

Global Gambling Report

Assessment of the global gambling market

April 2010



Summary

2008 and 2009 have been years of change for the gaming industry, which is no longer considered to be recession proof. 2010 is expected to be better, as GDP and consumer demand are picking up. But recovery will be slow due to high unemployment and it will remain so for some time in the future as the labour market lags behind the developments in the wider economy.

In 2009, many jurisdictions have expanded legalised gaming to raise revenue for the states that are mostly suffering from high budget deficits, decreased tax income and increasing social costs of caring for the unemployed and retired. At the same time, many capital-intensive projects in the land based gaming industry have been delayed or downscaled as financing became scarce and expensive.

However, a couple of large projects have been partially completed and opened over the previous few months, including MGM's City Center in Las Vegas in December 2009 and Las Vegas Sands' Marina Bay in Singapore in April 2010.

In 2010 the financial markets are expected to rebound and the construction on the delayed projects will continue, such as the building of the latest Las Vegas Sands' resort in Macau.

Some sectors have been less affected than others and continued to grow their revenues despite the crisis. For example, a number of national lotteries experienced growing sales in 2008 and 2009, as if lottery players turned to the chance of winning a large jackpot to solve their financial difficulties.

The crisis has also impacted Internet gambling, but to a much lower extent as staying in became the new going out and the players preferred to spend a few dollars placing a bet or playing poker online rather than going to a land based betting shop or casino and spending money on gambling, but also on entrance fees, drinks and petrol.

The governments remain to be online gaming's greatest restraint with their usually protectionist policy aimed at protecting large domestic operators, usually monopolies. However, there are positive developments in that sector, too, with more and more governments deciding to open the market to some extent, most recently France.

Asia remains an important gaming market, especially in the casino industry, with Macau recording growth in revenues in both 2008 and 2009. 2009 revenues, though, have for the first time risen by a single-digit percentage (9.7%) since Stanley Ho's monopoly ended in 2002. Many other Asian countries have recently expanded their gaming sector, such as Singapore; or are contemplating legalisation of new forms of gambling, such as Japan.

The horseracing industry is the gaming sector that is currently struggling the most throughout the world. The single largest racing market, Japan, has been declining in the past few years and the trend is continuing. The US horseracing industry is also suffering, with handle and attendance in continuous decline despite the fact that many states have now introduced slot machines or fully-fledged casinos at the tracks (so-called "racinos") to help the racing industry.

Smoking bans are being introduced throughout the world and they are adversely impacting gaming revenues, especially in the first months and years after introduction.

2009 was the first year in a long time that has shown a decrease in global gaming revenues and we expect the revenues to decline a little in 2010, too, after which the global gaming market will return to growth.

About the Global Gambling Report

GBGC's Global Gambling Report is the most comprehensive report on the state of the gambling industry in the world. Its current Fifth Edition extends to over 1,450 pages, covering more than 250 jurisdictions in all parts of the world.

The format of our Global Gambling report has been changed for the Fifth Edition, while the aim remains the same – to portray gambling activity in every jurisdiction in the world where it is legal. We have decided to make GGR available online, giving our clients more flexible access as well as saving the natural resources in the age of “green technology”.

The report is available as either a book delivered on a USB stick or as a subscription to the report on **GBGC's** website, which is constantly updated with financial data as they are published, as well as new developments. Keeping up with the changes as they happen has proven to be especially important in the last two years as the crisis unfolded. **GBGC** subscription also includes access to our Interactive Report, Eastern European Report, Latin America report and Credit Cards Report.

The Fifth Edition of the Global Gambling Report was first published in April 2010 and it has been updated at the end of May 2010. The latest updates cover more than 70 jurisdictions, spanning from updating US gaming revenues for 2009 to reporting on the latest developments in the French online gaming market.

The Global Gambling Report consists of a number of documents which cover the current situation in the gaming market in each country where legal gambling exists, with more data and graphs than ever before. It also features appendices which include the gaming revenues by sector for each country in the world for the latest available year, which is currently 2007. For the first time in the Fifth Edition we have also enclosed **GBGC's** Major Markets Database, which provides gaming revenues from 2001 up to the last available year (usually 2008 or 2009) of the major gaming markets in Europe, Asia, North America and Oceania.

We have also this time included some general country information regarding population, Internet penetration, currency and GDP per capita, as well as the summary of the nature of the gambling market for which sector available in every jurisdiction and a new section on regulation and taxation.

The Fifth Edition also includes **GBGC's** forecasts up to 2012, which are widely recognised within the industry and considered the industry standard for sizing the global gaming market. We have decided to forecast only up to 2012, as in these times of change it is very hard to forecast anything further away from short term due to uncertainty. Even so, our forecasts are a year longer than the Federal Reserve Board's. We plan to add more years as the market stabilises.

The Global Gambling report also includes the two **GBGC** indices, which measure the performance of the largest listed land based and online gaming companies.

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- Appendices of gambling revenues by country and product in US\$m (updated monthly.)
- **GBGC's** Key Markets Database with thousands of data points.
- Performance of the GBGC gambling industry indices; **GBGC 50** and **iGBGC** index

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Most customers buy the subscription service at £3,950 + VAT if applicable for a 12 month subscription includes updates and 3 x Internet reports.

Alternatively you can have the Global Gambling Report on a memory stick for £2,950. (no updates)

Sample Jurisdiction

NEW YORK

New York's state lottery is the largest in the US and among the top ten world lotteries. Its horse racing industry is the second largest in the US, behind only California. New York also has Native American casinos, VLTs at the racetracks and charitable gaming.

The state is faced with a budget deficit and thus a number of proposals have emerged to modify the gaming regulations and increase the state's revenues from existing gaming operations.

New York General Information

| State Information | |
|--|--|
| Population (000) in 2008 | 19,490.3 |
| GDP per capita (2008 US\$) | 49,499 |
| Internet penetration (per 100) in 2007 | 59.0 |
| Currency | United States Dollar |
| Regulatory Information | |
| Regulator | New York State Racing and Wagering Board |
| Legislation | New York Constitution |
| Market Information | |
| Betting | Competitive market |
| Native American Gambling | Competitive market |
| Gaming Machines | State-owned monopoly |
| Lottery | State-owned monopoly |
| Charitable Gambling | Competitive market |

Source: US Census Bureau, Fedstats, Bureau of Economic Analysis, GBGC Analysis

Regulation and Taxes

The New York State Racing and Wagering Board regulates horse racing in the state under the Racing, Pari-mutuel Wagering and Breeding Law. The tracks are allowed to operate video lottery terminals. The minimum age for betting in New York is 18 years. Parlay betting, a series of bets combining betting entries in various pools for between two and eight races, is also allowed. The tracks are subject to 4% tax on admissions.

Thoroughbred racing is subject to 4% tax on admissions. Non-profit organisations can conduct racing. Pari-mutuel betting has been legal since 1939. Thoroughbred takeouts for commercial organisations are set at between 14% and 20% from regular on-track bets, 16%-22% from multiple on-track bets, 20%-30% on exotic on-track bets and 20%-36% of super exotic on-track bets. The same takeouts also apply to harness racing.

Thoroughbred state tax is 55% of the breaks plus 1% on all wagers since 1994. The tax can be increased by 0.25 percentage points under certain conditions. If the tracks holds less race meetings than agreed, the tax will be increased by 1 percentage point for regular, multiple and exotic pools.

The takeout for non-profit organisations conducting thoroughbred racing is 12%-17% for regular bets, 14%-21% for multiple bets and 15%-25% for exotic bets and 15%-36% from super exotic bets, plus the breaks. State tax is determined every year.

There are two thoroughbred zones in the state: the first zone consisting of the first, second, ninth, tenth, eleventh and twelfth judicial districts and the second zone including all other areas. A maximum of six licences can be awarded for the first zone and three for second.

The number of licences for harness racing is capped at eight. The tax on harness races is 0.5% of handle. Local authorities can impose a tax on admissions for harness racing. The number of quarter horse licences is capped at five. Tax on quarter horse bets is 1% of handle plus 20% of the breakages.

New York also licenses regional off-track betting corporations and the New York City betting corporation. State tax on regional off-track betting is between 0.3% and 3.5%, depending on the type of bet and type of organisation running the race.

Local taxes imposed on regional OTB venues are capped at a maximum of 3% of admissions. The New York City betting corporation is a public benefit corporation conducting off-track betting in the City of New York.

Simulcasting is also allowed with a maximum of eight licences for simulcast theatres which can be owned by tracks, regional OTBs or non-profit racing associations. State tax on simulcasting ranges from 0.25% to 3.25%.

Native American gambling is governed by the federal law and state compacts.

The New York State Lottery for Education Law established the state lottery to support education. The lottery is part of the department of taxation and finance. Players need to be at least 18 years old to play the lottery. Payouts to players vary depending on the game – for instant tickets prizes can reach up to 65% or 75% of sales and 40% or 50% for online games.

The lottery licenses VLTs at the tracks, with this provision in force until 31 December 2017.

Charitable organisations can offer bingo and some games of chance. Games of Chance Licensing Law allows bona fide charitable, educational, scientific, health, religious and patriotic organisations to conduct merchandise wheels, coin boards, merchandise boards, seal cards, raffles and bell jars to raise funds under the control of the New York State Racing and Wagering Board.

All other games not specifically allowed are forbidden, including casino games such as Texas Hold'em. All games of chance allowed by the law can be conducted a maximum of twelve times per calendar year.

The Bingo Licensing Law and Bingo Control Law govern charitable bingo regulated by the Board.

Land Based Gambling Industry

Betting

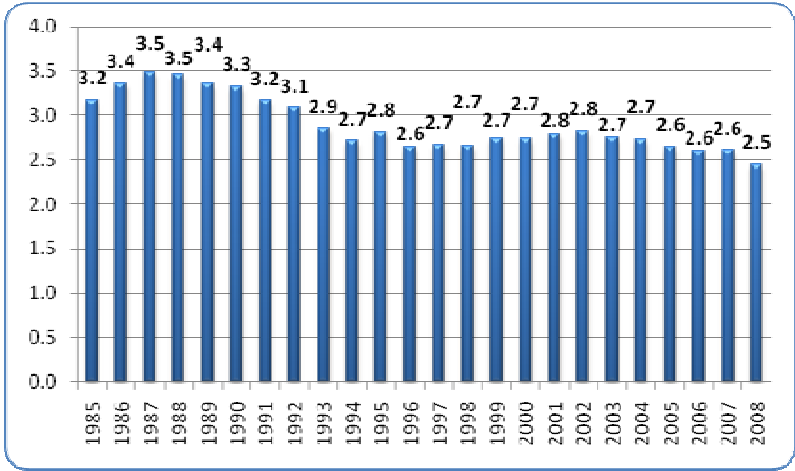
New York’s horse racing industry is the second largest in the US, behind only California, both based on stakes and purses. The state has four thoroughbred horse tracks, three of which are operated by the New York Racing Association. Eight tracks host harness racing, with only one track with both – Saratoga.

Additionally, New Yorkers can place a bet in OTBs, with 264 sites in 2008 divided into six regions each with a single operator. Advanced deposit wagering via telephone and, since May 2007 via the Internet, is also allowed. Since January 2008 out-of-state ADW companies can also offer their services to New York bettors. In late 2008 mobile wagering was also allowed.

Since 2004 the horse betting industry has derived revenues from slot machines at the tracks, with eight racinos currently operational and one in development, which is also the maximum determined by the law.

Racing comes under the regulation of the New York State Racing and Wagering Board, while the VLTs in the racinos are operated by the state lottery.

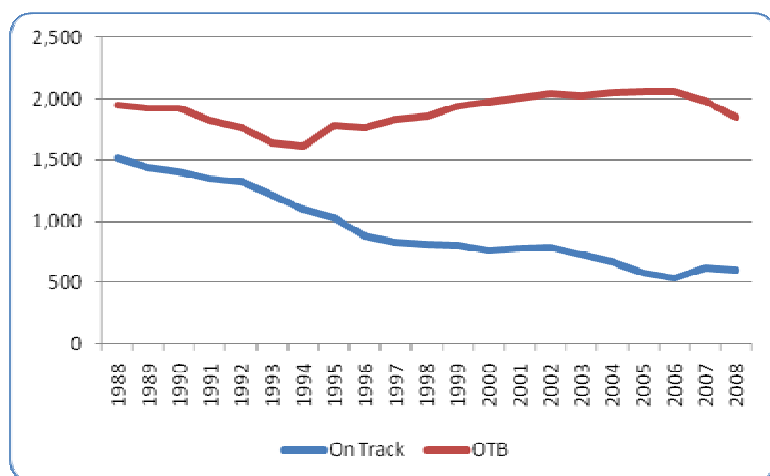
New York Horse Betting Handle (US\$bn) 1985-2008



Source: New York State Racing and Wagering Board

The betting handle has generally declined in recent years, with the exception of 2007 when it increased YoY. In 2008 it again declined, reaching US\$2.45bn, down from US\$2.61bn in the previous year. The takeout averages 20.3%, in 2008 it was 20.5%, translating to US\$503m.

New York Betting Handle by Market Channel (US\$m) 1988-2008



Source: New York State Racing and Wagering Board

New York's thoroughbred purses were US\$145.5m in 2008, with only California's higher at US\$198m. New York's harness purses were the largest, reaching US\$93.1m.

OTBs were introduced to the state in 1971 and their share has since increased to between 75% and 80% in recent years. In 2008 they accounted for just over 75% of total handle, or US\$1.85bn. On-track handle has been declining almost every year and the trend continued in 2008, when on-track betting accounted for US\$604m handle, down from US\$622m in the previous year.

New York On-track Betting Handle by Racetrack in 2007 and 2008

| Racetrack | 2007 | | | 2008 | | |
|-------------------------------|------------------|----------------|-------------------------------|------------------|----------------|-------------------------------|
| | Attendance | Handle (US\$m) | Av. Bet per Attendance (US\$) | Attendance | Handle (US\$m) | Av. Bet per Attendance (US\$) |
| Aqueduct | 319,614 | 134.8 | 421.9 | 326,557 | 132.1 | 404.7 |
| Batavia Downs | 130,030 | 7.2 | 55.1 | 138,001 | 6.6 | 47.9 |
| Belmont Park | 545,576 | 161.7 | 296.4 | 599,951 | 157.7 | 262.9 |
| Buffalo Raceway * | 44,843 | 12.3 | 274.3 | n/a | 11.4 | n/a |
| Finger Lakes | 231,722 | 26.6 | 114.6 | 207,725 | 25.8 | 124.0 |
| Monticello * | n/a | 13.0 | n/a | n/a | 10.9 | n/a |
| Saratoga Race Course | 1,018,273 | 132.9 | 130.5 | 872,557 | 125.4 | 143.7 |
| Saratoga Gaming and Raceway * | n/a | 39.9 | n/a | n/a | 39.7 | n/a |
| Tioga Downs | 943,465 | 6.7 | 7.1 | 996,798 | 6.6 | 6.6 |
| Vernon Downs | 79,250 | 13.9 | 175.9 | 91,309 | 14.0 | 152.8 |
| Yonkers Raceway | n/a | 73.3 | n/a | n/a | 73.8 | n/a |
| Total | 3,312,773 | 622.3 | 149.8 | 3,232,898 | 603.9 | 144.8 |

Source: New York State Racing and Wagering Board

* Does not charge admission or track attendance.

Due to the declining popularity of racing, many tracks have struggled. To help the tracks, in 2009 the legislature allowed a higher commission to be paid to the tracks from the racinos. The Aqueduct track is also expected to add VLTs during 2010.

New York Off-track Betting Handle by Region/Corporation in 2007 and 2008

| Region | 2007 | | | 2008 | | |
|---------------|------------|----------------|-------------------------|------------|----------------|-------------------------|
| | Sites | Handle (US\$m) | Handle per Site (US\$m) | Sites | Handle (US\$m) | Handle per Site (US\$m) |
| Capital | 76 | 201.8 | 2.7 | 80 | 190.5 | 2.4 |
| Catskill | 27 | 131.8 | 4.9 | 25 | 121.9 | 4.9 |
| Nassau Downs | 14 | 293.5 | 21.0 | 21 | 282.0 | 13.4 |
| New York City | 76 | 1,030.2 | 13.6 | 68 | 940.2 | 13.8 |
| Suffolk | 15 | 188.2 | 12.5 | 25 | 178.6 | 7.1 |
| Western | 39 | 139.4 | 3.6 | 45 | 134.0 | 3.0 |
| Total | 247 | 1,985.0 | 8.0 | 264 | 1,847.2 | 7.0 |

Source: New York State Racing and Wagering Board

The operator that runs the three major thoroughbred tracks, the New York Racing Association (NYRA), ran into financial difficulties and filed for federal bankruptcy protection in late 2006. But following management changes and financial support from the state the NYRA was awarded a new 25-year licence in February 2008 to run the tracks. Its licence can be revoked if they fail to meet certain benchmarks. NYRA was again in financial difficulties in late 2009.

Besides the tracks, NYRA also offers wagering via the Internet and mobile wagering (since late 2008). The announced opening of Aqueduct’s racino will help NYRA, with the winning bidder agreeing to fund NYRA until the racino becomes operational.

NYRA’s tracks (Aqueduct, Belmont Park and Saratoga Race Course) accounted for 69% of total New York on-track betting handle in 2009. Together with Finger Lakes, thoroughbred racing accounts for 73% of total state on-track handle. The three NYRA tracks hosted 249 days of live racing in 2008, five more than in the previous year. Finger Lakes hosted another 157 days of live thoroughbred racing, bringing the total thoroughbred days to 406.

Harness racing accounts for 23% of on-track handle with the largest track being Yonkers Raceway located in Queens. Due to the proximity to the New York City metropolitan area, Yonkers also hosts most VLTs and accounts for more than 50% of total slot revenues in the state. Harness tracks hosted 937 days of live racing in 2008, down from 972 in the previous year. Yonkers held the most racing days, 253 in 2008, but it also dropped the most dates when compared to 2007, when the track held 307 days of live racing.

New York had 264 OTB sites in 2008, up from 247 in the previous year. The region accounting for more than 50% of total OTB handle is New York City. Long Island’s Nassau Downs is in second place, accounting for 15% of state OTB handle, with Capital covering the upper Hudson River valley and the north-east and Suffolk in the third place, both at 10% of state OTB handle.

The New York City OTB announced in late 2007 that it will run out of money due to high mandated payouts to the state by mid-2008, but the state then decided to take over the company in July 2008.



State-owned New York City OTB is, however, not doing any better now than it did before the state came in.

It filed for Chapter 9 bankruptcy protection in late 2009, which will allow it to reorganise without liquidating. The company employs around 1,400 people and handles bets valued at close to US\$1bn. The New York City OTB plans to cut the workforce, close a number of their parlours (currently around 70), open a couple of large entertainment centres, and focus on its Internet and telephone wagering. NYRA is among its largest creditors.

In February 2010 the New York City OTB proposed its restructuring plan to the bankruptcy court but the court has not accepted it yet. State lawmakers proposed a different plan to the OTB, but the company has rejected it. OTB is now working on a new plan and so are the state's lawmakers. If a consensus is not reached by 30 March 2010 the company might close.

The major issue with the OTB system in the state, according to state officials, is that OTBs compete with the tracks instead of working together. Prompted by the New York City OTB problems the state formed the Task Force on the Future of Off-track Betting which conducted a review of OTB operations in New York in 2009-2010.

Their findings were reported to the Governor in January 2010 and include the following: at the moment only one OTB is doing well. That is the Western Regional OTB which also owns Batavia Downs track and gets a share of VLT revenues from Batavia's racino.

The study found that six OTBs should have one tote contract and consolidate their marketing, Internet and TV contracts to cut costs. Also, OTBs should not pay anything to tracks that operate racinos and should negotiate together with the tracks for one simulcasting contract. Out-of-state ADW companies offering betting to New Yorkers should be licensed in the state and pay the same fees as in-state operators.

Due to its own bad financial situation, the study does not recommend NYRA to take over New York City OTB, despite such a proposition being put forward by the NYRA.

Native American Gambling

New York is home to a thriving Native American casino industry consisting of a limited number of venues with relatively high revenues. Of the state's seven federally recognised Native American tribes and two tribes recognised by the state, three operate casinos.

The state first entered into gaming compacts with Oneida Indian Nation of New York and Saint Regis Mohawk Tribe in 1993. The third compact with the Seneca Nation of Indians was signed in 2002. The Native American casinos are overseen by the Racing and Wagering Board. The tribes pay the state's regulatory costs, as required by the federal legislation.

The three tribes operate a total of five Class III casinos regulated by the compacts and an additional three Class II gaming facilities. The Native American casinos share a portion of their Class III gaming machine revenues with the state.

New York Indian Casinos in 2009

| Tribe | Property | Location | Gaming Machines | Tables | Bingo Seats |
|----------------------|--------------------------------|---------------|-----------------|------------|--------------|
| St. Regis Mohawk | Akwesasne Mohawk Casino | Hogansburg | 950 | 37 | |
| | Mohawk Bingo Palace * | Akwesasne | 416 | 12 | 1,000 |
| Seneca Indian Nation | Seneca Allegany Casino & Hotel | Salamanca | 2,235 | 56 | |
| | Seneca Buffalo Creek Casino | Buffalo | 200 | | |
| | Seneca Niagara Casino & Hotel | Niagara Falls | 4,289 | 115 | |
| | Seneca Entertainment Center * | Irving | 620 | 8 | 1,000 |
| | Seneca Entertainment Center * | Salamanca | 326 | 16 | 450 |
| Oneida Indian Nation | Turning Stone Resort & Casino | Verona | 2,400 | 115 | 1,400 |
| Total | | | 11,436 | 359 | 3,850 |

Source: NIGA, GBGC Analysis

* Class II facility.

Seneca's Buffalo Creek Casino remains controversial with opponents claiming the site does not qualify for gaming under IGRA. So far the courts have ruled in favour of the tribe but the fight continues. The tribe has also suspended construction of the permanent casino facility due to a number of issues, including the state of the economy, and have instead turned to expanding the temporary facility. The tribe also laid off more than 200 employees to cut costs. In January 2010 the Seneca extended their credit agreement until the end of 2011 under the same terms.

In January 2010 New York state lawmakers said that all tribes were behind with payments of the state's regulatory costs.

Catskills Indian casino near New York City has also been entangled in controversy with many tribes interested in the location. Among the tribes interested in putting a casino there are the Mohawks, whose proposal was rejected in 2008 because of the site being too far from the original reservation. The tribe later held a referendum in which the tribal members voted down the casino proposal for Catskills. However, the referendum was declared void based on a technicality and a new referendum was held in early 2010 which went in favour of the casino.

The Seneca also propose a casino in Catskills and found an investment partner for it, but declared them unsuitable in late 2009 when the tribal leadership changed after the investors bought the land for the casino. The tribe, in summer 2009, asked the Congress to put the land in restricted fee status which would make it tribal territory.

Other tribes interested in Catskills casino are the Stockbridge-Munsee Band of Mohican Indians from Wisconsin, and the Seneca-Cayuga Tribe of Oklahoma.

The Catskills casinos have been proposed for years but there was always opposition to the proposals. Now the opinions are more in favour of the casino, with the Governor and a New York senator supporting the location for the casino. Reportedly, the federal government is also in favour of the

casinos and is looking for ways to reverse the distance rules, which are hurdles in the way of all the proposed Catskills projects and many other casino proposals in the US.

Another tribe, Shinnecock Indian Nation has been seeking federal recognition for 30 years. The tribe has been recognised by the state since the early 1700s. The earlier Governors have not endorsed the tribe's federal application, but Governor Paterson did so by sending a letter to the US Interior Department stating his support for the tribe in September 2009.

The tribe finally received preliminary federal recognition in December 2009. Now a period of 90 or 180 days for comments follows and the final ruling is expected in June 2010. The tribe is interested in operating a casino once it is recognised but needs to overcome a few hurdles on the way, such as putting their land into trust which has recently become hard for newly recognised tribes (in a decision vs. Narragansett tribe) and negotiating a compact with the state.

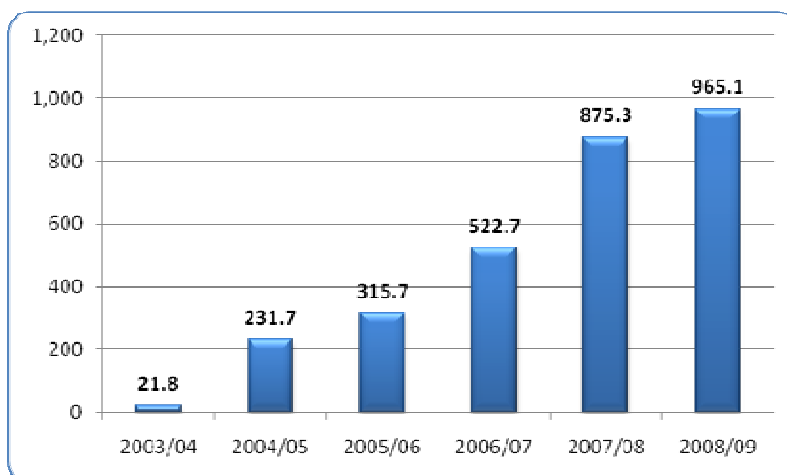
The Shinnecock are now also looking for a casino site. One of the proposals is for the tribe to build a casino in Nassau County on off-reservation land.

In May 2010 the state has allowed a food & beverage company to offer alcohol through most of the Turning Stone Casino. The casino will in turn pay bed and sales tax for food and beverage sold at their venue.

Gaming Machines

The gaming machine industry in New York consists of VLTs located at eight racetracks in the state. The VLTs are licensed and operated by the state lottery with their proceeds used primarily for supporting horse racing. Lottery proceeds from VLTs are used to fund education, as well as the proceeds from other lottery games. The first VLTs were installed in 2004 and all eight tracks started VLT operations by 2006. One additional track, Aqueduct in Queens, is allowed to operate VLTs but has not added them as yet.

New York VLT GGY (US\$m) Since Inception



Source: New York Lottery

VLT revenues have increased each year since inception, with GGY at US\$965m in fiscal 2009, 10% more than in the previous year. However, VLT profits were down 9% in fiscal 2009 due to a change in the revenue split enacted in February 2008, which gave the tracks a larger percentage of VLT revenues.

The machine payout was 91.7% in fiscal 2009, with the handle reaching US\$11.66bn.

In 2009, 45% of VLT revenues went as commissions to the tracks, 47% was used to support education and the remaining 8% was used to cover expenses.

In fiscal 2009 all racinos experienced rising revenues, with the exception of Monticello Raceway in Monticello, whose revenues declined 8.5% YoY due to competition from Pennsylvania. The owner of Monticello Raceway, Empire Resorts, found itself in financial difficulties due to losses at the racino in 2009.

New York VLTs in February 2010

| Property | Location | Gaming Machines |
|---------------------------------|------------------|-----------------|
| Batavia Downs Gaming | Batavia | 605 |
| Empire City at Yonkers Raceway | Yonkers | 5,310 |
| Fairgrounds Gaming & Raceway | Hamburg | 959 |
| Finger Lakes Gaming & Racetrack | Farmington | 1,199 |
| Monticello Gaming & Raceway | Monticello | 1,051 |
| Saratoga Gaming and Raceway | Saratoga Springs | 1,770 |
| Tioga Downs | Nichols | 775 |
| Vernon Downs Gaming | Vernon | 761 |
| Total | | 12,430 |

Source: New York Lottery

Empire City at Yonkers Raceway is the leading racino by revenues, with its GGY being higher than the GGY of the other seven racinos combined. This is due to its large installed base of more than 5,300 machines or 43% of state’s total and also its location in the vicinity of the New York City metropolitan area.

Fairgrounds racino is currently being expanded. Delaware North will invest US\$25m to expand the racino which will keep the same number of slot machines but will add three restaurants.

In January 2010 the state lottery extended a contract with Bally Technologies to provide VLTs for the racinos. The contract has been extended for seven years.

The only remaining track allowed to host VLTs which does not operate them yet is Aqueduct in Queens, which was supposed to finally add the machines during 2010, but with the latest delays this has become uncertain. Aqueduct could host up to 4,500 machines with revenues close to that of Empire City. The earlier proposal for adding a racino to Aqueduct operated by Delaware North, which won the bid in October 2008, fell through because of the credit crunch.



The second bidding process included five operators and in January 2010 the 30-year racino contract was awarded to AEG (Aqueduct Race Track Entertainment Group). It temporarily diverted threats of shutting down racing at Aqueduct as AEG needs to fund NYRA so that it can continue operating until the racino is opened. NYRA will receive 7% of racino revenues, 3% for operations and 4% for capital improvements. The racino was supposed to open with 3,000 VLTs within six months of signing the agreement with the state, while the other 1,500 machines should be added within the following year. The agreement was planned to be finalised by 31 March 2010.

AEG is a partnership between Navegante Group and a number of other companies that currently operate casinos in Nevada, Wisconsin, Canada and overseas. The Governor Paterson’s choosing of AEG was controversial because the company only offered US\$200m upfront, US\$100m less than Penn National. AEG later agreed to match Penn’s offer. Some parties have called for a State Inspector’s General probe of the decision which could delay the project. The Governor has in February 2010 released the documents submitted by the five final bidders in an effort to prove there was no wrongdoing.

However, the State Lottery Division has in March 2010 announced that it cannot issue a gaming licence for AEG as the company did not submit all requested information. The decision was announced after a few investors decided to back out from the project.

The latest unsuccessful attempt to introduce VLTs at Aqueduct has brought about calls for expediting the selection process. In May 2010 the process started anew with the Lottery issuing a Request for Proposals to develop and operate machines at Aqueduct.

New York VLT GGY by Track (US\$m) Since Inception

| | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|---------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| Batavia Downs Gaming | - | - | 20.3 | 24.3 | 29.5 | 33.7 |
| Empire City at Yonkers Raceway | - | - | - | 130.1 | 431.7 | 498.6 |
| Fairgrounds Gaming & Raceway | 2.0 | 34.4 | 39.4 | 42.0 | 46.1 | 51.6 |
| Finger Lakes Gaming & Racetrack | 7.2 | 64.2 | 74.9 | 88.1 | 96.1 | 103.6 |
| Monticello Gaming & Raceway | 0.0 | 45.5 | 72.1 | 74.3 | 62.4 | 57.1 |
| Saratoga Gaming and Raceway | 12.6 | 87.6 | 109.0 | 119.6 | 132.7 | 135.3 |
| Tioga Downs | - | - | - | 30.5 | 42.8 | 48.1 |
| Vernon Downs Gaming | - | - | - | 13.8 | 33.9 | 37.1 |
| Total | 21.8 | 231.7 | 315.7 | 522.7 | 875.3 | 965.1 |

Source: New York Lottery

Empire Resorts partner Cappelli proposed building another track and racino in Concord close to Monticello and sharing its revenues with Empire, however the Entertainment City construction site has been idle since start of 2009.

The Entertainment City project was first unveiled in early 2008. The US\$1bn project was planned to include a luxury hotel, racino and track, retail space and a conference centre, however construction has stalled and the investor owes large sums of money to the contractors. In order to get a licence for the track and racino the investor would first need to build it.



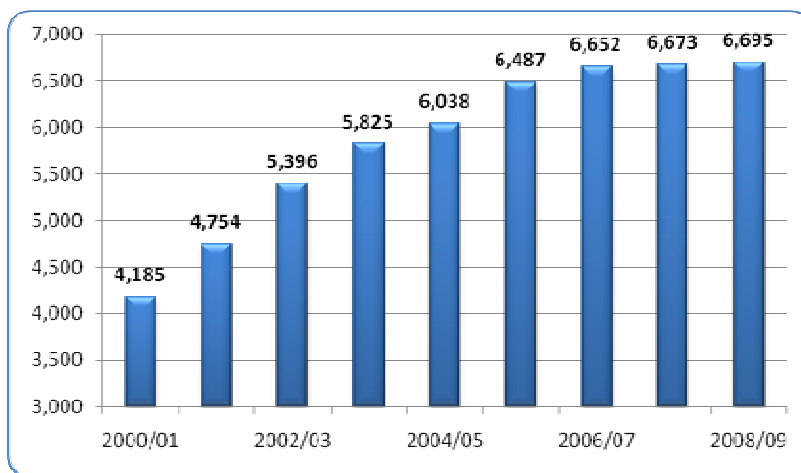
In order to increase racino revenues, the lottery is considering legalising electronic gaming tables. The state Senate passed such regulation in summer 2009, but the Assembly as yet has not. The lottery officials believe they do not need legislative support for adding electronic tables as they are another version of electronic machines, which are allowed.

Lotteries

The state lottery, the second state lottery in the US after New Hampshire, was allowed by a majority vote in the general election in November 1966 to support education. The New York Lottery is the largest in the US and among the top ten lotteries in the world with sales of more than US\$6.5bn. In 2008 the New York Lottery sales accounted for 12% of total US lottery sales, with 43 states running lotteries at the time (today there are 43 states with a lottery, as Arkansas joined them in 2009).

The New York Lottery has around 16,000 licensed retailers. Fiscal 2009, ending March, was the ninth consecutive record-setting year for the New York Lottery.

New York Lottery Sales excluding VLTs (US\$m) 2001-2009



Source: New York Lottery

In fiscal 2009 lottery sales excluding VLTs increased to US\$6.7bn, up 0.3% from the previous year. Nearly 60% of lottery sales was paid out in prizes, 6% went to retailers and 4% was used to cover expenses. The funds for education reached US\$2.1bn or 31.2% of lottery sales.

Instant tickets are the most popular product of the lottery, accounting for 55% of total lottery sales. The most popular online games are two state games, New York Numbers and Win4, while the multi-state Mega Millions is in the third place, followed by Quick Draw keno game which is played in establishments with a liquor licence or large venues not offering alcohol.

In 2009 the lottery again chose GTECH as a lottery system provider, with a seven year contract beginning in March 2010. The new contract will decrease the lottery's costs for running the system.

With the state faced with a budget deficit, a few proposals have appeared that would increase the state's revenues from the lottery. Among them are the lottery's proposals of increasing the payout percentages, investing more money in advertising and selling the tickets via Internet. Besides those proposals, the governor has proposed increasing the operating hours of the Quick Draw keno game and VLTs.

New York Lottery Sales by Game (US\$m) 2006-2009

| | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|----------------------------|--------------|--------------|--------------|--------------|
| Mega Millions | 563 | 455 | 482 | 467 |
| Lotto | 253 | 217 | 208 | 178 |
| Take Five | 336 | 327 | 320 | 329 |
| Pick 10 | 32 | 32 | 32 | 32 |
| New York Numbers | 827 | 855 | 857 | 850 |
| Win 4 | 663 | 702 | 718 | 740 |
| Promotion Raffle Game | - | 26 | 18 | 8 |
| Instants (excl. King Kong) | 3,198 | 3,518 | 3,594 | 3,666 |
| Quick Draw | 460 | 445 | 444 | 425 |
| King Kong Millions * | 155 | 75 | - | - |
| Total Sales | 6,487 | 6,651 | 6,673 | 6,695 |
| Total Prizes | 3,853 | 3,971 | 3,953 | 4,003 |

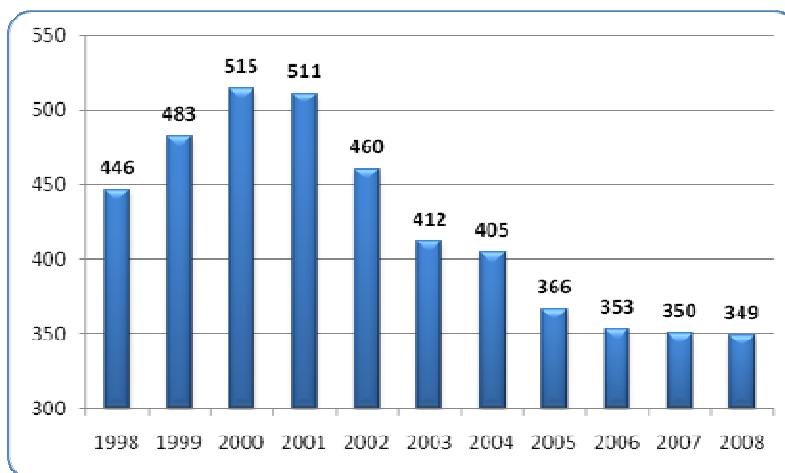
Source: New York Lottery

* The game consisted of an instant game and a single high-jackpot online drawing in 2006, but only an instant game in 2007.

The lottery is doing well also in fiscal 2010, which commenced in April 2009. The sales have been boosted by the addition of a local game Sweet Million with a chance of winning US\$1m for a US\$1 ticket, the first new online game since 2002 which started in September 2009. Sweet Million drawings are also posted to the lottery’s website shortly after they are finished. In February 2010 the New York Lottery added Powerball.

Charitable Gambling

New York Charitable Gambling Sales (US\$m) 1998-2008



Source: New York State Racing and Wagering Board

Charitable gambling in New York is licensed by municipalities whose voters have approved it. It is regulated by the Racing and Wagering Board. Charitable gambling has been allowed by a constitutional amendment in 1975 and has been regulated by the Board since 1977.

62 counties allow charitable gaming and there are more than 3,000 licensed organisations in the state.

The charitable gaming sales have remained flat in the last three years, with handle of US\$349 in 2008. Bell jars, a version of pull-tabs, are the most popular form of charitable gaming, accounting for ¾ of total charitable gaming sales

In 2008, 3,243 licences were issued for charitable gaming, 1,442 of which were for conducting bell jars.

New York Charitable Gambling Sales by Game (US\$m) 2004-2008

| | 2004 | 2005 | 2006 | 2007 | 2008 |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Bell Jar | 280.6 | 263.2 | 260.9 | 263.5 | 260.3 |
| Bingo | 115.7 | 95.9 | 85.7 | 79.2 | 81.3 |
| Raffles | 6.9 | 6.3 | 5.6 | 6.7 | 6.7 |
| Casino Type Games | 1.4 | 1.1 | 1.0 | 0.9 | 0.9 |
| Total | 404.6 | 366.5 | 353.1 | 350.4 | 349.1 |

Source: New York State Racing and Wagering Board

The gaming activities contributed US\$56.8m to charitable purposes in 2008, down from US\$57.7m in the previous year.

Internet Gambling

In 2007 the state allowed betting on horse races via Internet and a year later via mobile phones. The NYRA facilitates betting via iPhone, Blackberry, as well as Java-based handsets. The mobile betting software was Sona Mobile's mWager platform.

Illegal Gambling

Until recently New York was one of the states that had electronic machines called Moxia Mania which offered a version of tic tac toe for a chance to win cash. At first in 2008 those machines were ruled to offer legal skill games, however the decision was reversed on appeal in April 2010 when the machines were ruled illegal gambling. There were around 1,000 machines located in bars across the state. The operator still offers the same machines in other US states.

About Global Betting and Gaming Consultants (GBGC)

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