

WEDNESDAY, DECEMBER 7, 2005

**MANAGING MEDIA RIGHTS TO MAXIMIZE VALUE:
RACING INTO DIGITAL DIMENSIONS**

Sponsors:

Complimentary Breakfast: XpressBet.com

Panel Session: Scientific Games Racing

Moderator:

Scott Finley, International Racing Consultant

Speakers:

Simon Bazalgette, Executive Chairman; Racing U.K.

Kevin Toohey, General Manager, Business Development; Tote Tasmania Pty Ltd.

Derrick Wiid, Business Development Executive; Phumelela Gaming & Leisure Ltd.

MR. DOUG REED: I would like to introduce Dean Sander. Many of you have seen him here before and I would like to just bring the dean up here to welcome you all and say a new words. Please welcome Dean Sander.

DR. EUGENE SANDER: Well, thank you, Doug, and thank you all for being here. Usually on the first day they haul me out here and I do a welcome to all of you, but since it is the second day I won't go through that. I won't go through that but I need to tell you this is my 19th opportunity to come to this racing symposium, so I always come so that I don't break the string. As a matter of fact, I think Jack Goodman would be on my case for an entire year if I missed this if I was in town.

One of the things that I've noted over this period of time that I have had an opportunity to associate myself with our racetrack management program and also with this racing symposium is to note the changes that have occurred in your industry. And with that change in your industry we are trying to stay contemporary and essentially change in our program because our fundamental mission is to provide you with a talented group of young professionals who can move into your industry and make a real difference and make it right away quick.

Now, with that said, as programs mature within universities, there are also opportunities to do some things, particularly in a major research university like the University of Arizona, to study issues that deal with specific industries. We have a marvelous engineering college that worries about chemical engineering and all of this type of thing, and we think we're at the next stage with our Race Track Industry Program.

We're looking into specific needs from a standpoint of economics, marketing, whatever, that will really help you that we can do at our university, and so we're taking that next step and looking for a different kind of scholar who can come to our university, work in our RTI Program and make that difference for you, and so Doug Reed, for the past year, year and a half, has been working very diligently to raise money, a million dollars for an endowed chair in the RTI Program. We're very close.

Actually, these endowed chairs are sort of a three-way partnership. Three-way, you're one partner, a very important partner because without you we go nowhere. The second partner is a fund provided by the State of Arizona called the Eminent Scholars Fund which matches dollar for dollar the proceeds on the corpus for a million dollars endowed chair.

You do the math. You can see that it matches, if we bring in \$40,000 let's say, on a four percent yield, they invest their money rather conservatively on these things, it turns out to be an \$80,000 share and then our college puts in another salary line so it ends up to be a three-way partnership.

Again, my reason for speaking with you about this is that our college has done very well in terms of the racing endowed shares. That Eminent Scholars Fund is not limitless, and so I would like to be at the table right away quick with the RTI chair, so I'm really asking that you think about if you're going to make a contribution to this chair, there are a couple reasons for doing so; one, the availability of that Eminent Scholars money, and second of all, if you're not aware of it, there was a special tax property called the Katrina Provision which gives you a considerable tax advantage for contributions of this type if you do it before the end of the year.

So, again, I want to thank you all for being here. I want to thank you for considering, want to thank all of you who have contributed already and if you haven't, please give it serious consideration.

Now lastly, this symposium never ceases to amaze me as I look at how much work is done by so few people in such an efficient way. This is really, I think, a testimonial to the excellence of Doug Reed, his faculty and his students, so would you help me recognize Doug for all the good work he does.

(Applause)

DR. SANDER: Thank you so much and have a good Symposium. And, by the way, come to that casino thing tonight. It's a lot of fun. Thank you, Doug.

MR. REED: Thank you very much, Dean. We have one other brief announcement. I would like to introduce Elizabeth Jensen, of the Race for Education, another group that's doing a lot of good work, and she will also be in the Idea Forum, so help me please welcome Elizabeth.

MS. ELIZABETH JENSEN: I think I'm a little shorter than anybody. I won't be here very long. I know most of you are here this week to talk about ways to improve our industry, to grow your business, to make your businesses more profitable and secure your business for the future.

I would like to talk to you today about a really important component in everybody's future business, and that's young people. Young people are the fans of the future, they are your employees of the future and will eventually be the leaders of our industry.

The Race for Education is a scholarship foundation that provides college scholarships for equine-related careers. We also fund high school programs, English As a Second Language, and general programs within racetracks and in farming communities. To date we've awarded near \$750,000 in college scholarships and in grants for these different types of educational programs.

I'm here today to officially announce a new program for 2006 called the One Student Program. We're asking each racetrack to make a commitment to the community for college scholarships to pursue equine-related careers. That could be another student here at the Race Track Industry Program, it could be for veterinary medicine, equine business management or agriculture as it relates to the equine industry.

The Race for Education will work with local high schools and colleges in your area to make the information available on the scholarship program and will work with the marketing promotions department to do youth events at your racetrack.

The student will be your youth ambassador at the track and your racing ambassador in your community and will hopefully be available for internships and eventually employment some day.

We have several students here at the Race Track Industry Program that I had dinner with last night and I asked them what I could do with their suggestions for how to make our program more appealing to the racetracks and they said, "Well, just promise everybody if they fund a scholarship, they'll raise your handle five percent and come up with a new idea."

I can't promise that but I can promise you that an investment in these kids is an investment in the future of our industry. The commitment is a four-year commitment that requires \$4,000, \$5,000 per year for four years for a total of \$20,000.

Already Emerald Downs and the Washington Owners and Breeders Association have agreed to partner with us the first year and we're finalizing an agreement with Del Mar.

On Monday I sent out this great package to all of you, I didn't put it in your gift bag or your tote bag this week because I wanted to make sure it got to your offices. I will be at the Idea Forum this afternoon to answer any questions and hopefully talk about opportunities; and if I don't see you later today, you will get a call from a me before the end of the year. Thank you.

(Applause)

MR. REED: Thank you, Elizabeth.

And I'm going to apologize and thank Scott Finley here. First, I'm going to apologize. We've infringed on this panel's time.

Scott — I'm going to be brief in his introduction because we have his credentials listed in the program.

Scott Finley is our moderator and an international racing consultant. Please welcome Scott Finley.

(Applause)

MR. SCOTT FINLEY: Good morning. Welcome everybody. I know it's early. The globalization of racing is upon us. I mean, we have American-trained horses running and winning in Dubai. We have British horses running in the Melbourne Cup in Australia. We have Australian horses going to England and winning. We have trainers from England training in America. South African trainers in Dubai and so forth.

What we're going to hear about today is how three very important prominent racing countries from the far corners of the world have changed the dynamics of the industry in their country or are in the process of changing them, but just to show you how far everyone has traveled here, I think we've got some long distance awards. We have Derrick Wiid from South Africa, he has spent probably about 18 hours in the air and another 24 in the bar, from what I understand.

We have Simon Bazalgette from Great Britain, from the London area, 13 hours in the air, plus, as he reminded me, two and a half hours in the Dallas Airport for a change of flight. And Kevin Toohey from Australia. He probably had the swiftest journey seeing as how Tucson is relatively on our West Coast. He was only 18 hours in the air.

So we've got some pretty good people that have come a long way to present to you this morning. As I said, there have been exciting developments in each of their countries, some good, some exceptional and others are still works in progress. But

you're going to learn about how racing in each of these countries has coped with change in economic and technology conditions and in all markets the TV stations, including ours here domestically in the U.S.

The television pictures have become sort of the Holy Grail. That's what the racecourses and mutuel bets stimulate and drives the betting, and they have become a precious asset that needs nurturing as well as management, and it also must be guarded.

So without giving too much away on each of the presentations, what you're going to learn about is how they have adapted to the conditions in their country and really brought things under control.

We're going to start with Derrick, and I'll say a little bit about him, and probably South Africa has the most envious position. They have achieved what I think every racing country in the world would like to achieve, and that is, they control the racing, the racetrack, the racing calendar, they have got the horse owner on their side, which is a big achievement. They control betting, past performances and the television production.

Just a quick word about Derrick. He's been involved in the racing industry for over 20 years. Started out as an engineer and actually spent some time managing a restaurant. But his first passion has always been racing. His brother is a trainer in South Africa and his son is also an up and coming trainer. Derrick owns and breeds horses and has owned quite a few winners.

I present to you Derrick Wiid from Phumelela. Derrick is the business development executive.

(Applause)

MR. DERRICK WIID: Good morning all. I nearly didn't make this. As Scott said, I spent a lot of time in the bar last night. But I'm here. And the easiest way out is to show the brief video clip on South Africa. It's a little bit of data, but that will give you a overview and also give me a little bit of time to recover from last night and then I can talk a little bit more.

We've done a few slides. We'll come back to the video technology. I think next we'll do some slides that I've put up, and I haven't put a lot of slides but we'll be showing the video.

What's happening in South Africa way back in 1996 we had a change of government. The new government decided correctly, I think, that they could not be and a player in the gaming industry again to award new licenses and create casinos, bingo halls and lotteries and all when racing was a monopoly and we were the only gaming game in town.

Had government slowed the process with the racing industry to say, "Gentlemen we want you to privatize, we want you to get your act together, we want transparency and we want total reformation in your industry." That was a new black element that came to power in South Africa.

We think they did a favor to the industry. I came from the owners organization and sat on the process negotiating to cut a deal with government for horse racing and particular horsemen's interests in fact. We had the environment that there were clubs, 13 clubs at that time, each and every one of them doing their own thing, running their own club and relationship with the totalizer whereby they paid revenues back very much the way you might do for your horsemen and revenues for the club.

The mood in South Africa at the time was one of total transformation. We had to do things a little bit differently and do. And that led to the slide that's up on the — what you see up there at the moment that we had to do a consolidation of all of our efforts, and that meant there was a lot of work behind that.

We had to go each and every racetrack, each and every club owners' organization, organizations, jockeys, and say to them we need to amalgamate this, put it under one umbrella so we can effectively compete with the gaming which was coming on board, which is what we did.

And as you can see from the slide, that led to a consolidation, there was a lot of work before this two years of negotiation with the government in getting government to understand what we needed and have them do tax dispensation and finally relate to the consolidation of bringing all the efforts of the clubs and club members signing away the assets free of charge into this consolidated sector that was put together and in Johannesburg. We formed a company called Phumelela Gold which took care of the various ethics and put them all under one umbrella in order that we could consolidate under a new tax regime and compete effectively with the gaming that was about to be launched on us, and today we have some 20-odd casinos in South Africa, bingo halls, scratch cards, lottery. You name it, we've got compete.

It led to some very dire consequences. Very early on after we had formed a company, South Africa also made the bold, we joined the European community of pari-mutuel operators and through them, I think, that gave great assistance, because we got many ideas from our European counterparts, and often I marched to become a member of the European community.

I'm not sure, but I see some of the Europeans are here and we have had a fantastic relationship with them. After the consolidation and the new track regime, we got everything under one umbrella. The most important thing in our mind was to get consolidated, picture rights to our broadcast, which we did, although the consolidation was very painful to staff members.

The retrenchment people or the people that were laid off, there were many, many people. To give you an example, I started running the racing division, we reduced the staff compliment from 1,700 people down to 200 people, but this just shows you what you can do if you have to do it, and the name of the game was survival, and we got it all under one umbrella, but having it all and having control, including rights and including your television, gave us a lot of insight, and from that platform we started, and the broadcast was exceptionally important to us.

I think you can look at that slide and see what happened. The next slide just gives you an idea of South Africa. Comprises nine provinces. Our company controls seven of the nine provinces and the other two provinces there's a company who also had to follow suit like we did to consolidate their assets and the balance of racing in two provinces.

But uniquely the two companies cooperated with each other, and we have an international agreement with the media rights and totalisator rights and what else that affects racing in any way including picture and control over the pictures and negotiations with jockeys and horsemen.

I think what's very important, and we can go to the next slide, and you can see what we had to do, what we had to put together and what we finally achieved that we — you've jumped one slide on me but nevertheless we can go to that one. We amalgamated, put all of our totalizers under one brand, joined the totalizers, single tote in South Africa today and all the money goes — following the American model — all the money goes into one pool and this certainly was good benefit to all bettors and owners.

We can pass over that slide as it just gives you an idea if you ever look at the turnover slide, the whole process from when our company was launched as a private company. Phumelela came along later, about 2001, and you can see from the graph, I'm sure that would be the envy of many parts of the world that we have consistently grown our betting, and as you can see from that graph, the income that we generated has been to the benefit of the horsemen and the industry in South Africa.

It was very difficult for us, we had to try to market. South African racing is not well-known around the world. We had to try and globalize that because the only revenues that we truly had were international revenues and whatever we do internationally, the horsemen always benefit to the extent of 30 percent of whatever revenues we may earn, so no matter what we sell anywhere in the world, no matter which product we bring into South Africa to bet on, the horsemen always benefits by 30 percent of whatever our takeout is.

Pass over. That gives you a little chart of how our income is spent, and as you can see the stakes or prize money comprises 21 percent out of our income.

And that agreement, of course, is the secret, and you all go through that all the time.

The downside for horsemen is if we do badly, they'll do badly with us and the prize money would dip and you can see the way we have to spend our money, but the main component always comes back to what the horsemen get, and we stand uniquely in the position that we are responsible for the well-being of the industry in South Africa, and South Africa only has horse racing, no other type of racing.

We do not compete with dog racing or other kinds. There's no harness racing. It's a little bit easier to manage.

If you go to the next slide you can see how revenues are earned by bet type. The only competition that we have — once again, we're a monopoly, total monopoly in South Africa, and you need a monopoly to do what you need to do to make horse racing thrive. There's no question in my mind. It's a good model and many of the European models also have a total monopoly.

Our bet types have probably gone up. More than 80 percent of our turnover comes from exotic bets or multiple bets because we have to compete with bookmakers in our own country on the win, in the win pools, and the bookmakers are exceptionally strong in South Africa but we do effectively compete with them.

As you can see from looking at that pie chart, the total revenues that we earn, the majority of the money comes from multiple bets. We love Pick-6s, we love Super 6s, as you call them, and trifectas, and with the bookmakers we compete directly. Generally, our odds are good as theirs and bookmakers are not having an easy time in South Africa, unlike England where they are thriving.

I'm a little bit lost for words now because that video was going to get me out of a big hole and I think I'll see if Scott's got it working yet.

MR. FINLEY: I think what we need to do now is go on to the next presentation. Very sorry for that. I promise you, it played on my laptop this morning. Derrick, thank you very much. Sorry for the technology problems.

Next we're going to hear from Simon Bazalgette from Racing U.K. in Great Britain. Simon comes from a media background, primarily in the broadcast and music industry, and I promise you his video will play.

He became chairman of Racing U.K. just about a year and a half ago, and I'll let him tell the story because it's been quite a struggle for the British racing industry in terms of the consolidating the media rights for 31 of the leading racecourses in the country.

Anyway, we'll put Simon on and he'll do a little more technical work with the video guys and hopefully get that one going at the end.

MR. SIMON BAZALGETTE: Good morning. Thank you very much to the University of Arizona and Scott for inviting me here today. I guess I'm lucky that my video

wasn't going to tell a story. I'm going to tell the story myself. I'm rescued from that, so I don't have to struggle through it the way that Derrick has done.

I'm going to explain a little bit Racing U.K. story but I'm going to set it in a bit of context. The first in terms of what I think some of the big issues are, particularly from the media point of view facing the industry, I suspect, worldwide. I'll tell you the Racing U.K. story and talk about programs sponsored by the university, talk about some of the learning that I think has come out of that and I'm hoping we'll squeeze it in in the time that we've got. With lack of video ability it's more time than I originally expected.

Let me just set a bit of context. I think from what I have heard, this is something that's a worldwide issue that horse racing may be doing okay, but in terms of share of total betting gaming around the world it's declining. So the bottom brown element of these bars is horse racing's share of betting and above it is in the various other things that have been going around the world, and you can see that horse racing has stayed pretty steady; steady growth but nowhere near what else is going on.

One way of thinking about it is, well, horse racing is doing okay, it's growing. I'll tell you a little bit about of the U.K. market. It's growing steadily. So what's the problem. The trouble is particularly where for us in the U.K. where we don't have an integrated industry, where bookmakers are quite separate from racing.

The less the requirements of the bookmakers on horse racing — it's now less than 50 cents in the U.K. — then the more leverage the bookmakers have to reduce the amount of compensation they put back in horse racing. Horse racing becomes relatively unimportant to the betting industry, and at that stage the bookmakers focus on other things and horse racing has a major, major problem.

Now, we're not there yet but I think we have to look forward to how that, how we deal with that. I think that is the strategic issue one way or another everywhere, and different industries have different ways of dealing with it and I'll talk about the U.K. I was interested yesterday that the U.S., the U.S. focus is on the slot side of things and actually participating in some of the other areas to make sure that that contributes back into horse racing and that seems to be a perfectly sensible strategy if you can do that. That's not one that's available to us in the U.K.

So from my point of view the strategic imperative from a media point of view taking the very high level is how do you fight back against that market share? For me, you've really got to focus on what horse racing is really about.

I see one risk which is that horse racing presents itself as just another betting opportunity alongside all the other betting opportunities, and I think that's a dangerous strategy because it doesn't focus on what makes horse racing different. And therefore it's likely to see continual erosion if it takes that strategy, so I think it's important to focus on what makes racing unique and attractive and really gets people in rather than bet any other kind of betting opportunity, and to make sure

that the media strategy maximizes the presentation and promotion of that and provides commercial backbone for the whole thing. That's kind of the big picture that I'm coming from.

Let me talk about the U.K. market, and I would like to explain why some of these issues are important to us. As I've said, on one side one can say that the British market is doing relatively well. It's a growing market. Seventeen and a half billion dollars bet on British racing. The second highest spectator sport in terms of visitor numbers. We had six million people through the gate in 2004.

The number of fixtures, days racing and races and prize money generally has been rising over the past few years. So that's pretty positive, and that's coincided with a boom on the media side. I don't think it's unrelated.

Horse racing gets the best coverage on terrestrial channels of which we have five in the U.K. which everybody receives. Channel 4 and the BBC have been the two channels that cover it and you get, on terrestrial television, we get at least two or three days a week where meetings are covered on terrestrial television. That's more than any other sport.

We've got a basic pay channel, At The Races, which is launched in two incarnations, but it's a basic pay cable channel and that's available to about a third of the population in the U.K., and that broadcasts racing every day including American racing in the evening. We have Racing U.K. which I'll tell you about where the premium end we cover all the major tracks, the premium level racing, and we charge an extra fee for that, and that's going very well.

And then there's the betting shop fee which goes to the betting shops which drives the fees there. And I think that, again, that's the envy of every other sport in the U.K. to have that level of coverage, and I don't think it's unrelated to the fact that the market is generally growing.

But there are some major challenges we have. Probably the biggest one is probably the whole funding of the industry because British racing and betting is not integrated. The bookmakers who control probably 95 percent of the betting in the U.K. are completely separate commercial entities from racing.

Traditionally the way that's been dealt with is that there is a levy, a statutory levy, set by government where a proportion of their profits on horse racing have to be reinvested back into racing, and that next year is going to deliver about a hundred million pounds. And that's about one percent of the handle. Something like that.

The trouble is that that's due to be abolished and a commercial replacement was due to be put in place and the British Horse racing Board, BHB, with the backing of the industry, launched a data license which was intended to replace the statutory levy and that had some commercial benefit, but the problem was when it was attacked by the bookmakers in the courts, as quite often happens with these

things, it collapsed. And that suddenly left the industry with a levy that was about to be abolished and no replacement. And that would have been a catastrophe.

And so there's a huge review going on at the moment with which there's a draft report currently in circulation due to be filed with the government before the end of the year looking at what the alternatives are to the levy.

The levy has been extended out to 2009, but the government's expressed intention is to abolish it at that stage, replace it with something else. The something else is yet to be determined.

The only viable alternative that seems to have come out of the woodwork is rather than just a data license, it's a full media rights license, effectively a deal with the bookmakers which gives them data rights, gives them picture rights for their shops and is legally enforceable that forces them to pay, and that's actually the biggest issue because any loopholes are going to be exploited.

So that debate is going to go on into next year about whether that's really viable or whether we will have to actually go back to the government and say that actually the levy is the only thing we can rely on than, and that means there's a huge uncertainty.

And one of the other elements I need to cover is make sure that the betting exchanges are paying their way, which is a big issue both for bookmakers and for racing, and they pay a statutory levy along the other bookmakers, but because it's a structure of their business it doesn't necessarily mean the same level of contribution as percentage of handle.

The other issue that's related to some extent is that if the industry is going to deal with these issues, it really needs to be united, and in many ways there's an extraordinary level of unity that's now gone on in the U.K., both, for example, the racecourses and the horse owners and the trainers have got together for the first time and united in how they are dealing with addressing the future funding issues and, in fact, the committee that is looking at that has pretty much adopted what the racecourses and the horsemen's group have put before them.

And that's the first time that that's ever really happened in the level of unity and that's very important from a political point of view, but the racecourses on the media side are somewhat split between Racing U.K. and At The Races, which is not so bad because of trying to compete in certain areas and collaborate in others, but the bit that causes concern is that there's litigation between At The Races and the Racing U.K. courses not directly with Racing U.K.

That was due to be heard in the last few weeks and has been delayed until next March. Really, until that gets out of the way that causes a lot of friction between the two groups of courses. Actually they collaborate in certain areas and are collaborating on how they are addressing the future funding issue, which is very important.

So that's a very quick overview of some of the big things in the U.K.

Let me go to Racing U.K. Most people in the U.K., if you ask them what Racing U.K. is they'll tell you it's a television channel, but that's essentially not the way we think about ourselves. I don't think it is what we are. It's just one of the things we do. What we are, what we're for is effectively expressed up here. We're really the media rights arm of the racecourses that we are owned by which is 31 of the major courses.

That 31 includes 13 of the big 14 courses and the vast, vast majority of the 90 percent of all the major races in the U.K. And we're really here to make sure that the media side is really done properly, and one of the ways we do that is to run a TV channel, but by no means the only way. I'll talk a bit more about that.

The reason I think it's increasingly important for racing and racecourses to be involved in the media side rather than just handed off to somebody else to do, traditionally what happens, certainly in the U.K. where the bookmakers have been a very powerful negotiating partner, is that when you look at the value chain of media rights which starts from the left here with the governance, the creation and the running of racing through to the whole production, get through to the end user, and the target at the end is the end user, we're not intending to be firing arrows at them, we're actually trying to work with them, but the problem in the U.K. is that the bookmakers pretty much have controlled the whole of that value chain after the creation of racing, and racecourses have not been involved at all really in any transparency or control in the rest of that process.

And actually for me coming from outside the racing industry, coming from the media world, that seems extraordinary because in every other area of the media, content tends to have a very strong influence in the whole chain, whoever provides the content, and here we have somewhere in the U.K. where the content, really, it's been put in a box and other commercial entities are really controlling the rest of the chain.

And so part of what Racing U.K. is about is providing racecourses and racing in the U.K., a much stronger role in the whole of that chain and more than anything to understand who the customers are and understand that the people who watch and participate in the media side of racing are just as much customers of racing as the people who go on course.

So the structure of Racing U.K., the master company really controls all the rights. Thirty-one racing racecourses. These include Cheltenham, Aintree, Newmarket, Epsom, York, Goodwood; pretty much all the major courses and all the rights are housed in the rights companies.

And then we have a series of operating arrangements, some of which we own and operate ourselves such as the TV channel in the U.K. and Ireland, some of which we joint venture as we do with broadband where we have a joint venture with the

Racing Post in the U.K. or internationally where we have a joint venture with our friends of Phumelela and the U.K. tote and some we just purely license.

The great thing about this structure is that if we were a pure licensing company, and a lot of sports I think still do this, pure licensing company, if you're dealing with a strong commercial partner for your rights, there's quite often not a lot of competition, and what this does is create competition for all our rights because if somebody wants to bid for our rights or work for our rights, if they are not paying what we think is a fair value, we'll do it ourselves. We have the capability to do it ourselves and we've proven that with success.

I'll go through each of these elements. The TV channel, which as I say probably is what we're probably best known for in the U.K., and it's certainly the core of our success, was launched within about two and a half months of concept. It was launched when the original At The Races collapsed and the horse — the racecourses were really looking at how to keep the pictures alive, and they worked out that actually they could do it themselves. And that's when I got involved with it.

We looked at a subscription model which is a proven model for quality sports content, and they went to air within two and a half months of really the first part of the planning. Originally free to air to get people to watch the channel. We had a million people a month watching the channel during that period. And then at the end of September last year we switched to subscription, and it's quite an expensive subscription relatively compared to other TV subscriptions.

And our target was to get to 20,000 subscribers by the end of this year, so within about 15 months of going to subscription.

One of the great things about the U.K. market is that certainly for satellite, which is the major pay TV distribution mechanism, it's an open access platform, so although Sky, who control that platform, is an investor in our competitor, they were not able to shut us out of their platform. We were able to go and launch on their platform, so we have access to almost eight million satellite homes and two million cable homes in the U.K. and Ireland.

We've proven that we can, that our program is very attractive. We have been nominated for two awards in the U.K. and, interestingly, we were the only sports channel and the only subscription channel to be nominated for any awards in the U.K., which is a real sign of success when racecourses are running their own TV channel.

Our subscribers are hugely satisfied with the service. They are very, very loyal. These figures — I come from a background of looking at other kinds of media subscriptions — and these figures are really quite extraordinary in terms of usage and satisfaction.

And we've also developed relationships with a huge number of wide range of sponsors. Obviously, the core of our success is subscriber numbers.

As I say, our target for the end of this year was 20,000. We actually achieved that within six weeks and we're now up to over 35,000, so we're getting on for double what we expected to be at this time, which is a huge success and has been hugely important to the financial success of the business, which means we're now profitable, we're generating cash and, again, that's unheard of for a new channel within 18 months of launch.

On the broadband side, as I mentioned, we've launched an online streaming service, and that has two elements to it. It's a joint venture with the Racing Post. We own 60 percent of it, Racing Post owns 40 percent. The Racing Post is the only racing publication daily newspaper in the U.K. Everybody involved with racing, anybody who bets or is interested in racing will be reading that. And they are also very strong in the online world.

The two elements of the service is we had an option for rights to cut five betting partners to be able to take our video pictures and put them on their Web site. Although we actually control the streaming, so we stream the pictures to the bookmakers' sites. We don't allow the control over the streaming of the pictures, and that means we're integrated with their betting function, and this is where we're trying to get over the lack of integration in the British market.

And that was very successful. The five partners who launched about two months ago are doing very well. Ladbrokes and Tote, two of those partners, and we're just launching, in fact, tomorrow our own joint venture site, which is called The Betting Site, a product, which combines Racing Post editorial or the form with our pictures and betting opportunities from our five betting partners where you can compare odds.

And we expect that to become essentially the de facto portal for racing in the U.K.; the only place you can get form race cards and pictures and betting opportunities all in one place.

So we have very high hopes for that. That joint venture also covers mobile, and we'll be launching mobile applications in the next couple of weeks where you can watch live video to your mobiles. It will start off as a 3G service. 3G is a new generation of telephones.

U.K. is one of the most advanced in the world for mobile. It's already about three million handsets out in the U.K. market and that's starting to grow very, very fast and fairly rapidly we'll be launching the service along with that for what we call GT2.5, GTPRS phones, which is what most of the rest of the handsets in the U.K. currently are.

And that will be linked to the ability to dial a short code and go straight through to a betting partner and make bet while keeping the pictures on the screen. The audio commentary will go down, make a call, make your bet and you'll keep pictures on the screen all the time.

And the revenues from that will come from betting commissions, but more importantly certainly in short term from the fact that people will pay their call charges watching the race.

Outside the U.K., as I said, we have a joint venture with Phumelela and Tote which is effectively managed day by day by Phumelela. And that has been a very important part of our development. Historically, British racing has used SIS, which is the TV company owned by the bookmakers, to take the British bookmakers' shop fees and distribute that outside the U.K., and the problem with that is it's only focused on other bookmaker shops around the world in a few territories.

Never really focused on what most of the world is interested in, which is pari-mutuel betting, where Phumelela and the Tote are very interested in building that up. And so strategically it made sense for us to go with that joint venture, and it has to be said that Phumelela made a big financial commitment to that as well.

Now, this is where we got ourselves into understanding we were as much a rights company as a TV company because SIS, who are on course to collect data for the U.K. betting shops, effectively when they lost the right, international rights, it didn't stop them continuing to exploit the international data for our tracks, and that was a major competitive issue for us internationally and for Phumelela.

And that forced us to go to court to stop that, and as a result of that extensive and very difficult case, SIS backed down and has now accepted the rights position and actually clarified the position for some of the bookmaker shops in the U.K. as well, which has never been done before, and for the first time racing is starting to really set some criteria about what people could and couldn't do with racing data that was collected on course, and I think that's a vital development certainly in the U.K. and I suspect something that Derrick mentioned from South Africa, I think the foundations for any rights, but particularly data, but also pictures, have to be very secure. And we've started to achieve that with our particular settlement with SIS.

The other important element is that a significant amount of people around the world who are now betting, increasingly number of people who are betting on our races, and it's important that the British racecourses understand, build that into their strategy and that can only happen with the visibility that we have through participating in that joint venture, and that means they start to understand the importance of the way they set race times, when they go off the delays in race times, but also things like declaration period where the U.K. stands out as a territory with a shorter declaration period than the rest of the world, and that causes, probably internationally, and effectively through this structure, the racecourses can stop and see what the impact of that is and the financial benefits of standardizing things like that.

So I think that some of the things that we've dealt with, I think, the global issues, and we see our alliance with Phumelela as very important, affecting the lives of quality racecourses around the world and that's something we would like to see

grow, and we feel from talking to other major racecourses around the world that there's a similar challenge facing everybody, and we believe that by working together around the world in various ways, racing and racecourses have the ability to start to fight back against migration of its market share.

So what have we learned from it as students of the racing industry, coming to the University of Arizona, I think we've learned a number of things. As I've mentioned, proper control over media and data rights is vital. It's not good enough to just license off to other people to exploit them. You have to make sure that the proper platform and that everything is properly controlled and there's no ability for people — no gray areas for improper use of data and media, and a lot of that comes down to the terms of access on course, making sure that that's properly controlled, and in the past in the U.K. that hasn't been done. Certainly now it's being done.

Media has to be treated as a core part of racing business. Racing has to see that that's an important group of customers, a much bigger group of customers, and that should come on course, and that that's — they need to build that into their businesses and how they manage their businesses and make sure they have the necessary transparency and control in order to do that.

Across all the different ways the media can be exploited there needs to be a consistently coherent coordination across all the different ways in the U.K. We have terrestrial TV. We have basic pay. We have premium pay which is moving to a digital terrestrial version where everybody by 2012 people would move from five channels to 30 channels in every home.

You've got online, you've got mobile, you've got the shops, you've got a whole different range of things, but each of these things impact on the other and they need to be managed looking at those windows in coherent ways; that's what, for example, the TV and film world does very effectively.

We think that because of this strength of the bookmakers in the U.K., particularly, that British racing needs a strong media arm to stand up to that and provide a balance, a negotiating power, and we've achieved that in our legal battle with SIS and the bookmakers and there are a whole lot of other examples that have gone on where we've started to provide that, and I think that that's a trend that will continue in the U.K.

And overall the thing that I would say I've really learned, having seen some of the damage that's been done by certainly in the U.K. and I see this in other territories as well where there's been a divided industry, interests haven't been aligned, it's terribly damaging to racing and that racing interest needs to work together and be less parochial and see more of the bigger picture about how to really grow racing worldwide and protect the market share of quality horse racing.

So, I don't know, are we going to get the video? If we do, that promotes Racing U.K., but thanks very much for listening.

(Applause)

(A video was played)

MR. FINLEY: This time of year is jump racing season in the U.K. Marvelous sport. They start the flat season on the turf pretty much at the end — beginning of November and the jumpers take prominence right up until the flat season opens again the third Thursday in March.

Anyway, we're getting short on time. I hope you will all allow a couple of extra minutes to run over because Kevin has some really interesting things to tell you about the market in Australia. We have another video which I do promise you will work.

Quick introduction for Kevin Toohey. He's the general manager for business development for Tote Tasmania. Kevin has a background in the gaming industry and casino industry and has been working for Tote Tasmania for a number of years now.

Just to put it in perspective, Tasmania is by far the smallest state in Australia. Be kind of like if Rhode Island was trying to compete against all the rest of the U.S. in the race industry, so the Tassies have to be a bit creative, and they have done some very, very innovative things down under.

Right now it is the only tote system in all of Australia that is ITSB compliant and commingles internationally. And they've got a whole lot of other things going on that I'll let Kevin tell you about. He's going to give you a perspective of the entire Australian racing scene, not just the situation in Tasmania.

Kevin Toohey, please. Thank you.

(Applause)

MR. KEVIN TOOHEY: Thanks, Scott. In deference to two previous speakers, I'm not going to be talking about the problem from the perspective of being a broadcaster because we're clearly not the broadcaster, there are now two broadcasters in Australia but we'll get to that through the presentation.

And I have been mindful that coming last in the presentation you don't get a lot of latitude to talk for a long time so I'll try to put a lot of detail in the slides, which obviously you will get a copy of in some phase through the Symposium.

Just for sort of a start point, Tucson obviously on the left, Australia down there on the bottom right. Tasmania, you may not be able to see, but it's there on the bottom of the map.

The Australian market in terms of, and we're not, just as a point of reference, Scott, we're actually not the smallest state. The Australian capital territory is the

smallest state. Although it's probably not a state in the sense but it's an important part of the market to a degree, so as you can see there there are six states, two territories, population 20.4 million, and you've got basically the major population areas in the New South Wales and that's 6.7 million people. And Tasmania which is about a half million.

In Australia there are actually three kinds of racing that are prominent. You got thoroughbreds which there are 14 major clubs. We've got a gang New South Wales running through to about 5,682 races in total, although not just through the three major clubs.

Thoroughbred racing industry has got 393 clubs, 342 tracks. They have 54 — there are 14 major clubs running 20 tracks. There are 2,777 race meetings and 20,072 races per annum. Not very much.

As I said, there are three kinds of racing in Australia. The harness industry, also, which has got seven major tracks around Australia. They run 195 tracks in total. There are 3,743 meetings, 29,699 races.

Again, you can see they are reasonably well spread around Australia.

Haven't got as much detail on the next slide for greyhounds, but again, there are seven major clubs around Australia.

The issues when we get to it in terms of broadcasting with the knowledge of the industry having three major kinds of racing you start to get into issues of everyone wanting to see their product in the broadcast, which makes it quite a complex task.

In terms of Australia registry environment, in most jurisdictions government regulations restrict animal racing to dog and horse, horse racing gallops and dog racing.

As I said, there are six states and two territories. Each has its own registry regime, which starts to fragment in discussions when you consider the South African model where it's all been combined.

The Australian model has been quite different. They've not been combined. Certainly not by regulation. There are monopoly licenses in each of those locations with the pari-mutuel wagering. Each state's license varies in how long it's got to run before it will expire.

In fact, the Victorian license is up for renegotiation virtually as we speak. It actually ends in 2008 albeit it could be rolled over. There is a possibility that, of course, when any sort of license renegotiating takes place, it could be a second license. Clearly the incumbents would be preferring not to have a second license issued which is TAB Corp.

Bookmakers can apply for a license in any state. Some states require, however, that the office, that they have an office actually active in that state.

If you look at the commercial landscape, one of the things Australia has had has been a thing called a gentleman's agreement which basically says if you're a TAB or a totalisator within any of those states, you have the right to wager on any out-of-state product free of charge to a degree.

That government, some of those operations that are in the different states are actually that government's enterprise — we'll say government owned companies.

Tote Tasmania, the company that I represent, Tasmania is actually a state-owned company, which means that its shareholders are actually government officials, minister for racing and the treasurer, which also happens to be the Premier in our state.

Western Australia is a very similar scenario, as is the Australian capital territory. However, there are public companies, Queensland or UNITAB which has South Australia, Northern Territory and Queensland in its jurisdiction and Victoria TAB Corp has New South Wales now. Just acquired the New South Wales TAB.

If you look at the Australian market in comparison to betting globally, the Australian market is actually the fourth largest market. We do about \$10.2 billion U.S. and compared to Saudi and U.K. which does \$70.5 and U.S. \$16.5, it's clearly still a little bit behind, but it's a very substantial market in its own right.

What you can see there also, I just put up a note there that the market is quite diversely different. The U.K. market has got 95 percent of race betting turnover done through bookmakers where in Australia it's only 22 percent. If we split up what happens in terms of the race betting turnover in Australia, and this chart shows it, the off-course totalisator, which has really got your off-track betting outlets, we've got hotels and clubs and racecourses.

So we've got quite a diverse network scenario, but that represents 78 percent of the turnover, four percent as on-course on the racetrack, and bookmakers on-course represent 70 percent. Just as a note up there, it does not include the sports betting market which incorporates betting on racing product. They don't strip that out of the statistics, but they represent about \$1.3 billion in turnover in addition to the other turnover.

Australia in totalisator pools, I've tried to demonstrate there on the map that shows that there are three pools. UNITAB, which is the one which covers most of the land mass, if you like, they have, they turn over about \$1.8 billion in the U.S. currency. New South Wales turns out \$2.3 billion and SuperTAB, which is sort of a conglomerate of the Western Australia, Tasmania, the ICT and Victoria.

Just a flag up again, you can see the state-owned companies in Australia. You can see those that are state-owned.

Just as sort of a retail network scenario, and I was interested to hear the keynote speech yesterday that France had about 142 selling points to a million people where Australia is around 198 selling points to a million people at the moment. You can imagine what it was some time ago, and we actually have down there at work, and I think the other states also do, a fairly hefty cutting back of a number of outlets.

But as you see there are 20.4 million people, 4,045 selling points in total and you can see there's a number of outlets in the various jurisdictions. Clearly the 1,900 in New South Wales is the biggest by far. The 1,013 for UNITAB across three states altogether.

Broadcast of media rights. Sky Racing, Sky Channel in Australia has been the prominent one. They acquired the media rights from racing clubs, all three clubs; some time back, quite a long time back, actually.

And they have developed broadcast programs based primarily on the wagering volume. Their product is basically a wall-to-wall product. It shows all kinds, all days of the week and they have to manage it seven days a week, and it's a pretty complex task and very difficult to meet all the club expectations, and inevitably impossible to please everyone.

But they manage that process fairly well, to be honest, in terms of insuring they get as much product as they can and as fairly as they can up on the screen, but they have done it in a very commercial way.

They are all on equal terms so there's no ability for clubs to say we're not all that happy with my arrangement, can you give me a better deal. No, this is how it is, because they have got a pretty difficult challenge ahead of them to keep everybody, as I said, try to keep everybody happy.

What it did give them, though, was a very strong monopoly situation, and at the end of the day, there was a thought by the major clubs within Australia that those in Victoria that bought the rights management might not be in their favor so they formed a company out of Racing Victoria called Thorough Vision, or TVN as it's promoted.

TVN formed a rights management company called the Victorian Club. They convinced New South Wales to buy into TVN as a way of managing the rights both of the Victorian market, that's all the Victorian market, and the two major clubs in New South Wales.

It was not their intention to become a broadcaster but just to get better media rights outcomes for their product, however, they were particularly pushed down the line and they decided they just had to become a broadcaster, I suppose.

The primary motivations they believe the product was worth more than what Sky's prepared to pay and believed it wasn't being presented appropriately. Now, that's

always in the eye of the owner of the rights and there are two sides to the equation as clearly the premier product perception that needs to be seen in a certain way and the perception of, we need to get the most punting done we can to generate the revenues that go back to support the industry. Two different sides, which one is right.

Final footnote there, the Northern Territory has in fact joined now with TVN. So if we look at that in a little map of Australia, TVN-managed product exists, the little dot there on the right, New South Wales, is just to show the two major clubs only, not the entire of the clubs of New South Wales.

And importantly in putting TVN together they had to absolutely duplicate all of the infrastructure and all of the outlets, so that's not an insignificant task or insignificant cost venture.

As I said, it creates a very challenging revenue model for both the commercial and the pay TV environment. TVN has committed to not increase the commercial subscription cost however.

In Australia there's been always this view that the cost has been a high cost in the retailers' view, and there's been a lot of debate about how that could be changed or not. Hasn't really got a lot of change over time in Scott's and my time, so when TVN came into the market they used a bit of — I suppose they took the position to say, well, we want to increase the subscription cost, we'll try and manage it through so that there's no change in the overall outcome to the operator.

That really does create a challenging proposition. Particularly when there's no real agreement in how you actually would come up with a cost structure. Just, for example, Sky were in the market they have subscription rights and they call that 100 percent. To be kind, well, if I'm going to share the cost, what's my product worth if I'm TVN, am I going to base it on whatever the turnover generated from what the product is by wagering or am I going to base it on the amounts, the volume of content that's placed on the screen?

And so you've got this debate raging right at the moment that hasn't been resolved, has many other issues around the broadcasting industry, but just for an example, Sky working off the premise that the content is a major factor, which they have to, so with 92 percent plus was the content on display and they're gathering more and more content as they go along, had to replace the content that TVN has taken over and TVN is generating probably somewhere between plus 30 percentage of the turnover because it's the major racing product in Australia, the Victorian racing and the two major clubs in Sydney.

So that debate is not easily solved and it's going through and I guess the big outcome from that is TVN hasn't actually managed to get a lot of income in the door to support all the infrastructure they've put out there.

In terms of pay TV environment, Sky Racing is the pay TV product, the Sky Channel, and it has national coverage. TVN has similarly got a station on the satellite. And TVN has not been able to get into the metro areas because there's just no way for them to break some commercial contracts in that environment but it's a pretty dynamic playing field at the moment and it is going to be very interesting.

The ultimate question, is there room for two media broadcasters and when you've got duplication of the infrastructure and so forth, it gets very, very challenging?

To give you an example of the distribution networks of the two companies through — as I say, we've got retail outlets, retail clubs, racecourses, and I've got a total column there, and effectively the two services are almost in every outlet available.

Media rights internationally. International products, our major strategy for both of these broadcasters, Sky for one product and TVN for augmented products. It's needs more than the product to keep it sustainable.

Sky has almost all of the Australian Racing Clubs' international product rights, I think, through 2011, and just to give you an example of the distribution network, the Sky Channel, in an international sense, they have two satellite coverages, they also got fiber link so they are very, very well established across the globe in that context and are managing those rights.

Although when you look at it from an Australian's perspective, you are not seeing a whole lot of Australian product going out internationally, which is part of the issue with all of the clubs in Australia who are asking, well, where's our product, how's it getting out there, which is, again, a difficult challenge because it's only what the market wants to buy that's going to get sold?

If you look at just as an example the Sky Channel's international revenue sources, you can see that New Zealand by far is the place that most of the product goes into, an interesting quite diverse range there through USA representing only 13 percent by comparison and less than one percent.

What's on the horizon? Pooling, as I said earlier, is clearly TAB Corp purchasing New South Wales TAB or TAB Limited and the intention to join the pools together. There's a lot of legal and regulatory framework issues that are going to be dealt with to make that happen and it's been going on for some time now and I suspect there's certainly a number of people within in TAB Corp would liked to have seen it happen a lot earlier than this, but the dynamic in the Australian market is quite interesting at the moment, which is causing a lot of, I suppose, jostling around the place trying to get on an even playing field.

However, having said that, there are still two pools in Australia and there will be for the foreseeable procedure. So there are two opportunities for accessing the Australian market, albeit the technology will play a large part in that.

The technology is not there currently for allowing people into the Australian market.

We're the only tote company made, the only ones that are active in the importing scenario where we are trying to get product from international suppliers to put in for our customers. The gentleman's agreement, I think, is something that's going to get threatened substantially because as the market fragments even further, the issue of product diversification is coming. So all the states may have to pay a fee for the product they use. It becomes a question of product relativity, which product is worth how much money, and whether someone wants to buy it also becomes an issue as it becomes a purchasable commodity. And it clearly adds a lot of complexity to the broadcast models. You've got the two broadcasters in the market, which one is going to promote what product for what state.

Digital broadcasting could solve some of these issues where in Australia you've got a lot of product in the wall-to-wall scenario which Sky presents, and as I mentioned earlier, they are applying more product because the station has been split and the product's gone over two stations now.

One of the things that might happen in the not too distant future, negotiations continue almost daily and have been for almost about eight months, let's not have two stations, that's a bit of waste.

The videos that I'm going to show in a minute demonstrate a little bit of the way two stations promote their product, but I would say just from the point of view of the Sky Channel, one that we'll show in a minute, it's a good presentation thanks to Britt Gorman who provided it to us from Sky Television in the forum today.

What it doesn't show is that the product is actually back-to-back with — we've got thoroughbred, harness and greyhound or harness, thoroughbred, harness, thoroughbred, greyhound, so it does jump between the products, and in most instances you might only get the jump-start through to the finish line before they pop to the next product.

But it's a betting channel. Pure and simple, it puts the odds out for betting. It makes the best it can of betting. The other channel wants to showcase the product.

So I suppose if you look at that in a digital broadcasting sense, and if there's any ability for it to split the channel and have multiple streams going into outlets, then you could get a lot more product out but it will be selected product, not necessarily the same volume of product and, of course, in the revenue state, which is how it's held, viewed by Sky, that you need the wall-to-wall product to get the right turnover. Without that you're not going to get as much turnover. That's a pretty big theory.

Just a little bit on Tote Tasmania. We're responsible for the administration and development of the Tasmania racing industry. All of our profits go into the Tasmania racing industry to keep it and sustain it, and we're the first Australian state to merge both wagering and administration functions together.

We're a small state, 490,000 people. We are a small to medium size enterprise, and clearly as a consequence we have to be progressive in identifying new opportunities in terms of identifying these technologies and certainly in our approach to product development.

And as a little quick there on the end we are the host of the 2006 Inter-Dominion Pacing Championship which I understand now is going to be the richest harness racing event in the world with a prize of stakes money of \$1.5 million Australia, or \$1.13 million U.S. for the actual race.

In terms of our progressive attitude and innovation, I suppose, if you want to put it that we are able to do commingling, and that's the areas in which we're doing commingling at the moment, we're working off the ITSP Platform Version 5.18, and clearly we're open for business, so if anyone wants to catch up with me afterwards, I'm more than happy to entertain any discussion with anyone.

That's pretty much it for the presentation I've got. If we can just play the video. The first one will be TVN and this is the dedicated thoroughbred channel. This is for people who believe that racing and the thoroughbred horse needs to be profiled.

(A video was played)

MR. TOOHEY: As you can see from that there's very little graphic on the screen other than the race itself. That's the difference in a lot of ways. You can see from the Sky version that there's a lot more information from the betting sites and it's not just about the race that's running but it's about the race that's coming, and that in the particular one here, we've got the Hawksberry Cup and we've got Moonee Valley in there as the second race coming up. So the odds are rolling over and some fairly sophisticated graphics in it. I have to get it going and you'll see the difference.

(A video was played)

MR. FINLEY: I probably should have cut that off right before the winning post and then you would all want to know who won the race.

Anyway, we've run out of time. I really appreciate everybody's patience in staying on, so forth.

We'll be available for a quick chat. We probably want to do that out in the exhibition area because there's another group that was supposed to start like five minutes ago.

Thank you, everybody. Thank you very much. Thanks to the panelists.

(Applause)