Confidential Restriction on Publication Claimed

IN THE AUSTRALIAN COMPETITION TRIBUNAL

ACT of 2017

Re: Proposed acquisition of Tatts Group Limited by Tabcorp Holdings Limited

Tabcorp Holdings Limited (Applicant)

Statement of: **Dr Ric Simes**

Address: Level 9, 225 George Street, Sydney

Occupation: Senior Advisor, Deloitte Access Economics

Date: 9 March 2017

The document contains confidential information which is indicated as follows:

[Confidential to Tabcorp] [.....]
[Confidential to Tatts] [.....]
[Confidential to Tabcorp and Tatts] [.....]

Filed on behalf of Tabcorp Holdings Limited (Applicant)
Prepared by Grant Marjoribanks
Herbert Smith Freehills
Tel (02) 9225 5517 Fax (02) 9322 4000
Email grant.marjoribanks@hsf.com Ref 82602332
Address for service Level 34
161 Castlereagh Street
Sydney NSW 2000
AUSTRALIA

Report of Dr Ric Simes into the benefits associated with Tabcorp Holdings Limited's proposed transaction with Tatts Group

Deloitte Access Economics

March 2017

I then talk about the effect of combining Tabcorp's and Tatts' pari-mutuel pools, and then the possibility of a potential increase in problem gambling, that I consider could be associated with the Proposed Transaction.

10) I then place a particular focus on how, given its structure, the racing industry will benefit from the Proposed Transaction, and model a subset of the benefits of the Proposed Transaction and how they are likely to flow through to the broader economy. Finally I summarise the effect of the Proposed Transaction in a qualitative sense and provide some concluding remarks.

B. Instructions and assumptions

11) Herbert Smith Freehills and Clayton Utz (the **Instructing Solicitors**) have asked me to provide my expert opinion as to:

The likely impact on public benefits by reason of:

i) the cost savings and revenue increases that are expected to result from the Proposed Transaction; and

ii) the pass through of a proportion of those cost savings and revenue increases to racing industries, retail venues, sporting bodies and governments in Australia.[1]

12) The Instructing Solicitors have asked that in providing my opinion I am to assume that the Proposed Transaction is not likely to result in a public detriment from a lessening of competition.[2]

13) The Instructing Solicitors have instructed me that the term 'public benefit' in this context means anything that would amount to a benefit to the public for the purposes of s 95AZH(1) of the *Competition and Consumer Act 2010 (Cth),* and is understood in the context of the Australian Competition & Consumer Commission's (**ACCC**) *Authorisation Guidelines (June 2013)*.

14) The Instructing Solicitors have asked that in answering the question at paragraph 11), I rely upon the Assumptions that have been provided to me.

[1] Instruction Letter – Australian Competition Tribunal merger authorisation application, Herbert Smith Freehills, 6 March 2017.
[2] Ibid.

15) Unless otherwise mentioned in this report dollar values taken from the Assumptions relate to increases that occur as a result of the Proposed Transaction in the end of the third year following completion of the Proposed Transaction.

C. Overview of approach

16) The Assumptions provided to me contain a number of estimates of financial changes that are likely to result from the Proposed Transaction. In writing this report I have sought to categorise those financial changes in terms of benefits and detriments, as well as provide an economic interpretation of those numbers.

17) The financial changes from the Proposed Transaction reflect either Cost Savings or additional revenue (from the Wagering Revenue Increases and the Keno Revenue Increases) associated with changing patterns of consumer spending.

18) The Cost Savings result in improvements in productive efficiency. The concept of productive efficiency relates to the amount of goods and services that a firm is able to produce for any given level of resources consumed.[3] An improvement in productive efficiency at a firm means that for any given level of resources a greater number of goods and services, higher quality goods and services, or a wider variety of goods and services are able to be produced by that firm, and therefore across the economy.

19) A financial change that is an improvement in productive efficiency is almost always a benefit.[4] Society is producing goods and services it would otherwise lack the resources to produce.

20) The additional revenue associated with changing consumer patterns arising from the Proposed Transaction can be characterised as a combination of pure transfers between two parties and, to the extent that customers may choose a preferred basket of goods and services, this constitutes an improvement in productive efficiency.

21) The concept of a pure transfer means that resources in an economy are redistributed from one sector or agent to another. [5] A pure transfer does not lift the production of goods and services across an economy, but it can change who receives the benefits of this production.

[3] Resources could be natural resources (such as coal), capital (such as machinery) or labour.
[4] If a view was formed that the goods that were produced do not increase welfare then this would not be true.
[5] An economic agent could be a consumer, firm or government.

22) The additional revenues associated with the Proposed Transaction are derived from higher quality products, and a wider range of products, that induce consumers to change their consumption patterns. To the extent that the new patterns of spending reflects consumers choosing a more valued basket of consumption, and these are produced using the same level of resources, there will be a lift in productive efficiency.

23) It can be difficult to ascertain the extent of the increase in the value attributed to the new consumption patterns and thus to estimate the net benefits quantitatively. Even so, it is important to recognise that there will indeed be an improvement in economic welfare.

24) The composition of beneficiaries can also be relevant. In the case of pure transfers, without detailed information on the circumstances of the two parties, *net* economic welfare would generally be regarded as unchanged since one agent gains and the other loses by a commensurate amount. However, the transfer of resources – for example, from one group of consumers to another, or firms to government, or firms to consumers – may in some circumstances involve a judgement that a particular distribution is more beneficial than another.[6] For example, the desirability of regional development may favour a broader distribution of resources across regional Australia.

25) In considering the Proposed Transaction I have also sought to quantify a subset of the benefits in a computable general equilibrium (**CGE**) model. This model allows for an estimation of the broader economic benefits that the Proposed Transaction could have on Australians' consumption, through the measure of changes in gross national income (**GNI**). GNI is the total amount of goods and services produced in an economy less net exports (known as gross domestic product (**GDP**)) plus net income from abroad. I regard GNI as a suitable measure of the economic benefits that can be quantified using a CGE model. This is because an increase in GNI can be interpreted as an increase in the purchasing power of consumers, and therefore is closely associated with their welfare.

26) Although the CGE model does not capture distributional impacts (such as those discussed at paragraph 24) I consider that it is instructive in seeking to provide a measure of the economic benefit provided by the Proposed Transaction.

27) CGE models are explained at Section L and Attachment A of this report.

[6] This concept refers to the idea of the modified total welfare standard. For example see ACCC (2013), footnote 112, p.62.

28) At the same time, it is important to recognise that the impacts that are quantified in the model represent only part of the overall net economic benefits of the Proposed Transaction. Accordingly, I have sought to assess qualitatively the nature and extent of impacts that I think are material but do not lend themselves to quantification. Finally, I have also sought to explore some of the important aspects of the distribution of the impacts, notably as they affect the racing industry and regional centres.

D. Direct Benefit 1: Cost savings

29) The Assumptions state that there are Cost Savings that occur as a result of the Proposed Transaction. The Assumptions state that the Cost Savings are valued at **[Confidential to Tabcorp]** [redacted].

30) The Cost Savings can be separated into the two categories of productive efficiencies and transfers. Those that result from the removal of duplication in the Merged Entity's cost base are productive efficiencies. Those that result from the Merged Entity's ability to negotiate improved terms from suppliers are transfers (from the suppliers to the Merged Entity).

31) The Assumptions provided to me state at paragraph 3 that **[Confidential to Tabcorp]** [redacted] and in my opinion should be considered as transfers. In this case we assume the transfer has no net benefit as it is simply transferring money from one firm to another.

32) The remaining **[Confidential to Tabcorp]** [redacted] of the Cost Savings come about through removals in duplication, and are therefore best thought of as an improvement in productive efficiency. [7]

33) For the economic modelling that I undertake in Section L I assume that the Cost Savings endure, but not increase after year 3 as provided in the Assumptions.

34) This appears reasonable because the benefits brought about through the removal of duplication are one-off benefits that will remain within the organisation. Similarly, while I do not have detailed information on the market(s) in question, it is reasonable to conclude that the ability of

[7] This removal of duplication allows the Merged Entity to realise economies of scale. Economies of scale exist when a firm has fixed costs (costs that do not vary with the level of production), meaning that as a firm increases in size those fixed costs can be spread across a higher level of production. This has the effect of lowering the average per unit cost to produce a particular good or service.

the Merged Entity to **[Confidential to Tabcorp]** [redacted] will remain for some period of time.

E. Direct Benefit 2: A wider range of and/or higher quality product offerings

35) The Assumptions state that product offerings will improve as a result of the Proposed Transaction and that **[Confidential to Tabcorp]** [redacted] in additional revenue is likely to accrue to the Merged Entity as a result of these higher quality product offerings. The Assumptions base the Revenue Increases on:

a) improvement of the Merged Entity's fixed odds performance which is primarily expected to result from the introduction of Tabcorp's proprietary fixed odds risk management systems into the Tatts business (**[Confidential to Tabcorp]** [redacted] in additional revenue);

b) business improvements, including:

i) the introduction of new products and increased coverage of other products in Queensland, South Australia, Tasmania and the Northern Territory (the **Tatts States**) (**[Confidential to Tabcorp]** [redacted] in additional revenue);

ii) investment in branding, the retail network and customer account management in the Tatts States to make Merged Entity's retail offering more attractive to customers (**[Confidential to Tabcorp]** [redacted] in additional revenue); and

c) the Merged Entity being **[Confidential to Tabcorp]** [redacted]

36) In relation to the extension of the Keno offering in South Australia the Assumptions provide that the Keno Revenue Increases will lead to an additional **[Confidential to Tabcorp]** [redacted] in revenue for the Merged Entity. This means that the Proposed Transaction will lead to a combined **[Confidential to Tabcorp]** [redacted] in additional revenue for the Merged Entity

37) I understand from the Assumptions that the additional revenue flows from a combination of:

a) the improved risk management systems for Tatts' operations by applying limitations on some customers;

b) the improved risk management systems for Tatts' operations allowing a wider range of offerings to be provided to consumers;

c) the expanded scale of operations allowing the Merged Entity's **[Confidential to Tabcorp]** [redacted]

d) a wider range of products with improved quality to be provided to consumers in the Tatts States; and

e) a wider range of products, upgrades to venues and improved branding to be provided through Keno in South Australia.

38) The Wagering Revenue Increases and the Keno Revenue Increases contain aspects of both improvements in productive efficiency and transfers from other areas of economic activity. With the Assumptions provided to me it is not possible to provide a view on the extent to which the **[Confidential to Tabcorp]** [redacted] in additional revenue can be attributed to each effect.

39) To elaborate, improvements in the range and quality of products (for a given level of inputs) can be characterised as improvements in productive efficiency and as such represent a net benefit. These improvements in quality can be viewed as being equivalent to a commensurate reduction in price or, in turn, a commensurate improvement in productivity. While the measurement of quality is difficult,[8] if it could be done, the economic implications could be quantified in a CGE framework.

40) To do so, requires the extent of the quality improvements to be adequately quantified. The Assumptions provide estimates of the additional revenues that flow largely from what can be regarded as changes in quality. In a simplified situation, knowledge of the revenue impact and consumer behaviour would allow a price-equivalent quality improvement to be estimated. And, in turn, this could be used in the CGE modelling.

41) However, to do so, estimates would be needed to translate how much of the Wagering Revenue Increases and Keno Revenue Increases reflected an improvement in quality. In turn, this depends on the nature of consumer preferences. That is, the changes in revenue can result from improvements in product quality and also consumer preferences for the Merged Entity's services relative to the range of alternative goods and services, and the range of alternative suppliers, that are available.

42) The level of detail needed in both what is driving the information provided in the Assumptions on revenue as well as consumer patterns – including consumer demand for wagering both in total and between the Merged Entity and its competitors – makes quantification problematic.

[8] Preparation of a country's national accounts requires consideration of such issues and the difficulties are widely acknowledged, see for example Office for National Statistics (UK), 2007, Chapter 6: Quality Adjustment.

Indeed, the quantification of quality benefits in competition analyses is recognised as challenging,[9] and for this reason such assessments tend to be undertaken on a qualitative basis. That will be the approach adopted here.

43) Notwithstanding these challenges, on average, consumers choosing to consume more of the Merged Entity's goods and services as a result of improved products and an increased range will do so because it is welfare increasing for them.

44) While consumers benefit from being able to access better quality products, there is a subset of consumers that face a detriment as a result of the fixed odd improvements at paragraph 35(a).

45) Specifically, to the extent that wagering is restricted by the Merged Entity's new fixed odds management system those consumers that prior to the completion of the Proposed Transaction benefited from wagering under Tatts' fixed odds risk management system will be worse off.

F. Direct Benefit 3: A substitution of domestic products for imported goods and services

46) The public benefit test refers to "a significant substitution of domestic products for imported goods" as a specific public benefit that must be taken into account.[10]

47) The Assumptions state that there will be **[Confidential to Tabcorp]** [redacted] of Wagering Revenue Increases. These expected increases are equivalent to **[Confidential to Tabcorp]** [redacted]

48) While, based on the Assumptions, the majority of this revenue will come from overseas based firms, these firms are likely to also employ capital and labour locally (such as the through the presence of a call centre or a risk management team).

49) To the extent that this is the case revenue from overseas firms will remain within Australia, and this proportion of the shift away from overseas based firms should not be considered as a substitution of domestic products for imported goods and services.

50) I have reviewed a range of Annual Reports and financial statements and reports lodged with the Australian Securities and Investment Commission from overseas based wagering businesses.[11]

[9] See for example, Organisation for Economic Co-operation and Development (OECD), 2013, p. 6.
[10] *Competition and Consumer Act 2010* (Cth), s.95AZH(2)(ii).

51) It does not appear that any detailed information on the extent of capital and labour employed by these firms in Australia is publicly available. William Hill in its 2015 Annual Report states that it employs 250 people in Australia. Ladbrokes states that it has employees in Sydney, Melbourne and Brisbane in its 2015 Annual Report.

52) It is however possible to get a sense of the range of costs within each wagering business. Labour, information technology, marketing and property costs are itemised within the three Annual Reports. In the context of the Australian operations, I consider that a significant proportion of information technology costs may be based overseas, as will be some component of labour costs. In contrast, property and marketing costs may be to a greater extent domestically based.

53) In the face of this uncertainty, I consider that an appropriate assumption is to allocate 50% of the **[Confidential to Tabcorp]** [redacted] in additional revenue as the amount of substitution of overseas produced goods and services for domestically produced goods and services that will occur as a result of the Proposed Transaction.

54) For the purpose of modelling this effect, I assume that **[Confidential to Tabcorp]** [redacted] and that its products remain as attractive in a relative sense, then the benefits will endure and grow in real terms in line with the wagering industry. Rather than speculate on the likely future growth of the wagering industry I have assumed that it grows at the same rate as the overall economy and used forecast growth in GDP.[12]

G. Direct Benefit 4: Increased funding to racing industry bodies, sporting bodies, retail wagering venues and Keno retail venues

55) The Assumptions provide that the state and territory racing industry bodies of Queensland, South Australia, Tasmania, the Northern Territory, New South Wales, Victoria and Western Australia (together, **the racing industry bodies**) will receive **[Confidential to Tabcorp]** [redacted] of additional revenue as a result of the Proposed Transaction. This is broken down in the Assumptions provided to me as **[Confidential to Tabcorp]** [redacted] from Cost Savings and **[Confidential to Tabcorp]** [redacted] from Wagering Revenue Increases.

---

[11] These are: copy of financial statements and reports lodged with ASIC for Centrebet Pty Ltd (25 November 2011), Hillside (Australia New Media) Pty Ltd (28 July 2016), Paddy Power Australia Pty Ltd (9 June 2016); and Annual Reports for Ladbrokes Plc (2015), Paddy Power Betfair PLC (2015), William Hill PLC (2015).

[12] An estimate of 2% per annum over the fifteen years following the Proposed Transaction has been used. This rate was taken from Deloitte Access Economics' CGE model, which is discussed further at Section L.

56) The Assumptions also provide that sporting bodies will receive a further **[Confidential to Tabcorp]** [redacted] and retail wagering venues (through commissions to pubs, clubs and agencies) a further **[Confidential to Tabcorp]** [redacted], both as a result of the Wagering Revenue Increases.

57) The Assumptions also state that **[Confidential to Tabcorp]** [redacted] will flow to pubs and clubs in South Australian retail venues as a result of the Keno Revenue Increases.

58) It appears clear that the increases in funding to the racing industry bodies, sporting bodies and retail wagering venues, and South Australian retail pubs and clubs are a benefit to these entities. A portion of these increases are as a result of economic transfers rather than efficiency improvements, as discussed in the preceding sections of this report.

59) In relation to the **[Confidential to Tabcorp]** [redacted] increase in funding to the racing industry bodies I consider that this is likely to be associated with broader industry improvements, including in regional centres, and therefore provide broader economic benefits.

60) I delay the discussion of these broader economic benefits until Sections K and L of this report.

H. Direct Benefit 5: Increased Commonwealth, State and Territory taxation revenue

61) The Merged Entity pays tax to Commonwealth, state and territory governments through a number of channels. The Assumptions provided to me are that, as a result of the Wagering Revenue Increases and the Keno Revenue Increases there will be an additional **[Confidential to Tabcorp]** [redacted] in taxation paid by the Merged Entity. Summing information on tax revenues from paragraphs 11 and 20 of the Assumptions together, the additional revenues by level of government are:

a) State government: **[Confidential to Tabcorp]** [redacted]

b) Federal government (GST): **[Confidential to Tabcorp]** [redacted]

c) Federal government (corporate tax): **[Confidential to Tabcorp]** [redacted][13]

62) To the extent that this tax revenue is new revenue that governments would have not have otherwise received it represents a benefit to the recipient governments. Some of the additional payments are unlikely to provide significant increases in net government revenue. For example, the increase in payments in GST are likely to be offset by a similar reduction in GST payments by other firms. Further, a portion of these increases are as a result of economic transfers rather than improvements in productive efficiency (as explained at paragraphs 17 to 24).

63) The net economic effect depends on how the money is spent by government, when compared to how the money might be spent elsewhere in the economy absent the Proposed Transaction. I am not in a position to speculate how these funds might be spent in the absence of the Proposed Transaction.

I. The effect of combining Tabcorp's and Tatts' pari-mutuel pools

64) The Assumptions state that the Proposed Transaction will remove a key commercial barrier to combining Tabcorp's and Tatts' pari-mutuel pools, although regulatory and other approvals would be required before Tabcorp's and Tatts' pools could be combined.

65) The Assumptions also state that if the relevant approvals were obtained, there are three potential scenarios for the combined Tabcorp's and Tatts' pari-mutuel pools:

a. Combining Tabcorp's NSWTAB pool with Tatts' pool;

b. Combining Tabcorp's SuperTAB pool and Tatts' pools; and

c. Combining the NSWTAB, SuperTAB and Tatts pool into a single national pool.

66) Finally, the Assumptions provide that combining Tabcorp's and Tatts' pari-mutuel pools will make those pools more attractive to customers, as deeper, more liquid pools are more stable and single large bets will have less of an impact on the odds for that pool.

67) The effect of combining Tabcorp's and Tatts' pari-mutuel pools should be considered as resulting in an improvement in product quality and this should be considered as a benefit. This

[13] The Assumptions provide that the Keno Revenue Increases result in an additional **[Confidential to Tabcorp]** [redacted] in payments to the federal government. I have apportioned this equally across GST and corporate tax in these paragraphs. This apportioning does not change any of the conclusions in the report.

improvement in quality can be considered as an improvement in productive efficiency of the Merged Entity. I have not been provided with any information or assumptions that allow me to quantify this increase in productive efficiency, however for reasons already discussed in this report even if further information or assumptions were provided quantifying this effect would be challenging.

J. Potential Detriment: Increased problem gambling

68) Based on the Assumptions the Proposed Transaction is likely to result in a greater range of goods and services, and higher quality goods and services, from the Merged Entity than would be the case without the Proposed Transaction.

69) The Assumptions provide that the Wagering Revenue Increases are equivalent to **[Confidential to Tabcorp]** [redacted]

70) The Wagering Revenue Increases and Keno Revenue Increases may come about through some combination of both an increase in the level of gambling consumption and an increase in the Merged Entity's market share.

71) To the extent that the Wagering Revenue Increases and Keno Revenue Increases result from an increase in gambling consumption rather than market share the Proposed Transaction may increase the number of problem gamblers. To the extent that there is any increase in problem gamblers that come about as a result of the Proposed Transaction this should be thought of as a detriment.

72) The Productivity Commission refers to problem gamblers as "an abstract and contested construct"[14] but states that problem gamblers are best thought of in terms of people experiencing a cluster of significant harms: health problems, financial distress, difficulties controlling gambling and psychological impacts.[15]

73) There is reason to think that any increase in problem gambling is likely to be small.

[14] Productivity Commission, 2010, p.5.1
[15] Ibid., p.12

74) The Productivity Commission has considered the issue of problem gambling in detail. It cites a wide range of evidence to suggest that the harm from electronic gaming machines (**EGM**s) is higher than that of other types of gambling, such as wagering.[16]

75) Further, the Productivity Commission found that the increase in consumer welfare associated with any increase in gambling offsets the corresponding detriment associated with an increase in problem gambling.[17]

K. Flow on benefits from the Proposed Transaction: the racing industry

76) Before speaking to the specific benefits of the Proposed Transaction I consider it is worth providing a brief overview of the racing industry, and the thoroughbred racing industry in particular, and its role in the Australian economy.

The thoroughbred racing industry

77) The thoroughbred racing industry makes a substantial contribution to the Australian economy and its communities. In addition to providing entertainment and generating revenue through race events, the industry creates employment and economic activity through associated investment in local infrastructure.

78) The industry structure is such that a major source of its funding is wagering. Wagering revenue is provided to the racing industry bodies through profit sharing arrangements, product fees and other activities. For example, in South Australia 78% of Thoroughbred Racing SA's revenue in FY15 was from TAB product fees and net betting operations;[18] in Victoria 84% of Racing Victoria's revenue in FY16 was from wagering revenue; [19] and in New South Wales (**NSW**) 75% of Racing NSW's revenue in FY16 was from race field fees, TAB distribution and tax parity receipts.[20]

79) An explanation for this industry structure is that the racing industry produces a public good, which is then subject to a free rider problem.

[16] Ibid., p.5.26
[17] Ibid., p.6.40
[18] Thoroughbred Racing SA Limited, *2015*, p.8.
[19] Racing Victoria, *2016*, p.44. This figure includes joint venture distributions.
[20] Racing New South Wales, *2016a*, p.52

Confidential Restriction on Publication Claimed

80) A good can be characterised as a public good where it can be shown to be, to some extent, non-excludable, non-rivalrous, or some combination of these. In the context of races, a race can be considered as non-excludable from the perspective of wagering companies because the thoroughbred racing industry is unable to exclude the wagering industry from using its racing products. Races can also be considered as non-rivalrous as one wagering business using a particular racing product does not prevent another wagering company from doing so.

81) The public good nature of racing means that the racing industry cannot directly charge the wagering industry for its production. This means that, absent other mechanisms, there will be a market failure where racing is undersupplied relative to the value placed on it by wagering companies.

82) This is because there is little incentive for a wagering business to pay for races when it knows that other wagering businesses will be able to consume the races without paying for them. This is known as a free rider problem.

83) The ACCC has previously characterised this as follows:

> "*The Australian racing industry is largely funded by wagering revenues (significantly through bets placed with TABs). Racing has the economic characteristics of a public good, in that multiple wagering operators can use the same racing product and that use is hard to prevent without regulation. This potentially results in a 'free rider' problem and under funding of racing in relation to consumer demand for wagering."*[21]

84) Racing industry payments act as an important mechanism to address the free rider problem, and therefore improve social welfare and economic efficiency. The Assumptions provided to me state that in FY2016 totalisators (Tabcorp, Tatts and RWAA) made **[Confidential to Tabcorp]** [redacted] of payments to the racing industry, while corporate bookmakers made $196.7 million of payments. Therefore, based on the Assumptions totalisators play a more significant role in addressing the free rider problem. Further detail is provided at Table 1 below.

[21] ACCC, 2014.

Confidential Restriction on Publication Claimed

[Confidential to Tabcorp and Tatts]

Table 1 Funding contributions paid by wagering operators to the Australian racing industry

	Payments to racing industry	**Proportion of turnover paid to racing industry**
Totalisators	[redacted]	[redacted]
Broken down as: Tabcorp	[redacted]	[redacted]
Tatts	[redacted]	[redacted]
RWWA	[redacted]	[redacted]
Corporate bookmakers	$196.7 million	[redacted]

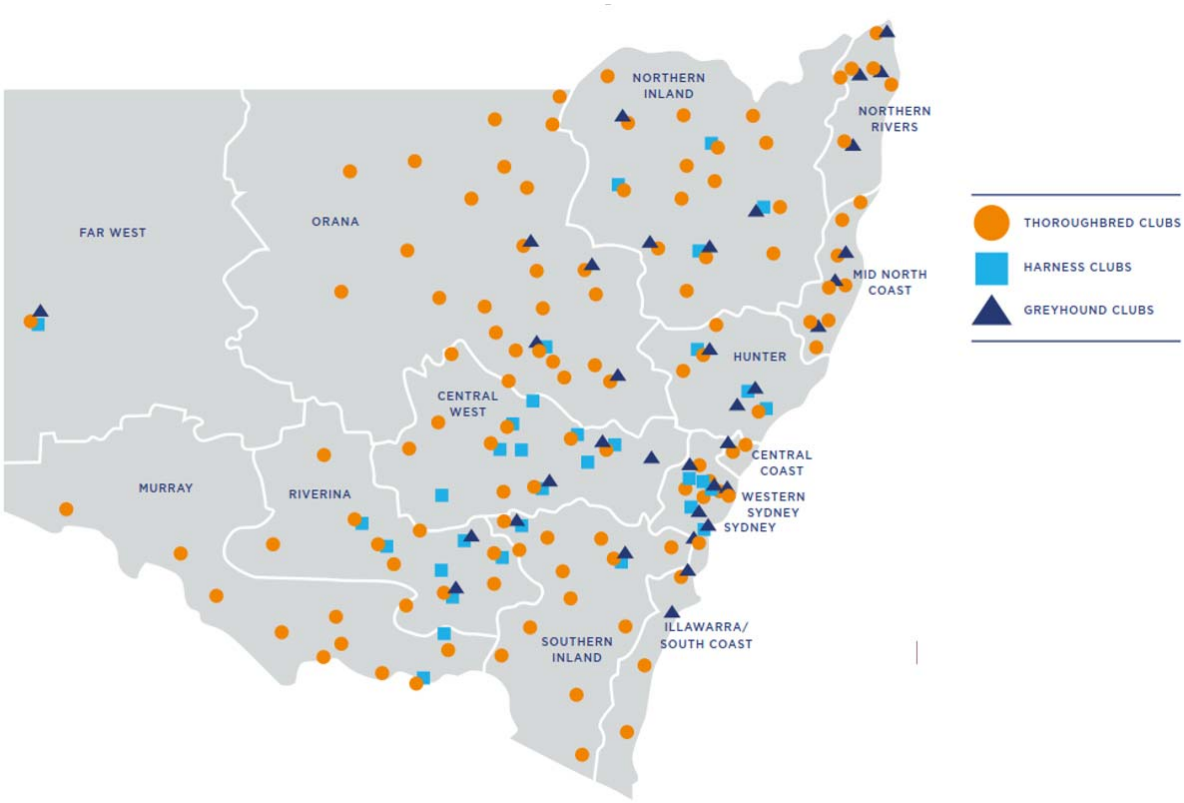
Source: Assumptions, paragraph 28.

85) The thoroughbred racing industry is particularly important for regional areas of Australia. For example, in NSW the large majority of tracks are in regional areas across the state, and around 75% of race meetings are held in regional NSW in 2016/17 season (including provincial events).[22]

86) The map at Figure 1 shows how the thoroughbred, harness and greyhound racing industry is geographically disbursed across the state. Note that this map pre-dates the NSW Government's decision to impose what it considers are the "toughest regulations in the country" on greyhound racing.[23]

[22] Racing New South Wales, 2016b.
[23] NSW Government Media Release, 2016.

Figure 1 NSW thoroughbred, harness and greyhound clubs



Source: Size and Scope of the NSW Racing Industry (2014), IER Pty Ltd prepared for the NSW Office of Liquor, Gaming and Racing

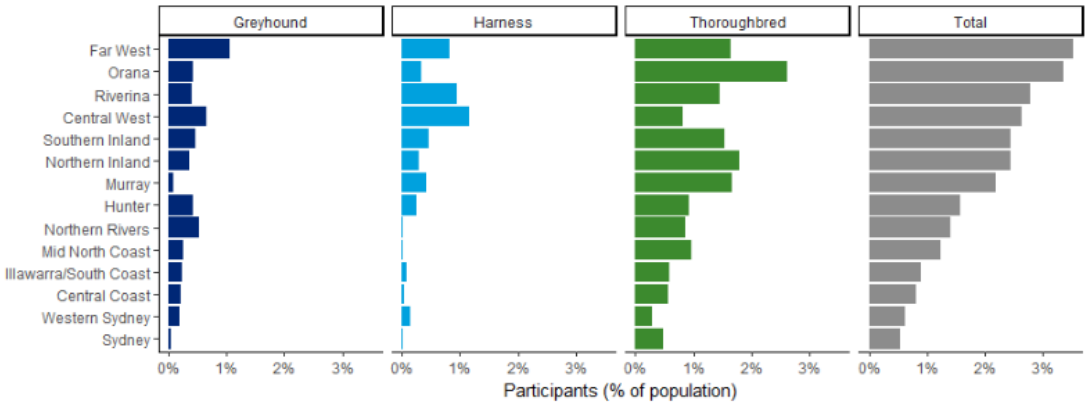
87) The payments to the thoroughbred racing industry are therefore likely to result in increased funding to these regional areas. Further, breeders generally choose to locate in regional areas that provide enough space to run their businesses, and trainers generally operate near local tracks and employ a number of stable hands and jockeys.[24]

88) A report commissioned by the NSW Office of Liquor, Gaming and Racing suggests that in some regional areas over 3% of the local population is involved in the racing industry and that in these proportional terms the industry is more significant for regional NSW than metropolitan NSW (Figure 2).[25]

[24] These propositions are supported by analysis of the location of thoroughbred, harness and greyhound employees across NSW as provided in *IER Pty Ltd prepared for the NSW Office of Liquor, Gaming and Racing 2014.*

[25] IER Pty Ltd prepared for the NSW Office of Liquor, Gaming and Racing (2014). The report used surveys to establish the number of participants in the racing industry, although it does not provide any detailed account of survey technique or numbers. Its definition of racing industry participants are categorised as breeders;

Figure 2 Participants in the NSW racing industry as a percentage of local populations

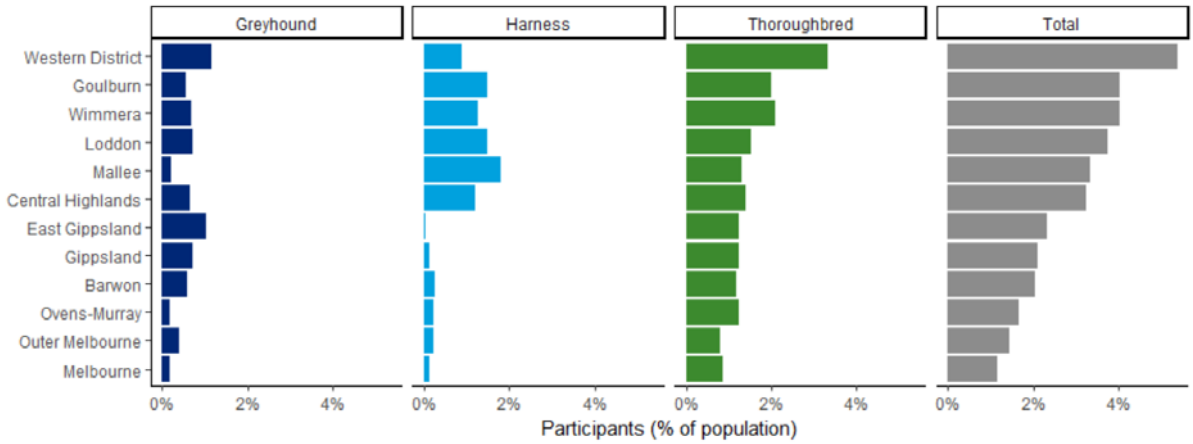


Source: Calculations based on Size and Scope of the NSW Racing Industry (2014), IER Pty Ltd prepared for the NSW Office of Liquor, Gaming and Racing. Figures are for the 2012-13 racing season.

89) The NSW Office of Liquor, Gaming and Racing report also suggests that of the over 60,000 participants involved in the racing industry[26] there are over 40,000 in regional NSW, which outnumbers participants in Sydney and Western Sydney.

90) Similarly, a report on the Victorian racing industry also found that regional areas of Victoria are heavily involved in the racing industry (Figure 3).

Figure 3 Participants in the Victorian racing industry as a percentage of local populations



breeders staff; owners & syndicate owners; trainers; stable/kennel employees; full and part time club staff; casual/contractor staff; farriers/float drivers/vets; club volunteers; jockeys, drivers and apprentices; barrier & catching pen attendants; industry administration staff. Note that the report was prepared prior to the NSW Government's ban on greyhound racing. Although the ban has since been lifted, we are unaware of the impact that this may have had on the number of employees in greyhound clubs.

[26] Ibid.

Source: Calculations based on 2010 Spring Racing Carnival (2010), IER Pty Ltd. Figures are for the 2010-11 racing season.

91) In order to think further about the role played by the racing industry, it is worth differentiating between direct and indirect economic contributions.

92) A direct economic contribution is the contribution that the industry under consideration makes to an economy. In the case of the thoroughbred racing industry, the direct economic contribution to the Australian economy can be thought of as the value added by:

a. clubs and tracks, which earn income from race days – including gate sales, membership, catering sponsorship and advertising – and TAB wagering distributions. In addition, clubs may collect fees for use of their training facilities. Clubs and tracks use their income to fund prize money and other race-day expenses, and maintain tracks used for training and racing;

b. owners, provide investment that supplies horses and income to trainers, jockeys, stable hands and others. For many owners, investing in a thoroughbred is not a business decision aimed solely at maximising profits; owners also gain enjoyment which they are prepared to pay for;

c. trainers, there are 3,458 thoroughbred trainers and 873 riders (including amateur and apprentice jockeys) in Australia; [27]

d. breeding services, Australia's thoroughbred breeding produced 6,407 foals in FY2016.[28] The horse farming industry currently has 3,660 establishments and 6,787 employees across Australia (including permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry);[29] and

e. race wagering.

93) The indirect economic contribution is the contribution that extends beyond the industry under consideration to other industries in the economy through economic linkages between industries. It is important to take these indirect impacts into account in an economy-wide analysis as various industries in our economy are often highly interdependent. In the case of the

[27] Racing Australia, 2016, Table 1
[28] Racing Australia, 2016, Table 52
[29] IBISWorld, 2017.

thoroughbred racing industry the indirect economic contribution to the Australian economy can be thought of as the value added by:

a. veterinary services, responsible for the health and welfare of horses in the thoroughbred racing industry;

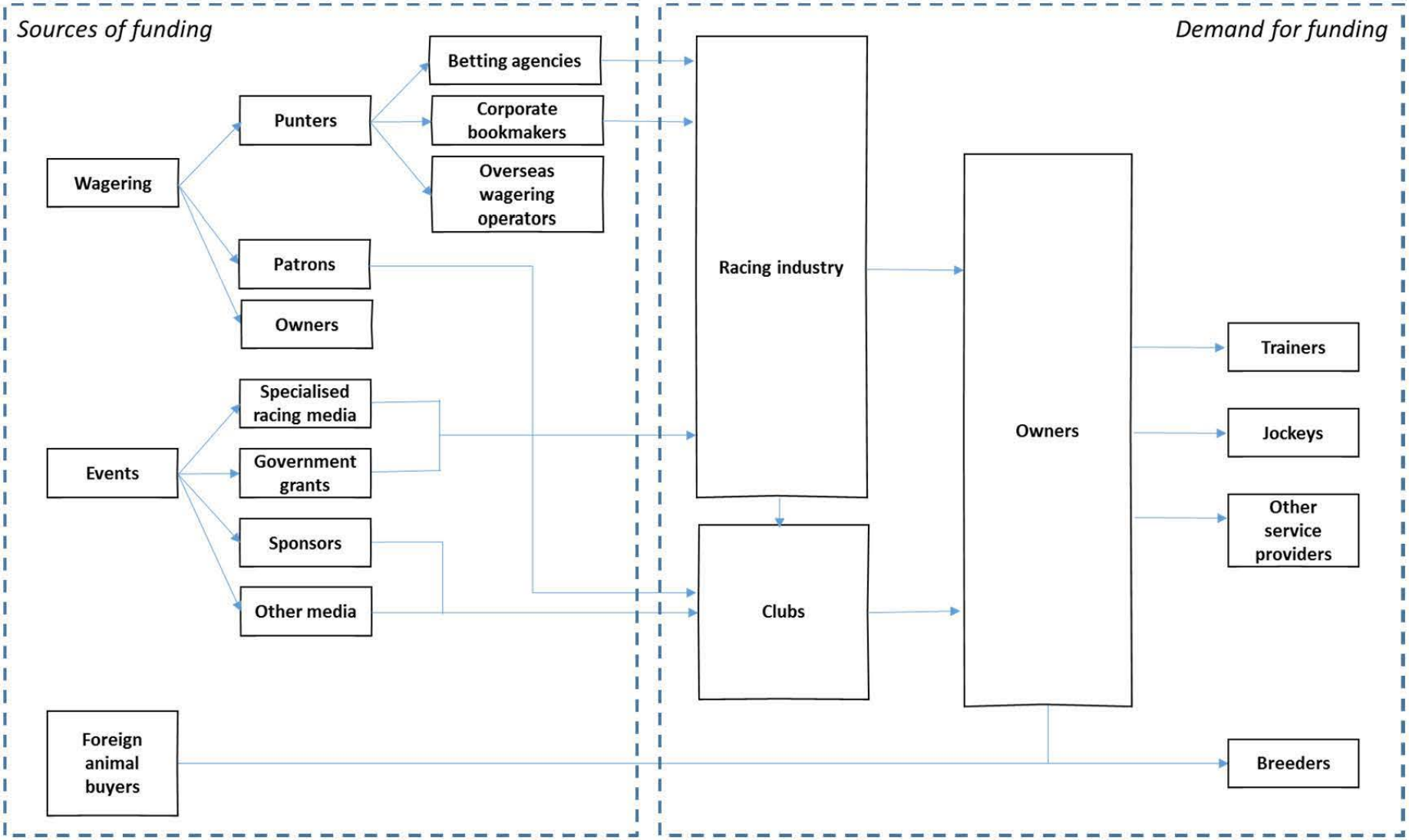
b. feed producers, who provide feed stock to horses in the thoroughbred racing industry;

c. transport services, utilised to move horses around the country as well as racegoers from their origin (which might be a metropolitan centre) to race days; and

d. hospitality services, that provide racegoers with food, drinks and accommodation.

94) Similar direct and indirect contributions are made by the harness racing and greyhound industries.

Figure 4 A stylised representation of the sources and demand for funding



Source: Adapted from Report to Racing NSW, Boston Consulting Group, 2008

Impact of the Proposed Transaction on funding for the thoroughbred racing industry

95) Given existing agreements with the racing industry bodies, I would expect that the additional **[Confidential to Tabcorp]** [redacted] in revenue paid to the racing industries bodies as a result of the Proposed Transaction (over and above what would have been paid in the absence of the Proposed Transaction) will lead to higher levels of expenditure across the areas of direct and indirect economic contribution discussed at paragraphs 91 and 92.[30]

96) This is particularly important because the industry relies on funding from race field fees, product fees and profit sharing arrangements.

97) Race field fees (or race information fees) and sports product fees (or program fees) are State and Territory based arrangements "…under which each State or Territory or its racing industry charges wagering operators product fees for use of that industry's race fields information (or otherwise charges fees in respect of the operator's race betting operations in that State or Territory)".[31]

98) The free rider problem identified at paragraph 78, means that it may be difficult for racing industry bodies to find alternative sources of funding for their operations. In this way the **[Confidential to Tabcorp]** [redacted] in additional revenue paid as a result of the Proposed Transaction could be characterised as acting to help address a market failure brought about by the free rider problem. To the extent that this is the case, this results in a further improvement in economic efficiency as a result of the Proposed Transaction.

99) Also, in doing so, the funding results in a stronger racing industry than would be the case without this funding source.

Implications for the Racing Industry

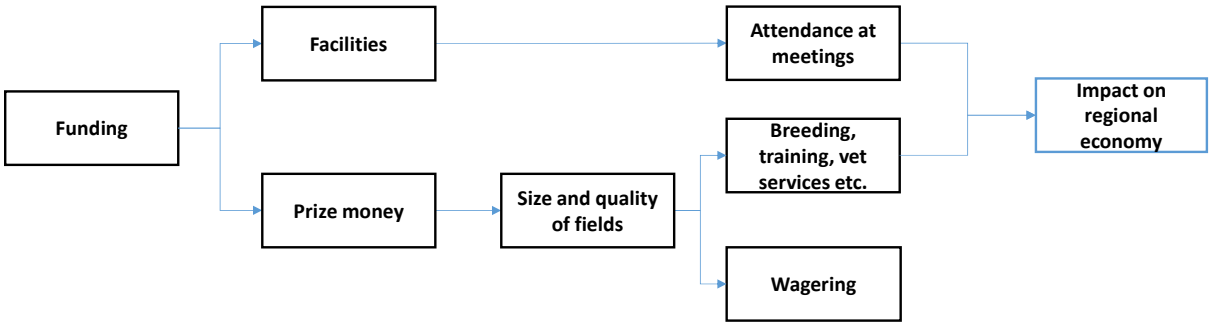
100) Given the nature of racing organisations, the vast majority of the racing industry's increase in funding will be spent by the racing industry bodies on improving racing events, through

[30] The Proposed Transaction also results in a decrease in **[Confidential to Tabcorp]** [redacted] in race field fees from competitors of the Merged Entity that is not taken into account in the **[Confidential to Tabcorp]** [redacted] figure.
[31] Tabcorp, 2016, p.39

increases in prize money and capital investments related to the industry. As an example, this has been the focus of NSW Racing's Strategic Plan[32] and its importance is noted by Racing Victoria.[33]

101) The flow through of increased funding to the racing industry is outlined in Figure 5.

Figure 5 Flow through of increased funding to the racing industry



102) Increased prize money will result in better quality racing including through increased incentives to invest in horses leading to larger fields and better horses in the thoroughbred industry. However, the linkages shown in Figure 5 are not precisely understood and will rely on decisions made by various parties. There is a range of evidence that, combined, lends support to the thrust of the ideas presented. This includes:

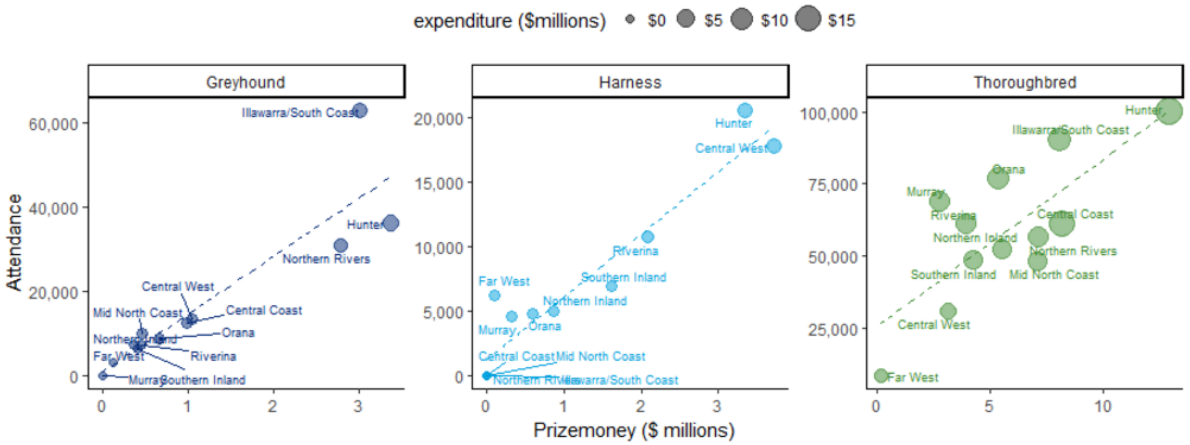
a) the positive relationship between attendances and prize money at a regional level (see Figure 6);

b) the positive relationship between attendance and prize money at different race meetings within one city (see Figure 7 which displays this relationship for Melbourne's Spring Carnival); and

[32] Racing New South Wales, 2014. *Strategic Plan October 2014*.
[33] As an example, in its 2016 Annual Report Racing Victoria states under the heading of "Prizemoney", "Increasing returns to participants remains a continual goal to underpin the strength of the industry..", Racing Victoria, *2016 Annual Report*, p.10.

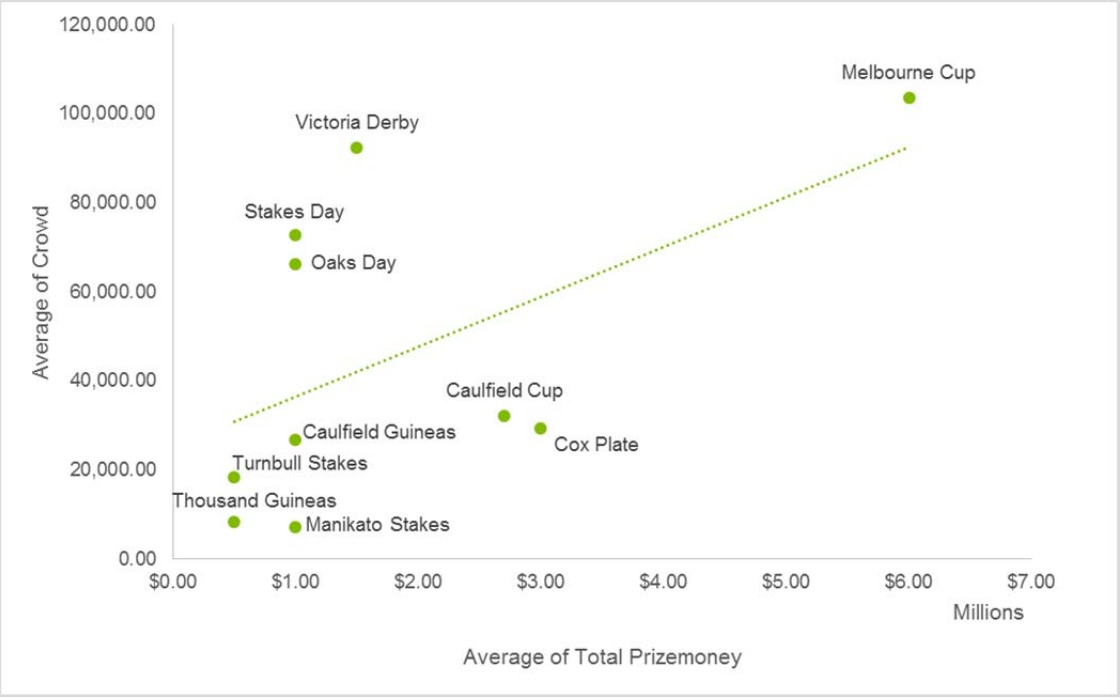
c) the business strategies pursued by racing bodies including NSW Racing's focus on 'The Championships', 'The Everest' and its decision to boost prize money in regional NSW.

Figure 6 The relationship between crowd size and prize money 2012/13



Source: Calculations based on Size and Scope of the NSW Racing Industry (2014), IER Pty Ltd prepared for the NSW Office of Liquor, Gaming and Racing.

Figure 7 The relationship between Spring Carnival crowd size and prize money (2010)



Source: IER Pty Ltd (2010). 2010 Spring Racing Carnival, Economic Impact Study.

103) Prize money for thoroughbred racing has been reported as $568.9 million in FY16.[34] This means that **[Confidential to Tabcorp]** [redacted] in additional revenue provided in the Assumptions represents a material increase in funding for the industry.

104) An increased incentive to invest in horses will lead to increased investment in clubs and tracks, an increase in the number and quality of trainers, an increase in breeding services, and an increase in veterinary services and feed production.

105) Higher attendance will lead to an increased use of transport services, hospitality services and an increase in tourists visiting regional areas.

106) These changes represent benefits to consumers of thoroughbred racing events. For example, an increase in spending on prize money will bring about higher quality racing events that these consumers will be able to enjoy. Regional Australia, often a focus of government policy, will benefit through increased regional tourism and expenditure as a result of these higher quality race events.

107) To some extent, the benefits to regional centres discussed above will come at the expense of economic activity in other areas of the economy. For example, increased domestic tourists attending regional race meetings will divert some spending from elsewhere within Australia, including metropolitan centres.

108) More attractive racing can be expected to boost tourism from overseas. In contrast to domestic travel, to the extent that international tourists choose to visit Australia or extend their stay as a result of improved thoroughbred racing events then this represents additional economic activity that would not otherwise take place. This could be a material effect, a report in 2010 surveyed attendees of the Melbourne Spring Racing Carnival and estimated that 8,595 international tourists were motived by the event to travel to Australia.[35]

109) While it seems likely that the additional funding provided to the racing industry will increase the number of additional international tourists that will visit Australia, the extent to which this will occur will depend on how the racing bodies allocate their additional funding and the behaviour of overseas based consumers.

[34] Racing Australia, 2016, p.53
[35] IER Pty Ltd., 2010., p.5

110) It is beyond the scope of this report to quantify this effect with precision, but below I do present estimates of how an increase in international tourism impacts GNI and, hence, economic welfare.

L. Estimating selected benefits of the Proposed Transaction

111) Some of the benefits flowing from the Proposed Transaction lend themselves to quantification through the use of a CGE model while other benefits are best treated in a qualitative manner. Importantly, the latter include net improvements in consumer benefits that flow from the wider and better product offerings to consumers. It is not to say that tracing these latter impacts is not important, or they are not properly quantified as a benefit, and that is why they are discussed in a qualitative way in detail throughout this report.

112) Where quantification is feasible, regard must be had to the extent of demand and supply-side constraints, the extent of linkages between sectors in the economy, price changes and trade flows.

113) One approach would be to look at changes in revenue, but this would ignore the direct benefits provided by the industry. An input-output analysis could be undertaken which would show benefits to associated industries.[36] However, neither of these approaches traces the effects through the broader economy or has regard to the reallocation of resources that can take place as a result of it.

114) In order to do this I have utilised a CGE model to provide a range of quantitative estimates. CGE models are able to capture the economic impact that a change in one part of the economy has on other parts of the economy, while taking into account supply- and demand-side constraints. Other models, which ignore these constraints, tend to overstate the benefits of a particular change, such as the expansion of a certain sector in the economy.

115) The CGE model used in this report is able to trace the impact of selected aspects of the Proposed Transaction through its linkages to other sectors of the economy and measure the overall effect on key economic aggregates.

116) Results from CGE models must be carefully interpreted, and like any economic analysis are subject to a range of assumptions and judgements. At the same time, when seeking to model

[36] An input-output model uses data on relationships between different sectors of the economy to trace the impact of particular economic changes from one sector through to other sectors.

economy-wide effects of a change (such as the kind of change that the Proposed Transaction will bring about) CGE models are considered the best practice tool that economists can bring to the task.

117) CGE models are widely used in the public service (such as the Commonwealth Treasury and the Productivity Commission), economic consulting, and academia. CGE models have also been used in a range of legal proceedings.

118) Deloitte Access Economics' – Regional General Equilibrium Model (**DAE-RGEM**) is a large scale, dynamic, multi-region, multi-commodity CGE model of the world economy. The results of the model are based upon a set of underlying relationships between its various components. A detailed description of these components and their relationships is provided at Attachment A.

119) For the purposes of this report we will provide annual estimates for a period of fifteen years – focusing on the impact at year 3 – of the estimated economic impact of the Proposed Transaction on GNI, and the present value of these estimates across a range of scenarios. Net present value calculations are presented for the fifteen year period. The choice of fifteen years reflects a balance that recognises that the benefits are likely to endure for an extended period and the uncertainty of those benefits over time.

120) I have chosen to report the results for GNI as I regard that as a suitable measure of those elements of economic welfare that can be quantified within a CGE framework. GNI represents the sum of income that Australians could use to purchase consumer goods and services or invest for the purpose of acquiring consumer goods and services in the future.

121) The DAE-RGEM has been modified for the purposes of considering the benefits associated with the Proposed Transaction through the introduction of a gambling sector.

122) Before the modification wagering existed within a more aggregated sector referred to as 'arts and recreation services'. The size of the gambling sector, and the extent of its use as an intermediate input,[37] was established using data from the Australian Bureau of Statistics.[38]

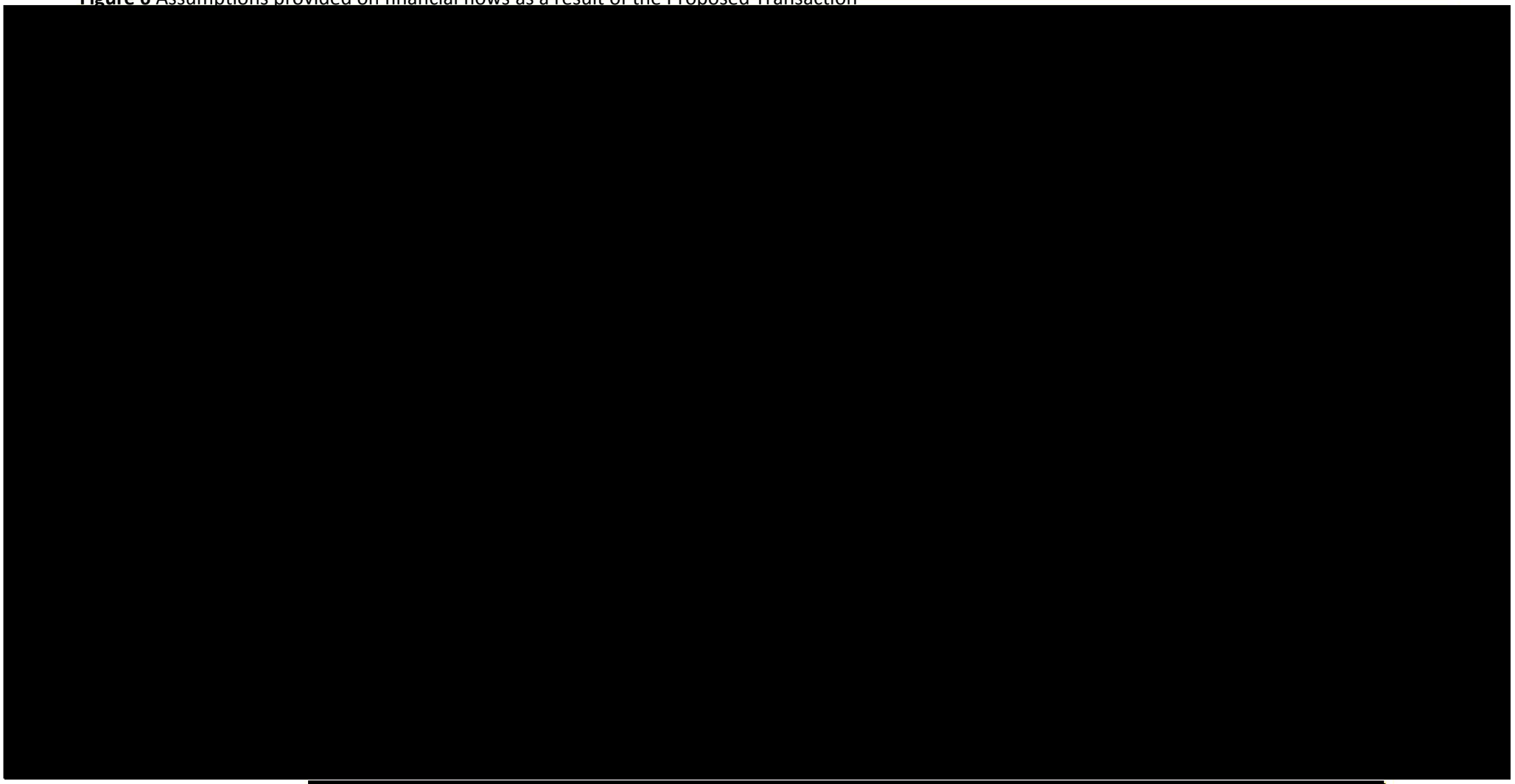
[37] Wagering becomes an intermediate input when it is consumed by other firms. The Australian Bureau of Statistics records no intermediate input exposure for the gambling sector and the modelling for this report has been undertaken on this basis. Were that assumption to be relaxed (that is, if there were to be some intermediate input exposure) then that would make the GNI results provided in this report larger. For a discussion of the role of intermediate inputs in the DAE-RGEM see Appendix A.

[38] Data was taken from the ABS Input-Output tables (Cat. No. 5209.0.55.001).

Confidential Restriction on Publication Claimed

[Confidential to Tabcorp]

Figure 6 Assumptions provided on financial flows as a result of the Proposed Transaction



[Confidential to Tabcorp]

123) The Assumptions provided on financial flows as a result of the Proposed Transaction are set out at Figure 6. The DAE-RGEM captures productive changes in the economy, rather than transfers of resources from one area of the economy to another. That does not mean that these transfers are unimportant, or that they do not contribute to a public benefit, but rather that they are not captured in this type of modelling exercise. The value of this modelling exercise is to show how changes in the productivity of one part of an economy can flow through to benefit other parts of an economy.

124) In the case of the Proposed Transaction it is the productive efficiencies and the reduction of imports that occur that change the productive capacity of the economy, rather than other benefits covered.

125) The net benefits from the Proposed Transaction that could potentially be modelled are:

a) improvements in productive efficiency (see Section D and E);

b) changes in imports/trade effects (see Section F);

c) flow on effects to the racing industry (see Section K);

d) an increase in regional development (see Section K); and

e) the impact of an increase in international tourism (in addition to the effects at (b)).

126) I have modelled the effects at (b) and what are likely to be the largest elements of (a). As noted above, the magnitude of the improvements in productive efficiency that flow from quality improvements are not considered to be able to be estimated precisely enough to be incorporated in the quantification.

127) The flow on effects on the racing industry (at (c)) are implicitly captured if it is assumed that a dollar flowing to the racing industry has a similar impact on the Australian economy as a dollar flowing to the so-called 'representative agents' in the CGE model.

128) This concept is explained in more detail at Attachment A. It means that the consumption preferences of one agent literally represents the consumption preferences of all consumers in the economy. While there are obvious differences amongst consumers in an economy,

aggregate patterns have been found to conform to what representative agent modelling would predict.[39]

129) Any modelling exercise necessarily involves some simplifications and this is not an unreasonable assumption to make when estimating economy-wide impacts. However, as mentioned above, the economy-wide model results do not elucidate impacts such as regional impacts ((d) above).

130) I have not directly modelled the impact of any increase in international tourism ((e) above) as the magnitude of the increase in international tourism depends on how multiple stakeholders respond and is thus uncertain. Nevertheless, this impact could be sizeable and accordingly I present estimates that show how GNI is boosted by any increase in international tourism.

131) CGE models quantify the effect of a shock or shocks to an economy. In this context a shock refers to a change or changes in the economic environment. The two shocks that will be imposed into the model for the purpose of considering the Proposed Transaction are:

- efficiency improvements: the Cost Savings that lead to improvements in productive efficiency; and
- reduced imports: the Proposed Transaction will result in a reduction in imports through reduced wagering with offshore based wagering providers which supply part of their services using offshore labour and capital (which is captured as a proportion of the Wagering Revenue Increases).

132) The values of these shocks are based on information provided to me in the Assumptions and is set out at Attachment D.

133) As indicated by Figure 6, the benefits that are modelled will flow through, in an accounting sense, to the other benefits associated with the Proposed Transaction, such as the additional funding to the racing industry and additional tax revenue.

134) Note the productivity improvement component of the Wagering Revenue Increases (Section E) are not explicitly modelled. This is owing to the difficulty of quantifying the effect of changes in productive efficiency and transfers in this context.

[39] The motivation behind the use of representative agents in CGE models is analytical tractability. The DAE-RGEM has a representative agent for all consumers and a representative agent for all firms.

135) The additional Commonwealth, State and Territory taxation revenue (see Section H) is captured indirectly within the model (tax rates are endogenous within the model).

136) I have not modelled any possible increase in problem gambling. I consider the relationship between the Proposed Transaction and any increase in problem gambling to be too uncertain to model (see Section J of this report).

137) The benefits from the efficiency improvements and reduction in imports are transmitted to the representative agent through a decrease in price of goods and services in the gambling sector.[40]

138) This decrease in price reflects improved productivity within the sector. Analytically, it is consistent with situations where observed prices do decrease, but also with situations where an observed price remains constant and the quality of a product improves.

139) The responsiveness of the gambling sector to a change in price is captured by economists in a measure of own-price elasticity: the change in quantity demanded of a good or service as a result of a change in its price.

140) More precisely an elasticity is the percentage change in quantity demanded divided by the percentage change in price. If a 1% decrease in price leads to a 1% increase in the quantity demanded of a good or service, the elasticity would be -1.

141) In the case of the gambling sector I have used the own-price elasticity provided by the Global Trade Analysis Project (**GTAP**)[41] of -0.93. This means that the percentage change in quantity demanded is smaller than the percentage change in price. From an economic perspective this means that the good is relatively inelastic.

142) This seems reasonable from an intuitive perspective, 'price' in the context of the gambling sector is hard to determine so there is reason to think that a consumer's expenditure on the good will not be highly responsive to these changes.

143) That said, there is considerable variation in elasticities estimated by various sources, the choice of -0.93 is broadly consistent with the Productivity Commission's review of literature which found elasticities between -0.8 and -1.3 for recreational gamblers, -0.6 and -1 for moderate problem gamblers and -0.3 to -1 for problem gamblers.[42]

[40] See Appendix A for further discussion on the representative agent.
[41] See Appendix A for further discussion on the GTAP.
[42] Productivity Commission, 1999.

144) For this reason I also provide in the results from the modelling exercise a central elasticity estimate of -0.93, and a sensitivity estimate of -0.6

Results

145) A summary of the results from the CGE modelling task is provided at Table 2 below. The detailed results can be found at Attachment B. The results provided below are from the third year of the transaction, and the present value estimates from a fifteen year flow of benefits.[43]

[Confidential to Tabcorp]

Table 2 Summary of results

Categories	**Third year value**		**Present value for 15 years**	
	Central estimate (-0.93) (millions)	**Elasticity sensitivity (-0.6) (millions)**	**Central estimate (-0.93) (millions)**	**Elasticity sensitivity (-0.6) (millions)**
CGE results				
Cost Savings that result in efficiency improvements	$152.0	$147.8	$1,279.9	$1,241.8
A substitution of domestic products for imported goods and services	$27.5	$26.7	$281.7	$274.5
Total of CGE results	$179.5	$174.5	$1,561.6	$1,516.3
Other benefits				
Efficiency improvements from a wider range and/or higher quality product offerings	Not quantified, but material.			
Increased funding to racing industry bodies, sporting bodies, retail wagering venues and Keno retail venues	The Assumptions provide that as a result of the Proposed Transaction the increase in funding across these categories in the third year will be [redacted].			
Increased Commonwealth, State and Territory taxation revenue	The Assumptions provide that as a result of the Proposed Transaction the Merged Entity will pay an additional [redacted] in state and territory taxation revenue.			
Increased problem gambling	Not quantified but unlikely to be material			
Flow on benefits from the racing industry	Not explicitly quantified, but material.			
Increased national income from an increase in overseas tourists	Not quantified, but material (see paragraph 148).			

146) These estimates should be interpreted as a summary of the benefits that come about as a result of the Proposed Transaction. In particular, the CGE results provide an indication of the beneficial flow on effects to the broader parts of the Australian economy. Not all of the numbers in the table should not be considered as additive.

[43] In calculating present values a discount rate of 7% has been used. This has been chosen in accordance with recommendations by the Commonwealth Government's Office of Best Practice Regulation (OPBR), see OPBR (2016).

147) The economic benefits from an increase in international tourism have not been incorporated into the CGE modelling. This is because the magnitude of the relationships that lead to an increase in international tourism are uncertain, as discussed at paragraphs 107 to 109 of this report.

148) I have however considered how an increase in Australian exports might affect GNI, which is analogous to how any increase in tourists from overseas to Australia might affect Australia's GNI. Our modelling indicates a gain to GNI of around 40 cents per dollar of increased exports in the short run.[44] Our modelling indicates that in the long run the total gain to GNI could be between 80 to 90 cents in the dollar.

149) As an example, a report in 2010 found that the 8,595 international tourists who were motivated by the Spring Carnival to travel to Australia spent on average $429 per day each, meaning that combined these visitors were spending $3.7 million per day.[45] Meaning the contribution to GNI could be $1.5 million per day in the short run and up to $3.3 million per day in the long run.

150) Referring to Table 2, I first provide results of the efficiency improvements that result from the Proposed Transaction.

151) The results suggest that the wider economic benefits from the improvements in productive efficiency could be in the order of $152.0 million in the third year following the Proposed Transaction.

152) Here the model is capturing the relationship between the gambling sector and the rest of the Australian economy. By improving productivity in that sector the Proposed Transaction lowers its effective price, and that allows resources that are freed from the sector to be used elsewhere in the economy, allowing the economy as a whole to expand.

153) I then model the effect of a reduction in imports. The results suggest that the wider economic benefits from a substitution away from imported products could be in the order of $27.5 million. This means that the wider economic benefits from the combination of the improvements in productive efficiency and a substitution away from imported products could be in the order of $179.5 million.

[44] Here the short run can be thought of as a period of time before the economy has had a chance to adjust to the change in exports. In contrast the long run represents a period of time where the economy has had time to adjust to the change in exports.
[45] IER Pty Ltd., 2010, p.5 & p.9.

154) I have provided a number of input sensitivities at Attachment B. The input sensitivities report the impact on the results of a 25% reduction in the value of the inputs used in the CGE model through to a 25% increase, at 5 percentage point intervals.

155) I am not suggesting that I think these input sensitivities represent a likely range of outcomes. Rather, I am providing them to demonstrate how changes in the numbers provided in the Assumptions might impact upon the final results of the CGE modelling.

156) I have also considered how a change in the price elasticity used will change the results from the CGE model. A lower elasticity sensitivity of -0.6 leads to a lower gain in national income when compared to the estimate that uses the central estimate elasticity of -0.93 ($174.5 million compared to $179.5 million respectively).

157) The lower elasticity implies that consumers change their behaviour less in response to the shocks than in the central estimate case. The intuition behind the lower gain to GNI is that it is a change in the allocation of resources across an economy that is primarily responsible for the improvements in GNI. Because consumers are not changing their behaviour as much, there is a smaller change in the allocation of resources across the economy, hence a lower change in GNI

158) However, in general the results are similar, which suggests that the model is not particularly sensitive to the choice of elasticity.

M. Qualitative impacts on consumers, the racing industry, state and federal government tax revenues and regional Australia

159) I have articulated a range of benefits and one potential detriment that I consider result from the Proposed Transaction. Where possible I have sought to provide a quantitative estimate of these benefits. Qualitatively the public benefits from the Proposed Transaction are:

a. productive efficiencies brought about by the Cost Savings;

b. higher quality product offerings that result in the Wagering Revenue Increases and the Keno Revenue Increases;

c. higher quality product offerings that result in a substitution of domestic products for imported goods and services;

d. increased funding to racing industry bodies, sporting bodies, retail wagering venues and Keno retail venues;

e. additional Commonwealth, State and Territory taxation revenue; and

f. flow on benefits to regional Australia through profit sharing arrangements with the racing industry bodies.

160) I used analysis from the Productivity Commission to show that these benefits are not likely to be materially offset by any increase in problem gambling, to the extent that any would result from the Proposed Transaction.

161) I also consider that to the extent that the Proposed Transaction is likely to lead to the pooling of Tabcorp's and Tatts' pari-mutuel pools then this should also be considered as a public benefit.

162) It is important to note that these public benefits and potential detriment are not necessarily additive in an accounting sense. For example, the increase in payments to racing industry bodies (Section K) are as a result of the cost synergies (Section D) and the additional revenue from higher quality product offerings (Section E) rather than in addition to them.

N. Conclusion

163) Based on the Assumptions provided to me the Proposed Transaction appears likely to result in a number of categories of benefit and one category of potential detriment. I have set these categories out in this report and above at paragraphs 158 to 159. The benefits clearly outweigh the potential detriment identified.

164) I have assumed that there will be no public detriment as a result of any lessening of competition that may arise from the Proposed Transaction.

165) The Assumptions provided to me also state that the Proposed Transaction will remove a key commercial barrier to combining Tabcorp's and Tatts' pari-mutuel pools. If those pools were to be combined this would be a public benefit.

Ric Simes
9 March 2017

O. References

Australian Bureau of Statistics (2016a). 5209.0.55.001 Australian National Accounts: Input-Output Tables, 2013-14.

Australian Bureau of Statistics (2016b). 6202.0 – Labour Force, Australia, Nov 2016.

Australian Competition and Consumer Commission (ACCC) (2013). Authorisation Guidelines, June 2013.

Australian Competition and Consumer Commission (ACCC) (2014). Determination, Tabcorp Wagering Manager (Vic) Pty Ltd and TAB Limited in respect of international pooling arrangements. Authorisation numbers: A91419-A91424, 29 October 2014.

Gretton, P. (2013). On input-output tables: uses and abuses. Productivity Commission Staff Research Note, Australian Productivity Commission.

IBISWorld (2017). Industry Report R0191, Horse Farming in Australia. Available on subscription.

IER Pty Ltd. (2010). 2010 Spring Racing Carnival, Economic Impact Study.

IER Pty Ltd. (2013). Size and Scope of the Victorian Racing Industry.

IER Pty Ltd, (prepared for the NSW Office of Liquor, Gaming and Racing) (2014). Size and Scope of the NSW Racing Industry.

NSW Government Media Release (2016). Greyhound racing given one final chance under toughest regulations in the country, 11 October 2016.

Office of Best Practice Regulation (OBPR), Department of Prime Minister and Cabinet (2016). Guidance Note, Cost-Benefit Analysis, February 2016.

Office for National Statistics (UK) (2007). The ONS Productivity Handbook.

Organisation for Economic Co-operation and Development (OECD) (2013). Policy Roundtables: The Role and Measurement of Quality in Competition Analysis 2013.

Productivity Commission (1999). Australia's Gambling Industries.

Productivity Commission (2010a). Gambling, Productivity Commission Inquiry Report, Volume 1, No. 50, 26 February 2010.

Productivity Commission (2010b). Gambling, Productivity Commission Inquiry Report, Volume 2, No. 50, 26 February 2010.

Racing Australia (2016). Racing Australia Fact Book 2015-16.

Racing New South Wales (2014). Strategic Plan October 2014.

Racing New South Wales (2016a). Annual Report 2016

Racing New South Wales (2016b). Diary & Information. Accessible from: http://racing.racingnsw.com.au/FreeFields/Calendar_Meetings.aspx?date=1/7/2016

Racing Victoria (2016). 2016 Annual Report.

Tabcorp (2016a). Chairman's address and Managing Director and Chief Executive Officer's Address, Tabcorp Annual General Meeting, 25 October 2016

Tabcorp (2016b). Tabcorp Annual Report 2016.

Tatts Group (2016). Tatts Group Annual Report 2016.

Thoroughbred Racing SA Limited (2015). Annual Report 2015.

Attachment A DAE-RGEM

This section provides a more detailed overview of the DAE-RGEM. Some of the terminology used in this section will be unfamiliar to a non-economist.

DAE-RGEM is based on a standard CGE model developed by the Global Trade Analysis Project (GTAP), and has been tailored to the Australian economy.[46] This tailoring involved building in a greater level of disaggregation of Australian industries and regions than is provided in the standard model. Because of this, DAE-RGEM can be used to more accurately analyse shocks relating to specific industries and regions in Australia.

The DAE-RGEM relies on a number of standard and accepted data sources:

- Parameters and international data are from the Global Trade Analysis Project (GTAP), the leading organisation in the development of CGE modelling.
- Australian data are from the Australian Bureau of Statistics' (ABS) input-output tables.[47]

Figure A1 - The components of DAE-RGEM and their relationships

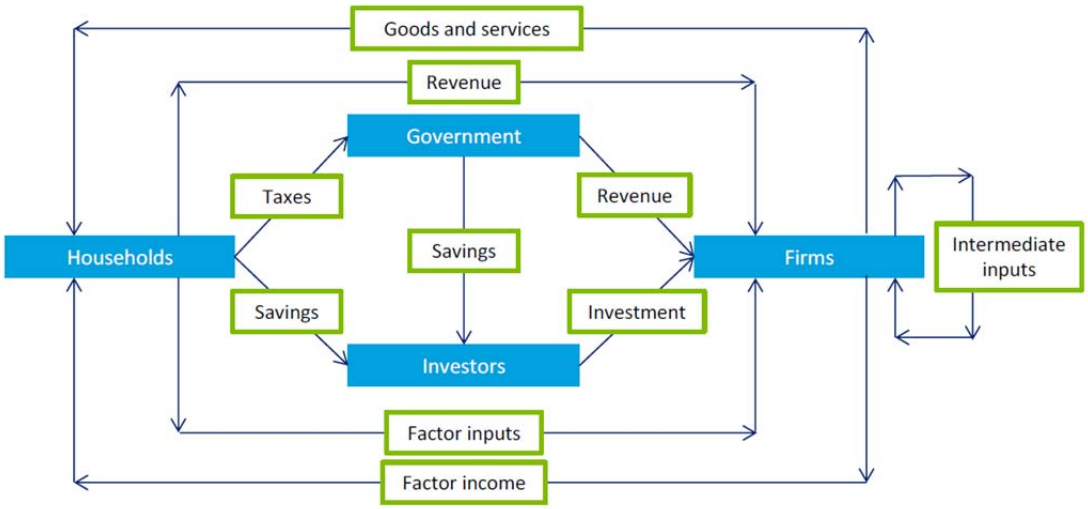


Figure A1 is a stylised diagram showing the circular flow of income and spending that occurs in DAE-RGEM. To meet demand for products, firms purchase inputs from other producers and hire factors of production (labour and capital). Producers pay wages and rent (factor income) which accrue to households. Households spend their income on goods and services, pay taxes and put some away for savings. The government uses tax revenue to purchase goods and services, while savings are used by investors to buy capital goods to facilitate future consumption. As DAE-RGEM is an open economy model, it also includes trade flows with other regions, states, and foreign countries.

[46] GTAP is a global network of researchers and policy makers conducting quantitative analysis of international policy issues.

[47] Input-output tables are a matrix of industries recording the value of output from one industry that forms input for another. ABS input-output tables record these values for all Australian industries. See ABS Catalogue # 5209.0.55.001

The model compares a baseline scenario where the proposed event (or shock) does not occur with a counterfactual scenario where it does. This requires developing a set of inputs that stylize these alternative scenarios, so that the economic impact of the event can be projected.

Key assumptions underpinning the model are:

- The model contains a 'regional consumer' that receives all income from factor payments (labour, capital, land and natural resources), taxes and net foreign income from borrowing (lending).
- Income is allocated across household consumption, government consumption and savings so as to maximise a Cobb-Douglas (C-D) utility function.
- Household consumption for composite goods is determined by minimising expenditure via a CDE (Constant Differences of Elasticities) expenditure function. For most regions, households can source consumption goods only from domestic and imported sources. In the Australian regions, households can also source goods from interstate. In all cases, the choice of commodities by source is determined by a CRESH (Constant Ratios of Elasticities Substitution, Homothetic) utility function.
- Government consumption for composite goods, and goods from different sources (domestic, imported and interstate), is determined by maximising utility via a C-D utility function.
- All savings generated in each region are used to purchase bonds whose price movements reflect movements in the price of creating capital.
- Producers supply goods by combining aggregate intermediate inputs and primary factors in fixed proportions (the Leontief assumption). Composite intermediate inputs are also combined in fixed proportions, whereas individual primary factors are combined using a CES production function
- Producers are cost minimisers, and in doing so, choose between domestic, imported and interstate intermediate inputs via a CRESH production function
- The supply of labour is positively influenced by movements in the real wage rate governed by an elasticity of supply.
- Investment takes place in a global market and allows for different regions to have different rates of return that reflect different risk profiles and policy impediments to investment. A global investor ranks countries as investment destinations based on two factors: global investment and rates of return in a given region compared with global rates of return. Once the aggregate investment has been determined for Australia, aggregate investment in each Australian sub-region is determined by an Australian investor based on: Australian investment and rates of return in a given sub-region compared with the national rate of return.
- Once aggregate investment is determined in each region, the regional investor constructs capital goods by combining composite investment goods in fixed proportions, and minimises costs by choosing between domestic, imported and interstate sources for these goods via a CRESH production function.
- Prices are determined via market-clearing conditions that require sectoral output (supply) to equal the amount sold (demand) to final users (households and government), intermediate

users (firms and investors), foreigners (international exports), and other Australian regions (interstate exports).

- For internationally-traded goods (imports and exports), the Armington assumption is applied whereby the same goods produced in different countries are treated as imperfect substitutes. But, in relative terms, imported goods from different regions are treated as closer substitutes than domestically-produced goods and imported composites. Goods traded interstate within the Australian regions are assumed to be closer substitutes again.

Below is a description of each component of the model and key linkages between components.

Households

Each region in the model has a so-called representative household that receives and spends all income. The representative household allocates income across three different expenditure areas: private household consumption; government consumption; and savings.

The representative household interacts with producers in two ways. First, in allocating expenditure across household and government consumption, this sustains demand for production. Second, the representative household owns and receives all income from factor payments (labour, capital, land and natural resources) as well as net taxes. Factors of production are used by producers as inputs into production along with intermediate inputs. The level of production, as well as supply of factors, determines the amount of income generated in each region.

The representative household's relationship with investors is through the supply of investable funds – savings. The relationship between the representative household and the international sector is twofold. First, importers compete with domestic producers in consumption markets. Second, other regions in the model can lend (borrow) money from each other.

- The representative household allocates income across three different expenditure areas – private household consumption; government consumption; and savings – to maximise a Cobb-Douglas utility function.
- Private household consumption on composite goods is determined by minimising a CDE (Constant Differences of Elasticities) expenditure function. Private household consumption on composite goods from different sources is determined is determined by a CRESH (Constant Ratios of Elasticities Substitution, Homothetic) utility function.
- Government consumption on composite goods, and composite goods from different sources, is determined by maximising a Cobb-Douglas utility function.
- All savings generated in each region is used to purchase bonds whose price movements reflect movements in the price of generating capital.

Producers

Apart from selling goods and services to households and government, producers sell products to each other (intermediate usage) and to investors. Intermediate usage is where one producer supplies inputs to another's production. For example, coal producers supply inputs to the electricity sector.

Capital is an input into production. Investors react to the conditions facing producers in a region to determine the amount of investment. Generally, increases in production are accompanied by increased investment. In addition, the production of machinery, construction of buildings and the like that forms the basis of a region's capital stock, is undertaken by producers. In other words,

investment demand adds to household and government expenditure from the representative household, to determine the demand for goods and services in a region.

Producers interact with international markets in two main ways. First, they compete with producers in overseas regions for export markets, as well as in their own region. Second, they use inputs from overseas in their production.

- Sectoral output equals the amount demanded by consumers (households and government) and intermediate users (firms and investors) as well as exports.
- Intermediate inputs are assumed to be combined in fixed proportions at the composite level. As mentioned above, the exception to this is the electricity sector that is able to substitute different technologies (brown coal, black coal, oil, gas, hydropower and other renewables) using the 'technology bundle' approach developed by ABARE (1996).
- To minimise costs, producers substitute between domestic and imported intermediate inputs is governed by the Armington assumption as well as between primary factors of production (through a CES aggregator). Substitution between skilled and unskilled labour is also allowed (again via a CES function).
- The supply of labour is positively influenced by movements in the wage rate governed by an elasticity of supply is (assumed to be 0.2). This implies that changes influencing the demand for labour, positively or negatively, will impact both the level of employment and the wage rate. This is a typical labour market specification for a dynamic model such as DAE-RGEM. There are other labour market 'settings' that can be used. First, the labour market could take on long-run characteristics with aggregate employment being fixed and any changes to labour demand changes being absorbed through movements in the wage rate. Second, the labour market could take on short-run characteristics with fixed wages and flexible employment levels.

Investors

Investment takes place in a global market and allows for different regions to have different rates of return that reflect different risk profiles and policy impediments to investment. The global investor ranks countries as investment destination based on two factors: current economic growth and rates of return in a given region compared with global rates of return.

- Once aggregate investment is determined in each region, the regional investor constructs capital goods by combining composite investment goods in fixed proportions, and minimises costs by choosing between domestic, imported and interstate sources for these goods via a CRESH production function.

International

Each of the components outlined above operate, simultaneously, in each region of the model. That is, for any simulation the model forecasts changes to trade and investment flows within, and between, regions subject to optimising behaviour by producers, consumers and investors. Of course, this implies some global conditions that must be met, such as global exports and global imports, are the same and that global debt repayment equals global debt receipts each year.

Attachment B DAE-RGEM, inputs and results

Table 1 Inputs into the DAE-RGEM

($ million)	Present Value	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Efficiency improvements																
Sensitivity: -25%	665.0	34.4	63.9	79.1	79.1	79.1	79.1	79.1	79.1	79.1	79.1	79.1	79.1	79.1	79.1	79.1
Sensitivity: -20%	709.3	36.7	68.2	84.3	84.3	84.3	84.3	84.3	84.3	84.3	84.3	84.3	84.3	84.3	84.3	84.3
Sensitivity: -15%	753.7	38.9	72.4	89.6	89.6	89.6	89.6	89.6	89.6	89.6	89.6	89.6	89.6	89.6	89.6	89.6
Sensitivity: -10%	798.0	41.2	76.7	94.9	94.9	94.9	94.9	94.9	94.9	94.9	94.9	94.9	94.9	94.9	94.9	94.9
Sensitivity: -5%	842.3	43.5	81.0	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1	100.1
Original input	886.7	45.8	85.2	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4	105.4
Sensitivity: +5%	931.0	48.1	89.5	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7	110.7
Sensitivity: +10%	975.3	50.4	93.8	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9	115.9
Sensitivity: +15%	1,019.7	52.7	98.0	121.2	121.2	121.2	121.2	121.2	121.2	121.2	121.2	121.2	121.2	121.2	121.2	121.2
Sensitivity: +20%	1,064.0	55.0	102.3	126.5	126.5	126.5	126.5	126.5	126.5	126.5	126.5	126.5	126.5	126.5	126.5	126.5
Sensitivity: +25%	1,108.3	57.3	106.5	131.8	131.8	131.8	131.8	131.8	131.8	131.8	131.8	131.8	131.8	131.8	131.8	131.8
Reduced imports																
Sensitivity: -25%	369.0	8.7	26.8	41.7	42.5	43.4	44.3	45.1	46.0	47.0	47.9	48.9	49.8	50.8	51.8	52.9
Sensitivity: -20%	393.6	9.3	28.6	44.5	45.4	46.3	47.2	48.1	49.1	50.1	51.1	52.1	53.2	54.2	55.3	56.4
Sensitivity: -15%	418.2	9.9	30.4	47.3	48.2	49.2	50.2	51.2	52.2	53.2	54.3	55.4	56.5	57.6	58.8	59.9
Sensitivity: -10%	442.8	10.4	32.2	50.0	51.0	52.1	53.1	54.2	55.2	56.4	57.5	58.6	59.8	61.0	62.2	63.5
Sensitivity: -5%	467.4	11.0	34.0	52.8	53.9	55.0	56.1	57.2	58.3	59.5	60.7	61.9	63.1	64.4	65.7	67.0
Original input	492.0	11.6	35.8	55.6	56.7	57.8	59.0	60.2	61.4	62.6	63.9	65.1	66.4	67.8	69.1	70.5
Sensitivity: +5%	516.6	12.2	37.5	58.4	59.5	60.7	62.0	63.2	64.5	65.7	67.1	68.4	69.8	71.2	72.6	74.0
Sensitivity: +10%	541.2	12.8	39.3	61.2	62.4	63.6	64.9	66.2	67.5	68.9	70.3	71.7	73.1	74.6	76.0	77.6
Sensitivity: +15%	565.7	13.3	41.1	63.9	65.2	66.5	67.9	69.2	70.6	72.0	73.4	74.9	76.4	77.9	79.5	81.1
Sensitivity: +20%	590.3	13.9	42.9	66.7	68.1	69.4	70.8	72.2	73.7	75.1	76.6	78.2	79.7	81.3	83.0	84.6
Sensitivity: +25%	614.9	14.5	44.7	69.5	70.9	72.3	73.8	75.2	76.7	78.3	79.8	81.4	83.1	84.7	86.4	88.1

Table 2a GDP output of the DAE-RGEM (own-price elasticity of -0.93)

($ million)	Present Value	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Efficiency improvements																
Sensitivity: -25%	961.9	49.3	92.1	114.4	114.9	115.0	115.1	114.9	114.7	114.5	114.3	114.2	113.9	113.7	113.3	113.1
Sensitivity: -20%	1,025.5	52.5	98.2	121.9	122.5	122.7	122.7	122.5	122.4	122.1	121.9	121.7	121.5	121.2	120.8	120.7
Sensitivity: -15%	1,089.1	55.8	104.2	129.5	130.0	130.3	130.3	130.2	130.0	129.7	129.4	129.2	129.0	128.7	128.3	128.2
Sensitivity: -10%	1,152.7	59.0	110.3	137.0	137.6	137.9	138.0	137.8	137.6	137.3	137.0	136.7	136.5	136.2	135.8	135.7
Sensitivity: -5%	1,216.3	62.3	116.4	144.5	145.1	145.5	145.6	145.4	145.3	144.9	144.5	144.3	144.1	143.7	143.4	143.2
Original input	1,279.9	65.5	122.5	152.0	152.7	153.2	153.2	153.0	152.9	152.5	152.1	151.8	151.6	151.2	150.9	150.7
Sensitivity: +5%	1,344.1	68.8	128.6	159.7	160.4	160.8	160.8	160.6	160.5	160.2	159.7	159.4	159.2	158.8	158.5	158.2
Sensitivity: +10%	1,408.3	72.1	134.7	167.3	168.1	168.5	168.5	168.3	168.1	167.8	167.4	167.1	166.8	166.4	166.0	165.8
Sensitivity: +15%	1,472.4	75.4	140.9	174.9	175.8	176.2	176.1	175.9	175.8	175.4	175.0	174.7	174.4	174.0	173.6	173.3
Sensitivity: +20%	1,536.6	78.7	147.0	182.5	183.4	183.8	183.8	183.6	183.4	183.1	182.7	182.4	182.0	181.6	181.2	180.8
Sensitivity: +25%	1,600.8	82.1	153.2	190.2	191.1	191.5	191.4	191.3	191.0	190.7	190.3	190.0	189.6	189.2	188.8	188.4
Efficiency improvements and Reduced imports																
Sensitivity: -25%	1,173.6	53.1	104.6	135.1	137.4	138.9	140.2	141.1	142.0	142.6	143.5	144.3	145.1	145.9	146.8	148.0
Sensitivity: -20%	1,251.2	56.6	111.5	143.9	146.5	148.1	149.4	150.4	151.4	152.1	152.9	153.8	154.7	155.5	156.6	157.8
Sensitivity: -15%	1,328.8	60.1	118.4	152.8	155.5	157.4	158.7	159.7	160.8	161.5	162.4	163.4	164.3	165.2	166.3	167.5
Sensitivity: -10%	1,406.4	63.6	125.3	161.7	164.6	166.6	168.0	169.1	170.1	171.0	171.9	172.9	174.0	174.9	176.0	177.3
Sensitivity: -5%	1,484.0	67.1	132.2	170.6	173.7	175.9	177.3	178.4	179.5	180.4	181.4	182.4	183.6	184.6	185.7	187.1
Original input	1,561.6	70.6	139.1	179.5	182.7	185.1	186.5	187.7	188.9	189.9	190.8	191.9	193.2	194.2	195.5	196.9
Sensitivity: +5%	1,639.8	74.1	146.1	188.5	191.9	194.3	195.8	197.1	198.4	199.4	200.4	201.6	202.9	204.0	205.3	206.8
Sensitivity: +10%	1,718.0	77.7	153.0	197.5	201.0	203.5	205.1	206.5	207.8	208.9	210.0	211.3	212.6	213.8	215.2	216.6
Sensitivity: +15%	1,796.2	81.3	160.0	206.5	210.1	212.7	214.4	215.9	217.2	218.4	219.6	220.9	222.3	223.6	225.0	226.5
Sensitivity: +20%	1,874.4	84.9	167.0	215.5	219.3	221.9	223.7	225.2	226.6	227.9	229.2	230.6	232.0	233.3	234.9	236.4
Sensitivity: +25%	1,952.6	88.4	173.9	224.5	228.4	231.2	233.0	234.6	236.0	237.4	238.7	240.2	241.7	243.1	244.7	246.3

Table 2b GDP output of the DAE-RGEM (own-price elasticity of -0.6)

($ million)	Present Value	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
Efficiency improvements																
Sensitivity: -25%	933.5	47.8	89.4	110.9	111.4	111.6	111.6	111.5	111.5	111.3	111.1	110.9	110.6	110.3	110.1	109.8
Sensitivity: -20%	995.1	51.0	95.3	118.3	118.8	119.0	119.0	118.9	118.8	118.6	118.4	118.2	117.8	117.5	117.2	117.0
Sensitivity: -15%	1,056.8	54.2	101.2	125.7	126.2	126.4	126.4	126.3	126.1	125.9	125.7	125.4	125.0	124.7	124.4	124.1
Sensitivity: -10%	1,118.5	57.4	107.1	133.0	133.7	133.9	133.8	133.7	133.5	133.1	133.0	132.7	132.3	131.9	131.6	131.2
Sensitivity: -5%	1,180.1	60.6	113.0	140.4	141.1	141.3	141.2	141.1	140.8	140.4	140.3	139.9	139.5	139.2	138.8	138.4
Original input	1,241.8	63.8	119.0	147.8	148.5	148.7	148.7	148.5	148.2	147.7	147.6	147.2	146.7	146.4	146.0	145.5
Sensitivity: +5%	1,303.0	66.9	124.9	155.1	155.8	156.0	156.0	155.8	155.5	155.0	154.8	154.4	153.9	153.6	153.2	152.7
Sensitivity: +10%	1,364.2	70.1	130.8	162.4	163.1	163.3	163.3	163.1	162.8	162.3	162.0	161.6	161.1	160.8	160.3	159.9
Sensitivity: +15%	1,425.4	73.2	136.7	169.7	170.4	170.7	170.6	170.4	170.1	169.6	169.2	168.8	168.3	168.0	167.5	167.1
Sensitivity: +20%	1,486.6	76.4	142.6	177.1	177.7	178.0	178.0	177.7	177.4	176.9	176.5	176.0	175.5	175.1	174.7	174.3
Sensitivity: +25%	1,547.7	79.5	148.5	184.4	185.1	185.3	185.3	185.0	184.7	184.2	183.7	183.2	182.7	182.3	181.8	181.5
Efficiency improvements and Reduced imports																
Sensitivity: -25%	1,139.4	51.5	101.5	131.0	133.3	134.9	136.1	137.1	137.9	138.7	139.5	140.2	140.9	141.6	142.5	143.3
Sensitivity: -20%	1,201.1	54.7	107.5	138.4	140.7	142.3	143.5	144.5	145.3	146.0	146.8	147.5	148.1	148.8	149.7	150.5
Sensitivity: -15%	1,262.8	57.9	113.4	145.8	148.2	149.7	150.9	151.9	152.6	153.3	154.0	154.7	155.4	156.1	156.9	157.6
Sensitivity: -10%	1,324.4	61.1	119.3	153.1	155.6	157.2	158.3	159.3	159.9	160.5	161.3	162.0	162.6	163.3	164.0	164.7
Sensitivity: -5%	1,386.1	64.3	125.2	160.5	163.0	164.6	165.7	166.7	167.3	167.8	168.6	169.2	169.8	170.5	171.2	171.9
Original input	1,516.3	68.8	135.3	174.5	177.6	179.6	181.1	182.4	183.3	184.2	185.4	186.3	187.3	188.4	189.5	190.6
Sensitivity: +5%	1,577.5	72.0	141.2	181.8	184.9	187.0	188.5	189.7	190.6	191.5	192.6	193.6	194.5	195.6	196.7	197.8
Sensitivity: +10%	1,638.7	75.1	147.1	189.2	192.2	194.3	195.8	197.0	197.9	198.8	199.8	200.8	201.7	202.8	203.8	205.0
Sensitivity: +15%	1,699.9	78.3	153.0	196.5	199.5	201.6	203.1	204.3	205.2	206.1	207.0	208.0	208.9	210.0	211.0	212.1
Sensitivity: +20%	1,761.1	81.4	158.9	203.8	206.8	208.9	210.4	211.6	212.5	213.4	214.2	215.2	216.1	217.2	218.2	219.3
Sensitivity: +25%	1,891.9	85.8	168.8	217.8	221.5	224.1	225.9	227.4	228.7	229.9	231.1	232.4	233.7	235.2	236.7	238.3

Confidential Restriction on Publication Claimed

Attachment C CV of Dr Ric Simes

Background	Ric Simes has extensive knowledge in public policy, governance, finance, econometrics, economic analysis and strategy. He has held senior positions in the Commonwealth Treasury, academia, Prime Minister Keating's Office and the private sector before joining what is now, Deloitte Access Economics late in 2005. Ric has led numerous projects in the analysis of planning and regional development issues, financial services, climate change, energy, transport, water and the digital economy.
Skills & expertise	• Demonstrated expertise in economic analysis and public policy. In depth understanding of the operation of the Australian economic and financial system that blends policy analysis, economic and econometric modelling and first hand capital market expertise. • Capacity for representing interests of clients in their dealings with government and regulatory agencies at the most senior levels.
Professional and academic qualifications **Current Role** **Previous roles**	Ph.D (Economics), University of Pennsylvania; M.Ec, Australian National University; B.Comm (Honours), University of New South Wales. Senior Advisor, Deloitte Access Economics • Director, Deloitte Access Economics • Director of Access Economics & Chief Strategist for Access Capital Advisers • Partner, Deloitte Touche Tohmatsu • Vice President, CRA International; Principal, NECG • Head of Economic Team, ICAP (a major inter-dealer broker) • Chief Economist and Executive Director, NM Rothschild (Aust) Ltd • Senior Economic Adviser to the then Prime Minister of Australia, Paul Keating, throughout his period of Office. Areas of responsibilities included macroeconomic developments, budget policy, taxation, superannuation, industry policy, competition policy, land management and infrastructure • Various senior positions in the Commonwealth Treasury both in Australia and overseas (including the OECD) • Visiting Fellow at the Research School of Social Sciences at the Australian National University (1988) **Publications** • Numerous publications on macroeconomics and applied econometrics as well as regular contributions to leading newspapers **Conferences and training courses** Regular addresses to conferences on public policy, financial markets and macroeconomics
Professional Experience	Dr Simes built his early career undertaking economic and econometric modelling and providing policy advice within Commonwealth Treasury. Dr Simes also worked as a Senior Economic Advisor to Prime Minister Paul

	Keating, completed a PhD in Applied Macroeconometrics, heading the Commonwealth Treasury's modelling and forecasting work and as a Research Fellow at ANU. Recent experience at Deloitte Access Economics and Access Economics includes: – Numerous projects for financial institutions and government agencies. Dr Simes has provided advice on, *inter alia,* retail payment systems, prudential regulation, credit reporting, disclosure regulation, export of financial services, the mortgage market and financial derivatives. – Telecommunications, the NBN and the allocation of spectrum for government and private sector clients. – Digital economy – Analysis of the impact of digital technologies on competition, industry, economies and societies. – Competition analysis – Advice on the implications of specific mergers and acquisitions, policy and regulatory changes on competition. – Climate change policy - advice to government, industry and superannuation funds on the impact of climate change and climate change policy. – Energy and water – advice on policy and regulations to electricity and water utilities; advice on social economic impact of less water in the Murray Darling Basin. – Transport – policy and regulatory advice to port authorities and government in relation to airports. – Trade & industry – advice on major trends affecting the structure of industry in Australia; advice on policy related to innovation, research and development and, exports. – Strategic advice for superannuation funds on investments in infrastructure and other projects. – Intergovernmental policy - commissioned by the Council of Australian Governments (COAG) Reform Council (CRC) to assess 1) progress under the COAG reform agenda and 2) the effectiveness of the Intergovernmental Agreement on Federal Financial Relations (IGA) to drive reform.

Confidential Restriction on Publication Claimed

Attachment D Letter of Instructions and Assumptions

HERBERT
SMITH
FREEHILLS

Dr Ric Simes
Deloitte Access Economics
Grosvenor Place
225 George Street
Sydney NSW 2000
rsimes@deloitte.com.au

6 March 2017
Matter 82602332
By Email

Dear Ric

Confidential and Privileged

Instruction letter - Australian Competition Tribunal merger authorisation application

1 Introduction

We refer to the retainer letter dated 14 November 2016 that was sent to you by Clayton Utz (**Retainer Letter**) concerning the proposal for Tabcorp to acquire all of the shares in Tatts by Scheme of Arrangement (the **Proposed Transaction**). The Retainer Letter confirmed your retainer to act as an independent expert in relation to an application by Tabcorp (if ultimately filed) to the Australian Competition Tribunal for merger authorisation (the **Proceedings**) and to set out the terms of your retainer.

The Retainer Letter also stated that we would like you to prepare an expert report and that we would provide you with more detailed instructions in due course, including as to the specific questions that the report should address. The purpose of this letter is to:

1 confirm that we would like you to provide an expert report with respect to the Proceedings based on your expertise as an economist; and

2 provide you with more detailed instructions confirming the question your report should address.

We also remind you your retainer is governed by the Federal Court General Practice Note GPN-EXPT (Expert Evidence), and that you must comply with the Harmonised Expert Witness Code of Conduct.

2 Opinion sought in expert report

Based on your expertise and the assumptions provided, please provide in your expert report an opinion as to:

The likely impact on public benefits by reason of:

1 *the cost savings and revenue increases that are expected to result from the Proposed Transaction; and*

2 *the pass through of a proportion of those cost savings and revenue increases to racing industries, retail venues, sporting bodies and governments in Australia.*

In providing your opinion you are asked to assume that the Proposed Transaction is not likely to result in a public detriment from a lessening of competition.

3 Instructions

3.1 Background

By way of background:

- The Tribunal must not grant authorisation in relation to a proposed acquisition of shares or assets unless it is satisfied in all the circumstances that the proposed

acquisition would result, or be likely to result, in such a benefit to the public that the acquisition should be allowed to occur (cf. Competition and Consumer Act 2010 (Cth), s 95AZH(1));

- The Tribunal assesses whether there is likely to be such a public benefit by weighing the public benefits and detriments with the proposed acquisition, compared to the likely future without the proposed acquisition;
- A public benefit is anything of value to the community generally, any contribution to the aims pursued by the society including as one of its principal elements (in the context of the Competition and Consumer Act) the achievement of the economic goals of efficiency and progress;
- A public benefit needs to be of substance and durable. The weight given to particular benefits may vary depending on the extent to which the Australian community is able to take advantage of them;
- A public detriment primarily includes the detriments flowing from a lessening of competition as a result of the proposed acquisition, but can include detriments not associated with a lessening of competition.

3.2 Assumptions and materials

Please have regard to the following assumptions and materials in preparing your expert report:

(a) Assumptions for Dr Ric Simes dated 6 March 2017 (**Assumptions**);

(b) The Excel spreadsheet referred to as "TBP.100.001.0001", which sets out the cost savings expected to result from the Proposed Transaction;

(c) The Excel spreadsheet referred to as "TBP.100.001.0002", which sets out the wagering revenue increases expected to result from the Proposed Transaction;

(d) The Excel spreadsheet referred to as "TBP.100.001.0003", which sets out the keno revenue increases expected to result from the Proposed Transaction; and

(e) A statement of Damien Johnston, Chief Financial Officer of Tabcorp.

3.3 Sensitivities

Please conduct your analysis on the basis of a 25% sensitivity in 5% increments (e.g., plus and minus 5%, 10%, 15%, 20% and 25%) in respect of the cost savings and revenue increases set out in the Assumptions.

Yours sincerely

Chris Jose
Partner
Herbert Smith Freehills

+61 3 9288 1416
+61 411 514 487
chris.jose@hsf.com

Sarah Benbow
Senior Associate
Herbert Smith Freehills

+61 3 9288 1252
+61 427 603 867
sarah.benbow@hsf.com

Confidential Restriction on Publication Claimed

Draft assumptions of fact for report of Dr Ric Simes – 6 March 2017

You have been asked to prepare a report expressing an opinion on the likely impact on public benefits by reason of:

- the cost savings and revenue increases that are expected to result from the Proposed Transaction; and
- the pass through of a proportion of those cost savings and revenue increases to racing industries, retail venues, sporting bodies and governments in Australia.

In providing your opinion you are asked to assume that the Proposed Transaction is not likely to result in a public detriment from a lessening of competition.

In preparing your report, you are instructed to make the following assumptions.

1. The Proposed Transaction proceeds in accordance with the Deed, resulting in a merger of Tabcorp and Tatts (**Merged Entity**) being completed by 30 September 2017 (**Completion**).

Cost Savings

2. The Merged Entity will achieve, on an annual basis, at least the cost savings set out in the spreadsheet labelled "TBP.100.001.0001" by the end of the third year following Completion, and then in each following year, as a result of cost reductions in the following areas (the **Cost Savings**):

[Confidential to Tabcorp]

Summary of estimated Cost Savings[1]	Year 1 value (A$M)	Year 2 value (A$M)	Year 3 onwards value (A$M)
Wagering total	[redacted]	[redacted]	[redacted]
Marketing	[redacted]	[redacted]	[redacted]
Bookmakers	[redacted]	[redacted]	[redacted]
Call Centre	[redacted]	[redacted]	[redacted]
Radio	[redacted]	[redacted]	[redacted]
Technology total	[redacted]	[redacted]	[redacted]
Race-day operations	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
Wagering systems capex	[redacted]	[redacted]	[redacted]
Data centre running costs	[redacted]	[redacted]	[redacted]
Corporate total	[redacted]	[redacted]	[redacted]
Board & Management	[redacted]	[redacted]	[redacted]

[1] Some subtotals do not add precisely due to rounding.

Confidential Restriction on Publication Claimed

Summary of estimated Cost Savings[1]	Year 1 value (A$M)	Year 2 value (A$M)	Year 3 onwards value (A$M)
Duplicated functions	[redacted]	[redacted]	[redacted]
ASX Listing	[redacted]	[redacted]	[redacted]
Other	[redacted]	[redacted]	[redacted]
Procurement total	[redacted]	[redacted]	[redacted]
Communications	[redacted]	[redacted]	[redacted]
Other (venue overlap, [redacted], and improved terms)	[redacted]	[redacted]	[redacted]
Property and field services total	[redacted]	[redacted]	[redacted]
Property	[redacted]	[redacted]	[redacted]
Field services	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]

3. The following amounts of the Year 3 cost savings set out in paragraph 2 above are expected to result from **[Confidential to Tabcorp]** [redacted]

   (a) [redacted]

   (b) [redacted]

   (c) [redacted]

4. The Year 3 cost savings set out in paragraph 2 above will result in at least the following additional amounts being payable to the racing industries in each of New South Wales and Victoria on an annual basis, pursuant to the profit sharing arrangements that Tabcorp has in place with the racing industries in those States, as set out in the spreadsheet labelled "TBP.100.001.0001":

Confidential Restriction on Publication Claimed

[Confidential to Tabcorp]

(A$M)[2]	Victoria		
	Year 1 value	**Year 2 value**	**Year 3 onwards value**
Wagering	[redacted]	[redacted]	[redacted]
Technology	[redacted]	[redacted]	[redacted]
Technology (wagering systems capex)	[redacted]	[redacted]	[redacted]
Corporate	[redacted]	[redacted]	[redacted]
Procurement	[redacted]	[redacted]	[redacted]
Property and field services	[redacted]	[redacted]	[redacted]
Total saving	[redacted]	[redacted]	[redacted]

[Confidential to Tabcorp]

(A$M)[3]	NSW		
	Year 1 value (A$M)	**Year 2 value (A$M)**	**Year 3 onwards value (A$M)**
Wagering	[redacted]	[redacted]	[redacted]
Technology	[redacted]	[redacted]	[redacted]
Technology (wagering systems capex)	[redacted]	[redacted]	[redacted]
Corporate	[redacted]	[redacted]	[redacted]
Procurement	[redacted]	[redacted]	[redacted]
Property and field services	[redacted]	[redacted]	[redacted]
Total saving	[redacted]	[redacted]	[redacted]

5. The Year 3 cost savings set out in paragraph 2 above will result in approximately **[Confidential to Tabcorp]** [redacted] of additional tax being paid to the Federal Government on an annual basis.

[2] Some subtotals do not add precisely due to rounding

[3] Some subtotals do not add precisely due to rounding

Confidential Restriction on Publication Claimed

Revenue Increases

6. The Merged Entity will achieve turnover and revenue increases in its wagering business (the **Wagering Turnover and Revenue Increases**) on an annual basis as a result of the following:

   (a) the Merged Entity's fixed odds performance improving by increasing revenue growth, by improving Tatts' fixed odds yield and turnover growth. The yield from fixed odds betting is the amount of turnover that fixed odds bookmakers retain after the payment of winnings. The improvement of the Merged Entity's fixed odds performance is primarily expected to result from the introduction of Tabcorp's proprietary fixed odds risk management systems into the Tatts business. Further assumptions concerning the nature of the expected improvement in Tatts' fixed odds performance are included in paragraphs 15 to 17 below;

   (b) business improvements, including:

      (i) the introduction of new products and increased coverage of other products in Queensland, South Australia, Tasmania and the Northern Territory (the **Tatts States**);

      (ii) investment in branding, the retail network and customer account management in the Tatts States to make the Merged Entity's retail offering more attractive to customers; and

   (c) **[Confidential to Tabcorp]** [redacted]

7. The Merged Entity will achieve, on an annual basis, at least the following Wagering Turnover and Revenue Increases by the end of the third year following Completion and then in each following year (to be adjusted for growth from the fourth year following Completion onwards), as set out in the spreadsheet labelled "TBP.100.001.0002":

Confidential Restriction on Publication Claimed

[Confidential to Tabcorp]

(A$M)[4]	Turnover	Revenue	EBITDA
Fixed odds performance increase	[redacted]	[redacted]	[redacted]
Business improvements			
Products – introduction of new and increased coverage in Tatts States	[redacted]	[redacted]	
Branding, retail and customer account investments in Tatts States	[redacted]	[redacted]	
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	
Possible Retail and racing industry partnership fees			[redacted]
Total	[redacted]	[redacted]	[redacted]

For this purpose 'Turnover' refers to the total amount of money staked by punters. 'Revenue' refers to an operator's return on gambling, based on the total amount of turnover, less the value of any payouts paid.

8. As shown in the above table:

   (a) by the end of the third year following Completion, the Tatts business is expected to generate approximately **[Confidential to Tabcorp]** [redacted] of additional turnover; and

   (b) the remaining **[Confidential to Tabcorp]** [redacted] of turnover is expected to be generated by the Tabcorp business.

9. The expected **[Confidential to Tabcorp]** [redacted] of increased turnover attributable to the Tatts business would be equivalent to **[Confidential to Tabcorp and Tatts]** [redacted]

[4] Some subtotals do not add precisely due to rounding

Confidential Restriction on Publication Claimed

10. As shown in the following table, the estimated Tatts market shares are **[Confidential to Tabcorp and Tatts]** [redacted]:

[Confidential to Tabcorp and Tatts]

Tabcorp	Tatts
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

11. The Wagering Revenue Increases that will be achieved by the end of the third year following Completion, and in each following year, will be shared on an annual basis with racing industries, retail venues, sporting bodies and governments in the form of additional fees, commissions, profit share arrangements and taxes of at least the following amounts (to be adjusted for growth from the fourth year following Completion onwards), as set out in the spreadsheet labelled "TBP.100.001.0002":

[Confidential to Tabcorp]

(A$M)	QLD	SA	TAS	NT	NSW	VIC	WA
Racing industry total	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Broken down as: Product fees	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Race fields fees	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Profit share	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Sporting bodies (fees)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Retail wagering venues (commissions to pubs, clubs and agencies)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
State government (tax)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Federal government (GST)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Federal government (Corporate tax)	[redacted]						

These amounts are in addition to the amounts at paragraph 4 above.

Confidential Restriction on Publication Claimed

12. By the ends of the first and second years following Completion, the Merged Entity will achieve at least the following Wagering Revenue Increases as set out in the spreadsheet labelled "TBP.100.001.0002":

[Confidential to Tabcorp]

Revenue (A$M)[7]	**Year 1**	**Year 2**
Fixed odds yield increase (2.6%)	[redacted]	[redacted]
Business improvements		
Products – introduction of new and increased coverage in Tatts States	[redacted]	[redacted]
Branding, retail and customer account investments in Tatts States	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]

13. The Wagering Revenue Increases achieved by the ends of the first and second years following Completion will be shared with racing industries, retail venues, sporting bodies and governments in the form of additional fees, commissions, profit share arrangements and taxes of at least the following amounts, as set out in the spreadsheet labelled "TBP.100.001.0002":

[Confidential to Tabcorp]

(A$M)	**Year post-completion**	**QLD**	**SA**	**TAS**	**NT**	**NSW**	**VIC**	**WA**
Racing industry total	Yr 1	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	Yr 2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Sporting bodies (fees)	Yr 1	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	Yr 2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
Retail wagering venues (commissions to pubs, clubs and agencies)	Yr 1	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	Yr 2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
State government (tax)	Yr 1	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	Yr 2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
Federal government (GST)	Yr 1	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	Yr 2	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	

[7] Some subtotals do not add precisely due to rounding

14. If the Wagering Turnover Increases resulted in a [Confidential to Tabcorp] [redacted] as set out in the spreadsheet labelled "TBP.100.001.0002":

[Confidential to Tabcorp]

QLD	SA	TAS	NT	NSW	VIC	WA
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Expected improvement in Tatts' fixed odds performance

15. Over the past five years Tabcorp has invested in designing and implementing systems to improve the management of its fixed odds risk and therefore the performance of its fixed odds book. This has involved the development of proprietary and bespoke IT systems and algorithms based on Tabcorp's considerable wagering experience, including an automated risk detection and management system for Tabcorp's retail channel. These systems enable Tabcorp to:

(a) [Confidential to Tabcorp] [redacted]

(b) [redacted]

16. [Confidential to Tatts] [redacted]

(a) [redacted]

(b) [redacted]

Confidential Restriction on Publication Claimed

17. The implementation of Tabcorp's fixed odds risk management systems into the Tatts business following the Proposed Transaction is expected to improve Tatts' fixed odds performance by:

(a) **[Confidential to Tabcorp and Tatts]** [redacted]

(b) [redacted]

Keno Turnover and Revenue Increases

18. The Merged Entity will achieve turnover and revenue increases in its South Australian keno business as a result of the following business improvement initiatives:

(a) investing in the rebranding and marketing of South Australian keno to attract customers;

(b) upgrading keno venues in South Australia to enhance the customer experience; and

(c) pooling South Australian keno jackpots with keno jackpots in the wider Tabcorp network to make them more attractive to customers and **[Confidential to Tabcorp]** [redacted]

19. By the end of the third year following Completion and then in each following year, the Merged Entity will achieve at least the following annual increase in turnover and revenue (to be adjusted for growth from the fourth year following Completion onwards) from additional sales of keno in South Australia (the **Keno Revenue Increases**), as set out in the spreadsheet labelled "TBP.100.001.0003":

[Confidential to Tabcorp]

Turnover (A$M)	Revenue (A$M)
[redacted]	[redacted]

Confidential Restriction on Publication Claimed

20. The Keno Revenue Increases that will be achieved by the end of the third year following Completion, and in each following year, will be shared on an annual basis with South Australian retail venues and governments in the form of additional commissions and taxes of at least the following amounts (to be adjusted for growth from the fourth year following Completion onwards) as set out in the spreadsheet labelled "TBP.100.001.0003":

[Confidential to Tabcorp]

Keno retail venues (pubs and clubs and retail) (A$M)	[redacted]
State government (tax) (A$M)	[redacted]
Federal government (tax) (A$M)	[redacted]

21. By the ends of the first and second years following Completion, the Merged Entity will achieve at least the following Keno Revenue Increases, as set out in the spreadsheet labelled "TBP.100.001.0003":

[Confidential to Tabcorp]

(A$M)	**Year 1**	**Year 2**
Turnover	[redacted]	[redacted]
Revenue	[redacted]	[redacted]

22. The Keno Revenue Increases achieved by the ends of the first and second years following Completion will be shared with South Australian retail venues and governments in the form of additional commissions and taxes of at least the following amounts, as set out in the spreadsheet labelled "TBP.100.001.0003":

[Confidential to Tabcorp]

(A$M)	**Year 1**	**Year 2**
Keno retail venues (pubs and clubs and retail)	[redacted]	[redacted]
State government (tax)	[redacted]	[redacted]
Federal government (tax)	[redacted]	[redacted]

Confidential Restriction on Publication Claimed

Pooling

23. The Proposed Transaction will remove a commercial barrier to combining Tabcorp's and Tatts' pari-mutuel pools. Regulatory and other approvals will be required before Tabcorp's and Tatts' pools could be combined.

24. If the relevant approvals were obtained, there are three potential scenarios for combined Tabcorp's and Tatts' pari-mutuel pools:

    (a) combining the NSWTAB, SuperTAB and Tatts pool into a single national pool;

    (b) combining Tabcorp's SuperTAB pool and Tatts' pool; and

    (c) combining Tabcorp's NSW TAB pool with Tatts' pool.

25. Combining Tabcorp's and Tatts' pari-mutuel pools will make those pools more attractive to customers. This is because a deeper, more liquid pool is more stable and single large bets will have less of an impact on the outcomes for that pool. The combination of Tabcorp's and Tatts' pari-mutuel pools will therefore result in customers placing more and larger bets with the Merged Entity, thereby increasing the Merged Entity's turnover and revenue.

Australian wagering market

26. The total size of the Australian wagering market and the turnover and estimated revenue for each wagering operator in Australia over the last 5 years was as follows:

[Confidential to Tabcorp and Tatts]

$Am	Turnover					Revenue				
	FY12	FY13	FY14	FY15	FY16	FY12	FY13	FY14	FY15	FY16
Tabcorp	[redacted]									
Tatts										
RWWA	1,966.5	2,120.2	2,198.7	2,165.9	2,149.5	293.1	315.7	339.5	335.7	330.2
ACTTAB	172.4	164.8	166.3	52.3		28.5	27.3	27.0	7.9	
ToteTAS	884.3					146.8				
Paddy Power	1,936.1	2,373.1	2,799.1	3,539.9	4,392.4	165.6	221.6	281.9	402.3	472.4
William Hill	2,539.6	2,533.3	2,536.9	2,234.6	2,179.6	164.0	188.2	203.7	218.2	188.2
Ladbrokes		637.5	808.5	1,182.0	1,862.5		21.5	38.9	87.6	128.5
Crownbet				498.4	1,744.4				44.9	157.0
Bet365		299.5	730.5	1,238.8	1,427.2		15.0	36.5	61.9	71.4
Betfair	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	37.5	45.0	45.0	45.0	45.0
Others	1,772.7	2,505.7	2,434.7	2,164.8	1,575.7	141.8	200.5	194.8	194.8	141.8
Total	[redacted]									
Market Growth										

Confidential Restriction on Publication Claimed

27. Over the last 5 years, the market shares of the Australian wagering market based on turnover and the estimated shares based on revenue were as follows:

[Confidential to Tabcorp and Tatts]

	Turnover					Revenue				
	FY12	FY13	FY14	FY15	FY16	FY12	FY13	FY14	FY15	FY16
Tabcorp	[redacted]					[redacted]				
Tatts										
RWWA										
ACTTAB										
ToteTAS										
Paddy Power										
William Hill										
Ladbrokes										
Crownbet										
Bet365										
Betfair										
Others										
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

28. The funding contributions paid by wagering operators to the Australian racing industry in FY2016 were as follows:

[Confidential to Tabcorp and Tatts]

	Payments to racing industry (A$M)	**Proportionate contribution to total racing industry funding**	**Proportion of turnover paid to racing industry**
Totalisators	[redacted]	[redacted]	[redacted]
Broken down as: Tabcorp	[redacted]	[redacted]	[redacted]
Tatts	[redacted]	[redacted]	[redacted]
RWWA	[redacted]	[redacted]	[redacted]
Corporate bookmakers	196.7	[redacted]	[redacted]

Tabcorp forecasts of Tatts' FY2017 results

29. Tabcorp's forecast of Tatts' likely FY2017 wagering turnover and revenue absent the Proposed Transaction are set out in the "Inputs" sheet in the spreadsheet "TBP.100.001.0002".

30. Tabcorp's forecast of Tatts' likely FY2017 keno turnover and revenue in South Australia absent the Proposed Transaction are set out in the "Keno uplift detail" sheet in the spreadsheet labelled "TBP.100.001.0003".