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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: **Adam John Rytenskild**

Address: 6/156 Bay St, Port Melbourne, 3207

Occupation: Chief Operating Officer – Keno & Gaming

Date: 8 March 2017

This document contains confidential information which is indicated as follows:

[Confidential to Tabcorp] [......]
[HIGHLY Confidential to Tabcorp] [......]

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A. INTRODUCTION

1. I am the Chief Operating Officer Keno and Gaming at Tabcorp Holdings Limited (**Tabcorp**) and have been employed at Tabcorp for 16 years. I am authorised to make this statement on Tabcorp's behalf.

2. Exhibited to me at the time of signing this statement are bundles of documents marked "Exhibit AR-1", "Confidential Exhibit AR-2" and "Highly Confidential Exhibit AR-3". Where in this statement I refer to tabs in AR-1, AR-2 or AR-3, I am referring to the tabs of Exhibit AR-1, Confidential Exhibit AR-2 and Highly Confidential Exhibit AR-3 respectively. I also refer to documents by reference to their unique document number beginning with a "TBP" prefix. I have reviewed the documents I have referred to prior to signing this statement. Tabcorp claims confidentiality over Confidential Exhibit AR-2 and Highly Confidential Exhibit AR-3.

A.1 Professional background and role at Tabcorp

3. In 2004 I graduated from the Mt Eliza Business School with an MBA, Finance and Strategy, and in 2013 I undertook the London Business School Senior Executive Program.

4. I am also a Delegate Director of the Australasian Gaming Council.

5. I started working with Mobil Quix (a subsidiary of Mobil Oil Australia (Mobil Oil)) in south-east Queensland in 1991 and held various Area Sales Manager and Site Manager roles before moving to Product Manager – Foodservice in 1995.

6. Between 1997 and 2000, I was employed as a State Retail Manager – Mobil Quix with Mobil Oil. During that time I played a key role in building and leading Mobil's convenience retailing business in Australia.

7. In 2000 I commenced employment at Tabcorp as State Manager – TAB Retail. Over four years I led various aspects of the wagering retail sales and operations functions. Key initiatives included the expansion and enhancement of the retail network, and the development and implementation of 'Betcare', a world first self-exclusion program within the wagering industry.

8. In 2004 I took up a new role, General Manager – National Retail Operations, which was created to facilitate the operational integration of Tabcorp's merger with Tab Limited. With a focus on execution, I reported to the Managing Director of Wagering. As Tabcorp was pre-digital, virtually all of our business was retail, by which I mean it was transacted by customers entering into wagering transactions at venues such as pubs, clubs,

agencies and racecourses. I ran all retail operations and my role involved the development and implementation of strategy, integrating teams and cultures across Tabcorp and its newly acquired businesses, building effective stakeholder relationships, deploying customer experience initiatives at scale (such as pub and club fit-out and the roll-out of new products) and the development and implementation of field-based technology including self-service terminals to Victoria and later NSW.

9. From 2007 to 2010, I was the General Manager – National Account and Oncourse Operations. I reported to the Managing Director of Wagering and was a member of the Wagering Leadership Team. My focus was to improve customer experience and efficiency in the Call Centre and at Racetracks. I focused on optimising performance of the traditional Phone and Oncourse channels, and established the potential for Tabcorp's emerging online business in respect of wagering. I had business oversight for the launch of Tabcorp's new customer website that had previously been developed by Tab Limited.

10. In 2010 I was appointed Executive General Manager – Distribution. I reported to the CEO and was a member of Tabcorp's Senior Executive Leadership Team. I was responsible for leading Tabcorp's multi-channel Retail and Digital Distribution network. The role had a Sales, Operations and Stakeholder focus. Essentially I led the customer facing elements of the business across all initiatives and products. I played a key role in leading a number of the operational elements of the demerger of Tabcorp from the Casino division in 2011. I led the operational development and successful launch of Tabcorp's new gaming services business Tabcorp Gaming Solutions (**TGS**) in FY13 with the focus to build it into a sustainable and growing business for Tabcorp. I played a key role in leading the revitalisation of our wagering online customer offering to improve competitiveness in the market, including being the first pari-mutuel operator globally to offer betting via a mobile app.

11. In May 2014 I took up my present role as Chief Operating Officer (**COO**) Keno and Gaming, with end-to-end accountability for two of the business divisions of Tabcorp, Keno and Gaming (I describe this in further detail, below). These businesses are important to Tabcorp as they improve the organisation's diversification. I was appointed in this role to maximise the potential of these two businesses; specifically to build Gaming Services into a sustainable and growing business in and outside Victoria, and to revitalise Keno to return the business to growth.

12. Since then, I consider that TGS has successfully delivered a strong value proposition for existing customers, expanded into a new market in NSW and added capability through

the Intecq acquisition, which I identified and executed. Venue gaming revenues have shifted from under-performance to out-performance as operational performance was established and customer-focus improved. Keno has been re-built into a growth channel, launching and delivering a new brand, products and customer offer in a highly regulated environment. I led the negotiations to extend the NSW licence from 2022 to 2050. Leveraging my experience and stakeholder knowledge, I also identified and sponsored a number of wagering retail concepts, particularly the digital commissions program for venue operators.

A.2 Overview of Tabcorp's operations

13. Tabcorp has interests in wagering, racing media, gaming services and Keno. The ultimate parent company, Tabcorp Holdings Limited, is listed on the Australian Securities Exchange (**ASX**).

14. Tabcorp operates three business divisions as follows:

(a) **Wagering and Media**: which supply wagering and racing media products and services;

(b) **Keno**: Keno is a game of chance supplied by Tabcorp in licensed venues (i.e. pubs, clubs and casinos) in Queensland, Victoria, NSW and the ACT, and in TAB agencies in Queensland, Victoria and the ACT. The ACT Keno licence also provides for online distribution, and NSW for digital play in-venue; and

(c) **Gaming Services**: this division includes TGS, which supplies Electronic Gaming Machines (**EGMs**) and associated systems and services to licensed hotels and clubs in Victoria and NSW. In addition, Tabcorp acquired Intecq on 16 December 2016. Intecq provides EGM monitoring services and gaming systems in Queensland, and provides gaming systems in NSW, Victoria, and to a minor extent in Asia. It also provides EGM monitoring technology to Federal Group in Tasmania and, in April 2016, won the contract to supply its full suite of gaming systems to Federal Group's two casinos in Tasmania.

15. Tatts is a company which I understand has interests in lotteries, Keno, wagering and EGM monitoring, systems, service and maintenance. The ultimate parent company, Tatts Group Limited (**Tatts**), is listed on the ASX.

16. I am aware that Tabcorp proposes to acquire the issued share capital of Tatts by means of a scheme of arrangement. Tabcorp announced the proposed transaction to the market in a statement to the ASX on 19 October 2016. A copy of the ASX statement and

accompanying presentation is at **Tab 1** of **AR-1 [TBP.011.001.0110]** and **Tab 2** of **AR-1 [TBP.006.001.0121]**.

17. In this statement I describe Tabcorp's Keno and Gaming Services business divisions, and describe Tatts' activities in relevant areas. I first deal with Keno, then Gaming Services.

18. The matters set out in this statement are based on my knowledge of Tabcorp's Keno and Gaming Services business divisions by reason of the roles I have set out above and my experience in the gaming industry since 2000. As COO, Keno and Gaming, my role is to be aware of Tabcorp's operations in these divisions. I have some involvement in the day to day operations of these business divisions (for example, meeting with stakeholders) and I am also involved in formulating the strategy of these business divisions generally. I regularly communicate with those who report to me about the business of these divisions and I expect them to raise with me issues and developments that are material to the Keno and Gaming Services businesses.

B. KENO

B.1 The nature of the product

19. Keno is a game of chance. In its standard form, 20 numbers are randomly drawn (generally electronically) from the numbers from and including 1 to 80. Before the draw, a player:

    (a) decides how many numbers they want to 'play' (even though 20 numbers are drawn during a Keno game, players do not have to, and typically don't, play 20 numbers on their ticket);

    (b) selects their numbers and marks them on a ticket or touch terminal, or has their numbers randomly allocated; and

    (c) decides the amount of money they wish to stake per game, and how many games they wish to play with the same set of numbers.

20. A player wins if the numbers drawn match the numbers the player has selected on their ticket. Customers may also receive smaller prizes for matching fewer than all of their selections. The amount a player wins is determined by fixed rules and depends on several factors, including how many numbers the player has selected, how many of those numbers match the numbers drawn, and how much the player has invested on the game.

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21. There are various other Keno products, as well as variations in games and prizes, some of which are state and territory specific. A table setting out Keno product types and the states or territories in which they are offered is at **Tab 3** of **AR-1 [TBP.001.027.5251]**.

22. All states and territories offer the Standard (Classic) Keno, described above, and Heads or Tails. NSW offers Keno Roulette and Keno MegaMillions (discussed in greater detail at paragraphs 55-56).

23. Queensland offers Keno Racing. Keno Racing is a virtual racing game of chance in which 12 runners race to the finish line. It cycles through Thoroughbred, Greyhound and Harness racing at random. Players place bets on the order in which the runners finish, and bet types include Win, Place, Each Way, Quinella, Trifecta. Keno Racing is available in casinos, clubs and hotels in Queensland. It is not offered in retail venues that sell Tatts lottery products.

B.1.1 Pricing

24. The price of Keno tickets is regulated state by state, and set out in the relevant state Keno rules. In the ACT, Queensland, NSW and Victoria the minimum wager for all Keno products is $1 except for Keno MegaMillions, currently offered only in NSW, which has a minimum wager of $2 (see Rule 11 in Victorian Rules, Rule 9 in NSW Rules, Rule 22 in Queensland Rules and Rule 9 in ACT Rules, copies of which are attached at **Tab 4.1** of **AR-1 [TBP.500.001.0005]** at **[._0009]**, **Tab 4.2** of **AR-1 [TBP.500.001.0008]** at **[._0015], Tab 4.3** of **AR-1 [TBP.500.001.0009]** at **[._0011]** and **Tab 4.4** of **AR-1 [TBP.500.001.0010]** at **[._0009]**.

25. The maximum bet for Heads and Tails in NSW is $500 and $9,999 in Victoria. The maximum bet for Keno MegaMillions and Keno Roulette in NSW is $9,999. The maximum bet for Keno Racing in Queensland is $9,999. The maximum bet in Queensland is not regulated by an instrument, but is defined in regulated software configuration files. The Queensland regulator, the Office of Liquor and Gaming Regulation (**OLGR**), regulates the maximum bet by approving or not approving software that controls maximum bet.

26. Any change to the above mentioned Rules would require regulatory approval.

27. Based on Tabcorp national data for the period 1 December 2015 to 30 November 2016, on average each player's spend per ticket is around $11.

28. Players of Keno Classic have the option to pick between 1 and 40 numbers. Players can pay for one game or multiple games in advance. They can also pay to participate in a bonus, where offered, which increases the maximum payout. A sample ticket from the

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Victorian Keno Game Guide is set out below at Figure 1. In this example the player is playing 5 numbers, or a “5 spot” game (see sections A and B of ticket). They are playing 3 games (section D) with a $5 spend per game (section C), which means their Keno ticket will cost $15. The player has not selected the Bonus multiplier, but if they had the cost of each game would have been doubled. The effect of Keno Bonus on winnings is set out in the Game Guide, a copy of which is at **Tab 5** of **AR-1 [TBP.001.018.8237]**.

Figure 1: Sample Keno Ticket: Image from Keno Game Guide (Tab 5 of AR-1 [TBP.001.018.8237] at [.8240]).

B.1.2 Prizes

29. Publicised pay tables set out the prizes available for each product. A section of the Victorian Keno pay table is set out below in Figure 2. The fixed base prize for matching all 6 numbers in a 6 spot game (i.e. where the customer chooses 6 numbers), where the player has spent $1 on the game, is $1,800. The fixed base prizes for matching only 5, 4 or 3 of those numbers are $80, $5 and $1 respectively. If the player has spent more than $1, the fixed base prize will be multiplied by that amount. For example if the player spent $3 on the game and matched 5 numbers, they would win $240 (3 x $80).

30. The 7, 8, 9 and 10 spot games also have prizes which differ depending on the amount of numbers matched. If every number is matched, these games have jackpots with a fixed base prize. That base prize is shown in the pay table in Figure 2, below (i.e. the base prize for picking all 10 numbers in a 10 spot game is $1,000,000). The jackpot accrues above the base prize amount incrementally as tickets are bought for the game, and the live total of the jackpot is publicised online and in-venue. Figure 3, below, shows a point in time jackpot total for each of the 7, 8, 9 and 10 spot games. In that example, if a player had spent $1 on the game and matched all 10 numbers in the 10 spot game, they would win $1,751,851.17 and the point in time jackpot total amount would reset to $1,000,000 (as set out in the pay table). If a player spends more than $1, for example $3, for the 7, 8 and 9 spots the base prize is multiplied by 3, but there is no multiplier on the 'growth' amount or jackpot. If a player spends $3 on the 10 spot, a $250,000 fixed component of the base prize is multiplied by 3, but there is no multiplier on the other $750,000 of the base prize or on the jackpot of $751,851.17, giving a total prize of $2,251,851.17.

Numbers Played	Numbers Matched	$1 Could Win
10	10	$1,000,000+
	9	$10,000
	8	$580
	7	$50
	6	$6
	5	$2
	4	$1
9	9	$100,000+
	8	$2,500
	7	$210
	6	$20
	5	$5
	4	$1
8	8	$25,000+
	7	$675
	6	$60
	5	$7
	4	$2
7	7	$5,000+
	6	$125
	5	$12
	4	$3
	3	$1
6	6	$1,800
	5	$80
	4	$5
	3	$1

Figure 2: section of the Keno pay table for Victoria (Tab 6 of AR-1 [TBP.015.001.4850])

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Figure 3: screenshot of point in time Keno jackpot totals (Tab 7 of AR-1 [TBP.015.001.4851])

B.1.3 Return to player

31. "Percentage return to player" (**RTP**) is the percentage of customer turnover which is returned to players in the form of winnings, and is based on statistical probability. The percentages are approved by each state or territory regulator and are dictated by the relevant legislation, approved rules and licences in each jurisdiction. In all states except NSW, Tabcorp would have to seek approval from the regulator to change RTP. Under the new NSW licence, Tabcorp may amend RTP by 5% without regulatory approval.

32. RTP is set out in Table 1 below, which is an internal Tabcorp reference document. The RTP for Keno (which includes spot types 1-10, 15, 20 and 40) and Keno Bonus is 75%, the RTP for Heads or Tails, Keno Racing and Keno Roulette is 80% and the RTP for Keno MegaMillions is 76.5%.

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Keno Revenue Share Arrangements						
Product Category: Keno and Keno Bonus*	QLD	NSW Clubs & The Star	NSW Hotels	VIC (Clubs, Hotels)	VIC Agencies & Crown**	ACT
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Return to Player (RTP)	75.00%	75.00%	75.00%	75.00%	75.00%	75.00%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

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Government Tax	7.35%	4.50%	4.50%	8.33%	8.33%	4.45%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Product Category: 80% RTP Games^	**QLD**	**NSW Clubs & The Star**	**NSW Hotels**	**VIC (Clubs, Hotels)**	**VIC Agencies & Crown**	**ACT**
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Return to Player (RTP)	80.00%	80.00%	80.00%	80.00%	80.00%	80.00%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Government Tax	5.88%	3.60%	3.60%	6.67%	6.67%	3.64%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Product Category: MegaMillions (NSW Only)* **	**QLD**	**NSW Clubs & The Star**	**NSW Hotels**	**VIC (Clubs, Hotels)**	**VIC Agencies & Crown**	**ACT**
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Return to Player (RTP)	–	76.50%	76.50%	–	–	–
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Government Tax	–	4.23%	4.23%	–	–	–
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Daily Connection Fees	**QLD**	**NSW Clubs & The Star**	**NSW Hotels**	**VIC (Clubs, Hotels)**	**VIC Agencies & Crown**	**ACT**
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Table 1: Keno revenue share arrangements

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33. There is no defined period in which actual RTP is required to conform to the regulated RTP. In any year it could be higher or lower if, for example, in one year there have been more than the theoretical number of jackpots won, or fewer jackpots won. In my experience actual RTP over about a 5 year period will be very close to the regulated RTP.

34. Tabcorp monitors actual RTP against regulated RTP, as well as tracking revenue against expected revenue, weekly. Regular financial and statistical reports are required under Tabcorp's licences to be provided to the regulator, and Tabcorp is audited by each state regulator. Tabcorp has found that the RTP is generally only up or down by around 0.5%. If RTP is more significantly higher or lower, the regulator may investigate to ensure that Tabcorp has complied with its obligations and not deliberately or accidentally changed the pay table and/or the integrity of the random number generator (**RNG**). The regulator may audit the whole pay table and the RNG. This occurred for example in Queensland in FY15, when ten 10 spots were won. In each of the 5 years leading up to this period, the average was six 10 spots.

35. Actual RTP is calculated as turnover, less payouts and cancellations, for each product line, by state. Table 2 below sets out turnover, win amount and actual RTP by product and by state for FY16. Whilst, as set out above, RTP is based on an infinite time period, the actual blended RTP for FY16 was **[Confidential to Tabcorp]** [redacted]

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		ACT[1]	NSW	QLD	VIC	Total
Turnover ($)	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]		[redacted]	[redacted]		[redacted]
	[redacted]		[redacted]			[redacted]
	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Win Amount	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]		[redacted]	[redacted]		[redacted]
	[redacted]		[redacted]			[redacted]
	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
RTP (%)	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]		[redacted]	[redacted]		[redacted]
	[redacted]		[redacted]			[redacted]
	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 2 – Keno turnover, win amount and RTP for FY16.

36. The remaining **[Confidential to Tabcorp]** [redacted] is divided between Tabcorp, the government and the venues. Tabcorp also derives income through the provision of equipment to venues, as well as system sales into other jurisdictions (described in more detail below at paragraph 71). A summary profit and loss statement for FY16 is set out in Table 3 below. Tabcorp's EBIT as a percentage of total turnover equates to **[Confidential to Tabcorp]** [redacted].

[1] Tabcorp does not have the level of detail for ACT as it does for other states and cannot provide a breakdown by product. Reconciliations are done at an aggregate level.

[2] Tabcorp offered a variant of Keno Racing in NSW that is no longer in operation (last day of trade was 15 August 2015).

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FY16 Actuals	($m)
Turnover	[redacted]
Operating Revenue	[redacted]
Other Revenue	[redacted]
Total Revenue	[redacted]
Variable Contribution	[redacted]
Expenses	[redacted]
EBITDA	[redacted]
EBIT	[redacted]

Table 3 – summary FY16 Keno profit and loss statement.

37. In NSW, the ACT and Victoria, Tabcorp has a prize fund. Tabcorp is obliged to pay into the prize fund the RTP percentage of the ticket price (which, as set out above, is generally 75%), and must pay out of it all prizes (winnings and jackpots). For the 7, 8, 9 and 10 spot games where there is a jackpot, a designated percentage of the RTP is allocated to jackpot growth, and the remainder is allocated to the fixed prize component. That allocation is calculated as part of the algorithm described above, and is approved by the regulator. Currently in Victoria 10% of the ticket price is allocated to jackpot growth, and 65% is allocated to the fixed prizes. For spots where there is no jackpot, 75% of the ticket price is allocated to the fixed prizes.

38. Tabcorp would have to obtain the regulator's approval to change the allocation (except, as stated above, in the case of a change of 5% or less in NSW).

39. The total amount won is taken from the prize fund. For example, if the 10 spot jackpot has not been claimed for a while, and ticket sales have increased the jackpot to $1.5 million, when the jackpot is won the total amount is taken from the prize fund. If someone wins the jackpot a minute later, there would have been very few ticket sales so they will win marginally more than the base prize $1 million; that amount will also be taken from the prize fund.

40. If at any point there is not enough money in the prize fund to pay a prize, Tabcorp must top up the fund. For example, if a customer wins $1.5 million, and there is $1.4 million in the fund, Tabcorp must top up $0.1 million to the fund.

41. In Queensland there is no prize fund, but Tabcorp is seeking to have one approved.

B.2 How the product is used, and by whom

42. Internationally, Keno is played much like any other gaming product, on EGMs, online and in selective retail properties. However Australia has a unique Keno business, given the breadth and magnitude of its retail channel.

43. Keno originated in Australia in clubs in NSW, and has expanded to be played in casinos, clubs, hotels, TABs and retail venues across Australia.

44. Since 2006, Tabcorp Keno has experienced average revenue growth of approximately 5% per annum (**Tab 8** of **AR-1 [TBP.014.001.2483]** at **[.3178]**). In FY15, Tabcorp's total Keno turnover was just over $1 billion and in FY16 it was over $1.1 billion.

45. Keno is generally played by consumers in Australia at the same time as they are socialising over a meal or a drink at a pub or club (**Tab 1** of **AR-2 [TBP.015.001.3727]** at **[.3730]**).[3] There are screens on the wall which show products available and the accrued jackpot at any one time. To play, players can either fill out a paper ticket (which is generally found on tables throughout the venue) and take it to the venue operator or alternatively use a self-service machine.

46. Several features of the game reflect the fact that it is designed to be played socially. Importantly it is played in-venue, with draws shown on screens while players are engaging in other activities such as eating or drinking in a group. The ease of the game means it can be played whilst engaging in other activities (**Tab 1** of **AR-2 [TBP.015.001.3727]** at **[.3730]**).[4] Unlike lotteries which have daily or weekly draws, Keno games are typically run every 3 minutes. The social aspect of Keno is also reflected in its current 'Let's Play' slogan.

47. Various customer research that Tabcorp has commissioned came to the following conclusions:

    (a) Generally, players of Keno win more frequently than players of lotteries (**Tab 2** of **AR-2 [TBP.015.001.0737]**),[5] but with relatively lower prize money. The current maximum is generally $1 million plus a jackpot (although Tabcorp has just launched a $5 million prize plus jackpot in NSW), but most wins are of much smaller amounts; and players are not generally chasing the jackpot or a life changing outcome.

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[3] **[Confidential to Tabcorp]** [redacted]

[4] **[Confidential to Tabcorp]** [redacted]

[5] **[Confidential to Tabcorp]** [redacted]

(b) Players predominantly play between 4 and 10 spot games, with the most common game choices being the 4, 5 and 6 spot games, and possibly a 10 spot game if there is a good jackpot (**Tab 2** of **AR-2 [TBP.015.001.0737]**).[6]

(c) Customer payouts are subject to cash payout limits which vary state by state and may be adjusted on a per venue basis. The limits are $10,000 in Victoria, $5,000 in the ACT and $2,000 in NSW and Queensland. This has the effect that players who win over this amount will tend to take the money and go home. However, a significant proportion of players who win smaller amounts are likely to re-invest part or all of their winnings on the same night on additional Keno games, or food and beverages at the venue (**Tab 1** of **AR-2 [TBP.015.001.3727]** at **[.3730]**).[7] Internal analysis of Business Intelligence data shows that 84% of customers who check their ticket and have won something re-invest their winnings.[8]

(d) The attraction of the game is as entertainment, rather than a big financial gain, and players who lose money are not generally unhappy with the outcome (**Tab 1** of **AR-2 [TBP.015.001.3727]** at **[.3730]**).[9]

B.3 Recent Keno developments

48. As I set out in A.1 above, a key part of my role as COO Keno and Gaming at Tabcorp is to return the Keno business to sustainable growth.

49. When I commenced in the role in 2014, Keno had previously grown over a number of years, effectively through distribution expansion, and had high brand recognition; however participation, growth and customer appeal had started to decline. **[Confidential to Tabcorp]** [redacted] (**Tab 3** of **AR-2 [TBP.015.001.0007]** at **[.0028]**). Many venues also saw Keno as an old person's product, and perceived their venue as more contemporary, so they didn't feel this appealed to their target customers.

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[6] Tabcorp's Keno sales data shows that participation in 10 spot games grows as the jackpot increases. When the jackpot is between $1.5-2m, sales are 13.9% over the base prize sales. Jackpot of $2-2.5m sales are 38% over the base prize sales. Jackpot of $2.5-3m, sales are 58.3% over the base prize sales. Jackpot of $3m+, sales are at 106.5% over the base prize sales. Further, **[Confidential to Tabcorp]** [redacted]

[7] **[Confidential to Tabcorp]** [redacted]

[8] For the period from 1 January 2010 to 2 July 2016.

[9] **[Confidential to Tabcorp]** [redacted]

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50. **[Confidential to Tabcorp]** [redacted] (**Tab 1** of **AR-2 [TBP.015.001.3727]** at **[.3729]**).

[Confidential to Tabcorp]

Age	**% of total players**
18-29	[redacted]
30-44	[redacted]
45-54	[redacted]
55-64	[redacted]
65-74	[redacted]

Table 4 – demographic of Keno users in 2014.

51. I built and led the team within Tabcorp committed to developing Keno. Our aim was to make Keno more customer centric, contemporary, playful and relevant to a broader and younger market.

52. A re-invigoration of the brand has been largely rolled out across Australia. This reflects Keno as more contemporary for a younger audience and promotes Keno as a fun, social activity. I consider this to be important because my understanding, based on my conversations with various pubs and clubs, is that pubs and clubs are looking at broadening their customer base by reaching a younger demographic and, as set out above, that was Keno's worst performing demographic. We have also updated the look and feel, and location, of Keno within venues to align with the re-branding and to ensure that different customers can engage with Keno.

53. Further, we successfully acquired and integrated ACT Keno. It had previously been a different game, which was run out of the Tatts South Australia Keno offering, and had not been updated by ACTTAB, the ACT licensee, in a number of years. Integration involved a technical element, so that it could operate using the Tabcorp system, as well as providing new Keno hardware and software to venues which had previously used the Tatts hardware and software. We also rebranded all 42 venues. The ACT is the only state or territory where Tabcorp's licence allows it to provide Keno digitally (i.e. online or through apps), so we updated their digital product by rolling out new apps and a new website. Whilst Tabcorp only has a small offering in the ACT (to which I refer in further detail below), we doubled sales in the first year. In addition, Tabcorp is now 'rolling out' digital play in-venue in NSW.

54. We also introduced new products based on feedback from customers, including jackpot pooling. The Keno jackpots are now pooled across NSW, Victoria, Queensland and the

ACT. I described above the fact that the jackpot increases incrementally as players spend money on Keno. Pooling means that money spent by players in these states in part goes towards increasing the common jackpot and that a player in any of those states can win the jackpot. In this way, pooling enhances the product offering by enabling faster accruing jackpots.

55. Tabcorp's experience is that larger and more frequent jackpots are a proven driver of increased game play.[10] We have developed a $2 game (an increase from the standard $1 game) with a $5 million base prize plus jackpot, called 'Keno MegaMillions'. The $1 million base prize has been the top prize for Keno since the product was launched decades ago. The increase in the prize money is a more relevant proposition to customers today. A driver over time for this product is that it has a different pay scale to the Classic Keno, with a higher rate of winning. **[Confidential to Tabcorp]** [redacted] (**Tab 2** of **AR-2 [TBP.015.001.0737]**). MegaMillions is played using the same ball draw as Classic Keno, and therefore has the same probability of any ball being drawn. The chance of any win is higher because additional prize levels have been added to some of the spot types. For example, a customer will win a minor prize for matching 3 out of 8 on MegaMillions, but there is no such prize in Classic Keno.

56. **[Confidential to Tabcorp]** [redacted] **(Tab 4** of **AR-2 [TBP.500.001.0011]** at **[._0004])**. Over time, we expect that the availability of the $5 million game will lead to a decrease in the customers for the $1 million game, but that overall the availability of the $5 million game will increase participation both from current and new players. The $5 million Keno product is now available in all NSW Keno retail venues. **[Confidential to Tabcorp]** [redacted].

57. A key capability to appeal to a younger market is the digital experience. In all states players are now able to access results, find the nearest venue and access promotions online. In all states other than Queensland, they are also able to access live jackpot

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[10] Tabcorp's Keno sales data shows that participation in 10 spot games grows as the jackpot increases. When the jackpot is between $1.5-2m, sales are 13.9% over the base prize sales. When the jackpot is between $2-2.5m sales are 38% over the base prize sales. When the jackpot is between $2.5-3m, sales are 58.3% over the base prize sales. When the jackpot is $3m+, sales are at 106.5% over the base prize sales.

figures online. They are not able to play online except through an ACT account (described in more detail below).

58. Tabcorp recently obtained approval to trial its digital platform in NSW to allow online distribution in-venue. That is, players will be able to play Keno online (i.e. from their mobile phones) so long as they are within a venue that has Keno. Geo-fencing technology will be used to restrict gameplay to venues (in accordance with licence regulations) – once the perimeter is crossed, in-venue game play via the app will be disabled.

59. The integration of digital will allow customers to play Keno on their phone, and would allow Tabcorp and the venues to engage with customers, and the customers to engage with us. It is envisaged that these interactions may include messaging to the customer, communications between customers, and advertising promotions to the customer. The digital offer has now been introduced to a number of pilot venues in NSW.

60. Tabcorp is exploring means to expand its digital platform in other states and territories, but has not yet determined how that will occur.

B.4 How the activity is regulated in each state

61. Keno activity and regulation differs in each state and territory. Tabcorp is only entitled to operate Keno in various states by reason of a licence it holds for that particular state. The legislation pursuant to which Keno is regulated in each state or territory that Tabcorp operates (and under which the licences are issued) and the relevant regulations, regulator, licence documentation and agreements, rules and technical standards are set out below:

    (a) Victoria

        i. Act – *Gambling Regulation Act 2003* (Vic);

        ii. Regulations – *Gambling Regulations 2015* (Vic);

        iii. Regulator - Victorian Commission for Gambling and Liquor Regulation (**VCGLR**);

        iv. Keno licence documentation and agreements:

            A. Licence and agreement (**Tab 9** of **AR-1 [TBP.015.001.0802]**);

            B. Deed of variation of Keno Agreement (to facilitate the Keno linked jackpot arrangements) (**Tab 10** of **AR-1 [TBP.001.018.5461]**);

C. Deed of amendment of Parent Guarantee (to facilitate the Keno linked jackpot arrangements) (**Tab 11** of **AR-1 [TBP.001.018.5456]**);

v. Keno Rules (**Tab 4.1** of **AR-1 [TBP.500.001.0005]**):

A. Govern the playing of Keno;

vi. Technical Standard (**Tab 12** of **AR-1 [TBP.500.001.0006]**):

A. Contains the technical system requirements for a Keno System operating in Victoria;

B. Used by the VCGLR to evaluate compliance by the Licensee with the Keno Licence and Related Agreement(s);

C. In the event of inconsistency between Technical Standards and the Act or associated Licence and Related Agreement(s) conditions, the Act and/or associated Licence and Related Agreement(s) conditions will prevail;

vii. Tabcorp's Keno Responsible Gambling Code of Conduct (**Tab 13** of **AR-1 [TBP.001.018.8246]**):

A. It is a condition of licence holders to have a Responsible Gambling Code of Conduct. This must comply with a number of requirements, and must be approved by the VCGLR.

(b) NSW

i. Act – *Public Lotteries Act 1996* (NSW);

ii. Regulations – *Public Lotteries Regulation 2016* (NSW);

iii. Regulator – Liquor and Gaming NSW;

iv. Keno licence documentation and agreements:

A. Keno Licence – (**Tab 5** of **AR-2 [TBP.001.018.6753]**);

B. Operator Licence and Conditions of Operator Licence – (**Tab 1** of **AR-3 [TBP.001.018.6541]** at **[.6644] – [.6645]** and **[.6645] to [6691]**);

C. Product Licence and Conditions of Product Licence – (**Tab 1** of **AR-3 [TBP.001.018.6541]** at **[.6692] – [.6693]** and **[.6694] – [.6718])**;

v. Keno Rules – (**Tab 4.2** of **AR-1 [TBP.500.001.0008]**):

A. Govern the playing of Keno;

vi. Management agreement with Clubkeno Holdings (details in Table B of **Tab 6** of **AR-2 [TBP.001.027.6621]**).

(c) Queensland

i. Act – *Keno Act 1996* (QLD);

ii. Regulations – *Keno Regulation 2007* (QLD), *Lotteries Regulation 2007* (QLD);

iii. Regulator – Office of Liquor and Gaming Regulation Queensland;

iv. Keno Rules (**Tab 4.3** of **AR-1 [TBP.500.001.0009]**):

A. Govern the playing of Keno;

v. Keno licence documentation and agreements:

A. Licence and Second Amended and Restated Keno Agreement (**Tab 14** of **AR-1 [TBP.015.001.0920]**);

vi. Queensland Responsible Gambling Code of Practice (**Tab 18** of **AR-1 [TBP.001.018.6870]**):

A. Proactive whole-of-industry approach to the promotion of responsible gambling practices;

vii. Queensland Responsible Gambling Resource Manual – Keno (**Tab 16** of **AR-1 [TBP.001.018.6905]**):

A. Developed by the industry in collaboration with the Office of Liquor and Gaming Regulation. This resource manual provides the Keno industry with a step-by-step guide to implementing the Queensland Responsible Gambling Code of Practice.

(d) ACT

i. Act – *Lotteries Act 1964* (ACT) and *Pool Betting Act 1964* (ACT);

ii. Regulator – ACT Gambling and Racing Commission (**AGRC**);

iii. Keno licence documentation and agreements:

A. Approval to conduct Keno (**Tab 17** of **AR-1 [TBP.015.001.0943]**);

iv. Keno Rules (**Tab 4.4** of **AR-1 [TBP.500.001.0010]**):

A. Govern the playing of Keno;

v. Gambling and Racing Control (Code of Practice) Regulation 2002 (**Tab 18** of **AR-1 [TBP.001.018.4415]**):

A. Code designed by the ACT Gambling and Racing Commission to provide minimum standards of harm minimisation across all gambling providers. This code is mandatory and has penalties for breaches.

62. Operating taxes and fees are variously calculated based on gross revenue, turnover, player loss or gross profit. In Queensland, tax is set at 29.4% of gross revenue, in NSW at 18% or 24% of player loss (depending on total player loss), in the ACT at 4.54% of turnover and in Victoria at 33.33% of player loss subject to a minimum player return of 75%.

B.5 Keno licensees

63. Table 5 below summarises the suppliers of Keno products in Australia and the current licensing arrangements.

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State	Licensee	Duration
ACT	Tabcorp	Expires 2064
NSW	Tabcorp / Clubkeno Holdings Pty Ltd (joint licensees)	2050
Northern Territory	Skycity and Lasseters	Skycity (until 2031) Lasseters (until 2031)
Queensland	Tabcorp	2047
South Australia	Tatts (SA Lotteries)	Tatts has exclusive management rights of SA Lotteries until 2052
Tasmania	Federal Group	2023
Victoria	Tabcorp	2022
Western Australia	Crown Perth	Operates in casino only

Table 5: Keno licensees in Australia[11]

64. Tabcorp's licence in Victoria is exclusive in that it is the only Keno licence offered in the state, however, as discussed below at paragraphs 79-80, Tatts' lottery licence permits it to operate a daily Keno game in Victoria.

65. In NSW, Clubkeno Holdings Pty Ltd (which I understand is a wholly owned subsidiary of ClubsNSW) is a co-licensee with Keno (NSW) Pty Ltd (a company owned by Tabcorp). As part of this relationship, Keno (NSW) is responsible for the day to day operation and management of Keno in NSW. Tabcorp is currently in the process of agreeing new management and operating agreements with Clubkeno Holdings, but details of the current agreement are set out in Table B of **Tab 6** of **AR-2 [TBP.001.027.6621]**. Whilst there are no other operators of Keno in NSW, Tabcorp's operator licence is not exclusive.[12]

66. Regarding the Queensland licence, a Keno licence was issued to Jupiters Gaming Pty Ltd in June 1997. Following a merger between Tabcorp and Jupiter Limited in November 2003, the licence and Keno business have been held by Tabcorp. The licence was originally issued for 25 years but was extended by the Queensland Government in April 2013 to 2047. Tabcorp paid $20 million for the extension.

[11] The information in this table is a compilation of market intelligence, Tabcorp information and publicly available information.

[12] The *Public Lotteries Act 1996* (NSW) provides the Minister with the power to grant various licences, however, exclusivity for games of Keno is expressly carved out from the exclusivity regime.

67. Tabcorp's licence restricts the State from issuing a Keno licence to any person other than Keno (QLD) (the Tabcorp entity which holds the licence) authorising, permitting or approving any person to operate or carry on or conduct a Keno game or any game which is substantially similar to Keno within the State, or operate a Keno game or any game which is substantially similar to Keno except as permitted by the agreement without Tabcorp's prior written consent until 23 June 2022 (see Clause 2, **Tab 14** of **AR-1 [TBP.015.001.0920]** at **[.0928]** and **[.0929]**). The licence sets out, at Clause 2, the characteristics which a game must have to be considered substantially similar to Keno.

68. However, an exception to the above gives the State the option to issue a Keno licence to the Golden Casket Lottery Corporation Limited (**Golden Casket**) provided it does not allow Golden Casket to operate a Keno game in clubs, hotels or any other outlets used by Keno (QLD). The State must give Tabcorp 12 months written notice, must pay Tabcorp compensation as set out in the agreement, and is restricted from offering a Keno licence on terms as to payment of tax, licence fees or other state government charges which are more favourable than those attaching to Tabcorp's licence (see Clauses 4 and 5 at **Tab 14** of **AR-1 [TBP.015.001.0920]** at **[.0932]** and **[.0933]**).

69. In relation to the ACT licence, in November 2013, the ACT Government announced its intention to sell ACTTAB through a competitive bidding process. Tabcorp was selected as the successful bidder. The sale agreement contemplated that the ACT Gambling and Racing Commission would approve the conduct of a Keno business pursuant to the *Lotteries Act 1964* (ACT). Tabcorp's licence commenced in August 2015 with an expiry date of 2064. There are no other Keno licences currently approved in the ACT, but there are no express provisions in the relevant legislation or licence that provide only for exclusive licences.

70. I set out in section B.7.2 below how Tabcorp obtained the Victorian and NSW licences.

B.6 Tabcorp's Keno business

71. Tabcorp's customers are largely its retail customers, in the states and territories in which Tabcorp holds a Keno licence, or offers Keno online. However, Tabcorp also supplies Keno equipment and software to the parties who hold exclusive licences to operate a Keno business in the Northern Territory, Tasmania and at the Burswood casino in Perth. Details of the relevant agreements are set out in Table F of **Tab 2** of **AR-3 [TBP.001.027.5240]**).

72. Tabcorp's Keno product is distributed in Victoria, NSW, Queensland and the ACT through licensed venues which incur a daily connection fee (**DCF**). Tabcorp currently

has distribution agreements in place with venues in each of the jurisdictions referred to as follows:

(a) Victoria – 597 venues;

(b) NSW – 1,813 venues;

(c) Queensland – 1,133 venues; and

(d) ACT – 42 venues.[13]

73. Keno distributors operate under standard form agreements (further details of these agreements set out in Table C of **Tab 6** of **AR-2 [TBP.001.027.6621]**):

(a) Queensland

i. Agreement A (standard) (**Tab 7.1** of **AR-2 [TBP.015.001.3582]**);

ii. Agreement B (Tier 2 Terms) (**Tab 7.2** of **AR-2 [TBP.015.001.3615]**);

iii. Keno Racing and Keno Touch (**Tab 7.3** of **AR-2 [TBP.015.001.3648]**).

(b) New South Wales

i. Agency deed for clubs (**Tab 7.4** of **AR-2 [TBP.015.001.1692]**);

ii. Agency deed for hotels (**Tab 7.5** of **AR-2 [TBP.015.001.1716]**).

(c) Victoria Agency Agreement (**Tab 7.6** of **AR-2 [TBP.015.001.5194]**).

(d) ACT

i. Agency (**Tab 7.7** of **AR-2 [TBP.015.001.0378]**);

ii. Licensed Venue (**Tab 7.8** of **AR-2 [TBP.015.001.0408]**).

74. Details regarding the volumes (number of venues, number of machines and annual DCF payments) associated with a range of distributors in each of the jurisdictions referred to is set out in Table D of **Tab 6** of **AR-2 [TBP.001.027.6621]**.

75. Tabcorp also has a number of sponsorship type agreements in place with various industry partners. Under these agreements, Tabcorp pays a periodic (usually annual) fee to the other party and provides particular additional services or benefits to venues within that party's network in exchange for sponsorship and other rights granted by the other

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[13] Vic - One casino, 176 clubs, 330 hotels and 90 TABs. NSW - One casino, 961 clubs and 851 hotels. Queensland - 4 casinos, 288 clubs, 701 hotels and 140 TABs. ACT - 28 clubs, 6 hotels and 8 TABs. This is Tabcorp data accurate as at 19 December 2016.

Tabcorp has also estimated the number and type of outlets in the states and territories in which it does not operate. WA – one casino; SA total 616 outlets – one casino, 40 clubs, 168 hotels, 62 TABs, 345 retail; TAS total 170 outlets – 2 casinos, 30 clubs, 138 hotels; NT total 64 outlets – 2 casinos, 27 clubs, 35 hotels.

party. Details of those agreements are set out in Table B of **Tab 6** of **AR-2 [TBP.001.027.6621]**.

76. The key external inputs that enable Tabcorp to provide Keno products, and the supply costs incurred in providing Keno products, are set out in Table D of **Tab 4** of **AR-3 [TBP.001.027.6628]**. Details of a selection of suppliers of those inputs are set out in Table B of **Tab 3** of **AR-3 [TBP.001.027.6590]**. As Tabcorp is the sole/exclusive Keno provider in retail outlets in NSW, Victoria, Queensland and the ACT, its market share in each of those states and the ACT is 100%. Tabcorp's Keno revenue and turnover for the last 5 financial years is set in Table D of **Tab 8** of **AR-2 [TBP.001.027.5163]**.

B.7 Competition with Tatts

77. I have been asked to comment on how Tatts and Tabcorp compete in respect of Tabcorp's Keno business and how this will be affected by a merger.

B.7.1 Keno products

78. As set out in Table 5 above, Tabcorp and Tatts' Keno outlets do not overlap. Tabcorp operates Keno in the ACT, NSW, Queensland and Victoria. Tatts operates Keno in South Australia.

79. In 2007 the Victorian Government granted two lotteries licences:

    (a) A Category 2 Public Lottery Licence to Intralot, which allowed it to conduct daily Keno and Instant Scratch-Its; and

    (b) A Category 1 Public Lottery Licence to Tatts, which allowed it to conduct other lottery products.

80. Intralot conducted daily Keno and Instant Scratch-Its under its Category 2 lottery licence until, in October 2014, Intralot surrendered its licence, with the consent of the Victorian Government. In February 2015 Tatts was then granted the right to conduct daily Keno and Instant Scratch-Its through an amendment to its existing Category 1 lottery licence. It is my understanding from media coverage at the time that the Scratch-Its operations were the higher profile (with greater participation) products operated by Intralot under the licence and the licence was largely considered a "scratchies" licence. Whilst Tatts' lotteries licence permits it to offer Daily Keno in Victoria, it does not offer any Keno products in that state.

81. **[Confidential to Tabcorp]** [redacted]. The product is legislatively

prohibited to customers in Queensland. Further, Tabcorp does not accept customers who reside in jurisdictions where there is an existing Tabcorp Keno retail offering; this decision was made to address any potential concerns of our retail partners in those states. Account creating is only accepted from addresses within the ACT or any other non-licensed state or territory (WA, Tasmania, the Northern Territory, and South Australia). If a customer with an online account changes residential address to a state or territory that doesn't allow online play (such as NSW or Victoria), their account is locked for game play. They are still able to withdraw funds from the account, but no game play activity is possible.

82. Tabcorp is required by the Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth) to verify the age and identity of new account applicants within 90 days of the account being opened. Keno actively monitors accounts to ensure that only eligible customers are able to play Keno online. Those accounts that are seen to be in breach of the terms and conditions will be suspended or removed. A copy of the ACT Keno Gambling Account Terms and Conditions is at **Tab 19** of **AR-1 [TBP.500.001.0004]**. Tabcorp actively markets the product only in the ACT.

83. Table 6, below, sets out the location of all active online account holders and the turnover on those accounts.

[Confidential to Tabcorp]

	Active Account Holders[14]	Turnover ($)
ACT	[redacted]	[redacted]
TAS	[redacted]	[redacted]
SA	[redacted]	[redacted]
WA	[redacted]	[redacted]
NT	[redacted]	[redacted]
Locked accounts[15]	[redacted]	[redacted]
Total	[redacted]	[redacted]

Table 6: Location of online account holders and value of accounts from 25 August 2015 to 28 November 2016.

84. **[Confidential to Tabcorp]** [redacted].

85. **[Confidential to Tabcorp]** [redacted]

[14] **[Confidential to Tabcorp]** [redacted]

[15] **[Confidential to Tabcorp]** [redacted]

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[redacted].

B.7.2 Bidding for Keno licences

Victorian licence

86. Prior to 2012, Keno in Victoria was run as a joint venture between Tabcorp and Tatts as part of the gaming licences. The Victorian Government determined that a single Keno licence would be issued for 10 years from 15 April 2012, with distribution extended from gaming venues to hotels, clubs and wagering outlets. Tatts is still able to operate daily Keno under its Public Lottery Licence, however, as stated above at 80, it does not do so.

87. Tabcorp lodged a Registration of Interest in 2008 and was invited to apply for the licence in 2010.

88. Tabcorp was awarded the licence on 25 March 2011, for a licence fee of $60 million (with approximately $1.2 million in directly attributable costs). The licence expires in 2022. **[Confidential to Tabcorp]** [redacted].

89. As to that licence renewal:

    (a) **[HIGHLY Confidential to Tabcorp]** [redacted]

    (b) foreign corporations, or foreign owned domestic businesses, would be permitted to bid for the business or the licence;

    (c) there are a number of other possible participants in any future opportunity to be granted the Victorian Keno licence including, for example:

i. the Federal Group, which operates significant tourism, hospitality, retail, casino and gaming assets in Tasmania. Federal Group currently has the exclusive right to operate Keno in Tasmania, as well as EGMs and casino tables in that state, making it well placed to bid for the next Victorian Keno licence. There is currently a gambling review being undertaken in Tasmania which has the potential to change the Federal Group's business model in that state. I believe they will be looking to diversify outside of Tasmania;

ii. gaming services companies such as IGT (International Gaming Technology), which manufactures and supplies EGMs, gaming systems and services, and has established relationships with pubs and clubs. IGT currently has multiple Keno EGM products available in the United States and is also a global lottery operator through its subsidiary GTECH, and its parent holding company De Agostini group;

iii. other participants in the broader gambling industry including Lottoland, which has recently entered Australia as the provider of online lottery betting services, may see some attraction in establishing a retail presence through the provision of Keno in retail outlets; and

iv. corporate bookmakers, such as Ladbrokes, which also operate online (and operate Ladbrokes Bingo, an online Bingo product in the UK), or Sportsbet which operates a retail distribution in the UK. I am not aware of the relevant restrictions, but they may view Keno in Victoria as a means of entering the retail environment.

90. In my view, based on my knowledge of Tabcorp's bid for the Victorian licence in 2011, and my involvement in the negotiation to extend the NSW licence, the successful bidder for the Victorian licence will need:

(a) industry support, which in Victoria would come from the Australian Hotels Association (**AHA**) and Clubs Victoria. The bidder would need to demonstrate that they can work constructively with pubs and clubs. I consider that the AHA and Clubs Victoria would prefer to back a bidder they have worked with constructively, or at least one with a demonstrated track record of working constructively within the industry in another jurisdiction;

(b) to demonstrate to the regulator that they can operate within the confines of a regulated environment, and have suitable systems, processes and procedures and operational capability to meet the terms of the licence, that the compliance requirements of the business are going to be met, to ensure responsible gambling measures are in place, and do that across a broad distribution network; and

(c) to demonstrate that they will invest in the growth of the product over time through, for example, continued innovation, and have a track record of doing this in the market they operate in (which will demonstrate to the government that taxation revenue will continue to grow).

NSW licence

91. The NSW licence was re-negotiated 6 years prior to the end date of the original licence. Tabcorp and Clubkeno Holdings Pty Ltd reached agreement in February 2016 **[HIGHLY Confidential to Tabcorp]** [redacted]. The result was that Tabcorp surrendered the existing licence, and received a new licence which expires in 2050. **[Confidential to Tabcorp]** [redacted]. The legislation that governed the cessation of the existing licence and the start of the new licence provided that any arrangements in place between the previous licensee and venues where Keno is played survived under the new licence.

B.8 Lottery products

92. Tabcorp does not have a lotteries division. However I set out in this section my understanding of the position in respect of lottery products based on my own knowledge of those products.

B.8.1 The nature of the Lottery product

93. Lottery operators are licensed at the state and territory level.

94. There are three components to a lottery: the selection of numbers and purchase of a ticket, the draw, and the prize. A person whose selected numbers match those drawn wins a prize based on the total amounts wagered after deduction of a set percentage by the operator to enable it to pay state taxes and thereafter a margin for the operator.

95. Lotteries are a chance-based activity. Lottery games pick, at random, a distinct set of numbers from a larger set of numbers. A player with a combination of those numbers, chosen by the player or automatically, wins the prize. Lotteries are pari-mutuel products (meaning that prizes are paid from a pool of funds).

96. Lottery operators may also conduct ‘instant’ lotteries, which are also known as scratch tickets or ‘scratch-its’. Tatts' Instant Scratch-Its products have a price range from $1 to $20. Top prizes range from $8,000 to $250,000 and the recent major prize winners have averaged around $28,500 (**Tab 20** of **AR-1 [TBP.001.022.0003]** and **Tab 21** of **AR-1 [TBP.001.022.0382]**).

97. Lottery products are typically distributed through newsagents and convenience stores. In addition, lottery tickets can be purchased online.

98. Aside from Tatts, to my knowledge there are three other lottery / lottery-style businesses in Australia – Lottery West (WA Lotteries), Jumbo, and the lottery-style operator Lottoland. In addition, in February 2017 Collingwood Football Club started marketing an online lottery-style product called Magpie Millions.

99. Lottoland and Collingwood Football Club each hold an NT sports bookmaker licence to operate as a ‘lottery betting’ operator. Lottery betting involves a customer betting on the outcome of a lottery, instead of buying a ticket for an official lottery draw.

100. Lottery betting is a derivative lottery product – unlike a lottery provider, which pays out only from the pool created by ticket purchases and therefore does not take any risk in relation to the result, a lottery betting provider bears the risk that a particular customer will pick the winning numbers. For this reason, lottery betting providers separately insure themselves against this risk.

101. In Australia, Lottoland has initially offered domestic draws at a lower price than local operators and provides products which enable customers to bet on the outcome of global lottery draws. For example, customers can bet on the outcome of US Powerball. They can also bet on the outcome of KeNow and German Keno. Whilst they appear to be advertising heavily in Sydney and Melbourne, they are not licensed or regulated in these states. My knowledge of Lottoland is drawn from Lottoland advertising, through papers prepared by analysts providing an overview of Lottoland, and information provided to me by my team when I asked them to look into Lottoland. I view Lottoland as largely competing for a share of the lotteries market, and not competing for Keno customers, given the social and frequent nature of Keno.

102. Jumbo is an online lottery business listed on the ASX. Jumbo resells Tatts' lottery products through OZLotteries.com. It offers the majority of Tatts' lottery products (except Set for Life), charity lotteries and German state lotteries. In FY16, Jumbo had approximately 376,000 active Australian customers (**Tab 22** of **AR-1 [TBP.015.001.3445]** at **[.3461]**).

B.8.2 Keno and Lottery products

103. Whilst Keno and lotteries both involve a player selecting a subset of numbers from a set of numbers to be generated by a random number generator, I do not regard lottery products as closely competitive with Keno.

104. Lottery and Keno products have relevantly different characteristics including:

(a) **Distribution outlets**. Keno is sold in pubs and clubs (in Victoria, NSW, Queensland and the ACT), and in TABs (in Victoria, Queensland and the ACT). It is also available online under the ACT licence. Based on the research I have referred to above, my understanding is that, for the most part, Keno tends to be played by consumers as they enjoy a meal or a drink at a pub or club. By contrast, my understanding is that Tatts' products are largely sold through newsagents, convenience stores and online. The ticket is taken home and the draw watched or checked some time later;

(b) **Game frequency.** Keno products are run approximately every three to four minutes. By contrast, my understanding is that lottery products are offered far less frequently (generally weekly, but no more frequently than daily);

(c) **Prize magnitude and frequency**. Keno customers win small amounts reasonably frequently, with a nearly 1 in 7 chance of any win across the Classic Keno products. More than 70% of Tabcorp's Keno turnover comes from non-jackpot products (i.e. 6 spot games or lower, where the top prize available for a $1 spend is $1,800).[16] Tabcorp estimates that, under the new pooling arrangement, a customer will match 10 spots out of 10 once every 3.1 weeks, with a theoretical prize of $1.89 million (although this prize can be any amount greater than $1 million). Lottery products often have significantly higher payouts. For example, Powerball and Oz Lotto are drawn once per week and have an average jackpot of $15.5 million and $14.8 million (**Tab 23** of **AR-1 [TBP.001.027.6273]** and **Tab 24** of **AR-1 [TBP.001.027.6265]**); and

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[16] Based on internal sales data since 2012.

(d) **Player motivation**. Based on the research about Keno I have referred to above, and my own observations as COO of Keno and Gaming, I consider that Keno is generally played socially with friends, as a form of entertainment. A win is enjoyed, but is not the motivation, and players are generally not unhappy with a loss given the length of entertainment they receive. Keno players may change the products they purchase depending on jackpot size at the time, but are generally not buying the product seeking a big win. Users of lottery products are seeking a life-changing outcome – a jackpot win is the primary motivation. A lottery ticket is generally purchased from a newsagent, generally well in advance of the draw, and there is no social element to the product.

105. Scratch-Its, described above at paragraphs 79-80 and 96, are less dissimilar to Keno products because the customer can immediately determine whether they have a winning ticket rather than waiting up to a week for the draw. However, key differences are that these products are not offered in the same distribution channel to Keno products and further, do not have the social entertainment element of Keno.

B.8.3 Lotteries licences

106. There are two upcoming lotteries licence processes of which I am aware:

(a) the Victorian lotteries licence currently held by Tatts expires in 2018. The Victorian Government has commenced a process to award a 10 year licence post-2018; and

(b) the Queensland Government has done a 'market sounding' about the possibility of a second licence.

107. I was involved in the Tabcorp decision-making around whether to enter these processes, in advising the board about how the Victorian lotteries licence fits with our strategy and on whether to proceed. I deal with each of them below.

108. In any competitive process in the future for lotteries licences, it is likely that there would be a number of bidders, including:

(a) overseas entities such as Cable & Wireless, Logica CMG and India's PLAYWIN, all of whom were engaged in the bidding process for the UK National Lottery Commission's 10 year licence;

(b) a subsidiary of the Ontario Teachers' Pension Plan (**OTPP**), which currently holds the UK National Lottery Commission licence and a licence for the Irish lottery;

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(c) IGT, whose majority shareholder is the De Agostini Group, based in Italy, which has considerable experience in providing online lottery transaction processing systems, and acts as the provider of lottery management services to the lottery operator in a number of overseas jurisdictions, and is the sole concessionaire for the Italian Lotto game;

(d) Intralot, a Greek company that supplies integrated gaming services to licensed gaming organisations worldwide, and that also acts as a lottery operator in several overseas jurisdictions. Intralot is currently in the process of selling its Australian and New Zealand businesses, but there is nothing preventing it from participating in future lotteries licence opportunities in Australia; and

(e) Scientific Games Corporation, which has operations in six continents and is listed on the NASDAQ Stock Exchange. It is a leading provider of instant lottery products and provides lottery products and associated services around the world.

Victoria

109. **[HIGHLY confidential to Tabcorp]** [redacted]

(a) [redacted]

(b) [redacted]

(c) [redacted]

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[redacted]

(d) [redacted]

(e) [redacted].

110. **[HIGHLY confidential to Tabcorp]** [redacted].

111. **[HIGHLY confidential to Tabcorp]** [redacted].

112. **[HIGHLY confidential to Tabcorp]** [redacted].

Queensland

113. The Queensland lotteries licence was exclusive, but I understand that exclusivity has fallen away. The Queensland Government conducted a 'market sounding' about the possibility of a second lotteries licence in early to mid-2016.

114. **[HIGHLY Confidential to Tabcorp]** [redacted].

115. **[HIGHLY Confidential to Tabcorp]** [redacted].

C. GAMING SERVICES

C.1 Overview of gaming

116. Gaming as it is referred to in this statement relates to gambling on EGMs. Gaming is the form of gambling with the highest turnover in Australia with FY15 turnover of c.$136 billion and revenue of $11.6 billion, or c.51% of total gambling expenditure in Australia (**Tab 8** of **AR-1 [TBP.014.001.2483]** at **[.3187], [.3191]** and **[.3284]**).

117. There are currently around 185,000 EGMs in clubs and hotels Australia. NSW has the largest number of EGMs, with approximately half of the total EGMs in Australia, followed by Queensland and Victoria. Gaming machines are typically located in hotels, clubs and casinos across the different states, with the exception of Western Australia, where EGMs are only allowed in the Crown Perth casino. The number of EGMs in Australia is capped in all states except WA.

118. The gaming industry is subject to a strict and evolving regulatory framework, with the composition of the market being a direct reflection of the prevailing regulatory environment.

119. A number of regulatory measures have been introduced in Australia over the past decade in an effort to reduce the incidence of gambling-related harm. These harm minimisation measures include:

    (a) money management measures such as placing limits on withdrawals from ATMs, restricting access to ATMs and introducing money laundering prevention protocols;

    (b) changes impacting the caps on the number of EGMs in each state, and in each Local Government Area (**LGA**), bet and win limits, the ban of note acceptors in gaming machines and compulsory display of odds and returns to players; and

    (c) changes to the gambling environment which include the mandatory provision of exclusion schemes, voluntary pre-commitment, implementation of player session length monitoring, restrictions on advertising, promotions and loyalty programs, smoking bans in gaming areas and staff training on responsible gambling.

120. All key participants of the gaming industry are required to hold an appropriate licence or approval to operate (e.g. gaming machine licence, gaming machine monitoring licence, gaming machine dealer's licence, gaming machine service licence).

121. Regulation of the gaming industry has traditionally been undertaken by the individual states and territories, so legislation and regulation varies between the states and territories.

122. All EGMs operating in clubs and hotels located in each state and territory (except the ACT) must be connected to a Centralised Monitoring System (**CMS**) for taxation, compliance and research purposes. The monitoring function is granted in each state to a third party, on an exclusive basis and for a specified period of time, except for in Queensland (where multiple providers are licensed) and the Northern Territory (although currently only one provider is operating in this Territory). In the ACT, monitoring of EGMs is performed manually.

123. Figure 4 below sets out participants in the gaming market.

Participants in the gaming market

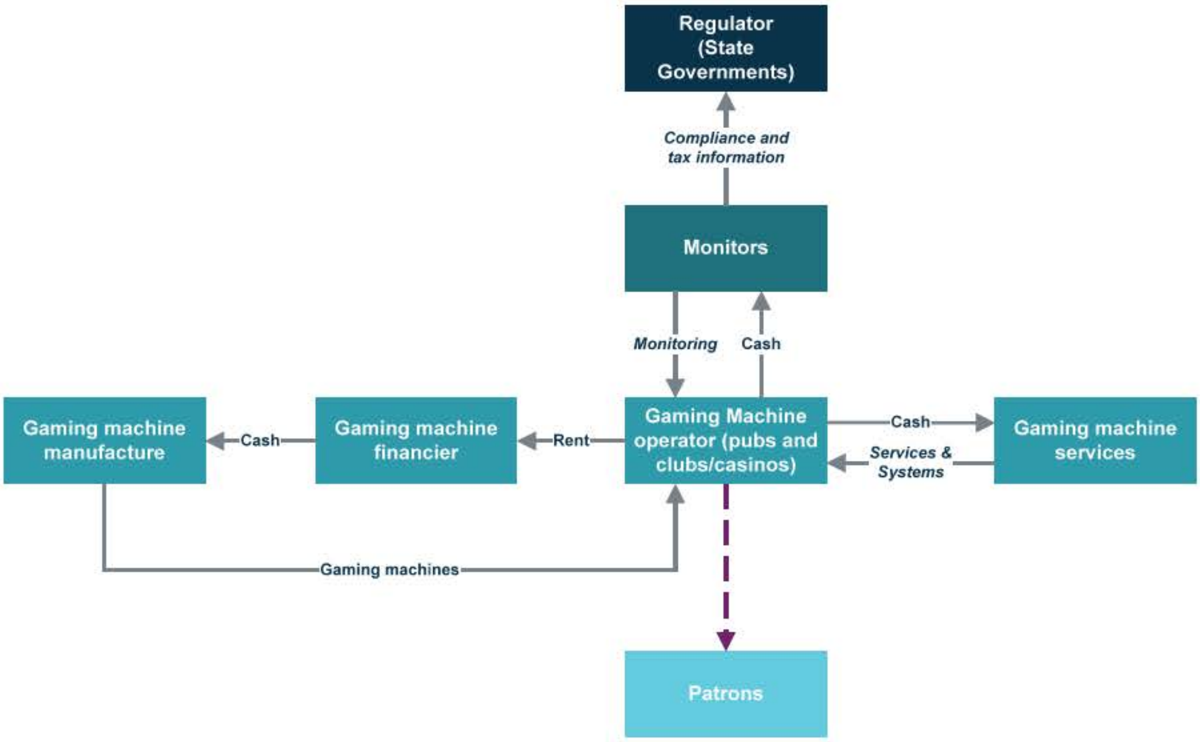

Figure 4: participants in the gaming market

124. Gaming services includes the provision of marketing, compliance, responsible gambling, venue refurbishment and EGM procurement services, to the operators of licensed gaming venues. The Australian gaming industry can be sub-divided into a number of segments, including:

(a) **machine manufacturing and game development**: which includes selling EGMs either directly to venues holding a gaming machine licence or to licensed resellers who on-supply to venues;

(b) **in-venue gaming systems**: which includes providing gaming system technology and solutions to venue operators who own or lease gaming machines, as well as the provision of preventative and remedial repair, maintenance and support services in relation to in-venue gaming system hardware and software;

(c) **gaming and venue services**: which includes financing, training, venue design and product advice, marketing and loyalty programs, compliance checking and adherence, and other advice relating to the operation of a licensed venue;

(d) **gaming monitoring**: which includes monitoring EGMs in each state and territory (excluding the ACT) to ensure they are operating to compliance standards, as well as for taxation and research purposes; and

(e) **repair and maintenance services**: preventative and remedial repair and maintenance services in relation to EGMs.

125. In respect of (a) above, Tabcorp does not manufacture machines or develop games. The key players in that market are Aristocrat, Bally (Scientific Games), IGT, Ainsworth, Aruze and Konami. Tabcorp procures EGMs and games from these manufacturers.

126. Tabcorp is involved in the other segments (which I describe below):

(a) through TGS in NSW and Victoria; and

(b) through Intecq in NSW, Victoria and Queensland. Intecq's business in NSW and Victoria is eBet and in Queensland is Odyssey.

127. In the following sections, I provide a broad overview of relevant gaming regulations, and then describe:

(a) in-venue gaming systems, and gaming and venue services (referred to in 124(b) and (c) above);

(b) gaming monitoring services (referred to in 124(d) above); and

(c) EGM field services (referred to in 124(e) above).

C.2 Regulation

128. A broad summary of relevant gaming regulations is as follows:

(a) In Victoria:

i. gaming is under the *Gambling Regulation Act 2003* (Vic) and the *Gambling Regulations 2015* (Vic).

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ii. Companies need to be listed on the Roll of Manufacturers, Suppliers and Testers, which is kept by the VCGLR.[17] This process requires collation and testing of information relating to the applicant and its officers and associates to satisfy probity, financial and other criteria. A one-off fee of $2,843.30 is payable to be listed and the applicant also bears the cost of providing the required materials (e.g. ASIC searches) to the VCGLR.

iii. Once listed on the Roll, companies must obtain VCGLR approval of each of their systems.

iv. Once listed, companies remain on the Roll indefinitely**.**

v. TGS has been listed on the Roll of Manufacturers, Suppliers and Testers since 16 August 2012 (**Tab 25** of **AR-1 [TBP.015.001.0094]**).[18] Intecq has been on the Roll since 14 April 2014 (**Tab 25** of **AR-1 [TBP.015.001.0094]**).[19]

vi. The VCGLR does not regulate providers of certain gaming and venue services, which can therefore be provided by an entity that is not on the Roll. These services include:

A. facilitating the purchase of EGMs e.g. through provision of finance;

B. player loyalty schemes; and

C. marketing advice and venue promotions, venue design and staff training.

(b) In NSW:

i. Gaming is regulated under the *Gaming Machines Act 2001* (NSW) and the *Gaming Machines Regulation 2010* (NSW).

ii. Gaming services can be provided under a gaming machine dealer's licence, issued by the Independent Liquor and Gaming Authority (**ILGA**)[20]. This licence allows the holder to:

A. manufacture and assemble gaming machines in or on the premises specified in the licence;

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[17] Pursuant to Part 4 of the *Gambling Regulation Act 2003* (Vic).

[18] Licence no R1160031 in perpetuity.

[19] Licence no R1460046 in perpetuity.

[20] Under Part 7 of the *Gaming Machines Act 2001* (NSW).

B. sell and negotiate the sale of approved gaming machines (whether or not manufactured or assembled by the licensee); and

C. service, repair and maintain approved gaming machines in or on the premises specified in the licence.

iii. Alternatively, a gaming machine seller's licence allows the holder to:

A. as an employee of the holder of a dealer's licence or seller's licence – to negotiate on behalf of the employer the sale of approved gaming machines; and

B. to sell, as principal or agent, approved gaming machines (**Tab 26** of **AR-1 [TBP.015.001.0071]**).

iv. Applicants must be a corporation and must fill out three forms (one application form, a company probity form and a personal probity form). The applicant must notify the local police and consent authority of the application, fix a notice to the premises and publish an advertisement in a national and local newspaper.

v. To obtain a gaming machine dealer's licence there is a lodgement fee of $1,000 and a fee-on-grant of $9,000. An annual fee of $10,000 is payable to retain the licence. To obtain a gaming machine seller's licence there is a lodgement fee of $100, a fee-on-grant of $400, and an annual fee of $500.

vi. The time it takes to obtain a licence depends on whether the entity has previously been approved and undergone probity checks. At a minimum, it will take 3-4 months (and will take longer depending on what, if any, further information the regulator requires).

vii. Once the licence has been granted, all regulated equipment and systems need to be tested and approved by the regulator.

viii. TGS has a gaming machine dealer's licence, Tabcorp Holdings Limited has a gaming machine seller's licence and Intecq (through eBet) has a gaming machine dealer's licence.[21]

[21] TGS/dealer's: licence no GMD1100001 approved effective 13 September 2013, renewed every 12 months. Tabcorp/seller's: licence no 24010713, approved in 2003 and renewed annually. eBet/dealer's: licence no 24010518, renewed annually.

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(c) In Queensland there are various types of supplier's licences including licensed monitoring operators (**LMOs**), major dealers (manufacturers), secondary dealers, and licensed testing facility operators.[22]

i. To provide any services directly connected with EGMs, the provider must either be an LMO or partner with one. An LMO is permitted to:

A. install, operate and modify a gaming related system and electronic monitoring system operating on licensed premises;

B. cause a gaming related system to be installed or operated;[23]

C. obtain and be in possession of gaming machines, linked jackpot equipment and restricted components;

D. sell or supply, on written order with the commissioner's written approval, gaming machines to an LMO, an approved financier, a licensee or a gaming trainer;

E. sell or supply, on written order, gaming machines, linked jackpot equipment or restricted components to a person in another state or territory or a country where possession of the gaming machines, linked jackpot equipment or restricted components by that person is lawful; and

F. manufacture linked jackpot equipment.[24]

ii. To be granted an LMO licence, there is an application fee of $16,540 and a one-off licence fee of $396,800. The licence is for a period of 10 years.

iii. Current LMOs are:

A. Maxgaming QLD Pty Ltd;

B. Odyssey Gaming Services Pty Ltd;

C. PVS Australia Pty Ltd; and

D. Utopia Gaming Systems.

iv. Licensed major dealers (manufacturers) are authorised to manufacture, sell and supply gaming machines, but not to cause a gaming related EGM

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[22] *Gaming Machines Act 1991* (QLD), s112.

[23] Ibid, s231.

[24] Ibid, s265A.

or system to be installed or operated.[25] Current licensed major dealers are Ainsworth Game Technology Limited, Aristocrat Technologies Australia Pty Ltd, Aruze Gaming Pty Ltd, Bally Technologies ANZ Pty Ltd, B.G.I Australia Pty Ltd, IGT (Australia) Pty Ltd and Konami Australia Pty Ltd.

(d) In Tasmania, in order to manufacture, sell or supply gaming machines, games or equipment to gaming operators, the provider/manufacturer/supplier must be listed on the Roll of Recognised Manufacturers, Suppliers and Testers of Gaming Equipment, maintained by the Tasmanian Liquor and Gaming Commission.[26] Tabcorp is listed on the Roll, and eBet is listed on the Roll (**Tab 27** of **AR-1 [TBP.015.001.0073]**).[27]

(e) In the ACT, providers must have an approval as a Supplier from the ACT Gambling and Racing Commission. TGS and eBet currently have this approval.

129. In South Australia, providers must hold a Gaming Machine Dealer's Licence. This authorises the licensee to manufacture gaming machines and prescribed gaming machine components, and to supply approved gaming machines, components and equipment to gaming machine licensees, gaming machine service licensees or other gaming machine dealer licensees. Following the acquisition of Intecq, Tabcorp holds a Gaming Machine Dealer's Licence via eBet Gaming Services Pty Ltd.

C.3 In-venue gaming systems, and gaming and venue services

C.3.1 In-venue gaming systems

130. In-venue gaming systems comprise software and hardware designed to allow licensed venues to manage and enhance the operation of their EGMs, and to assist in meeting compliance obligations under their licence. At a minimum, these systems track, report on and allow for financial reconciliation of EGM activity. In addition, they often include:

(a) voluntary pre-commitment solutions which are mandatory in Victoria (referred to in more detail at paragraph 213(c));

(b) software and hardware that facilitates player loyalty programs and venue membership and loyalty programs, including by producing and reading venue membership cards for players, and tracking and reporting on player activity facilitated by membership cards;

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[25] Ibid, s267.

[26] *Gaming Control Act 1993* (Tas), s70.

[27] Roll listing numbers 51658 and 71124, expire 19 June 2018 (renewal every 5 years).

(c) card-based gaming solutions, including:

i. Ticket In Ticket Out (**TITO**) systems, which allow patrons who have finished playing a particular EGM to print a ticket at the EGM and either use that ticket at another EGM or redeem it for cash at a venue cashier or cash redemption terminal; and

ii. other card-based gaming systems – a plastic card or token (which may also be a loyalty card) is linked to a venue based account. When the card is inserted into an EGM, an amount is transferred from the account to the credit meter;

(d) business intelligence software, which facilitates reporting and analysis of EGM activity, often as benchmarked against other venues from publicly available data and information (ie. LGA performance reports);

(e) player kiosks, at which players may check their loyalty status;

(f) jackpot systems – there are two main types of jackpot systems – manufacturer-based, and 'generic'. Broadly speaking, a manufacturer-based jackpot is unique to that particular manufacturer's EGMs, and may involve either individual progressive jackpot machines, or linked jackpot machines. By contrast, generic jackpot systems can link machines made by different manufacturers. Manufacturer-based jackpots are, at most, able to link machines made by that manufacturer in a single venue, while generic jackpot systems can link machines in one venue or across multiple venues (the latter is referred to as 'state-wide links'); and

(g) systems allowing venues to market to and communicate with customers.

131. Some in-venue gaming system providers (including Konami, Bally/Scientific Games and Intralot) also have monitoring technology capabilities, which enable them to provide a CMS. However these are generally not deployed because, as discussed in C.4 below, the CMS is generally provided by the licensed monitoring operator.

132. In-venue gaming systems comprise both hardware and software components. Most in-venue gaming system providers provide preventative and remedial repair, maintenance and support services in relation to their in-venue gaming system hardware and software (referred to in this statement as 'in-venue gaming system support').

C.3.2 Gaming and venue services

133. In addition to, or independently from, in-venue gaming systems, venues may obtain gaming and venue services, such as:

(a) financing for EGM operations, or for venue refurbishment or fit-out;

(b) training on customer experience and venue compliance;

(c) total venue design, refurbishment or fit-out;

(d) advice on product selection and broader advice on other components of venue operation; and

(e) marketing and loyalty activities, using the loyalty system (which is described above at paragraph 130(b)) to provide rewards or benefits.

C.3.3 Tabcorp Gaming Solutions

134. TGS provides a ‘broad service’ offering to EGM venue operators in Victoria and NSW.

135. The offering includes:

(a) **in-venue gaming systems**: TGS re-supplies third party systems (discussed in more detail below);

(b) **gaming and venue services**: financing, which involves re-supplying EGMs to venues for a daily fee. This generally involves TGS purchasing a venue’s existing EGMs in the first instance, re-supplying the machines to the venue for a daily fee, and upgrading the machines and/or games on the machines over time (generally a proportion of the machines, around 20% or 25% of the floor, are replaced each year, pursuant to the agreement with the venue). In addition, TGS may also provide funding in respect of capital expenditure on the venue’s gaming business or in some instances, provide loans. TGS also supplies related services, advice and project management to venues, such as training and advice with respect to venue refurbishment, financing, marketing, and regulations compliance;

(c) **in-venue gaming system support**: TGS is contractually responsible for providing in-venue gaming system support for the in-venue gaming systems it supplies to venues. As such, the number of machines it provide these services to is roughly equivalent to the number of machines to which it provides in-venue gaming systems (shown in Table 7 below). Those services are either provided by Tabcorp Field Services (**TFS**) technicians or through independent third party subcontractors; and

(d) **EGM field services**: TGS provides preventative and remedial repair and maintenance services in relation to the EGMs it re-supplies to venues. EGM field services are discussed in more detail in section C.5 below.

136. TGS does not manufacture and supply its own in-venue gaming systems. Rather, it re-supplies third party systems (see Table 7 below).

137. In Victoria, TGS supplies IGT's in-venue gaming system, 'IGT Advantage Club'. IGT Advantage Club has a variety of functions, including financial reporting and reconciliation, player tracking and management, player loyalty programs, and voluntary pre-commitment. Until recently, TGS supplied IGT Advantage Club in Victoria on an exclusive basis, pursuant to a master licence and support agreement,[28] by which:

(a) TGS agreed not to supply a product which is the same or substantially similar to IGT Advantage Club; and

(b) IGT agreed not to provide IGT Advantage Club to persons in Victoria, except to Australian Leisure and Hospitality Group (**ALH**) and Crown Resorts Limited.

138. The exclusive nature of this agreement ended in February 2017. Consequently:

(a) TGS may continue to re-supply IGT's Advantage Club to its existing venue customers in Victoria for the duration of their existing contracts;

(b) TGS will not have the exclusive right to re-supply IGT's Advantage Club to new venues in Victoria (unless it reaches a new agreement with IGT); and

(c) IGT will be free to market and supply its products to non-TGS venues and gaming service providers in Victoria in addition to ALH and Crown.

139. TGS uses the Tableau business intelligence program for venues in Victoria. This business analytics program analyses gaming data captured by the IGT in-venue gaming system and the Intralot central monitoring system, but does not integrate with Point of Sale (**POS**) systems.

140. Venues in Victoria who wish to enter into a Loyalty Program Agreement have two options:

(a) Diamond Rewards: a loyalty program through which a venue's customers can earn food and beverage rewards; or

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[28] 5 year renewal with a 5 year renewal subject to negotiation between IGT (Australia) Pty Ltd, Tabcorp Holdings Limited and Tabcorp Gaming Solutions Limited.

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(b) Player Rewards: a loyalty program through which a venue's customers can earn food and beverage rewards (i.e. Diamond Rewards), as well as gaming machine rewards.

141. In Victoria, both the Diamond Rewards and Player Rewards programs also include:

(a) a Venue Membership system (essentially, a database of venue members which can be used for a range of marketing and promotional activities); and

(b) voluntary pre-commitment technology, which is compulsory for venues in Victoria.

142. TGS provides the necessary hardware and software for the operation of the relevant systems.

143. In NSW, TGS re-supplies in-venue gaming systems and related services on a non-exclusive basis, including IGT, eBet and Aristocrat systems. This includes TITO and loyalty systems.

144. Venues in NSW who wish to enter into a Loyalty Program Agreement do not choose between the Diamond Rewards and Player Rewards programs. Rather, there is a single Loyalty Program Agreement which includes both the Diamond Rewards and Player Rewards programs, as well as a Venue Membership system. Again, TGS provides the necessary hardware and software for the operation of the relevant systems. Where a venue becomes a TGS venue and wishes to retain their existing loyalty system, TGS will take over and maintain the relevant contract with the loyalty system provider.

145. It is less economic for TGS to supply its services to venues that have fewer than around 50 or 60 machines. In NSW, for example, pubs are only permitted to have up to 30 machines, so Tabcorp does not supply pubs in NSW and has focussed on clubs (32% of NSW clubs have in excess of 50 machines and collectively represent 78% of total machines). TGS had a minor presence in NSW in FY16, providing gaming systems and gaming and venue services to venues with a total of approximately 900 machines. In January 2017, TGS signed the Panthers Group, which has 1,056 gaming machines across four venues. This more than doubles the number of machines under contract in NSW.

146. TGS has a much larger footprint in Victoria and currently manages 8,582 EGMs in Victoria.

C.3.4 Intecq

147. As mentioned in Part A.1 above, I was the sponsoring executive for the acquisition of Intecq which occurred on 16 December 2016. My team had identified, through discussions with pubs and clubs, that Intecq's in-venue gaming system eBet (described in more detail below) was a desirable system. We reviewed publicly available information such as analysts' reports, and had discussions with Intecq executives. Having identified that Intecq's systems complemented those offered by TGS, that it had a good growth history, strong presence in NSW, and was an LMO in Queensland. Tabcorp commenced a formal due diligence process. The due diligence process verified our initial view. My team drafted discussion materials setting out the due diligence findings which were presented to the board on 28 July 2016. A copy of the presentation is at **Tab 9** of **AR-2 [TBP.015.001.4312]**.

148. Tabcorp will run TGS and Intecq in parallel, while aiming to improve and expand the product offering to customers of both businesses.

149. Intecq provides in-venue gaming systems in NSW and Victoria through its eBet business, and in Queensland through its Odyssey Gaming business. **[HIGHLY Confidential to Tabcorp]** [redacted]. This is discussed further in section D below. Intecq is predominantly NSW focussed with around 36,700 of the 48,500 EGMs to which it provides in-venue gaming systems located in NSW. Whilst not yet commenced, in April 2016, Intecq announced it had won the contract to supply its full suite of gaming systems to 1,082 gaming machines across Federal Group's two casinos in Tasmania. A copy of the ASX announcement is at **Tab 28** of **AR-1 [TBP.500.001.0002]**.

150. Intecq supplies its core Metropolis in-venue gaming system to venue operators, who can choose to add on additional modules. In NSW and Victoria, they typically pay an upfront purchase price inclusive of supply, installation and training, and then a monthly support and maintenance fee and yearly system licence fees. Alternatively, venues may purchase the hardware component of the in-venue system under extended payment terms. In Queensland, gaming venues rent the in-venue system equipment and then pay monthly support and maintenance fees and yearly system licence fees. The cost of training and installation is included as part of the monthly systems rental fee.

151. The products are described below:

    (a) **Metropolis** – Intecq's core proprietary product is the 'Metropolis' in-venue gaming system, which has similar functions to IGT's Advantage Club, including financial reporting and reconciliation, player tracking and management, player loyalty programs, and voluntary pre-commitment.

(b) **Payment solutions** – the Metropolis system facilitates the use of Intecq's two gaming payment systems: TIKIT, a paper-based TITO system, and Card IT, a plastic card-based system. Intecq currently provides TIKIT and Card IT in NSW and Queensland. As mentioned above, TITO and card-based gaming systems have not been approved for supply in Victoria.

(c) **Engage** – Engage is a player marketing and communication system, which works in conjunction with Metropolis. It is a combination of Pathway, the in-machine touch screen, and the Engage application. Engage allows a venue to provide information to customers through a touch screen built into a gaming machine. For example, using the Engage system, a venue can communicate information regarding venue hours, promotions, and food and drink options. Engage also allows a customer to call for an attendant or to pause gaming and step away from the machine.

(d) **BreakAway** – BreakAway is a product which allows players to securely reserve a gaming machine, and their money, for a period of time whilst they take a break away from the machine. BreakAway is only available in NSW.

(e) **Wager Exchange** – Wager Exchange is a product developed under an IGT patent licence, which works in conjunction with Metropolis, using a touch screen installed into a gaming machine. The program allows customers who earn bonus points while playing a gaming machine to convert those bonus points into non-cashable credits for play on machines (rather than exchanging the bonus points for a promotional prize). Intecq currently provides Wager Exchange in NSW (this type of system is not approved for use in Victoria or Queensland).

(f) **Trace BI** – Trace BI (a third party product) is a venue loyalty program, which Intecq re-sells to licensed venues in Queensland. It can be provided only to venues for which Odyssey is the LMO (referred to in further detail below at C.4.2). Trace operates independently of Intecq's Metropolis system, and has four main applications:

i. Patron – this application can be downloaded and used by patrons on their smart phones and other mobile devices. The application welcomes patrons on arrival, allows patrons to receive and redeem vouchers and awards, and to order food and drinks remotely (ie while at a venue, but not at a bar or bistro counter);

ii. Kiosk – the Kiosk application operates on customer kiosks within the venue, and allows customers to redeem vouchers and rewards;

iii. Host – this application can be downloaded and used by venue staff on their smart phones and other devices. The application allows staff members to track customer information such as food and drink preferences or gaming machine preferences; and

iv. Community Terminal – this is a handheld mobile EFTPOS terminal for venue staff, which staff can use to facilitate promotions and to print vouchers and rewards.

(g) **Astute BI** – Astute BI is a reporting and business intelligence program, which provides data and analysis regarding venues, individual gaming machines and patrons. Unlike the Tableau product re-supplied by TGS, the Astute BI program integrates with POS systems, to capture additional data including patrons' spending on food and drink at a venue. This program also allows the comparison of a venue's performance against aggregated benchmark data of other venues, including for metrics related to financial performance, membership, loyalty and promotions. There are approximately 126 venues (and 10,535 related EGMs) that acquire Astute as a stand-alone product. These venues (and related EGMs) are excluded from the data provided in this statement regarding the number of EGMs supplied with in-venue gaming systems by Intecq.

152. Intecq also provides kiosks, computers and other hardware to licensed venues in conjunction with the systems and software detailed above. Intecq offers jackpot services, including jackpot monitoring, technical support and state-wide jackpots to a large number of EGMs in Queensland.

153. Further, similarly to TGS, Intecq is contractually responsible for providing in-venue gaming system support for in-venue gaming systems it supplies to venues. As such, the number of machines it provides these services to is roughly equivalent to the number of machines to which it provides in-venue gaming systems (shown in Table 7 below).

154. In Queensland, in-venue gaming system support may be provided either by Odyssey technicians or by independent third party sub-contractors. Outside of Queensland, Intecq has no in-house repair and maintenance capabilities. Consequently, any hardware repairs are provided by independent third party sub-contractors. Software support is

provided by Intecq. Venues are not restricted on their choice of provider, regardless of EGM manufacturer or in-venue gaming system provider. For example, Aristocrat could service an Intecq in-venue gaming system.

C.3.5 Contracting with customers

TGS

155. In considering potential customers, Tabcorp firstly identifies the venue sizes and types that it considers could benefit from its products. For example, in NSW, as set out above, Tabcorp has focussed its broad service offering on clubs rather than pubs because it considers that venues with 50 or more machines are more likely to want TGS' level of capability and Tabcorp has the financial capability to help them compete more effectively. Building TGS' reputation is important. We run sessions providing updates on the industry and the economy, and go to trade shows, to present our offering. Further, we get referrals from gaming suppliers. We have a team that approaches identified venues to educate them about our offering.

156. If a venue or group of venues is interested, we engage in negotiations which can take a number of months. TGS customers in NSW and Victoria each operate under standard form Gaming Services Agreements, and these agreements are the starting point for the discussions. We then work with the customer to determine what their requirements are, what elements of our offering are important to the customer and what parts of the offer they require more or less of, which ultimately impacts on the financial elements of the proposal. Depending on other offerings the venue takes as part of the broader service package, a venue may also sign a Loyalty Program Agreement, a TITO agreement (in NSW only), or a Tableau agreement (for access to data analytics). The following are the master agreements for Victoria and NSW (further details of these agreements are set out in Table E of **Tab 2** of **AR-3 [TBP.001.027.5240]**):

(a) TGS Vic Gaming Services Agreement (**Tab 10.1** of **AR-2 [TBP.015.001.0999]**);

(b) TGS Vic VPC/Loyalty Program Agreement (**Tab 10.2** of **AR-2 [TBP.015.001.1064]**);

(c) TGS Vic VPC T&Cs (**Tab 10.3** of **AR-2 [TBP.015.001.1038]**);

(d) TGS Vic Loyalty Program Diamond Rewards T&Cs (**Tab 10.4** of **AR-2 [TBP.015.001.1068]**);

(e) TGS Vic Loyalty Program Diamond Rewards and Player Rewards T&Cs (**Tab 10.5** of **AR-2 [TBP.015.001.1111]**);

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(f) TGS Vic Tableau agreement (**Tab 10.6** of **AR-2 [TBP.015.001.1165]**);

(g) TGS NSW Gaming Services Agreement (**Tab 11.1** of **AR-2 [TBP.015.001.1181]**);

(h) TGS NSW Loyalty Program Agreement (**Tab 11.2** of **AR-2 [TBP.015.001.1232]**);

(i) TGS NSW Loyalty Program Agreement T&Cs (**Tab 11.3** of **AR-2 [TBP.015.001.1236]**);

(j) TGS NSW TITO supply and services agreement (**Tab 11.4** of **AR-2 [TBP.015.001.1288]**); and

(k) TGS NSW TITO supply and services agreement T&Cs (**Tab 11.5** of **AR-2 [TBP.015.001.1292]**).

157. The standard price for the 'broad service' offered by TGS depends largely on the level of services provided and the specific terms of the contract. **[HIGHLY Confidential to Tabcorp]** [redacted]. As a general rule, the TGS offering is not de-bundled (that is TGS would not offer the individual services referred to in paragraphs 135 and 136 separately). A key component where variability in pricing exists is if the venue elects to offer a gaming loyalty system **[HIGHLY Confidential to Tabcorp]** [redacted] and instances where venues obtained loan financing. If a venue has an existing loan, this typically adds between **[HIGHLY Confidential to Tabcorp]** [redacted] to the daily service fee, depending on the size of the loan and how many gaming machines this charge is spread over. The level of new product provided each year also substantially impacts the level of pricing.

158. Tabcorp generally enters into a contract with a customer for a minimum of five years, and the daily fee is charged over the term of the contract. The customer does not have an upfront cost, but Tabcorp generally has an up-front capital contribution and invests in product and refurbishment of the venue that is amortized over the term of the contract.

159. The variation in pricing exists due to:

(a) gaming machine quantities;

(b) contract duration;

(c) level of annual product investment (how many new gaming machines and new games are deployed each year);

(d) whether there is a loan finance component; and

(e) the provision of any other financial assistance toward venue renovation and improvements.

160. [HIGHLY Confidential to Tabcorp] [redacted].

161. [HIGHLY Confidential to Tabcorp] [redacted].

162. [HIGHLY Confidential to Tabcorp] [redacted].

163. Large venue groups and strategic customers are generally able to negotiate for a lower price as they are larger and hence more valuable to Tabcorp. Tabcorp will also agree to lower prices (on commercial terms) where there is strategic value to our signing certain customers. Tabcorp has rules in place regarding our return on invested capital, and internal rate of return measures, which put commercial parameters around the price it is willing to offer. We seek to write contracts that are beneficial to both the customer and to Tabcorp over the term of the contract.

Intecq

164. New Intecq customers in NSW, Victoria and Queensland operate under state specific standard form master agreements. Customers who have been with Intecq for more than around two years may operate under a purchase order with standard terms and conditions attached. If venues are a member of the Mercury Group in Victoria (in which voluntary pre-commitment is mandatory), they will be a party to a pro-forma tri-partite Pre-Commitment Solutions Agreement, receiving pre-commitment systems with or without loyalty programs. The following are the Intecq master agreements (further details of these agreements are set out in Table E of **Tab 2** of **AR-3 [TBP.001.027.5240]**):

(a) Intecq NSW Master Services Agreement (**Tab 12.1** of **AR-2 [TBP.015.001.3133]**);

(b) Intecq Vic Master Supply and Services Agreement (**Tab 12.2** of **AR-2 [TBP.015.001.3158]**);

(c) Intecq Qld Master Supply & Services Agreement (**Tab 12.3** of **AR-2 [TBP.015.001.3106]**);

(d) Intecq Mercury Pre-Commitment Solutions Agreement with Loyalty (**Tab 12.4** of **AR-2 [TBP.001.022.0397]**); and

(e) Intecq Mercury Pre-Commitment Solutions Agreement (**Tab 12.5** of **AR-2 [TBP.001.022.0436]**).

165. Whilst in Tabcorp's experience, individual gaming venues do not typically conduct tenders in respect of their gaming business, larger venue groups often conduct tenders for in-venue gaming systems. For example, Intecq successfully tendered to provide the in-venue gaming system for the Redcape Group, a group of 26 pubs (and associated retail liquor stores) across NSW and Queensland. Intecq also participated in a tender put out by ALH (which is set out in more detail below) but was not successful.

166. In relation to its Intecq offering, pricing for monitoring services and field services in Queensland is set at **[Confidential to Tabcorp]** [redacted] per machine per month and **[Confidential to Tabcorp]** [redacted] per machine per month respectively. Pricing for Intecq's in-venue gaming systems differs depending on the number of machines. Indicative pricing is set out at **Tab 6** of **AR-3 [TBP.001.027.6446]**.

C.3.6 Other suppliers of in-venue gaming systems

167. There are a number of other suppliers of in-venue gaming systems. These entities include specialist domestic businesses as well as large international gaming services companies. I set out in Table 7 below the main providers of in-venue gaming systems in NSW, Victoria and Queensland, and the approximate number of EGMs in respect of which they supply in-venue systems.

State	Main providers of in-venue gaming systems	Approximate number of EGMs supplied
NSW	eBET (Intecq)	36,708
	Aristocrat	13,700
	Global Gaming (Banktech)	9,000
	IGT	7,000
	TGS (re-supplies IGT, Intecq and Aristocrat systems)	1,974
	Bally (Scientific Games)	1,382
	Konami	549
Victoria	TGS (re-supplies IGT systems)	8,582
	eBET (Intecq)	5,399
	Bally (Scientific Games)	5,115
	SuzoHapp – (voluntary pre-commitment only)	3,500
	Amtek – (voluntary pre-commitment only)	1,000
	Maxgaming (Tatts - loyalty solution only)	1,000
	PVS (re-supplies Konami systems)	900
Queensland	Odyssey (Intecq)	6,465
	Maxgaming	6,590
	Bally (Scientific Games)	4,150
	IGT	250
	Konami	200

Table 7: Main providers of in-venue gaming systems in NSW, Victoria and Queensland[29]

168. Although they are not listed in Table 7 above, it is my understanding, through feedback from venues in the market, that both PVS and Utopia intend to start operating in Queensland in the near future (in the next 2-3 months). Their operations will include both monitoring services and in-venue gaming systems.

169. In addition to those suppliers listed in Table 7, it is my understanding that all EGM manufacturers have some form of manufacturer-based jackpot solution. This includes Aristocrat, Bally, Konami and IGT, as well as Aruze and Ainsworth, all of which manufacture EGMs that can be installed in venues as stand-alone progressive jackpot machines or as linked jackpot machines. In relation to generic jackpot systems, they are not permitted in Victoria. In NSW, Maxgaming provides state-wide links pursuant to an

[29] Intecq figures current as at 31 January 2017 and TGS figures current as at 9 February 2017. Figures for all other providers are approximate and are supplied based on market knowledge.

exclusive licence. In Queensland, Maxgaming and Intecq (Odyssey) provide generic jackpot systems for single venues and across multiple venues.

170. I consider that the providers listed in Table 7 above are effective competitors in relation to the provision of in-venue gaming systems. They compete both on the strength of their product and service offering (i.e. their system functionality), as well as the commercial terms they offer to venues. Typically, at least three providers offer proposals to such venues. For example, Intecq sought to supply its in-venue gaming system to Souths Juniors (in NSW), to ALH (on a national basis) and to Frontier Group (in Victoria), and lost out to Aristocrat, Bally and Konami respectively.

171. The degree of competition is higher between stand-alone providers of in-venue gaming systems (as opposed to TGS, whose business model involves the provision of a ‘broad service’ offering which includes a range of services in addition to in-venue gaming systems). In this respect, the PVS business model is the closest offering to the TGS model.

172. I set out below my understanding of the businesses of various competitors. That understanding is taken from conversations with the venues who are supplied by these businesses, the suppliers, attending gaming shows and discussions with my own team. I have also referred to some websites or documents produced by those companies.

Aristocrat

173. Aristocrat Leisure Limited (**Aristocrat**) is a global gaming company based in Australia, and listed on the ASX. Its core business is the manufacture and supply of EGMs. Aristocrat has a presence in 90 countries. In the 12 months to 30 September 2016, Aristocrat earned $2.128 billion in revenue (increased 34.5% from 2015), with an EBITDA of $806 million (increased 54.1% from 2015). A copy of the Aristocrat Final Results Presentation 2016 is at **Tab 29** of **AR-1 [TBP.500.001.0007]**.

174. Aristocrat supplies in-venue gaming systems and related services to venues in Australia. The Aristocrat system is called 'System 7000' (**Tab 30** of **AR-1 [TBP.015.001.0075]**), which is comparable with Intecq's Metropolis system. The functions of System 7000 include financial reporting and reconciliation, player tracking and management, player loyalty programs, and voluntary pre-commitment. Aristocrat also provides a TITO cashless gaming solution for use with its System 7000 system.

Scientific Games

175. Scientific Games Corporation (**Scientific Games**) (NASDAQ: SGMS) headquartered in the US, is a developer of technology-based products and services and associated

content for worldwide gaming and lottery markets. The company's portfolio includes instant and draw-based lottery games; EGMs and game content; server-based lottery and gaming systems; sports betting technology; loyalty and rewards programs; and social, mobile and interactive content and services. One of the principal businesses of Scientific Games is the manufacture and supply of EGMs. In 2015, 64% of Scientific Games' revenue was attributable to its gaming products and services business (**Tab 31** of **AR-1 [TBP.015.001.4607]** at **[.4618]**).

176. Scientific Games through its wholly owned subsidiary Bally Technologies ANZ Pty Ltd (referred to in Australia as **Bally**) provides in-venue gaming systems to venues in Australia. Bally is the exclusive provider to ALH, which owns and operates licensed venues across Australia (**Tab 32** of **AR-1 [TBP.015.001.0076]**). In particular, ALH has an agreement with Bally to supply a suite of applications, including voluntary pre-commitment and utilising a common player card, at more than 270 venues throughout the country, including in NSW, Victoria, Queensland, South Australia, Tasmania, and the Northern Territory.

177. Bally's systems are comparable to Intecq's Metropolis system, with functions including financial reporting and reconciliation, player tracking and management, player loyalty programs, and voluntary pre-commitment (**Tab 33** of **AR-1 [TBP.015.001.1661]**).

Konami

178. Konami Holdings Corporation (**Konami**) is a global entertainment company headquartered in Japan, and is listed on the Tokyo and London Stock Exchanges (**Tab 34** of **AR-1 [TBP.015.001.0079]**). Konami's gaming and systems business has operations in Australia, New Zealand, the USA, Canada, South Africa and Singapore. In the year ended 31 March 2016, Konami earned ¥ 249.9 billion in revenue (or approximately AUD $3.19 billion). Of this, ¥ 34.3 billion related to Konami's gaming and systems business (approximately AUD $438 million) (**Tab 35** of **AR-1 [TBP.015.001.3716]** at **[.3718]**).

179. Konami provides in-venue gaming systems and related services in Australia. The Konami system is called 'Synkros', which is comparable to Intecq's Metropolis system, with functions including financial reporting and reconciliation, player tracking and management, player loyalty programs, and voluntary pre-commitment (**Tab 36.1** of **AR-1 [TBP.015.001.0080]**).

180. Konami advertises a range of services which are used in conjunction with its Synkros system. In respect of these services, I understand that:

(a) in NSW and Victoria, Konami supplies player marketing and communication systems (referred to as True-Time Display and Windowing) which are similar to Intecq's 'Engage' product, as well as player kiosks, mobile device applications and business intelligence and analysis software (**Tab 36.2** of **AR-1 [TBP.015.001.0081]** and **Tab 36.3** of **AR-1 [TBP.015.001.0084]**); and

(b) in NSW, Konami supplies cashless gaming solutions, including a TITO system and a product called 'Money Klip', which allows patrons to load and access funds using an PIN number (**Tab 36.4** of **AR-1 [TBP.015.001.0089]** and **Tab 36.5** of **AR-1 [TBP.015.001.0090]**).

181. Konami also advertises an 'Electronic Point Redemption' product, which allows players to convert bonus points into non-cashable credits for play on machines, similar to Intecq's 'Wager Exchange' product (**Tab 36.6** of **AR-1 [TBP.015.001.0091]**).

Progressive Venue Services

182. Progressive Venue Services (**PVS**) provides a range of gaming services, including loyalty programs, marketing and design services, jackpot services, EGM purchase and supply, venue support, service and maintenance and compliance services.

183. PVS has partnered with Konami to supply Konami’s Synkros management and customer loyalty program system in Victoria (**Tab 36.7** of **AR-1 [TBP.015.001.0092]**). Currently, PVS manages and supports around 900 EGMs in Victoria.

Global Gaming Industries

184. Global Gaming Industries (**Global Gaming**) is an Australian provider of in-venue gaming systems and related services. Global Gaming supplies in-venue gaming systems in NSW.

185. Global Gaming was acquired by The Banktech Group (**Banktech**) in June 2016. Banktech provides ATM, EFTPOS and other payment systems to the banking and hospitality industries (including gaming venues) in Australia and Asia. It is also the parent company of Utopia Gaming Systems (**Utopia**), an LMO licensed in Queensland.

IGT

186. IGT Global Solutions Corporation (NASDAQ: IGT) headquartered in the UK is a global full service gaming company with a strong presence in Australia and New Zealand. Through its wholly owned subsidiary, IGT Australia Pty Ltd, it is a supplier of EGMs and in-venue gaming systems as well as EGM maintenance and support services.

187. IGT is the manufacturer of the IGT Advantage Club gaming management software, which TGS currently resupplies to selected venues in NSW and Victoria. This system has a variety of functions including gaming management and reporting, player and venue loyalty programs, promotions for loyalty members, club membership management services, marketing and user communication services and pre-commitment services (in Victoria).

C.3.7 Other suppliers of gaming and venue services

188. In Victoria, in addition to TGS, there are a large number of other gaming and venue services providers which do not provide in-venue gaming systems (other than PVS, which re-supplies Konami's in-venue system), including:

(a) Mercury Group (~1,730 machines);

(b) Frontier Hospitality (~1,700 machines);

(c) Momentum Gaming (~1,500 machines);

(d) PVS (~900 machines);

(e) Specialized Gaming Services (~630 machines); and

(f) Token Solutions (~300 machines).[30]

189. There are no major providers of gaming and venue services (in the sense I describe in paragraph 133 above) in any other state or territory other than TGS in NSW.

C.3.8 Switching providers

190. There are a number of factors which drive venues (or groups of venues) to switch in-venue gaming system providers, including:

(a) most commonly, in my experience, to take advantage of technological developments and achieve enhanced functionality over their current system;

(b) the level of support and functionality offered by the alternative system provider;

(c) where a venue operates a 'legacy system' (i.e. a system that is reaching the end of its useful life) and decides to switch to another system when their existing contract expires;

(d) price; and

(e) a new system may be provided by some suppliers as part of a bundle of other services or products, such as new machines.

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[30] This information was gained through general market knowledge.

191. For venues taking an in-venue system from a 'stand-alone' provider (that is, from a provider that does not supply those systems together with other gaming services), there are relatively low barriers generally to switching in-venue gaming system providers. Switching may involve a number of steps, including upgrading software and hardware, training staff to use the new system, and increased technical support while the venue is integrating and adapting to the new system.

192. The cost of switching in-venue gaming system providers is analogous to changing mobile phone providers, where the cost to the customer is generally:

(a) if the customer is on a contract, paying out the remaining term of the contract; and

(b) the cost of the new contract (which may include the cost of a new phone).

193. The mobile phone customer is generally not directly charged any fees associated with, for example, disconnecting and re-connecting their mobile phone service, or the cost of the new SIM card. The cost to the customer is higher if there is longer left on their contract, or if they switch to a more expensive contract.

194. The costs of switching in-venue gaming system providers will depend on a number of factors, including:

(a) how long is remaining on any existing contract and the circumstances in which the contract can be terminated;

(b) the number of EGMs in the venue; and

(c) the cost of the new system being provided by the alternative supplier (which will, in turn, depend on system functionality and any wrap-around services).

195. Examples of the cost of new Tabcorp systems are set out in the gaming customer data provided in Tables A, B and C of **Tab 2** of **AR-3 [TBP.001.027.5240]**.

196. For Intecq customers, there is typically no impact on the gaming venue's daily business, and no loss of trade or revenue, as the result of switching to another systems provider. That is because, for smaller venues, the switch can be conducted overnight when the venue is otherwise closed for business. For larger venues, they may decide to operate both the outgoing and incoming systems within their venue until the switch is complete, in order to minimise the impact on customers, trade and revenue.

197. The circumstances in which venues can terminate their contracts with Intecq and switch to a rival supplier differ depending on contract type and state:

(a) NSW and Victoria:

i. if a venue's in-venue gaming system is being financed through extended payment terms, the venue would need to pay out the balance of the monies owed to Intecq;

ii. in all other circumstances (e.g. where the venue has purchased the system outright (by making a one off payment)), the venue is free to switch to another systems provider at any time. It would, however, need to give notice to Intecq under the Master Supply and Services Agreement. The notice period is typically 12 months.

(b) In Queensland, in order to terminate a contract with Odyssey, a venue would need to establish a breach of contract by Odyssey which Odyssey is unable to remedy. If a venue terminates the contact without cause it is liable for 75% of the ongoing monthly fees due to the end of the term and must pay Odyssey's costs and reimburse any discounts or similar that were applied to the contract. The term of the contract is typically 5 years.

198. Higher barriers exist in relation to the switching of suppliers that are not limited to in-venue gaming systems. If a gaming venue wishes to end its relationship with TGS (which provides a 'broad service' offering including the financing of EGMs), then the venue would need to purchase their own gaming equipment (or otherwise obtain gaming equipment) and, if they wish to continue using an in-venue gaming system, enter into an arrangement with a relevant provider.

199. The specific assets that a gaming venue seeking to switch away from TGS would need to acquire/replace include:

(a) EGMs;

(b) an in-venue gaming system (if the venue wishes to continue using one), including a licence to use the system;

(c) VPC technology (which is mandatory in Victoria); and

(d) EGM signage (if applicable).

200. Gaming services are provided by TGS to venues under a Gaming Services Agreement (**GSA**).

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201. In NSW, the GSA allows venues to purchase from TGS the gaming equipment that is already in their venue, at an agreed value.[31] In these circumstances, there would be minimal disruption to the venue's operations and revenue.

202. In Victoria, the GSA is silent on this issue, but TGS would likely consider any offer made by a venue to acquire the gaming equipment in their venue.

203. If the venue does not purchase their gaming equipment from TGS, then business continuity may be more challenging, given new equipment would need to be purchased and installed. However, EGM manufacturers allow venues to buy machines on extended payment terms (typically three years), which would facilitate the acquisition of new equipment.

204. In both NSW and Victoria, a venue may terminate the GSA at any time by giving TGS written notice if TGS breaches a 'term of the GSA' and does not remedy the breach within 14 days after receiving a written notice requiring the breach to be remedied. A 'term of the GSA' includes the provision of services by TGS (e.g. the leasing of gaming machines to the venue and game/machine changes), and issuing a monthly tax invoice to the venue that sets out the service package fee.

205. In NSW only, a venue which is a registered club may also terminate the GSA at any time without cause. The GSA will terminate 60 days from the date of the termination notice.

206. In every state except NSW, the in-venue gaming system has to run through the CMS, as the CMS is the central contact. In Queensland, Victoria and the Northern Territory, in-venue gaming systems must interface to the CMS. This requires the in-venue gaming system provider to develop their system to ensure its compatibility with the CMS. However, the cost of this is low, because generally the monitor would provide the in-venue gaming system provider with their application programming interface which would enable the gaming system provider to ensure the compatibility of the systems.

207. In Victoria, the CMS operator is obliged to facilitate all third party providers of in-venue gaming systems. This facilitates venues switching providers and also enables new entrants to the market.

208. In Queensland, the CMS operator is not obliged to facilitate third party providers of in-venue gaming systems (even if their system is technically capable of doing so). Intecq (Odyssey's) Sentinel monitoring system only 'talks' to Intecq's eBet in-venue gaming system. Maxgaming has generally only facilitated its own in-venue gaming systems in

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[31] In NSW, if a registered club terminates their contract with TGS without cause, they must do so. If a price cannot be agreed, it would be determined by independent valuation.

Queensland. However, Maxgaming has recently facilitated the provision of multiple third party in-venue gaming systems; the Konami system in one or two venues, Bally in all ALH venues, and IGT in one or two venues. **[HIGHLY Confidential to Tabcorp]** [redacted].

209. In my experience, switching is not very common. Once venues have chosen an in-venue system, they generally do not switch until the system has sufficiently depreciated over a 7 to 10 year period, even though many contracts allow the venue to terminate a contract without much notice. Further, a venue may choose to upgrade their system rather than replace it. This can extend its useful life by a number of years, depending on the level of upgrade. Having said that, in-venue gaming system providers offer incentives to venues to switch to their system, and the cost is often covered (in whole or in part) by the replacement system provider. Generally, this is in the form of discounted pricing.

210. Some examples of venues switching providers over the last three to five years are:

(a) ALH venues in Queensland switched from Maxgaming to Bally;

(b) ALH venues in NSW switched from Global Gaming and Intecq systems to Bally;

(c) Revesby Workers Club and St Johns Park Bowling Club have switched from Intecq to Konami;

(d) Campbelltown Catholic Club, Smithfield RSL Club, Tweed Heads Bowling Club, Maitland District Leagues Club, Engadine Bowling Club and Sussex Inlet RSL Club have switched from Intecq to Aristocrat; and

(e) Halekulani Bowling Club, Goulburn Soldiers Club, Bankstown Trotting Club, St George Motor Boat Club, Leeton & District Bowling Club, Paxton Bowling Club and Yass Soldiers Club have switched from Intecq to IGT.

211. These switches occurred in most cases after the system had depreciated as described above, or had a minimal carrying value.

C.3.9 Entry into in-venue gaming systems supply

212. As discussed at C.3.8 above, in relation to in-venue gaming systems, providers are able to compete by developing and offering more advanced and innovative services, better user experiences and, as new technologies are deployed, they are normally cheaper in cost to develop and manufacture and therefore attract a cheaper sell price.

213. In the past 6 years (approximately), providers have gained a foothold or expanded in the supply of in-venue gaming systems by:

(a) **contracting with venue groups or large individual venues**, as Bally (Scientific Games) did with ALH and as Konami did with Echo Entertainment Group (now The Star Entertainment Group), the Revesby Workers' Club and St John's Park Bowling Club;

(b) **contracting with gaming and venue service providers**, such as IGT's relationship with TGS or Konami's relationship with PVS. These relationships facilitate the in-venue system providers' entry into the market, or allow them to increase their market share, by allowing the in-venue gaming system provider to leverage off the gaming and venue service provider's existing relationships rather than signing venues one by one;

(c) **other opportunities, such as changes to regulation**. As an example, the Victorian Government's voluntary pre-commitment scheme commenced in December 2015, which requires voluntary pre-commitment systems to be available on all gaming machines in Victoria. The need for venues to install an additional system created an opportunity for system providers to market their in-venue gaming systems to those venues. As a result, Intecq was able to enter the Victorian market in 2014, Konami and Maxgaming in 2015. Following the pre-commitment announcement, Woolworths, the holding company of wholly owned subsidiary ALH, made a corporate decision to bring in pre-commitment across Australia regardless of whether it was required in every jurisdiction. They were seeking an all-inclusive system including voluntary pre-commitment, loyalty and data analytics. ALH went to tender in respect of that project, seeking tenders from a broad range of in-venue gaming systems providers (potentially including Aristocrat, Bally/Scientific Games, IGT, Konami, and Intecq). ALH subsequently selected Bally/Scientific Games as its national in-venue gaming systems provider;

(d) **providing a unique/differentiated service offering**, for example I expect that factors contributing to Bally's successful bid to provide ALH's in-venue gaming systems were their ability to service a national footprint and their broad service offering. Conversely, other venue groups might seek the nimbleness of a more cost-efficient smaller supplier and the ability to work with the supplier to enhance the offering over time; and

(e) **acquiring in-venue gaming system capability**, such as eBet (now Intecq) did when it acquired the Flexinet in-venue gaming system from Independent Gaming, which had loyalty functionality and cashless payment solutions (described in more detail below, at paragraph 261).

214. The number of venues or gaming machines that a provider would need to sign up to make entry into the market a financially viable proposition, and how quickly they can grow their market share, depends on factors such as whether the provider needs to develop additional capability (for example new software) and what sort of distribution network they have in place. For example, in Queensland I anticipate that PVS will aim to sign up one or two venues initially, provide a low cost base, prove their capability and then grow from there. Banktech on the other hand has already incurred the cost of acquiring Global Gaming, and already has the Banktech distribution across venues in Queensland, so their fixed cost base will be higher. I would anticipate that they will seek to develop a more significant market share from the outset.

215. There are low barriers to entry in relation to the supply of in-venue gaming systems in Victoria, particularly for new entrants that already provide systems in other states, such as Aristocrat and Global Gaming. Both Global Gaming and Aristocrat are already on the Roll of Manufacturers, Suppliers and Testers in Victoria, although Aristocrat has not entered the market as yet (**Tab 25** of **AR-1 [TBP.015.001.0094]**). Although timing is ultimately at the discretion of the regulator, the process of being listed on the Roll generally takes approximately six months, and the process of product approval takes at least another six months.

216. In Queensland, while an LMO may only facilitate the use of their own in-venue system, from discussions with industry pubs and clubs, and the suppliers themselves, I understand that there is a preference from the industry to require LMOs in Queensland to provide a choice of in-venue system suppliers.

217. It may also be possible for the in-venue system provider to obtain a monitoring licence in Queensland. As discussed below, in Queensland, there is no limit on the number of licences which can be issued, and a limited financial cost to obtaining the licence (around $400,000).

218. The provider would need to have a CMS. It could do so by developing one itself (which could take 12-18 months), purchasing one (as monitoring operator IGC in South Australia did when it acquired the Scientific Games system) or partnering with a CMS provider (as PVS has done with Konami in Queensland).

219. EGMs operating in Australia must be compliant with the relevant communication protocol in each jurisdiction. Australia has unique protocols for the manufacture of EGMs. This means EGMs manufactured for the Asian or American market cannot be used in Australia without modification. However, one requirement for the new monitoring licence in NSW is that a widely recognised international protocol be adopted, which will allow EGMs from overseas to be compatible to the Australian domestic market. South Australia is part way through the process of adding the international protocol. This may mean that international entrants who have not previously operated in Australia may begin to do so.

C.4 Monitoring services

220. The information set out in this section is derived from:

(a) discussions with pubs and clubs, industry bodies and with Intralot (the monitor in Victoria);

(b) general industry knowledge; and

(c) the Intecq due diligence and knowledge gained since the Intecq acquisition.

C.4.1 The nature of the service

221. In every state and territory (excluding the ACT), every EGM must be monitored for integrity and taxation purposes. This service is conducted by a monitoring services provider (referred to as a 'monitor', or an LMO in Queensland).[32]

222. The particular services provided by a monitor differ between each Australian state and territory as a result of there being different compliance and regulatory requirements. However, in general, monitoring licences require monitors to:

(a) track and authorise the location and movement of all EGMs;

(b) ensure venues use approved EGMs only;

(c) ensure the correct functioning of EGMs; in Queensland, LMOs are also responsible for the maintenance of EGMs;

(d) calculate gaming taxes payable by venues;

(e) in some states, provide a terminal to the office of the regulator with unlimited access to EGM databases; and

(f) maintain an audit file which records all 'raw' data received from gaming venues.

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[32] There is currently no centralised monitoring system in the ACT.

223. EGMs operating in clubs and hotels are required to be connected to a CMS, which is usually provided by the monitor itself (although in some circumstances, the monitor may use a different technology provider for the monitoring service).

224. Generally speaking, the monitoring system communicates with EGMs via a site controller. The site controller is a computer server which continually communicates with the EGMs and stores security events (e.g. door openings) and meter readings. The monitor (with the exception of NSW) may automatically deactivate an individual machine if that machine is suspected of having been tampered with or if it malfunctions. In this way, the monitor can deactivate a particular EGM or an entire installation.

225. In NSW, the monitoring system works differently – it connects directly to EGMs through a site controller but it cannot deactivate EGMs. It is a passive data collection system, rather than an enabler of the operation of EGMs.

226. The CMS gathers statistical data on each EGM to collate security and financial reports. The electronic meter readings collected by the monitoring system are submitted to the relevant state or territory gambling governing bodies by the monitor. The data is also used for taxation purposes.

C.4.2 Monitoring services providers in each state

227. In most states and territories, there is a single monitoring services provider. The NSW licence (held by Maxgaming) and the Victorian licence (held by Intralot) are both exclusive, and have remaining terms of over 15 and 11 years respectively. The exceptions are Queensland and the Northern Territory, which have non-exclusive regimes.

228. The monitors in each state and territory are listed in Table 8 below.

State / territory	**Exclusive (E) or non-exclusive (NE)**	**Licence holder**	**Parent company of licence holder**	**Expiration of licence**
NSW	E	Maxgaming	Tatts	30 November 2017 (and granted a further licence from 1 Dec 2017 to 30 Nov 2032)
Queensland	NE	Maxgaming (~80%)	Tatts	2017 (renewable for further 10 year terms)
		Odyssey	Intecq	10 years from grant

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State / territory	Exclusive (E) or non-exclusive (NE)	Licence holder	Parent company of licence holder	Expiration of licence
		(~20%)		(renewable for further 10 year terms)
		Utopia	Banktech Group	10 years from grant (renewable for further 10 year terms)[33]
		PVS		10 years from grant (renewable for further 10 year terms)[34]
Victoria	E	Intralot Gaming Services	Intralot Australia Pty Ltd	2027
NT	NE	Maxgaming	Tatts	2021 (renewable for further 5 year terms)
Western Australia	E	In WA, there are no EGMs outside of casinos. Perth Casino self-monitors all of its EGMs and reports to the Gaming and Wagering Commission.		
ACT	N/A	There is no central monitoring system in the ACT.		
South Australia	E	Independent Gaming Corporation Ltd	Incorporated body Jointly owned by Australian Hotels Association (SA) and Licensed Clubs Association of SA Inc	n/a
Tasmania	E	Network Gaming	Federal Group	n/a

Table 8: Monitors in each state and territory

229. TGS does not provide monitoring services.

230. Intecq, through its Odyssey Gaming business, is an LMO in Queensland. Intecq supplies monitoring services to approximately 20% of the EGMs in Queensland. A copy of Odyssey's monitoring licence is at **Tab 37.1** of **AR-1 [TBP.500.001.0015]**. A copy of the monitoring licence conditions is at **Tab 37.2** of **AR-1 [TBP.500.001.0014]**.

[33] Current licence estimated to have been granted in 2015.

[34] Current licence estimated to have been granted in 2015.

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231. Odyssey uses the Sentinel monitoring system which is owned by Bounty Systems Pty Ltd (a subsidiary of Intecq), and is provided to Odyssey under a licence agreement. **[HIGHLY Confidential to Tabcorp]** [redacted].

232. Maxgaming provides monitoring services in the following jurisdictions:

(a) **Queensland**: Maxgaming monitors approximately 80% (approximately 38,000) of the EGMs in both licensed clubs and hotels;

(b) **NSW**: Maxgaming is the exclusive supplier of monitoring services in NSW. Its current licence expires in 2017, however it has been granted a new exclusive licence until 2032. Maxgaming currently monitors approximately 95,000 machines in NSW; and

(c) **Northern Territory**: Maxgaming holds a non-exclusive licence to provide monitoring services in the Northern Territory and currently monitors approximately 1,000 machines. Maxgaming is currently the only entity in the Northern Territory that offers monitoring services.

233. Intralot is the exclusive monitor in Victoria. In that state, the monitor is not permitted to provide in-venue gaming systems (other than the central voluntary pre-commitment system) or testing services.

C.4.3 Monitoring in NSW

CMS data

234. Clubs Australia is the peak representative body for the Australian club industry, representing more than 6,500 not for profit member clubs. In its submission to the ACCC regarding the proposed merger, Clubs Australia noted in respect of NSW monitoring that:

> *…Clubs Australia is concerned that the merged entity's combined access to market data through Tatt's exclusive licence to provide Centralised Monitoring System (**CMS**) services and large volumes of consumer data through Tabcorp's Customer Relationship Management (**CRM**) system, would provide the merged entity with an unfair competitive advantage in relation to its gaming and promotional management system business and other businesses* (**Tab 38** of **AR-1 [TBP.500.001.0001]** at **[._0002]**).

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235. I consider that there are various protections in place which operate to prevent the merged entity from engaging in the behaviour described by Clubs Australia. The businesses referred to are all highly regulated businesses, and the use of data is regulated under legislation and the relevant licence.

236. Data obtained by the CMS licensee in NSW is not the property of the licensee. Relevantly, the *Gaming Machines Act 2001* (NSW)[35] provides that '[a]ll rights associated with CMS information are vested in the Crown'. 'CMS information' is defined to mean 'information acquired in the course of the operation of an authorised CMS (including any mandatory ancillary CMS services) and includes data derived from that information'.[36]

237. CMS data includes two main data sets, relating to 'metering' and 'events'. Metering data is transactional data associated with an EGM, including turnover, wins, and payouts. Events data relates to certain activities of the EGM which could give rise to potential security issues, including machine malfunctions and door openings. CMS data does not include player information or associated player activity.

238. CMS data also includes the type of EGM. This allows the monitor to publish (with the consent of venues) aggregated and anonymised benchmarking and business intelligence data, which venues can use to benchmark their performance against industry trends.

239. Given its nature, **raw** CMS data would be of limited utility to gaming services providers (other than the monitor).

240. The *Gaming Machines Act 2001* (NSW) requires the CMS licensee to 'manage and operate the authorised CMS in accordance with this Act, the regulations and the CMS licence'.[37] The Act and regulations require, amongst other things, that the CMS licensee:

(a) 'must not use or divulge CMS information to any person without the written consent of the Minister or as otherwise authorised in accordance with the CMS licence, this Act or the regulations';[38] and

(b) 'must not use CMS infrastructure or CMS information otherwise than in accordance with this Act, the regulations or the CMS licence'.[39]

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[35] *Gaming Machines Act 2001 (*NSW), s139(1).

[36] *Gaming Machines Act 2001 (*NSW), s4.

[37] *Gaming Machines Act 2001 (*NSW), s136B(a).

[38] *Gaming Machines Act 2001 (*NSW), s139(2). See the *Gaming Machines Regulation 2010* (NSW) s116 for a list of authorised persons and bodies to which CMS information may be divulged.

[39] *Gaming Machines Act 2001 (*NSW) s136B(b).

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241. Engaging in the conduct described by Clubs Australia could breach the legislation and could therefore involve substantial monetary penalties and/or suspension or cancellation of the licence.[40] Tabcorp's licences are its most valuable assets and it is highly motivated to ensure appropriate measures are in place to ensure a breach would not occur.

242. Further, under the relevant agreements with venues, confidentiality clauses restrict Tabcorp from using confidential information for a purpose other than as contemplated by the agreement. For example, see clause 31 of the TGS NSW Gaming Services Agreement, a copy of which is at **Tab 11.1** of **AR-2 [TBP.015.001.1181]**.

243. **[Confidential to Tabcorp]** [redacted].

244. **[Confidential to Tabcorp]** [redacted].

245. **[Confidential to Tabcorp]** [redacted]

(a) [redacted];

(b) [redacted]

[40] *Gaming Machines Act 2001 (*NSW) s172.

[redacted]

(c) [redacted]

(d) [redacted]

(e) [redacted].

246. **[Confidential to Tabcorp]** [redacted].

Provision of monitoring and other gaming services

247. Under section 133 of the *Gaming Machines Act 2001* (NSW), venues must ensure that each EGM is connected to an authorised CMS. Under section 134(3) of the *Gaming Machines Act 2001* (NSW), the fee payable for the provision of monitoring services is determined by the Minister in consultation with the Treasurer. As of 1 December 2016, the monitoring fee is $43.20 (plus GST) per approved EGM per month. On 1 July 2017, and then on an annual basis, the monitoring fee will be increased or decreased based on the 'Sydney CPI'. In these circumstances, there will be no ability for the merged firm to leverage its position as the exclusive monitor into related markets.

248. In NSW, under the current EGM protocol, there is no interaction between the monitor and in-venue systems providers. More specifically, an in-venue system provider does not need to seek any authority from the monitor, or engage with the monitor or its equipment, in order to deliver the in-venue system and services. The CMS and in-venue systems connect to EGMs via different ports. Accordingly, there is no ability for the supplier of monitoring services to affect the functionality or operation of third party in-venue systems.

249. As noted in paragraph 219 above, under the new monitoring licence in NSW, Maxgaming must have the capability to monitor machines operating in accordance with new EGM protocols, which will involve some connection between the monitor and the in-venue system provider. However, there will still be no ability for the supplier of

monitoring services to affect the functionality or operation of third party in-venue systems.

250. Under section 136C of the *Gaming Machines Act 2001* (NSW), the Minister may, by notice in writing, direct a CMS licensee to provide additional specified services in relation to the management and operation of the authorised CMS or the use of CMS infrastructure or CMS information. Further, under section 138, the Minister may alter the conditions of the licence by imposing an additional condition or by amending, substituting or revoking a condition.

251. In addition, there is no commercial incentive to seek to foreclose competing in-venue systems providers as any attempt to interfere with the operations of a third party's in-venue system is likely to affect the relevant venue's operations, which will affect monitoring revenues.

252. Consequently, even with the introduction of new protocols involving some connection between the monitor and the gaming system provider,[41] the monitor could not and would not seek to foreclose competing gaming systems providers by preventing access to monitoring hardware.

253. Ultimately, Maxgaming has been the exclusive monitor in NSW since around 2001. It is also a supplier of in-venue systems. Maxgaming's position in respect of in-venue systems in NSW is very small. If it were able to use its position as the exclusive monitor, one would expect it to have done so and that, as a result, it would have a substantially larger position in relation to the supply of in-venue systems in NSW.

C.4.4 Monitoring in Queensland

254. There are four LMOs in Queensland:

(a) Maxgaming;

(b) Odyssey;

(c) PVS; and

(d) Utopia.

[41] This will not be in the case in all circumstances as the new protocols will provide for direct communications with the gaming machine exclusive of monitoring hardware.

255. In Queensland, in addition to providing monitoring services, maintenance services or modifications for EGMs must be also provided by an LMO, or a service provider on behalf of an LMO.[42]

256. PVS and Utopia have not commenced operating in Queensland yet, so Intecq and Maxgaming currently supply monitoring services to all EGMs in the state.

257. To be granted a monitoring licence, the applicant has to be able to demonstrate to the regulator, from day 1, that it has the capability to meet both the technical and operation requirements of an LMO. This includes (but is not limited to) an approved QCOM compatible monitoring system and operational infrastructure to provide the required field services to any venue in the state, regardless of location. These commitments (combined with the licence cost of just under $400,000) demonstrate that the applicant has the financial resources to not only fund the initial capital investment but to fund the ongoing operational costs.

258. Having invested in the capability to acquire a licence and to provide monitoring services, Tabcorp expects that PVS and Utopia will compete vigorously to acquire customers and grow market share in Queensland in the near future.

259. As stated earlier, each of these firms has relevant gaming experience:

    (a) PVS is a full service provider of gaming systems and services and, as noted above, it currently manages and supports around 900 EGMs in Victoria. It is understood that PVS has recently entered into an arrangement with Konami to provide its central monitoring technologies. Konami, as a seller of gaming machines in Queensland, is restricted from operating as an LMO but is able to provide the technology to PVS under licence;

    (b) Utopia is owned by Banktech, which has experience in the provision of ATM, EFTPOS and other payment systems to a range of industries including hospitality. There are a number of factors which clearly indicate that Utopia has the ability to supply monitoring services in Queensland:

        i. through its parent company, Banktech, Utopia has customer relationships with relevant outlets operating EGMs in Queensland. It also has in-venue infrastructure, as well as technicians to service hardware and software supplied to venues;

[42] *Gaming Machines Act 1991* (QLD), s 231.

ii. Banktech also owns Global Gaming, which supplies in-venue gaming systems and related services in NSW. According to Utopia, this provides them 'with a well-established system platform and a dedicated team that will continue to develop new products and services for the hospitality and gaming industry' (**Tab 39** of **AR-1 [TBP.015.001.0095]**); and

iii. together, the system and service capabilities of Banktech, Global Gaming and Utopia mean that they could provide a viable alternative to venues involving the supply of ATMs, EGM monitoring services, and in-venue gaming systems and services.

260. Each of the four currently licensed LMOs represents a different offering to the market, based on capability. In combination, PVS and Konami provide a broader service offering, Utopia has ATM terminal infrastructure, Intecq has its own in-venue gaming system, and Maxgaming offers a choice of in-venue gaming systems.

261. Intecq's entry as an LMO in Queensland was a gradual, three-step process. In 2008, Intecq (which at the time was eBet Limited) was providing gaming systems. It acquired the Bounty Limited group of companies, which provided central monitoring solutions to a range of companies including Odyssey Gaming. Intecq then created its own proprietary interface into the monitoring system for its own in-venue gaming systems. In June 2011 Intecq then acquired Odyssey Gaming, which at the time held a share of around 18% of gaming machine monitoring and maintenance services in Queensland. This completed the picture of having the in-venue gaming systems, central monitoring technologies, and being an LMO.

262. Subsequently, Intecq (through eBet) acquired IDOL (Astute) which provided business intelligence systems in NSW, Queensland and Victoria, and Flexinet Gaming Systems, an in-venue gaming systems company in NSW, in March and July 2014 respectively.

263. There is no limit to the number of LMO licences that the Queensland Government can issue; as a result, there could be further entry into Queensland monitoring services by companies who meet the criteria set out in the *Gaming Machine Act 1991* (QLD). There are a significant number of EGMs in Queensland (~44,000 excluding casinos).

264. Venue operators and machine manufacturers operating in Queensland cannot be an LMO (although in-venue gaming system providers can). It is my view that the following current participants in the general gaming industry would not offend the Gaming legislation and regulations by becoming an LMO and would have the know-how and the

technology, or alternatively have the know-how and could acquire or licence the required technology, to operate as an LMO:

(a) Crown Casino Group;

(b) Sky City Casino Group;

(c) Network Gaming (Federals Group);

(d) Independent Gaming Pty Ltd;

(e) eCash Gaming Pty Ltd;

(f) Wymac Gaming Solutions;

(g) International Companies;

i. Win Systems International (Spain);

ii. Novomatic (Austria) may be precluded based on their majority shareholding in AGT Ainsworth Game Technologies; and

iii. DR Gaming Technologies (Europe).

265. Further, gaming machine suppliers could elect to cease selling gaming machines (as sellers cannot be LMOs) and then become an LMO in Queensland, such as IGT, Aruze Gaming, Konami Gaming or Bally Gaming.

266. Even in the absence of actual entry, in my capacity as COO of Keno and Gaming, I consider the potential for others to enter the market to be a reason that Tabcorp should continuously look for ways to provide a quality, competitive offering that meets venues' requirements.

C.5 EGM field services

267. EGM field services involve the provision of preventative and remedial repair and maintenance services in relation to EGMs.

268. In Victoria and NSW, TGS provides EGM field services to venues that have a broader arrangement with TGS. It does not offer this service separately from its 'broad service' offering, and has never sought to do so. These services may be provided by TFS technicians, or by independent third party sub-contractors.

269. In relation to NSW venues, when they enter into an agreement with TGS, they will often have an existing EGM field services contract in place. In those circumstances, and given TFS has a more limited geographical footprint in NSW, it will typically take over the EGM

field services contract and use the existing EGM field services provider as a sub-contractor.

270. Intecq provides EGM field services in Queensland only, through Odyssey. These services may be provided by Intecq (Odyssey) technicians, or by independent third party sub-contractors. Approximately 73% of the EGMs monitored by Odyssey are serviced by Odyssey's own field services technicians. The remaining 27% are serviced by independent third party service contractors. **[HIGHLY Confidential to Tabcorp]** [redacted].

271. Tabcorp's estimates of the number of EGMs to which it supplied EGM field services in Victoria, NSW and Queensland for the last 5 financial years are set out in Table C of **Tab 40** of **AR-1 [TBP.001.027.5192]**. Tabcorp is not aware of the numbers of EGMs serviced by other EGM field services providers (except in Queensland, where I understand that Maxgaming services around 80% of EGMs).

272. Bytecraft, part of Tatts, is a stand-alone repair and maintenance business that provides field services in respect of EGMs and other types of hardware and infrastructure to venues throughout most of Australia.

273. TGS and Bytecraft are not close competitors. As noted above, TGS only provides EGM field services to venues that have a broader arrangement with TGS, while Bytecraft has a stand-alone repair and maintenance business for EGMs and does not compete to provide repair and maintenance services to TGS venues.

274. There are a large number of providers of EGM field services, including Aristocrat, Amtek, UTS, and IGT. I set out in Table 9 below, to the best of my knowledge, the main providers of EGM field services in NSW and Victoria.

State	Main providers of EGM field services in NSW and Victoria
NSW	• Tabcorp Field Services (**TFS**) (as part of the TGS 'broad service' offering only) • Bytecraft • A G Whiting Poker Machine Sales & Service • Aristocrat Technologies • Bull Club Services • Central West Technology • Club Gaming Services • Consolidated Poker Machines • Fourtech Gaming • H.T.E. and Associates

State	Main providers of EGM field services in NSW and Victoria
	• Hitek Gaming • IGT • Illawarra Gaming • Independent Gaming • J & A Machines • J.G & L.J. Wood • Lakes Gaming • Mid Coast Gaming • Northwest Gaming • NSW Poker Machines • P & N Club Sales & Service • Prestige Gaming • Reel Gaming Solutions • Riverina Gaming • Southern Gaming • Supreme Poker Machines • United Sub-Contracting • United Technology Services
Victoria	• Tabcorp Field Services (**TFS**) (as part of the TGS 'broad service' offering only) • Bytecraft • Amtek Corporation • Aristocrat Technologies

Table 9: Main providers of EGM field services in NSW and Victoria.

C.5.1 Field services in Victoria

275. As set out in Table 9 above, Amtek and Aristocrat supply EGM field services in Victoria. Like Bytecraft, these entities provide EGM field services on a stand-alone basis, and will continue to constrain Bytecraft post-merger.

276. Aristocrat is a manufacturer and supplier of EGMs and in-venue systems. It services its own EGMs, as well as those manufactured or supplied by third parties. Aristocrat has a strong presence in NSW, including in respect of EGM field services. More recently, it has increased its presence in Victoria. Aristocrat currently supplies EGM field services to PVS venues. Like TGS, PVS provides a full service offering to venues, but has sub-contracted EGM field services to Aristocrat.

277. Amtek is a Victorian-based national provider of field services, including in respect of EGMs. Its business model is very similar to Bytecraft. It is well-established in Victoria, having been listed on the Roll of Manufacturers, Suppliers and Testers since 2010. Its

customers include Mercury Group member clubs. It was awarded the Mercury Group contract following a tender process in which Bytecraft also participated.

278. I am not aware of any other major stand-alone field services providers in Victoria. However that is not, in my opinion, evidence of any significant barriers to entry and expansion in relation to the supply of EGM field services. Until August 2012, Tabcorp and Tatts each owned and operated approximately 50% of the EGMs in Victoria. It is only since that time that the market has opened to new entrants.

279. To provide EGM field services in Victoria, a party needs to be listed on the Roll of Manufacturers, Suppliers and Testers. This is not a significant regulatory hurdle, particularly for entities already within the gaming industry, and principally involves probity checks. The application fee is very small (currently $2,843.30), and there are no annual or renewal fees.

280. The technical skills required to provide EGM field services are relatively low. Providers of repair and maintenance services for hardware such as ATMs, EFTPOS machines, cash registers, POS terminals, and ticketing machines have much of the requisite skill set.

281. The lack of barriers to entry and expansion is demonstrated by the situation in NSW. There are currently a large number of EGM repair and maintenance service providers in NSW, as set out in Table 9 above, which range from smaller businesses to larger entities which provide EGM field services in addition to other services.

282. Like Aristocrat, EGM field services providers in NSW could easily enter Victoria if there was a commercial incentive to do so. Likely entrants into Victoria include:

(a) IGT, which provides field services including routine preventative maintenance and a full labour and parts program (**Tab 41** of **AR-1 [TBP.001.018.6186]**);

(b) United Technology Services (**UTS**). UTS is a wholly-owned subsidiary of Ainsworth Game Technology. Its core business involves gaming machine sales and service. It services over 14,500 machines in NSW and the ACT, and has over 70 service technicians employed (**Tab 42** of **AR-1 [TBP.001.018.8206]**); and

(c) NSW Poker Machines, an established field services provider which currently services approximately 3,200 EGMs.

C.5.2 Field services in Queensland

283. In Queensland, in order to provide field services for EGMs the repairer must be a licensed LMO or subcontracted by a licensed LMO.[43] As such, the eligible providers of field services in Queensland are Intecq, Maxgaming, PVS and Utopia. It would not be economically viable for an existing field service provider to obtain an LMO licence only in order to provide field services in Queensland.

284. It is not mandatory that the LMO for a venue also provides the field maintenance service for that venue. For example, if Maxgaming were the LMO providing the monitoring system to a venue, Intecq as another LMO could service the machines. However, in practice, it is usual that the LMO for a venue provides the field maintenance service as well. Although the cost of using different entities would be basically the same, it would create a problem logistically because if the entities want to access the machines at different times they are offline for longer, and it may be unclear which entity is responsible for problems with the machines. LMOs typically subcontract the maintenance in regional areas to local electricians or technicians.

C.6 Tabcorp's gaming supply arrangements

285. Tabcorp has a broad range of gaming customers. Details for a selection of those customers, and standard customer agreements, are set in Tables A-E of **Tab 2** of **AR-3 [TBP.001.027.5240]**.

286. Tabcorp also has a number of sponsorship type agreements in place with various industry partners. Under these agreements, Tabcorp pays a periodic (usually annual) fee to the other party and provides particular additional services or benefits to venues within that party's network in exchange for sponsorship and other rights granted by the other party. Details of those agreements are set out in Table A of **Tab 6** of **AR-2 [TBP.001.027.6621]**.

287. The cost to Tabcorp of supplying its gaming goods and services is set out in Tables A1, A2, B and C of **Tab 4** of **AR-2 [TBP.001.027.6628]**. Details of a selection of suppliers of inputs into production are set out in Table A of **Tab 3** of **AR-3 [TBP.001.027.6590]**

288. The number of machines to which Tabcorp has provided gaming services for the last 5 financial years is at **Tab 40** of **AR-1 [TBP.001.027.5192]**. The revenue obtained from the provision of those services is set out at **Tab 8** of **AR-2 [TBP.001.027.5163]**.

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[43] *Gaming Machine Act 1991* (QLD) section 231.

D. DIVESTMENT OF ODYSSEY

289. [HIGHLY Confidential to Tabcorp] [redacted].

290. [HIGHLY Confidential to Tabcorp] [redacted].

291. [HIGHLY Confidential to Tabcorp] [redacted].

292. [HIGHLY Confidential to Tabcorp] [redacted].

293. [HIGHLY Confidential to Tabcorp] [redacted].

294. [HIGHLY Confidential to Tabcorp] [redacted].

295. [HIGHLY Confidential to Tabcorp] [redacted].

296. [HIGHLY Confidential to Tabcorp] [redacted]

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[redacted].

297. **[HIGHLY Confidential to Tabcorp]** [redacted]

(a) [redacted]

(b) [redacted]

(c) [redacted]

(d) [redacted].

298. **[HIGHLY Confidential to Tabcorp]** [redacted].

Signature of witness

Name of witness Adam John Rytenskild

Date of signature 8 March 2017