest incomes in casino trials against competing products, so it’s a good investment and electronic terminals take less space and staffing than live tables.

The brand new casinos are often looking for the wow factor so our large-screen winning number displays become very important for attracting players and enhancing the “big casino” feel. Our Sabre terminals are either individual units or can be fixed together with infills in any number of ways. The result is that nearly every install looks unique; customers can have any number of terminals they like and put them in any part of the casino.

For Inspired, the next 12 months is about being more intelligent with data analysis and player customization. We have very sophisticated Yield Management tools at use in the UK LBO sector and we are bringing more of this expertise to the casino sector with our launch of the mixed menu Storm Casino product. It may not be obvious to the players, but refreshing menus and tailoring the content really enhances their entertainment experience and keeps operator revenues on the up.

### **WHAT PERCENTAGE OF INSPIRED’S TOTAL BUSINESS IS IN THE UK?**

At the moment about 50 per cent of our total business is in the UK and 50 per cent is international. A few years ago 100 per cent of our business was UK. Now we are evenly split between UK and international, and both are growing significantly.

Our home UK market is extremely important to us and we have a large team dedicated to our UK customers.

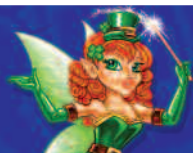
### **IN THE NEXT 12 MONTHS WE WILL BE USING OUR POWERFUL YIELD MANAGEMENT TOOLS TO DELIVER INCREASED REVENUE GROWTH THROUGH ADVANCED GAME AND MENU MANAGEMENT.**

The majority of our product innovation is launched in the UK first, such as Core VIP (our marketing and rewards ecosystem) and SmartDeck (our multi-touch player button panel).

### **WHAT NEEDS TO CHANGE IN THE UK TO BOOST BUSINESS OR BOOST THE SECTOR?**

The casino market has proved itself to be a safe market to allow further deregulation and there seems to be quite a bit of support for increasing machine numbers for some of the new and larger casinos in the pipeline. UK casinos take responsible gaming very seriously and are a good example to other markets around the world.

Personally, we would welcome the legalisation of virtual sports betting in UK casinos. We have a fantastic product in Sabre Synchro with roulette and virtual horse betting, but none of our UK customers can take advantage of this new innovation. There’s plenty in our portfolio to delight our customers, but Sabre Synchro with virtual sports would be the cherry on top!



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## THE LITTLE AND LARGE SHOW

The introduction of the new small and large licences in the UK have shaken up the market, while major acquisitions will drive even greater change in the casino sector

Gambling is etched into UK history. In 1828 William Crockford opened Crockford Casino, which at the time, was located on St James Street. Today the brand name Crockfords still exists and is now located on Curzon Street in Westminster.

In the 20th century gambling in London was synonymous with the Kray Twins who owned part of Esmerelda's Barn, a popular casino in Knightsbridge. There were hundreds of informal private members clubs operating which offered casino style games and had done so since the early 19th century.

When gambling was legalised in the early 1960s the Clermont Club became the first casino to be granted a licence and gradually the industry grew as these private members clubs were

Casinos account for around eight per cent of consumer expenditure on gaming and betting in the UK and saw total gaming revenues of £868.1m last year (four per cent growth). They are also viewed as the most responsible of gaming venues permitting over 18s and with proof of identity.

replaced by licensed casinos.

This began when the 1968 Gaming Act was introduced. Several restrictive measures were removed from regulations and following an investment from several domestic and international operators casinos began to transform and develop the gaming landscape in the UK.

Today casinos account for around eight per cent of consumer expenditure on gaming and betting in the UK and saw total gaming revenues of £868.1m last year (four per cent growth). They are also viewed as the most responsible of gaming venues permitting over 18s and with proof of identity.

The number of casino venues has remained fairly stable with 146 at present. All but one of these casinos to

**WHEN GAMBLING WAS LEGALISED IN THE EARLY 1960S THE CLERMONT CLUB BECAME THE FIRST CASINO IN THE UK TO BE GRANTED A LICENCE.**

date were licensed originally under the 1968 Act. This was superseded by the 2005 Gambling Act and the rights of these casinos were 'grandfathered' and this paved the way for the larger resort style casinos. Although parliament stated that the 1968 Act casinos could operate under the 2005 Act they were not allowed to share all the privileges the 2005 Act casinos could take advantage of.

One of which was transferring their licences across administrative boundaries. There are currently about

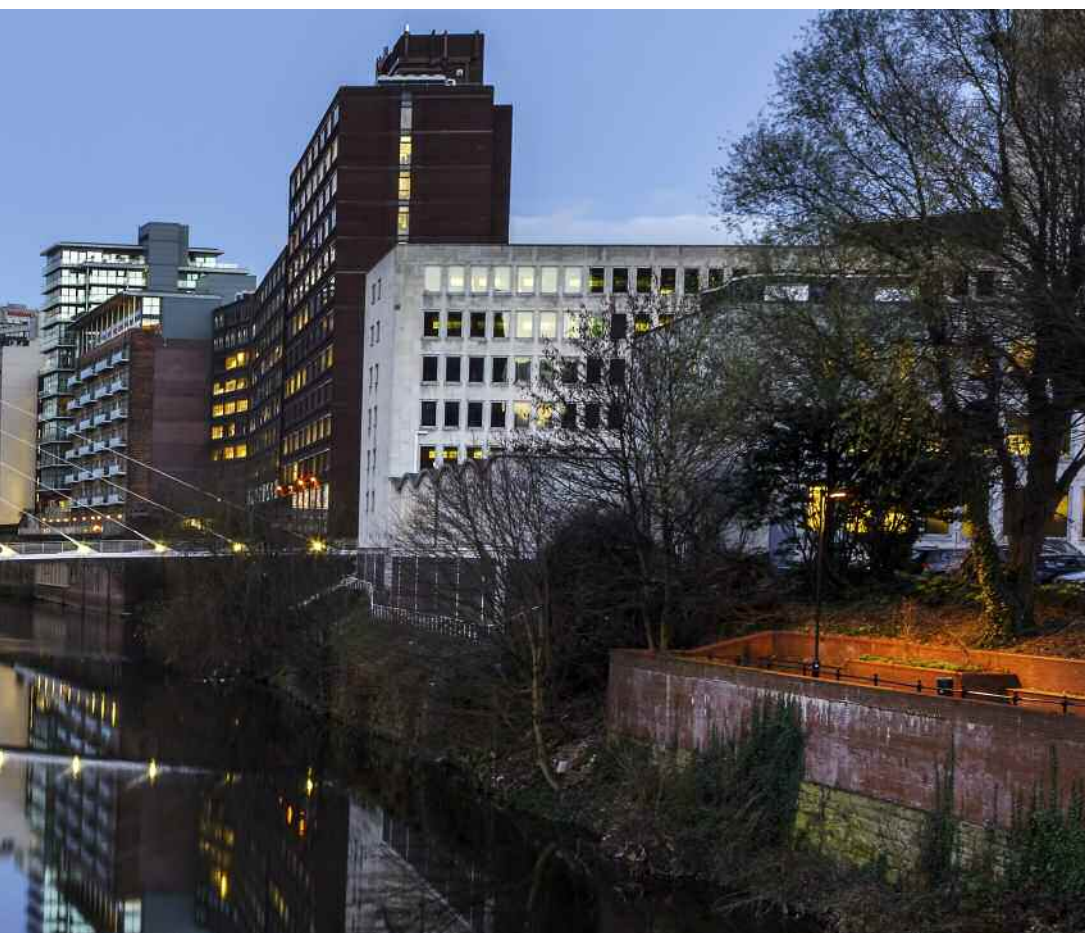


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### MACHINES IN CASINOS

MACHINE TYPE	NUMBER OF MACHINES	GGY 2011	GGY 2012	CHANGE
B1	2,656	£117m	£125.8m	8%
B2	61	£1.2m	£2.6m	113%
B3	7	£0.07m	£0.17m	131%
Aggregated categories		£0.41m	£0.28m	-32%
<b>TOTAL</b>	<b>2,723</b>	<b>£118.8m</b>	<b>£128.9m</b>	<b>9%</b>

15 unused 1968 Act casino licences and it has been suggested that the 2005 act led to the decline of investment in the casino industry. The 1968 casinos are limited to 20 machines maximum.

However because development of any new casinos under the 2005 act has been so slow it has been difficult to judge how impaired the 1968 Act casinos have been in comparison. In principle however there is no reason why these casinos should not be given the same freedom and rights as the new ones.

At the end of last year there were 144 casinos operating and these casinos are dominated in the main by four groups – Genting UK, Rank Group, Gala Coral Group and London Clubs International who operate the majority between them. Other smaller operators include A&S Leisure with six casinos, Aspers with three, Club 36 with three casinos, Clockfair with two and Guoco with one casino. The others are independent operators. The casino sector employs some 14,000 people whilst total casino attendance remains fairly static over the regions and is around 18.2 million

*At the end of last year there were 144 casinos operating and these casinos are dominated in the main by four groups – Genting UK, Rank Group, Gala Coral Group and London Clubs International.*

in total. The average spend per casino visit it around £48 including gaming, food and drink.

The total GGY for all slots and table games in the casinos last year amounted to £868.1m a nine per increase on 2011's figure of £796.4m. Gaming machine GGY accounted for 15 per cent of total casino GGY mainly due to the limit on the number of machines permitted.

The number of gaming machines in casinos account for around two per cent of the total number of machines across all sectors whilst its GGY accounted for six per cent of total gaming yield in all sectors coming to £128.9m in 2012.

The number of slots in the casinos rose by six per cent to 2,723 last year and growth was seen in all categories although Category B1 machines are clearly the highest denominator.

Casino table games generate some 85 per cent of the sector's gaming revenue whilst the overall casino drop increased by seven per cent to £5.2bn whilst Punto Banco saw the largest growth by 52 per cent over the last year. The overall casino win increased by nine per cent to £739m and again Punto Banco saw winnings increase by 68 per cent over this 12 month period.

### THE OPERATORS

**GENTING UK** is part of the Genting Group which is one of Malaysia's biggest corporations with a total of 4,500 hectares of resort land in its portfolio and 35,000 employees worldwide.

Genting became Britain's largest casino operator in 2005 when it acquired the company which owned Maxims Casino Club in Kensington followed by the takeover of Stanley Casinos and today it operates 44 casinos with two brands in provincial areas – Genting Casino and Genting Club. In London it has five casinos including its flagship Crockfords in Mayfair plus the Colony Club, Maxims Casino Club, The Palm Beach and Cromwell Mint.

The Colony Club is located on Park Lane and is a very contemporary club and the casino has over 20 gaming tables, slots and a private gaming room. Crockfords Casino is located in Mayfair and is a very exclusive gaming club with private rooms.



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# Report

## CASINOS

The Palm Beach in Mayfair is a casino and poker club with bar and restaurant and offers Texas Hold 'Em and Omaha poker throughout the week. Maxims in Kensington offers a range of games and slots and private rooms including the Library room. Meanwhile the Cromwell Mint is in South Kensington.

In July 2011 Genting was awarded the 2005 Act licence from the Solihull authority to open a new resort style casino and will now build the new Resorts World Birmingham at the NEC which is seven storeys high and covers a total of 538,000 sq.ft and is due to open by 2015 at an investment of £140m.

Construction began recently and this will be the country's largest integrated destination venue offering a four star 176 room hotel and spa, retail outlet, 11 screen cinema, restaurants and bars, banqueting and conference facilities, 45 unit retail outlet and 50,000 sq.ft casino to include 30 gaming tables, 150 slots, sports betting and bingo. It will be modelled on the Resorts World Genting in Malaysia with the idea of attracting international high rollers to the UK three or four times a year. The NEC already attracts around three million visitors a year.

Work began on this site in February with a ground breaking ceremony and will support 1,750 full time jobs during construction and 1,100 jobs when operational.

Genting UK sees around 3.7 million visitors across its casinos and had an EBITDA of £33m in 2011 with a revenue of £235.7m of which 46 per cent was from provincial casinos and 54 per cent from the London casinos. The company celebrates its 50th anniversary in 2015.

### RANK GROUP

Grosvenor Casinos was established in 1970 and today operates 35 venues in the UK and two in Belgium and serves over one million customers. The casino sector contributes some £255.8m to the group's total revenues. Grosvenor showed an operating profit of £42.8m last year and has 1,193,000 customers with over six million customer visits. Grosvenor's casino games had a £169.3m share of the revenues and gaming machines had £39.4m share.

In 2011/12 the Rank Group invested £50m of capital across the group with



### CASINO TABLE GAME DROP/WIN

GAME	TOTAL DROP 2011	TOTAL DROP 2012	TOTAL WIN 2011	TOTAL WIN 2012
3 Card Poker	£180.5m	£293.8m	£37m	£42m
American Roulette	£2.5bn	£2.4bn	£313.6m	£302.4m
Blackjack	£733m	£756m	£142m	£157m
Casino Stud Poker	£7.1m	£5m	£2m	£1.3m
Dice	£17.5m	£29.9m	£2.9m	£7.5m
Electronic Roulette	£794m	£861m	£106.9m	£119.5m
Punto Banco	£622m	£943m	£58.9m	£99.2m
Other	£84m	52m	£13.7m	£8.6m
<b>TOTAL</b>	<b>£4.9bn</b>	<b>£5.2bn</b>	<b>£677.6m</b>	<b>£739.1m</b>

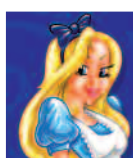
In 2011/12 the Rank Group invested £50m across the group with more than 78 per cent on the Grosvenor and Mecca brands

more than 78 per cent of this spent on the Grosvenor and Mecca brands by enhancing existing venues and adding new ones.

The 'G Casino' brand was launched in 2006 and was set up to reach to a

broader and younger audience than the traditional provincial Grosvenor casinos. This brand however has now become the standard for Grosvenor and all new casinos.

Today Rank operates 19 G Casinos and



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THE AWP  
MODEL AWARD FOR 2012



### **GENTING UK SEES AROUND 3.7 MILLION VISITORS ACROSS ITS CASINOS AND HAS AN EBITDA OF £33M IN 2011 WITH A REVENUE OF £235.7M.**

12 Grosvenor provincial casinos. The G Casino sees around 3,766 visitors per week with an average spend of £31.35 each. The traditional provincial casinos see 2,508 visitors per week with an average spend of £30.52 per head.

Last year Grosvenor opened three new casinos under the Grosvenor brand including Stockton-on-Tees, Didsbury in Manchester and New Brighton in Merseyside costing a total of £14.1m.

This year the company has just recently opened a new 2005 Act casino branded

a Grosvenor G casino in Reading which was unveiled in March and cost around £6.4m and will open 24 hours a day seven days a week. Another casino is being planned for this year in Southend-on-Sea.

When Rank acquires Gala's 19 casinos this will give Rank a total of 54 casinos and 12 non operating licences and a 40 per cent share of the UK casinos and the two Malaysian groups (Rank and Genting) a 75 per cent share of UK casinos.

The re-branding of Gala casinos will now extend the Grosvenor brand into 11 new cities and the roll out of the G Casino format to eight Gala casino locations.

Ian Burke, Chairman of Rank said: "This acquisition enables us to capitalise on our proven record of operational excellence in the British casino sector and is expected to be earnings enhanced in the first full year of ownership. By rolling out the G Casino format into the Gala estate and expanding the Grosvenor casino brand

*"This acquisition enables us to capitalise on our proven record of operational excellence in the British casino sector and is expected to be earnings enhanced in the first full year of ownership. By rolling out the G Casino format into the Gala estate and expanding the Grosvenor casino brand into 11 new cities we will accelerate the growing awareness of the brand and support the development of a multi channel gaming business."*

**IAN BURKE,**  
Chairman, Rank Group.

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#### **GALA CORAL**

Gala Coral Casinos is a long established player in the London and provincial casino markets with 23 clubs in the UK and one multi gaming complex in Gibraltar.

It acquired its first casino in December 2000 when it bought 26 casinos from the Hilton Group.

The turnover for Gala Coral's casino sector was £139.9 million last year (a four per cent increase) whilst EBITDA was £26.4m. Although the focus on more valuable players has seen the admissions drop by 10 per cent from the previous year there has been a 12 per cent increase in the drop per head since the changes. The gaming gross win margin was 17.2 per cent last year. Casino sector divisional gross profit amounted to £119m last year.

In 2012 Gala announced it wanted to sell its 23 casinos to operator Rank for £205m which will now make Rank the biggest casino operator in the UK market.

The deal at the time included the 23 operating casinos and three non operating licences but excluded the casinos in Dundee and Gibraltar and the non operating licence for the City of Westminster in Central London. The sale was initially referred to the Competition Commission by the Office of Fair Trading in August 2012 as the situation was subject to the UK merger control clearance. Rank shareholders approved the terms of the acquisition in July 2012.

In February the Competition Commission published its final report and Rank is now able to proceed with the purchase of 19 of the 23 casinos for a total of £179m plus the three non operating licences. Discussions continue in relation to appropriate amendments.

The Competition Commission ruled that Gala could not sell its casinos in Aberdeen, Stockton-on-Tees, Bristol and Cardiff plus the Gibraltar casino and non operating licences in Westminster and Dundee and of course its branded online casino activities. These excluded casinos are all profitable and will



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continue to act as viable competitors to Rank in these areas according to the commission.

The four excluded casinos produce around £4m a year in earnings. Rank however must sell its licence to operate a casino in Edinburgh and will be forbidden from buying Gala's existing casino in the Scottish capital. Although the deal lapsed in September it is expected to go ahead with similar terms.

### LONDON CLUBS

London Clubs International is part of the Caesars Entertainment group which has a portfolio of over 50 entertainment, gaming, restaurants and bar facilities throughout the US, UK, South Africa and Egypt.

In the UK LCI operates 10 casino clubs in the UK of which four are in London. These are The Empire, Manchester235, The Golden Nugget, The Sportsman, Alea Leeds, Alea Nottingham, Alea Glasgow, The Rendezvous Brighton, The Rendezvous Southend, Playboy Club London plus the London Poker

*"Locally each of our clubs has a specific charity budget and a 'paid time budget' that allows club directors to support local initiatives and we also donate 'staff hours' to encourage our employees to become personally involved with 'Business in the Community' by essentially paying for them to get involved in BIC's community initiatives."*  
**MICHAEL SILBERLING**  
 President  
 International  
 Operations,  
 Caesars  
 Entertainment.

Room. LCI has two casinos in Egypt and one in South Africa.

The company hit the headlines when it brought the Playboy brand to London and has provided the city with a world class VIP gaming venue. Within the 10 casinos the company operates a total of 590 slots and 280 gaming tables.

Caesars Entertainment's President International Operations, Michael Silberling said: "Our view is that casinos are integral to the communities in which they operate and we take our role as an employer business generator and entertainment provider very seriously. Locally each of our clubs has a specific charity budget and a 'paid time budget' that allows club directors to support local initiatives and we also donate 'staff hours' to encourage our employees to become personally involved with 'Business in the Community' by essentially paying for them to get involved in BIC's community initiatives."

Last year speculation began citing that LCI had been put up for sale with a

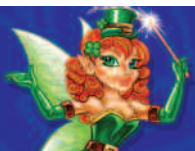
**CASINOS CAN  
OFFER A VARIETY  
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GAMES INCLUDING  
AMERICAN  
ROULETTE, PUNTO  
BANCO AND  
BLACKJACK AND  
POKER.**

price tag of £160m although this story was later quashed by the company. Caesars purchased LCI in 2006.

### A&S LEISURE

This 40 year old private company owns the Napoleon Casino brand plus the Owlerton greyhound racing track in Sheffield. The family run business is based in Sheffield and it acquired the greyhound racetrack in 1991 and today it is ranked at the third largest of the 27 greyhound tracks.

A&S also owns six Napoleon Casinos



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### DROP AND WIN REGIONAL SUMMARY FROM JAN 2012 – DEC 2012

REGION	No. OF CASINOS	DROP	HOUSE WIN	HOUSE WIN %
Scotland	16	£207.3m	£33.1m	16%
North	43	£733.8m	£111.8m	15.2%
Midlands & Wales	33	£603.7m	£92.8m	15.4%
South	26	£427.8m	£68m	15.9%
<b>PROVINCES TOTAL</b>	<b>118</b>	<b>£1.9bn</b>	<b>£305.7m</b>	<b>15.5%</b>
High End London	6	£2.1bn	£181.4 m	8.5%
Other London	20	£2bn	£322.6m	15.8%
<b>LONDON TOTAL</b>	<b>26</b>	<b>£4.1bn</b>	<b>£503.6m</b>	<b>12.1%</b>
UK TOTAL	144	£6.1bn	£809.4m	13.2%

and restaurants which are located in London, two in Sheffield of which one is at the stadium, Leeds, Hull and Bradford. The company is owned by the ex-chairman of Sheffield Wednesday Football Club, Dave Allen. He joined the company in 200 and became chairman in 2003.

The Bradford offers eight tables, 16 Touchbet stations and 14 slots, Leeds offers 13 tables, 18 slots and 20 Touchbet Roulette, Sheffield Ecclesall offers nine tables, 10 electronic roulette stations and nine slots, Hull offers 10 tables, 20 Touchbet Roulette stations and 18 slots, London offers 16 tables, 12 slots and 19 Touchbet Roulette stations and Sheffield Owlerton offers nine tables, 20 slots and 24 Touchbet Roulette stations.

#### ASPERS

Aspers Casinos offers glitzy American style casinos and is a joint venture company between the Aspinall Family and Crown Limited in Australia. Aspers is the nickname of John Aspinall who founded Aspinall's Club in Mayfair and held the UK's first gaming licence.

Today it operates three casinos in the UK plus others in France, Australia and New Zealand.

The casinos include an Aspers in Newcastle, Northampton and Stratford and a licence to open a casino in Milton Keynes. The company was the first operator to receive a new 2005 Act casino licence and so the new Aspers Westfield in Stratford City which was the first large casino to open in the UK and is sited at the entrance to the Olympic Park.

The Stratford casino is advertised as the UK's first 'super-casino' and is 6,000 sq.m in size and offers 40 table games and 150 slots plus a 300 seat poker room and 92 electronic betting terminals plus a restaurant and two bars including the Tanzibar which offers a 60 seat sports betting area and wall of 27 multi media screens. The sports bar is the first and only place in the UK where you can eat and drink and watch sports. There are eight self service betting terminals located at the bar which are managed by BGT.

To operate a casino three types of licences are required with includes an Operating Licence, a Personal Management Licence and a Premises Licence from the regional city councils and from the local authorities. The Operating Licence application fee for a casino operating under the 2005 Act is £28,641 for an A Small Casino or £37,591 for the B Large Casino which will permit you to run either type of casino.

It is open 24 hours a day and 364 days a year and provides jobs for around 440 people. The casino is a major anchor at the Westfield Stratford City shopping mall which also houses an all-digital Vue cinema with 14 screens, 14 lane bowling and 617 rooms across three hotels.

In the first 12 months of opening the casino has seen over a million visitors. Aspers is due to open a second large casino in Milton Keynes in September this year.

#### LEGISLATION

The UK is an attractive springboard for the growth of the casino industry and provides an excellent gateway of international connections.

Casinos can offer a variety of live casino games including American Roulette, Punto Banco and Blackjack and poker. Large casinos can also allow betting and bingo facilities whilst the small casino can offer betting.

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The Operating Licence fee for those





### FIGURES SEPTEMBER 2012

OPERATOR	CASINOS IN 2012	LICENCES	GAMING DROP PER HEAD	CASINO SECTOR REVENUE
Genting UK	44	57	n/a	£235.7m (2011)
Rank Group	35	47	£214.42	£255.8m
Gala Coral Group	23	31	£182.65	£139m (turnover)
London Clubs	10	11	n/a	n/a
Other Operators	34			
TOTAL	146	193		£868.1m

running under the 1968 Act is anything from £6,509 (for a GGY of less than £5.5m) to £19,528 (for a GGY of £275m plus).

The annual operating licence fee for an A casino is £51,877 and B is £108,132 under the 2005 Act. Those under the 1968 act pay anything from £17,378 (for a GGY of less than £5.5m) to £443,526 (for a GGY of £275m plus).

*The number of casinos in the UK has remained fairly stable over the last few years and all but one of the current casinos were established under the previous legislation.*

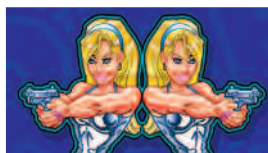
The number of casinos in the UK has remained fairly stable over the last few years and all but one of the current casinos were established under the previous legislation. When the 2005 Gambling Act came into force in 2007 there were just over 140 casinos in operation. There are also several licenses issued which are not yet operating.

The only new 2005 Act casino currently

### THE ONLY NEW 2005 ACT CASINO CURRENTLY OPEN IS ASPERS CASINO AT WESTFIELD CITY SHOPPING MALL IN STRATFORD, LONDON.

open is Aspers casino at Westfield City shopping mall in Stratford (London borough of Newham). Other licences have been awarded to:

Milton Keynes – Aspers; Solihull – Genting; Hull – Apollo; Great Yarmouth – Pleasure and Leisure; Middlesbrough – Gurney Casino Ltd, Scarborough – Opera House and Bath and NE Somerset – Global Gaming Ventures. All are large casino licences except Scarborough and Bath with are for small casinos. The Great Yarmouth casino licence was decided after 18



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### CASINO LICENCES

Licence category	Minimum table gaming area	Minimum additional table gaming area	Minimum non gaming area	Minimum total customer area	Minimum number of gaming tables	Categories number of machines	Machine/table ratio
Small	500 sq.m	0	250 sq.m	750 sq.m	1	Up to B	2:1 (cap 80)
Large	1000 sq.m	0	500 sq.m	1500 sq.m	1	Up to B	5:1 (cap 150)
Regional	1000 sq.m	2500 sq.m	1500 sq.m	5000 sq.m	40	Up to A	25:1 (cap 1250)

months of local authority processes back in April 2012 and there were two applications under discussion one from Palatial Leisure Ltd and another from Pleasure and Leisure Property Corporation Ltd.

The project was granted to Pleasure and Leisure and will be constructed in the complex called The Edge and will include an eight screen cinema, bars, restaurants, bowling alley, hotel and the casino.

The new 2005 Gaming Act allowed for the existing 1968 Act casinos plus three

new types of casinos – the Super Casino, the large casino and the small casino – all determined by the number of slots, size of jackpot and size of customer area allowed.

A large casino can have a maximum of 150 machines of any combination of B1, B2, B3, B4 or C and D machines with a 5:1 machine/table maximum ratio.

Small casinos can have a maximum of 80 machines of any combination of B to D machines with a 2:1 machine/table ratio maximum.

*A large casino can have a maximum of 150 machines of any combination of B1, B2, B3, B4 or C and D machines with a 5:1 machine/table maximum ratio.*

Casinos established under the 1968 Act have no machine/table ratio and can only have a maximum of 20 machines of category B to D or any number of C and D machines instead.

At the moment the situation looks like table: **Casino Licences.**

The original bill placed no limit on the number of small or large casinos but concerns there would be a swamp of openings and an increase in problem gambling meant the final act limited this number to eight casinos each and one Super regional casino.

The Super Casino has a minimum gaming area of 5,000 sq.m and maximum number of 1,250 unlimited jackpot slots. Initially the idea was to have 40 Super Casinos which was then cut to eight then down to just one.

The Super Casino idea proved to be one of the most contentious issues of the Gambling Bill and although 27 local authorities applied for this permission in January 2007 Manchester was eventually chosen beating Blackpool as favourite contender.

A huge media campaign started by the Daily Mail entitled 'Kill the Casino Bill' began attacking the government's Gambling Bill proposals for the new regional casino plans.

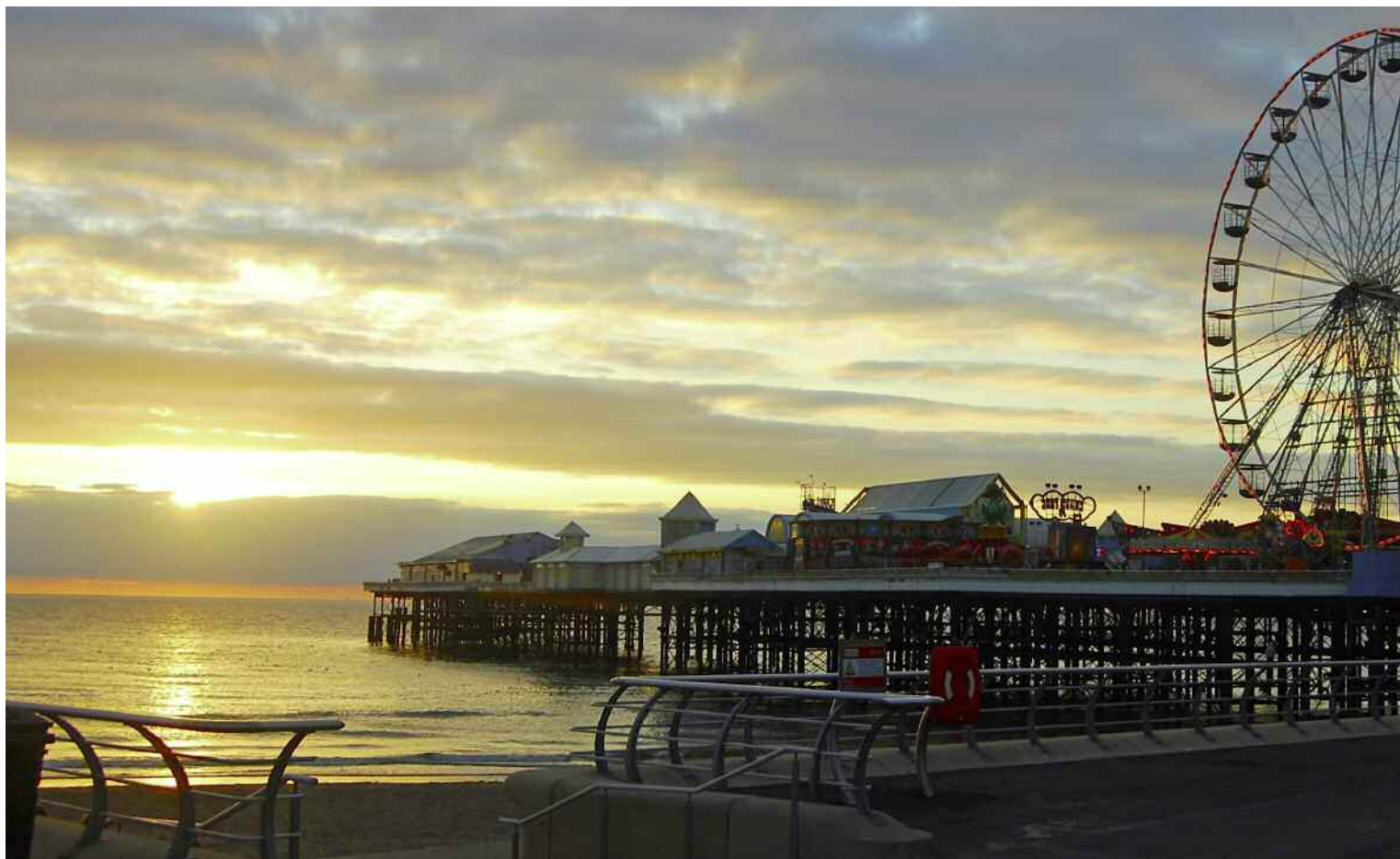
The House of Lords then urged the government to review their plans for the new super casino in Manchester but did however support the plans for 16 new casinos under two new classifications of casino licences which included eight 'large' and eight 'small' which were allocated to 16 local authorities which were chosen from an initial application of 68.

It was agreed eventually that the large casinos could be permitted in Great Yarmouth, Kingston-upon-Hull, Leeds, Middlesbrough, Milton Keynes, Newham, Solihull and Southampton.

Eight small casinos would also be permitted in the regions of Bath and North East Somerset, Dumfries and Galloway, East Lindsey, Luton, Scarborough, Swansea, Torbay and Wolverhampton.

In December 2011 the first of these large casinos was opened in the London borough of Newham by Aspers (Aspinall and Crown Limited of





Australia) at the Westfield Centre in Stratford in east London. This is the only casino which has opened to date under the 2005 Act.

Regeneration work had begun on the area earlier in preparation for the Olympic Games and the area was being transformed whilst the Westfield shopping mall is cited to be the largest of its kind in Europe.

The bid for the licence wasn't easy. Other bidders including Genting and City & Eastern both dropped their application for a judicial review in the High Court which saw Aspers go through with its plans.

The development cost £1.8bn.

### INDUSTRY VOICE

There are two main casino industry voices one of which is the Casino Operators Association which was formed in 2001 and The National Casino Industry Forum (formerly the British Casino Association) which believes modest reforms to the gambling laws could generate 4 to

The National Council Industry Forum (NCiF) has criticised the decision to allocate 10 of the 16 new casino licenses to areas where 1968 act casino already exist. They say this has led to many licences not being utilised as it would not be economically viable in competition with those existing casinos or because those with licences under the 1968 act have no intention of building a new casino to compete with their existing business.

5,000 new jobs and £70-80m in additional taxes.

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The NCiF say of the 16 local authorities, six had abandoned plans to continue with the licensing process. Only one licence is operating and of the remaining nine – two have begun the licensing process, three have gone to legal challenge, four licences have been granted but not developed, and of these four, only one is in genuine development.

They said investment in the casino industry “collapsed” after the 2005 Act and they have called for existing

## SMALL CASINOS HAVE NOT OPENED BECAUSE THEY ARE NOT FINANCIALLY VIABLE DUE TO THE HIGH CASINO DUTY TAXES, COST OF LICENCE AND RESTRICTIONS ON MACHINES.

licences to become portable between permitted areas.

The small casinos have not opened and this is mainly because they are not financially viable due to the high casino duty taxes, cost of licence application process and restrictions on machine numbers.

New large casinos can have a machine/table ratio of 5:1 up to a maximum of 150 machines. New small casinos can have a machine/table ratio of 2:1 up to a maximum of 80



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machines. Those casinos operating under the 1968 Act are limited to 20 machines each. In order to qualify for the maximum number of permitted machines a small casino would need to have 40 gaming tables and therefore a large floor space whereas a large casino would only need 30 tables.

Makes sense? Clearly not. Apparently there were two reasons for linking machine tables to machines and one was that it would encourage players from taking a break from machine play and turn to table play which is less intensive. By making the small casinos have a large floor space the government thought it would prevent their proliferation on the high street.

It has been suggested that small casinos should have the same machine/table ratio as a large casino and also enable local authorities to have the power to increase the number of machines per table if they wish to so or an operator requests it.

Some say the numbers were merely 'plucked out of the air' as the bill went

### Comment



"I'm on record as saying that I think the whole way the UK gaming industry is regulated at this moment is flawed. To have the majority of existing casinos operating under a 1968 licence, then with others operating under a 2005 licence, and to limit all but a handful of 20 slot machines is simply unworkable. This was also the view in the recent Select Committee report finding. Our recommendations on harmonisation of the industry were fully accepted and the Committee said quite clearly that there should only be one industry and one coherent regulatory framework. This means that 1968 Act casinos should enjoy the same commercial opportunities enjoyed by 2005 Act operators.

That said, we have bid for the large licence in Leeds. We have to because we already have a 40,000 sq.ft casino that only operates 20 machines. We have plenty of space in which to become Leeds' large destination casino, we already have two award winning restaurants, a major events space and great facilities on offer. We could operate that casino now. The greatest risk is that the council award the licence elsewhere. Leeds simply isn't big enough to support another operator splitting the gaming market still further. I think if they do that and if they fail to consolidate the market everyone will lose out."

**MICHAEL SILBERLING**, President International Operations, Caesars Entertainment

along. However the DCMS argues that the ratio of machines should not be changed.

Meanwhile there are now calls for the government to review the licensing procedure. Delays are caused by the overall bureaucratic process and insufficient guidance by government to the licensing authorities. A new simplified and less expensive licensing process is being called for.

Another bone of contention is machine stakes. Under the current regime casinos are permitted considerably lower stake limits than the LBOs. The NCiF has argued that casino style gaming machines such as B2s should be allowed only in the heavily regulated environment of a casino.

Casinos at the moment are permitted only category B1 machines with a maximum stake of £2. Of the 144,000 slots machines licensed in the UK only 2,400 or 1.6 per cent are in casinos whilst there are over 32,000 B2 machines in the 9,000 LBOs which offer £100 stake on games which play every 20 seconds. There are also nearly 12,000 B3 machines in bingo clubs and seafront arcades with a £2 stake. The NCiF has proposed a £5 stake and £10,000 prizes limit for the casino sector's B1 machines.

The self exclusion programme is also being looked into to. At the moment customers can self exclude at one casino but can then walk into another casino run by a different operator. The weakness of the self exclusion programme is not a nationwide or a

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cross industry system. The number of self excluders rose from 11,424 in 2008 to over 20,800 in 2010

On another note the casino tax system is very complex and hard to compare with other countries if looking for a general level. The NCiF argues however that the casino sector is disadvantaged compared to other markets because of the UK's high tax rate coupled with competition from the online industry. The tax regime following the 2005 Act saw higher gambling duty rates introduced.

The new MGD which replaces AMLD and VAT is set at 20 per cent with a lower rate of five per cent for some category D machines.

The AMLD on Category B3 gaming machines is £2,285, £860 on Category C machine and £2,905 on Category B1 machines plus 20 per cent VAT. This has been replaced by 20 per cent MGD

Some suggest that GPT should be offsettable against VAT on capital investment to push long term growth and job creation. However the government has said this is not permissible under EU law.

There are two issues concerning the taxation policy which is firstly the level of duty charged on each sector and whether it is maximising tax take while not inhibiting the industry. The second is the failure within the online sector to establish a tax regime to allow the UK based online industry to compete with the offshore industry. It is cited that tax increases under the 2005 Act have



made casinos less attractive to investors and is stifling growth. This coupled with the smoking ban and banks reticence at lending is leading to a stagnant situation.

The tax rate for casinos is as follows:

Casino games and poker –

- 15 per cent on £0 - £1,975,000
- 20 per cent on £1,975,000 - 3,336,500
- 30 per cent on £3,336,500 - £5,721,500
- 40 per cent on £5,721,500 - £10,755,000
- 50 per cent on £10,755,000 +

Meanwhile there have been some positive changes. In March 2011 the Gambling Commission looked at the Licence Conditions and Codes of Practice concerning types and rules of casino and other games. This was amended in June 2011 and basically removed the requirement for casino operators in the UK to seek the approval of the Gambling Commission to trial new games. The commission today only lists games that may not be played.

The idea is that the casinos are expected to uphold three objectives of the Act which is to prevent gambling from being the source of crime and disorder, ensure gambling is conducted in a fair and open way and protect children and other vulnerable people from being harmed or exploited.

The rules of each game must be available in all casino premises and this is usually via 'How to Play' leaflets whilst House Edge information must also be available.

### FUTURE OUTLOOK

So what happens to the UK casino industry now? Well those at the supply end of the field are watching the market carefully.

Many UK suppliers have disappeared over the last few years primarily due to the economic climate or due to the larger international companies which have swallowed up some of the smaller competition.

Main companies supplying the UK casino market now include Novomatic, TCS Huxley, Matsui, Inspired Gaming Group, IDS, Cammegh, International Brand Gaming, MEI and SG Gaming.



*"We have sought out the latest most state of the art technologies to multiply returns while also providing the best service to our patrons. We chose EASITRAX and Cashflow SC because of MEI's strong reputation for value and performance. The global feedback for the marriage of these two products is exemplary and we're eager to be the first European casino to take advantage of it."*  
**JOHN STRYDOM,**  
Manager of Slots,  
Hippodrome Casino.

MEI is a manufacturer of electronic note acceptors, coin mechanisms and payment systems and today MEI's electronic payment systems are relied upon for more than two billion transactions per week in over 100 countries.

Casinos choose MEI systems due to the high acceptance rates, security, jam performance and cost of ownership. Today, the company offers the combination of SC Advance and EASITRAX Soft Count to the casino and gaming sector.

SC Advance evolved from the Cashflow SC note acceptor and features enhanced recognition technology, faster bill to bill speed, improved barcode recognition and increased capacity to accept up to 100 different currencies and denominations. In addition many MEI customers are now fitting EASITRAX Soft Count which is a product extension that expands the reach of note acceptors from the slot floor into the soft count room. By

adding EASITRAX to the SC Advance or the Cashflow SC it creates a comprehensive software/hardware system designed to streamline the cash management process. Last year EASITRAX made its European debut into the Hippodrome Casino in London. Since its release in 2008 it has been installed in over 100,000 games worldwide.

John Strydom, manager of slots at the Hippodrome said: "We have sought out the latest most state of the art technologies to multiply returns while also providing the best service to our patrons. We chose EASITRAX and Cashflow SC because of MEI's strong reputation for value and performance. The global feedback for the marriage of these two products is exemplary and we're eager to be the first European casino to take advantage of it."

Inspired Gaming Group is fully concentrated on the UK market with around 50 per cent of its business being UK focussed aside from its other



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international business. The majority of its products are launched in the UK first such as Core VIP and SmartDeck.

At the moment the big demand is for Inspired's Sabre Multi-Win Roulette (MWR) with around 1,000 Sabres currently installed with Genting, Gala Casinos and some independent casinos in the UK. Inspired of course has a reputation for its Electronic Roulette performance and Sabre is built on the success of its predecessor and it comes with a large 26 inch primary screen and seven inch secondary player portal screen and Easy Play features.

Inspired's Lee Gregory said: "With several large new casinos opening in the UK in the coming years we are positive about seeing growth in the UK casino sector and all our current installs are generating double-digit growth year on year. Existing casinos are looking to get the maximum entertainment from the space they have. Sabre Multi-Win Roulette has a reputation for generating the highest incomes in casino trials against competing products, so it's a good investment and electronic terminals take less space and staffing than live tables. The company has also been installing an upright variant of the Multi Win Roulette on the Storm HD cabinet.

Mr Gregory added: "For Inspired the next 12 months is about being more intelligent with data analysis and player customisation. We have very sophisticated Yield Management tools at use in the UK LBO sector and we are bringing more of this expertise to the casino sector with our launch of the mixed menu Storm Casino product. It may not be obvious to the players but refreshing menus and tailoring the content really enhances their entertainment experience and keeps operator revenues on the up.

### Comment



"The future of the UK casino market is very interesting. Given the hash that the government made of the Budd Report, the changes to taxation, smoking ban and Section 21 machines, not to mention the global economic downturn, UK casinos over the past 10 years have had a tough time of things. The UK has been at the forefront of innovation and led the world in developing many products for the gaming industry. It is therefore extremely sad to see so many well known UK brands disappearing, struggling or being consumed by larger overseas companies. Despite this the UK operators appears buoyant and showing growth.

With significant overseas investment in the UK casino industry I believe the industry will undoubtedly prosper and the offering may change in line with overseas operations as the law permits. The bigger issue for me is the UK banks not supporting or lending to innovative support businesses who supply to not only the UK casino industry but the industry globally.

I think to boost the UK casino sector, restoring public confidence in the economy is crucial to drive spend and attendances at venues. Obviously this is a big ask and much longer term. Amending some of the antiquated legislation would also potentially help the sector such as number of machines permitted in venues, stakes and prizes etc. Banks also need to start lending as despite what they and the government claim it is not happening.

Whilst the industry has suffered as a result of the 1998 crisis it has survived and is coming out the other side so why wouldn't banks invest in a sustainable industry or those supporting it willingly? I believe the government has viewed the industry as a soft target in relation to taxation and this has had an adverse effect on the operators and the way they view product acquisition.

For us the UK is a small fairly small market of our business and accounts for around five to 10 per cent or less of our total business owing to the size of the UK market. We anticipate being in a rather unique position – a UK business that develops and manufactures in the UK and exports to Asia. IDS identified an opportunity in the casino industry to improve the way casino operators manage the cash waged at the gaming tables and electronic gaming machines and effectively bring the cash handling processes into the 21st century in line with their counterparts in the retail industry. We engaged with casino operators to develop the world's first fully intelligent drop box (i-depsys) which can be integrated into any gaming table. This system counts, validates, deposits and secures mixed bundles of mixed denomination notes into a bank approved pouch. This means that for the first time ever casinos have a precise snap shot of the cash position of each table within their business through a comprehensive back office management system. The use of the patented bank approved pouch eliminates all shrinkage and coupled with the back office software enables the casino operators to send their cash deposits directly from the table to the bank accurately and securely without the requirement for a laborious and time consuming end of trading day count. I am confident that this will revolutionise the global casino business and become a de facto product on all tables."

.....  
**ANDREW BEDDOE**, Chief Executive Officer, Intelligent Deposit Systems

"The UK casino market has proved itself to be a safe market to allow further deregulation and there seems to be quite a bit of support for increasing machine numbers for some of the new and larger casinos in the pipeline. UK casinos take responsible gaming very seriously and are a good example to

Many UK suppliers have disappeared over the last few years primarily due to the economic climate.

other markets around the world. "Personally we would welcome the legislation of virtual sports betting in the UK casinos. We have a fantastic product in Sabre Synchro with roulette and virtual horse betting but none of our UK customers can take advantage of this new innovation."

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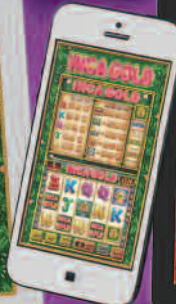
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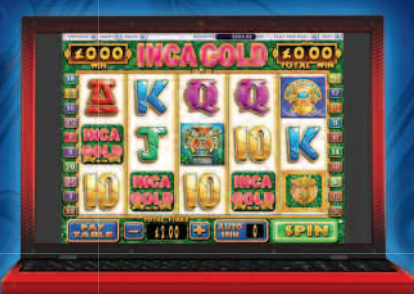
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