

THURSDAY, DECEMBER 8, 2005

INTERNATIONAL SIMULCASTING ISSUES

Sponsors:

Panel Session: Scientific Games Corporation

Refreshment Break: United Tote

Moderator/Speaker:

Sean Pinsonneault, Vice President, Wagering Operations; Woodbine Entertainment Group, Inc.

Speakers:

Phil Adams, Head, International Development; At The Races

David Hawke, General Manager, Planning & Infrastructure; Racing Victoria, Ltd.

John Stuart, Director of Simulcasting; Phumelela Gaming and Lesiure Ltd.

MR. STEVE BARHAM: I would like to introduce the moderator of this panel, Sean Pinsonneault. Sean is vice president of wagering operations with Woodbine Entertainment Group. His areas of responsibilities include pari-mutuel operations, simulcasting, off-track betting operations, customer services and printing operations. I don't know where we got the printing operations.

MR. SEAN PINSONNEAULT: No one else wanted it.

MR. BARHAM: Nobody else wanted it, okay. Sean started his career in the racing industry in 1988, and worked for one of the tote companies at a small track in southern Ontario, Canada. In 1984 he accepted an opportunity to work at Windsor Raceway and later held the position of vice president and general manager, before joining Woodbine. Sean is originally schooled in electronic engineering and has earned an executive MBA and a master's of management.

MR. PINSONNEAULT: On our panel today, we've got International Simulcasting, so we have people from all over the globe. David Hawke is here from Australia, he's with Racing Victoria Limited, I think our book stated Andrew Harding was our guy today, but David is filling in and is quite capable of filling in in this respect. John Stuart is here, he is the director of simulcasting for Phumelela Gaming and Leisure from South Africa, and we have Phill Adams here from At the Races from the UK. We have a good contingent across the globe.

My purpose today is I'm going to give you a few ideas of what our experience has been in Canada and where we're going on the U.S. common pool initiative, and overseas wagering and commingling.

For my discussion, we're going to talk about separate pool wagering to common pool wagering, that's a big transition that we're going under right now. Wagering trends at WEG in Canada, we're going to talk a little bit about our experience with U.S. common pool experiences, it's been something we've been living and breathing for the last little while, and a lot on simulcasting overseas racing.

Separate pool wagering, our history again, is that we had to form separate pools from all of the U.S. products that we host. That is due to IRS tax implications, that has since changed and we will get into a little bit more detail later on. Canadian tracks have also had to form separate pools for all the overseas wagering and it hasn't been a tax issue with them, it's more of technology and regulatory difference.

There are benefits of separate pool wagering, believe it or not, there are some. We have control over the betting rules and the operations, we have takeouts, we have control over them, and of course the wagering profiles as well. Those are some significant benefits, and some of those we are able to carry over into common pool side, but these are some of the benefits from separate pool.

Some of the negatives, of course, the negatives are much larger than our positives. Customers are unhappy with the pool sizes, it's been an issue, and I think that they adjust their betting habits to avoid affecting the odds. We've seen offshore account wagering operators, and I think this is a contributing factor to some of them trying other gaming opportunities such as the online poker. This limits the number of tracks that we can take because of the pool size issue, we have to be able to have a balance with that as far as how many tracks we do and how many pools we can support, with the common pool wagering aspect that doesn't apply, so it's a big benefit for us in that respect.

The guaranteed pick pools, of course, a lot of customer demand over that, and we are not able to offer anything of any significance on a separate pool basis.

To give you some idea of our wagering trends, you can see how we peaked in 2002, some significant gains there but have since been declining steadily and that is not a very good trend, something that we are really looking to turn around. As bad as that looks, it's not just us either, the Canadian example is very similar, and it follows the same pattern.

So common pool wagering, why do it? Customer demand is one of the biggest issues with it, they want larger pools, they want host prices and they want more product. It levels our competitive playing field, we have those betters who have left our pools, and it gives them an opportunity to come back into something that they

can be attracted to. We see gains from increased handle here; it really positions us for long-term growth.

The momentum towards common pool wagering, it's been a slow process but it has been gaining a lot of momentum as of late. A lot of recent success that we've had is due to regulatory and legislative changes that have happened. I think the globalization mindset of customers has some play in this as well, they are demanding more of this international pond, they are more aware of it, and so it's been causing more people to stand up. There is a greater need with competitive pressures on pari-mutuel wagering. We have plenty of gaming opportunities out there, aside from pari-mutuel and the tribes themselves, racing organizations are looking at every way to try and maintain that. The adoption of North American industry standards on tote communication and pricing has been a big initiative as well, it's an important part of making this global common pool initiative work.

So here are some of our results on the common pool wagering front. Of course, the big change was the IRS tax law in October 2004, which positioned us to be able to do this.

Increased handle, as we talked about earlier, it's a great benefit, we've seen a lot of exciting opportunities to really grow our handle, but it comes at a cost. You can say that some of our requirements, that we can choose whatever takeout rate we want, but of course it's not as easy as that, customers demand to be matching the U.S. tracks or come very close to it, so we've had to come to a hybrid example to try and make that work. That hybrid example is where we've taken the display pools, the win, the exactor and the double pools, so we've matched those. So what they're looking at on the screen is what they are going to get paid, but the other pools, we've had to cap them at a higher level, and actually we were expecting a lot of push-back on that, but it hasn't been that bad. The philosophy, of course, behind this, is that we can always go down, it's very difficult to come back up and so we want to take the slow approach, let's get everything switched over and let's take a look at it and see what it means to us and see how far we can build up.

Breakage considerations. This was a bigger concern at the start, we've gone through a lot of these issues, we break to the nickel where most of the U.S. breaks to the dime, and more complicated measures as well. We've been able to get through that within pricing and there has been a non-issue with that. Customer's benefit with respect to us paying on the nickel and of course that comes at a greater cost to the tracks themselves. We've realized that a lot of U.S. tracks distribute on a basis of handle instead of winning money and we think winning money is the best way to go, we've been pushing them in that direction and we've actually been well received.

Revenue sharing and taxation, our friends in the governments and some horse improvement programs get a fixed percentage. So they get the benefits of the increased handle, but of course we have to worry about the fact that there is not as much left at the end.

Expanded schedules, as we've talked about, with not worrying about pool sizes to be able to maintain those, much easier to expand our schedules and give customers a lot more opportunity.

Bet minimums, this is another issue that we dealt with up front, it really has worked out quite well. Our issue is, don't put our bettors at a disadvantage, they are used to a certain bet minimum rate and we've been able to maintain that throughout, so in the example of a track in the U.S., if their minimum is \$2, they've been able to allow us to bet at a \$2 minimum as well, so they are treated on an on-par basis. There is one exception to that, and that's with the guaranteed pick pools. It is an issue with them, we understand the issue, we don't like that ultimately our patrons are actually at a disadvantage with this form, but we concede to the fact that we actually maintain a \$3 minimum, not a \$2 minimum like they do in the States. I think that there are issues to address this, and a concern, of course, is that someone with less than a \$2 minimum actually takes the whole pool. Australia, South Africa, and New Zealand have different ways of dealing with that as not a full unit bet, they carry some of that carry over so that it will alleviate some of those things. I think that we need to look at some of those issues, putting our bettors at a disadvantage, I don't think, is a long-term solution.

CPMA is our Canadian regulator. These are some requirements that they laid out for us. Net pool price is, of course, the main one, indicating differences of our pari-mutuel rules to the pari-mutuel host that we're going into. Communication plan to the public, exchange rate policies, teller cancel delay is a big issue; we'll get into that in a second, successful tote test and FRITB. FRITB stands for Foreign Race Inter-Track Betting, that's something of a new term.

CPMA requirements. Canadian tracks work with CPMA to make these requirements practical. It was a very involved process; teller cancel delay became the biggest issue with respect to that, and we were able to come to a solution that works, it notifies the betting public as to what a teller cancel delay really is, keeps them informed, lets them know what it's all about and lets them make their own decision from there. So all of our programs, all our information is distributed to the public, they have this information before they make a wager.

CPMA struggled with this issue, and in September 2003, I think it was, all of our pools in Canada went to a zero-second cancel delay and that's not only for the racing but the posts in Canada, all the sites that come into us, it was a requirement that they had a zero-second teller cancel delay. This worked well, something we're very supportive of. From a CPMA perspective, their issue is, "but wait a minute, we've already converted Canada to be a zero-second cancel delay and now all of a sudden there are going to be bets where there is a cancel delay?" So, we were able to compromise on this issue and come up with a solution that's practical, but it's something that we do believe in, that we should get rid of them altogether, so we will work with the industry to get there.

Our progress to date, approvals have all been done on a state-by-state basis. We're used to dealing with one federal regulator, which is good and bad in some ways. As

we went through this thing on a state-by-state basis, it's been a challenge but we've gotten there. A lot of our discussions have been very positive, we work with the racetracks, we work directly with the state, and in most cases they have been very positive and have required little or no legislative changes.

There are twelve states that we've gotten approval for already, Arizona, Delaware, Illinois, Ohio, Kentucky, Louisiana just a few days ago, Maryland, New York, Texas, Washington, Iowa and West Virginia, and two more to come, and we'll get to that in a second. We've made some good progress, not nearly as fast as we've wanted to, but it's coming.

Here is a list of the tracks that we've been dealing with so far, we started off with Balmoral Park on July 5th, and gone through the last introduction with Moutaineer Dec. 2nd. Both have been very positive and it's, of course, a mix of harness and thoroughbred, and some foreign with South Africa and Japan through Emerald, as well.

I like using this example, this was one of our early examples here, just because we started off with separate pool and we went to common pool. To see where we were on a separate pool basis, we're down almost five percent; since going to common pool, we're up 21 percent, about \$1.3 million in a very short period of time, and so we're very thrilled with those results.

We went through this and started looking at the benefit to common pool wagering, we thought there would be more benefits on those pools that weren't very large. In the case of the Breeders' Cup, we already had large pools, not nearly as large as the Breeders' Cup itself, but they were large nonetheless. We were wondering how great of an advantage it was going to be going into that. We actually saw a great advantage, \$313,000, a gain of 11.2 percent.

Common Pool wagering on a monthly basis, you see there that we've had significant gains. From July through November, \$15.6 million is what we gained over that period of time, 42 percent, that's not just all inherent growth, overall significant gain and we're very thrilled with it.

I want to bring up this point here too, there's a first-mover advantage to this whole process, and we've seen this with a few examples. The early guys that have gone over to the U.S. common pool have taken market share from those that haven't. Even those who have lost that market share and have gone to the U.S. common pool wagering have not been able to gain that market share back fully, I think that is a big issue and should be a concern for a lot of the tracks that are out there. So maintaining that market share by getting into this early, I think, is a really big thing.

Hopeful approvals, we've got state approval on Arizona, we're looking for CPMA approval on Arizona, and hoping to start by the end of the year. Florida, we're hoping for later this year, it's likely to be early January before we get that done, there are still two hurdles that we have to go through there. Arkansas, we're

looking to start on January 20th for the Derby. California, we're hoping for something early next year, still a lot of hurdles we have to go through there, but I think it's something that's possible. New Jersey is one that we're just – we don't know where to go with it, it's in the hands of the Attorney General, we have no word as to when they are going to rule on it, if they go really positive on the regulations, stating that they can do net pool pricing, then we can start right away. If they require regulatory changes, then it will be six to nine months at least, so it's a big question mark. The point that I had earlier about market share and so on, Meadowlands Harness is the only U.S. Harness track that we've not converted to U.S. common pool wagering and they are seeing significant losses on their product. Those losses, I'm not sure if they can fully recoup once they go back to it, I think it will only get worse if they don't get on board with it. I'm not faulting Meadowlands in this case, they've been working very hard to try and get that done, but it's been a very slow regulatory process to get it through.

Overseas racing, we are the North American pari-mutuel host for the Hong Kong Jockey Club and for Australian racing. We also have done Canadian pools for Dubai Cup and the Prix d'Amérique. To give you an example of where we are and what that represents in our market, keep in mind that this is mostly separate pool wagering here, in 2001, we were representing about 2.6 percent of our total thoroughbred simulcast wagering, it's now at 5.3 percent and growing, I think it's going to be an exponential growth as we get into the common pool wagering, which is really just beginning.

In September we got approval for South Africa. South Africa, of course, hosts the South African product, in live racing and game racing, and again, I think they are good allies. They are very aggressive and have great opportunities to really create bigger pools and get us in to more offshore racing.

So, what's next? Sweden, of course, everyone knows about V75, it's something that's out there in common pooling in North America, it's very exciting, and we're looking for a regulatory change there. Australia is very close to fully implementing ITSP, which is the tote protocol here in North America that we use, that will also create great benefits if we go to common pooling with them. And HKJC, believe it or not, we're going through a tax review this year, which may help open the doors to common pooling with them.

Observations and conclusions out of all this, I think the idea of the common pooling aspect is very exciting. The world pools, globalization aspect, I think there is great opportunity to be had, and it's not going to be easy for all of us. There is going to be changes required, and it's something that we're all going to need to do in order to really force the future. The regulatory bodies, I cannot recite this enough, I was going to put it all in bold, but I decided to keep it just to this, but that's a big component to us doing this transition, we need the support of our regulatory authorities to say, "we're going to get out of your way and we're going to do some things that are reasonable to allow you to get to where you need to be." We've got some very positive hope on the CPMA front, we've got a new executive director

there that seems to be very open minded and we're looking forward to working with him trying to get there.

International simulcasting will create many benefits, of course, it will create many more viable betting pools, many more opportunities for our players. It will increase opportunities to sell our racing product, but again, it will raise the bar of our racing product and the field size, we will be competing against Australia and South Africa, on an average of a 11- or eleven-horse field, it's going to be a big challenge for all of us to try and get up to that level. The customers are going to come to expect that that's where we need to be, so we need to do whatever's possible to try and get there. It will force all of us to try and respond quicker to customer demands and international trends, as part of this thing, the world gets very small, and we need to be able to react and be proactive in trying to lead the community.

I think this creates a great opportunity to collaborate; we have a lot of smart players over there that do a lot of great things. I think that we're doing a lot of great things in North America. Collectively, I think that we can do fantastic things, there is great opportunity there, we have to seize that opportunity and work on ways to make that happen. The innovation and experimental aspect, we are not dealing with small pools, we're dealing with world pools, we really start to get into some critical mass, it will start to make sense to try one of these different bet types, different games, to try and really attract new players to our industry. Ultimately, of course, it allows us to thrive, I think there is great opportunity here with that collaboration and everything else, we can really make this industry grow and thrive.

Thank you very much, that's it for my slides here. I call David Hawke up.

(Applause)

MR. DAVID HAWKE: Thanks, Sean, and good morning everybody, it looks like the slides have come up.

First of all, apologies from Andrew Harding who couldn't be here, so I guess I'm filling up the bench. I should point out that this is not my principal area of expertise, so John gets the more technical issues, that's probably where I will run out of steam. Nevertheless, we will proceed on.

I guess the purpose of today's presentation is to give you an overview of both the broadcasting and wagering landscapes in Australia and the many changes that have occurred in recent years. As you will see there has indeed been rapid change, but it is still going on as we speak. So, this presentation comes out more from a racing industry side, then perhaps from the wagering operator side.

You'll all be very familiar with this slide, and at the risk of stating the obvious, there are three key areas in racing. The first is the racing product itself, the fixture or program, dates and data, field and forms. The second is the picture, the control of

the transmission and distribution. The third is the wagering distribution network itself.

In terms of historical overview of broadcasting in Australia, up until very recently, one company has held exclusive rights to broadcast thoroughbred, harness and greyhound racing in Australia. That company, Sky Channel was established in 1987 by Kerry Packer and quickly sawed off any competitors. In 1995, Packer sold 50 percent stake in Sky Channel to Rupert Murdoch's News Corporation for 75 million. That ownership continued until 1998, when it was acquired by the newly privatized TAB, for 260 million. For those of you who are maybe not familiar with Australian wagering landscape, we started out, there are six states and two territories in Australia. In 2000, Sky Channel added radio station 2KY to its media division.

Sky's performance, at the time of acquisition by TAB Ltd., Sky had an operating profit of about 15 million, revenue of 67 million. By 2004, revenue increased to more than 100 million with an operating profit of about 40 million.

Sky's strategy, become the monopoly provider of race wagering pictures across Australia. And to achieve that, it adopted a very simple 'divide and conquer' approach. It negotiated with each race club separately, and staggered contract terms to make aggregation of rights by race clubs as difficult as possible. This ensured that it had the superior hand at any bargaining time, and if necessary it would use the provisions of the Trade Practices Act against collusive bargaining to prevent unlawful aggregation of rights by race clubs.

The largest component of Sky's cost base was rights fees for the racing industry. And Sky made no secret its intention to achieve rights fees at lower costs. To establish a viable competing service, Sky Channel needed to secure the minimum Victorian and New South Wales thoroughbred racing, as well as premium Australian racing product. Staying in the contract period was designed to prevent this from happening. TVN was granted by Victorian Club rights to facilitate the aggregation of Victorian rights, in line with the Trade Practice Act. In May, 2002, TVN sold the Victorian rights to Sky channel for two years, with two six-month options at Sky's discretion, expiring May of 2005. In 2004, the right to Sydney metropolitan racing fell through, and the AJC and STC granted these rights to TVN until May 2005. Most importantly, it allowed the expiration of the Victorian rights, and this was the defining point in the development of TVN.

Following Tabcorp's acquisition of TAB Ltd. or Sky channel in 2004, Tabcorp and TVN signed an agreement to produce a thoroughbred only channel. However, in January 2005, Tabcorp withdraws support for the channel and TVN immediately announces the creation of its own racing channel carrying Victorian and Sydney racing. In rolling out this new channel, TVN secured agreements so that TVN service is now available in a growing number of locations in Australia, including at Unitab agencies in Queensland, South Australia, and Northern Territory. TVN and Tabcorp also agreed to provide and display the TVN service in Tabcorp agencies, and do so in Victoria, while negotiations of a thoroughbred-only channel continue.

The emergence of TVN has raised a range of issues, which at this point remain unresolved. In a practical sense, the most difficult of these is the split coverage of Australian thoroughbred racing on the two channels. At this day, there is no attempt at cooperation between TVN and Sky on the scheduling and the unacceptable situation currently exists for patrons having to watch two screens. Another complication is the impact of pay TV exclusivity arrangements, which mean the Austar subscribers, Austar is the regional satellite delivery network, mainly country viewers are unable to access the TVN channel, overcoming this would require Sky channel to release Austar from its obligation not to take vision from any other provider. On a positive note, this dispute has resulted in a local and international product coming into the Australian market, New Zealand, Hong Kong and South African racing.

Co-pooling by totalisators, the Australian wagering market is comprised of TAB's, on-course bookmakers, corporate bookmakers and more recently, betting exchanges. TAB's account for 83 percent of turnover in the race wagering market. On-course bookmaker's are 8.5 percent, corporate bookmakers are 6.5 percent, and betting exchanges are about two percent.

We have seen rapid change in the structure of the Australian wagering market. The Victorian TAB was the first TAB to be privatized and this resulted in a major change to the way the Victorian racing industry was funded, and resulted in a major lifting of the revenues that we see for the Victorian racing industry.

The Victorian racing industry entered into a joint venture with Tabcorp to have access not only to wagering revenue, but also to have profit in gaming activities conducted during the joint venture. This was the only state to enjoy this type of commercial arrangement, which is TAB, and this is reflected in its prize money levels and quality of its racing.

Following the privatization of the Victorian TAB was the public restructuring of the New South Wales TAB, which is currently the TAB with the largest turnover, and the Queensland TAB. Further merges and acquisitions followed with Unitab acquiring the Northern Territory TAB, and later the South Australian TAB. It has also developed a strong gaming machine monitoring business in both Australia and New Zealand. The biggest shake-up occurred more recently with the acquisition by Tabcorp of TAB Ltd. Together with its existing casino and gaming operations, this makes Tabcorp the fourth largest gambling business in the world on an enterprise value ranking.

Current pooling arrangements. There are three pools in operation in Australia, the Unitab pool of Queensland, South Australia and Northern Territory, the SuperTab pool of Victoria, Western Australia, Tasmania, Australian Capital Territory and a New South Wales pool. More than 12 months has now elapsed since Tabcorp's acquisition of TAB Ltd with the merging of the New South Wales pool but the SuperTab pool has still not been accomplished.

Another outstanding issue is the strong opposition of the New South Wales government betting exchanges. This is relevant because one of the current members of the SuperTab, Tasmania has now moved to license betting exchange.

With international co-pooling, it is highly likely that Australia will begin to mingle its pools with overseas operators in the near to immediate time. Tabcorp now has the capacity to commingle internationally, and that will likely happen very quickly. Issues such as takeout rates, tax rates and legislation will require our attention but none of them would seem to be insurmountable obstacles. Possibly the greatest impediment to Australia's participation in co-pooling is the difficulty of inexperience of merging pools within Australia. Sensibly, this is the first step, then we can make substantial progress. I think, looking ahead, co-pooling with Australia will most likely occur with those jurisdictions that we are currently exchanging product with. Tabcorp does now have the capability to commingle and they are looking very closely at the U.S. market.

That's all I have for you, thank you very much.

(Applause)

MR. PINSONNEAULT: John, did you want to come up?

MR. JOHN STUART: Good morning, ladies and gentlemen. While we're waiting for these slides to come up, I would like to thank Doug Reed and the Race Track Industry Program here in Arizona for inviting us to do a presentation today. We will commingle on a daily basis about the issues that we face; we welcome the opportunity to get to talk to you about those problems. I would also like to acknowledge Sean here, from Woodbine, they also commingle on a daily basis and, like us, experience many of these problems; essentially, we are brothers in arms.

This presentation is largely very technical and we show past examples from specific countries or jurisdictions and these aren't meant as a criticism, they are used to illustrate the problems that we encounter, and the long hard struggle that we're going to have if we want to create global pools. The business actually doesn't come out of a textbook; it comes out of real-life experience.

This is just a slide to show where South Africa is, you see the southern-most tip of Africa, and for those of you who have been to Kenya, you know we're close to it, it's about a four-hour flight away.

So, to look at some of our commingling history, first of all with the USA, we commenced in October 2002 at the Breeders' Cup. Although we had the technical capability, no one really understood too much about commingling and the two months leading up to the Breeders' Cup I spent many, many hours on the phone to Ken Kirchner from Breeders' Cup, so thank you to all you guys, thanks for all your efforts and assistance, it certainly paved the way and opened up a new world to us.

Another important point in that history was the Dubai Festival in 2004. And then another one was March 2005, the U.S. operators again, commingling on a new level, we wouldn't place an exacerbating flight from South Africa into the UK tote and trifecta and superfecta rehearsal.

Commingling history with the rest of the world; since the 2002 appearance in the international market, I think one of the biggest markets that we had was the Dubai World Cup market this year, we had all of Montreal, Holland, Austria, Kenya, Tasmania and 45 different U.S. hubs betting into the South African pools. So in terms of people connecting in system, it's gotten a lot bigger.

Just to show you a graphical representation of the commingling, we commingle both ways with the USA and with Canada. We would like to see a lot more commingling from South Africa into the USA, but with our weak currency, and we'll go into the issue later on, you will see the problems that we have with that. Here are our commingling operations with the rest of the world. So, I guess, for the better part of history, we do have a little bit of experience with commingling and are able to talk on the issues. The problem here is simulcasting and commingling, and really there are very many of these.

Regulatory and tax issues, these differ from country to country and require unique solutions. Examples here are the tax issues that — withholding tax issues that South Africa has with the Caribbean, with New South Wales and Australia, and with India. Another example here is the Singapore government, they require a tax to be levied on the guest pool. They also are controlling the industry, which they have no real interest in, and it's very unfortunate because they determine the number of days that the Singapore Turf Track can race on.

Other regulatory issues, countries like Korea are not permitted to bet on foreign product, while others like Hong Kong are only allowed to bet on very specific events in the year.

Then we have the issue of tote rules and the differing tote rules that apply country to country, jurisdiction to jurisdiction, we will get into a little bit more detail on that later on.

Risk assessment, how to deal with piracy, general business risk, exchange of data and risks. The reserve bank, particularly in our country, took a lot of convincing that commingling doesn't mean that money is going to leave the country. In countries like Malaysia, governments still need to be convinced that money is not going to leave the country. And then you have the normal currency exchanges.

Bookmaker versus tote and how they get money out of the bookmakers and on benefits to convert bookmakers into pari-mutuel betting. Here we are dealing with bookmakers in the Caribbean, Germany and the UK to achieve this.

There have been some illegal betting exchanges, how do you deal with them, you simply just go and push them away, they cannot be around?

And then commingling, commingling was essentially a part of the tote service provisions; Sean gave a few reasons why we're here. Obviously to create pools of integrity, a lack of knowledge and information in the guest market is often — is insufficient to draw the pools, at different times it can make it difficult. Therefore, commingling is an essential element for successful simulcasting.

In addition, to counteract the threat of illegal betting and other threats, every racing jurisdiction should be moving towards commingling into global pools. So, they are an absolute necessity.

Commingling issues, government policy and legislation, already spoken about, not being able to commingle, but the government of some countries, jurisdictions like Italy, by legislation are not permitted to commingle.

Tote rules and carryovers, now we all know that house rules reign, but tracks have to communicate the differences in the rules to their customers in the guest market, and convince them that the different rules are okay, even though they are different from what they are normally used to. Some jurisdictions, like Canada, limit commingling when it deals with anything other than their own rules. A perfect example here is the guaranteed minimum buyouts, we guarantee a minimum of one unit, but the USA and Canada guarantee a unit plus half percent, so some software that we added allows us all to operate in a commingling environment.

Cancel delays, we heard about the CPMA, they require zero second cancel delay. In Europe these delays vary between 10 and as much as thirty seconds.

The manual merges practice is commonly applied in some jurisdictions, but not permitted by the CPMA.

Rebaters, the industry has to have a common approach on how to deal with them in commingling arrangements. Our agreements specifically exclude them, but there needs to be a discussion on how to treat them.

Numbering conventions and field sizes, in the USA, as most of you are aware, jurisdictions couple horses by owner and these run as 1A, 1B, etcetera. South Africa couples differently, we couple by trainer, for jackpot and betting purposes only. And all various courses carry their own individual systems. In the UK, there are often fields of more than twenty horses, and many tote systems do not cater to this. An example of an issue here, in South Africa commingling with UK tote, when there are twenty or fewer runners the pools are identical to the UK tote, and when there is more than twenty runners, twenty and above run as one betting interest and the pool is with us in South Africa, very confusing for the customer.

Settling issues, again, we mentioned the Malaysian scenario. We supply the Malaysian club with actual numbers from our commingling experiences with the UK and Holland in an attempt to encourage them to change. And just as an example, since commingling began with the UK tote in November last year up until October

this year, the certain amount was .5 percent of turnover. So many in Holland started to bet into our pools in March, again, we had to set a target of .5 percent of our turnover, so their customers have been more successful than ours. This is probably as a result of the high proportion of superfecta bets that their customers play.

Kenya commingled with us for about two years and they figured that it comes out to .7 percent. So, you can see that there is almost a standard position that works out at the end of the day.

Unpaid tickets and claims, these stay in the system where the bet is placed, and likewise, any claims arising out of any transactions would be the responsibility of the organization where the bet was placed.

Breakages, as mentioned earlier, these are portioned in proportion, to turn them up they need to be agreed upon up front because some jurisdictions have different practices.

And now to some of the technical aspects of commingling. This table here, I'll try and help explain the problem of commingling from a weak currency to a strong one. Our actual exchange rate is actually sitting around 6.65, because we have to bet in a full cent into the U.S. and full pennies into the UK, the two closest exchange rates that divide to the round penny or round cent are 6.25, and my slide isn't big enough for the next one which is a 10.00 rate. If we had to use the 6.25 exchange rate, this would result in at least a six percent exchange loss for the operator, so obviously that takes the profit out of the operation, so you can't do that. If you try and use the 10.00 to the dollar as an exchange rate, the customers in the market wouldn't accept it. So effectively, the exchange rate where it is fluctuating and because it is too weak to the U.S. dollar it actually effectively precludes us from commingling on a day-to-day basis with the USA, which is a great tragedy for us.

Commingling with the UK tote, similar problem exists with our currency, where the actual rate and exchange rate to the British Pound fluctuates between eight and nine UK pennies to the Rand.

Now, the differences in the exchange to the rates that divide exactly are smaller in the UK, so what we've managed to do, and with the blessing of the authorities, are to have alternating exchange rates. So you can see on this graph over here, the magenta line represents the breakages on your true exchange rate, which obviously will be zero. The red line is the actual day-by-day profit or loss on foreign exchange breakages. And the purple line is the actual rolling balance of the profit or loss on exchange breakages, and we try and manage that as close to zero as possible by alternating between the eight and nine cents. You can see that we started off the month at around about five hundred Rand, effectively the customer owed to us and we ended the month at about five thousand that we owed the customer, and that's an ongoing basis and we try and manage it as close as possible to zero.

Now, many argue that we should adopt a similar approach with the USA, but as I explained, the differences in the rates, if you remember, between the 6.65 and 6.25, 6.65 and 10.00 are too large to get away with in the market. In any event, authorities in our jurisdictions may not be as lenient as yours and may not permit this practice, so it's not a solution for everyone while it's practical for us.

We go back to the Breeders' Cup and specific issues, again, this slide should explain the problems of commingling from a weak currency to a strong one. We cannot commingle at the current exchange rate because it does not divide to the full cent, as you saw on the earlier slide. You cannot use the closest rate that does, 6.25, this would result in a minimum exchange loss of six percent. We cannot use the next highest rate, which is 10.00 because at this level, no amount of spin doctoring would convince our market to participate. You cannot offer place and show betting because of software issues. We cannot commingle multiple and boxed type exactas, trifectas and superfectas, as the software issue precludes us. Even if we used the low exchange rate at 6.25, this would be far too costly for the seller.

So therefore, we can only offer the win and Pick-6 as commingled bets. Fortunately, the \$2 unit on the win and Pick-6 allows us commingle at 8.00 Rand to the dollar and you can see the little calculation that comes to about twenty five cents. The win bet is simple because the customer will get paid at the rate, which he purchased at, so if he buys at 8-1, he gets paid at 8-1. The Pick-6, however, presents a major problem because the customer buys at 8-1 but we cannot afford to pay him at that rate because if there is a single winner of a Pick-6, and that winner happens to be in South Africa, as the operator, the house will settle at the official exchange rate, so you can see significant losses could be earned. So what we do, if we pay at the official exchange rate and any profit that we make on that exchange, we put into the wagering pool, but again, that is not the ideal solution.

So if we look to the future, some of the threats facing the industry, like illegal bookmakers, burgeoning sports betting makers, legal bookmakers and betting exchanges, online casinos, other betting Web sites, and rebaters. To be able to compete, I believe that we have to have good security, we have to support it with a global tote and we have to create global pools.

If you look at the funding initiatives that we've spoken about and particularly the exchange rate issue, countries with weak currencies could be excluded and then collectively could make huge contribution to a global pool. So we'll look at some of these countries, I've left out some obvious ones, even like Hong Kong and Macau. Japan is the biggest pari-mutuel betting market in the world, the exchange rate is 119.6 to the U.S. dollar. So they would face the same problems that we have in getting into the pools. As you can see, the total generated in these countries is substantial, all due consideration should be given to all of the funding initiatives, we have to as an industry look to implement fractional betting.

Thank you very much.

(Applause)

MR. PINSONNEAULT: Thank you John. Next on the panel is Phil Adams from At the Races in the UK.

MR. PHIL ADAMS: Hi, I'm Phil Adams from, At the Races. Our horse racing channel is available in 10 million homes, and we're regularly watched by around 12.2 million viewers per month. We've got the domestic and international rights to broadcast the Royal Ascot, all of the Irish classics and the increased access to the all-weather racing in the UK, which is the only flat racing that happens in the winter in the UK.

We've based our business around forming partnerships with a number of companies who work in particular areas. The first one would be SIS, SIS are providers of TV, horse racing or betting TV to all of the UK bookmakers. They've been doing it for over 15 years and for the last, probably 12, they've also been supplying UK horse racing to European and UK market, in places like Sri Lanka and the Caribbean.

Next up would be the UK tote; we have an agreement with the UK tote to commingle international money from all of our international simulcast partners such as Holland, Germany and South Africa, and we've recently started in North America. So we use the UK tote as a host court.

Scientific Games acts as a hub or a gateway into the UK tote and soon into Ireland. They enable us to get into the UK tote, which isn't where it should be with technology.

The last one would be TRNI, who acts as our agents in North America, selling UK horse racing in North America and more importantly for this market, they have been working with UK bookmakers lobbying for over five years to try and get them to stop booking bets on foreign racing and commingling that might back into the host totes. For the last two years, UK bookmaker money has been flown back into the host totes in North America. We currently handle \$2 million a week into the North American race pools.

This slide shows a comparative size of Europe, compared to the rest of the world. So you can see if there is a market that you want to get into, there is Japan, followed by the U.S., then Hong Kong and then the Europeans come into play.

In the UK, I'm just talking about the UK now, I've lumped them both together, they are obviously separate countries but so similar in the way that they operate it makes more sense. The UK has 59 racecourses, all doing thoroughbred, probably split between jumps and flat racing. Irish is 27 courses, so in total, the UK horse racing industry puts on about 1,600 meetings a year.

The UK is the fourth largest horse race betting market in the world, and also, I apologize, some of these figures are a little bit old, so, they will have changed in the last 4 years, I just haven't had the chance to get updated information. The UK was the fourth largest betting industry in 2000, it's mainly a bookmaking market,

with the UK tote turning over around \$400 million last year, compared to the \$10 billion that the UK industry turns over. So, one of the biggest problems, for a rights owner with getting money out of the UK market, is getting all UK bookmakers to work together and place money back into the host pools and then pay the rights owner their piece. I said the only company that is currently doing this is TRNI, who works with the bookmakers, they now have got 70 percent of all the UK bookmakers by turnover to commingle money.

In the UK there are twenty-four different chains of bookmakers, about 85 percent of the market is controlled by the top four. With the UK tote, 90 percent of their business is actually acting as a bookmaker on those. Betting channels in the UK take money out of the phone, Internet and iDTV.

The UK has 8,000 betting shops; this is why it is a big point. There is a UK betting shop on every corner. In the area I live in, there are probably eight betting shops within one hundred yards of my front door. So in some areas, they are everywhere. So the big market to crack in the UK is the betting shop market. The UK has got a lot of horse racing; horse racing is the second most watched sport in the UK. They believe that one in four people regularly have a bet on horse racing. It's available on terrestrial TV, which is on BBC and Channel 4, they show probably three or four races a week. It's also available by cable or satellite by At the Races and Racing UK. At the Races, as I said, is in 10 million homes. Racing UK has 35,000 paying subscribers.

Bookmakers in the UK have started to look into commingling because they don't want to manage their own liability. Managing their own liability is a significant cost for racing. So slowly they are coming around to the idea of commingling, which is good news for rights-holders everywhere.

Next we have France. France is the sixth largest horse race betting industry in the world or it was in 2004. They turned over eight billion Pounds in horse racing and they are run by state monopoly. So the racing authority of France says that you can't play, you can't play, there is no way that you can sneak in a back door, it's run by basically a government agency and they protect their own industry, as I think, anyone would if they had the chance. They do take international racing, last year they took eight percent of all Group 1 races from North America, Dubai, Europe, and Australia, but they technically can't common pool and as a result they only take one race day from the UK, from our Group 1, they don't take our meetings, so they do turn over a lot of money, it's very hard to get into there with a significant amount of product. They do commingle internationally with pools from people within Germany, Switzerland and Austria, but they have different coupling rules to the rest of the world so it makes it hard for people from existing systems to bet into them.

The next one will be Italy, Italy is number eight on the list, they have got another significant amount of betting shops — someone once told me that the reason the betting shops did so well in Italy was because they're air conditioned and all the racing was on at the hottest part of the day, so that might be something that you

can try in Arizona. They have 24 trotting tracks and 20 flat courses, so they do normally like trot racing, but they are open to both. They do take probably 20 meetings a month from the UK and they probably take 20 to 30 meetings a month from France, but they can't legally commingle and they can't technically commingle. So, they only want separate pools and they are only interested in their own separate pools at this time. We are one of UK Racing's major clients and we've talked to them at length about this and it doesn't seem to be changing in the near future.

Sweden is the 11th largest, it is a state-controlled monopoly, by ATG. They have, in 2003, turnover of \$1.3 billion, over a third which was on the V75 bet which is increasingly popular with both the domestic partners and people they commingle with around the world such as Holland, Germany and even in the USA, people are now playing the V75.

They don't take much international racing in, but they do take a bit of racing in from the Meadowlands, and they run their own betting pools on them.

Next up will be Germany. Germany is predominantly a bookmaking market, there are two loose associations of bookmakers who control the majority of the market, there is also a state tote, but bookmakers have by far the biggest share of the market. Bookmakers are beginning to take bets on American racing, and the tote has actually started taking U.S. racing and they are commingling into the U.S. pools on a daily basis.

Next up on the run down will be Turkey and Greece. I've lumped them together, they are reasonably similar, they wouldn't like it, they are not best of friends, but they will have to live with this slide. Turkey and Greece are both big markets, both monopolies, and neither of them is it legal to take international racing or commingle out. You always hear rumors of this about change and I've met someone whose brother swears that his cousin in the government says that it is going to happen next year, but we'll wait and see.

Next area of interest is Holland. Holland isn't a large market but they are doing incredibly well in growing their industry by taking in foreign product. They have been taking product from the UK, Germany and France for a number of years, but starting in November of 2004, they started commingling on UK racing and then in April they started commingling with South African racing. As a result, what they are seeing is their turnover on the UK racing and the South African racing is going up, their turnover on French, which they don't commingle, because they technically can't, they run Scientific Games tote system, so as I say, the handle on the UK and South Africa is going up, but the handle on French is going down, also the handle for Germany is going down, but that is due to their lack of runners in German racing.

Other major markets in the UK would be Austria and Belgium, which are bookmaking markets. Predominantly, although as John said, there is some commingling out of Austria, but they are predominantly a bookmaking market. In

Belgium it is actually legal to commingle, they do take racing from the UK, France Germany and others. The other big tote markets in Europe would be Finland, Norway and Denmark, these are predominantly trotting markets, I think.

And then, the emerging markets, which are the last part, I guess. In Europe, the horseracing industry seems to be in a permanent state of flux, one always seems to be in a little bit of trouble, a recent example of that would be Poland. They expect to come out of with bids now that the new government has been elected, and it looks like there are a number of contenders, one, again, is Scientific Games, to run the Polish tote. What they are looking to do is to bring in products from France, Germany, the UK and from America, so that they can build up the industry again and then look to improve their domestic horse racing industry.

The next one would be Russia and Eastern Europe. In Russia and Eastern Europe, there is a company called Global Tote, recently launched, that is looking to take the UK, South Africa, and America into the emerging market. I think that it's pretty state of the art, Russia isn't the kind of place that you just want to run to and say, "I've got something for you, pay me a lot of money for it."

And then the next one is Spain, which is probably the most interesting of all of them. There are three areas of Spain, which have legalized horse racing, one is San Sebastian in the Basque country. Due to their stronger ties with French they've done a deal with BMC, they are going to be taking French racing into there. In Madrid, the racecourse was recently re-launched. Scientific Games, again, a service contract to supply and run the betting systems at the Madrid racecourse. They are also investigating possibilities of commingling both on European and on American racing in the future. One of the beauties of American racing for the UK market is it's when you get out from work, so it's not a case of people taking the day off work or trying to do it from their office, they can pass by on the way home and bet on the races in the evening.

And the last one would be Andalucia, which is full of ex-pat Brits and Irish, and it's taking the British and Irish love of horse racing. There is probably between 100 and 300 bars there operating on a semi-legal basis and they are judged to be worth so much by the Andalucia government. The Andalucia government is actually issuing a tote license to try and revert these semi-legal bars into a legal tote, and the operator of those, the operator of that license is currently looking to take UK, South African, and possibly American racing into those bars, which could be a significant market in the next three to five years.

So that pretty much takes us all around Europe. I wrote more than I said, so if anyone actually wants to see what I wrote down, please let me know and I will happily send you out a copy of this. Thanks.

(Applause)

MR. PINSONNEAULT: Thank you, Phil. There is not that much time for questions here, but if anyone has any questions, speak now.

A VOICE: How do you grow global pools in face of the obstacles?

MR. PINSONNEAULT: I'm not sure who you are addressing that to exactly, but I will speak to that.

We are taking the Hong Kong pools, we run racing basically from the normal start time of noon, local time, until about five in the morning for Hong Kong racing. It's a different market, the late racing works better than the early morning racing. I think a lot of people are expecting that to be available on an account wagering system and so on, and we are able to do that on a common pool basis. It is going to be a challenge for sure, but I think that it is something that the customers expect and there is still a lot of betting on those...

I don't know what your experiences have been.

MR. STUART: To answer the question in terms of betting in awkward time zones, we would like to operate our network for probably about twelve hours of the day and then push all our international commingling between four hours a day to have the rest use our Web site.

MR. PINSONNEAULT: Any other questions? Ok, thank you very much.

(Applause)

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