



IN THE AUSTRALIAN COMPETITION TRIBUNAL

Statement

No. ACT of 2017

Tabcorp Holdings Limited

Proposed acquisition of Tatts Group Limited by Tabcorp Holdings Limited by way of scheme of arrangement

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Date: 22 February 2017

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I, John Dumesny, Chief Executive Officer of Harness Racing New South Wales, in the State of New South Wales (**NSW**), say that:

- 1 I am the Chief Executive Officer of Harness Racing NSW (**HRNSW**) and I have held this position since my appointment on 1 September 2014. As Chief Executive Officer I am responsible for:

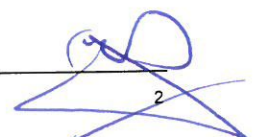
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- (a) the day-to-day management of HRNSW in accordance with the *Harness Racing Act 2009* (NSW);
 - (b) development and promotion of harness racing in NSW; and
 - (c) oversight and regulation of the integrity of harness racing in NSW.
- 2 As the Chief Executive Officer, I am also responsible for preparation and implementation of HRNSW's Strategic Plan including formal consultation with the Harness Racing Industry Consultation Group, which is a group established to consult with and make recommendations to HRNSW on matters concerning harness racing in NSW and other industry stakeholders.
- 3 In my role, I report to HRNSW's independent board which is currently comprised of a Chairman and four Directors. I am supported by an executive management team which includes a Chief Financial Officer, a Manager of Industry Development and a Manager of Integrity. At **Annexure JD-1** is a diagram of HRNSW's organisational structure.
- 4 This statement is made in relation to an application by Tabcorp Holdings Limited (**Tabcorp**) to the Australian Competition Tribunal (the **Tribunal**) for the authorisation of the proposed merger of Tatts Group Limited (**Tatts**) and Tabcorp.

BACKGROUND

Previously held roles

- 5 I commenced my administrative career in the harness racing industry in 1980 as a Committee Member of the Parkes Harness Racing Club (**PHRC**). I remained in this role until 1986 when I was elected President of the PHRC. In July 1988, I commenced as Racing Manager of the New South Wales Harness Racing Club (**NSW HRC**), which is the principal harness racing club in NSW.
- 6 From 2004 to 2014, I was the Chief Executive of NSW HRC. In this role, I was responsible for overseeing the day-to-day operations and management of NSW HRC, and was responsible for engagement with HRNSW as the controlling body for the harness racing code.
- 7 NSW HRC hosts over 100 race meetings per year at its special purpose harness racing track located at Menangle Park. The track is used for both harness races and harness race trials. Horses compete in one of two classes known as 'metropolitan' (generally held on weekends) or 'provincial' (generally held on Tuesday afternoons). NSW HRC is responsible for the operation and maintenance of the facilities located at Menangle Park. HRNSW oversees and manages a major harness racing training centre adjoining the racing facility.



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Other relevant positions and experience

- 8 I represent HRNSW on the board of Racingcorp, a company founded by the three NSW racing codes (thoroughbred racing, harness racing and greyhound racing) to act as an agent in dealings with Tabcorp on matters relating to industry funding arrangements and also Harness Racing Australia.
- 9 I have also held positions as a Director and Secretary of Australian Pacing Gold and as the NSW HRC's representative on the Harness Racing Clubs Committee. This Committee is comprised of one representative from each of the harness racing clubs located in NSW. The Committee meets with HRNSW on a bi-monthly basis, and each committee member has the power to vote on certain funding proposals, but in particular the annual Industry Budget.

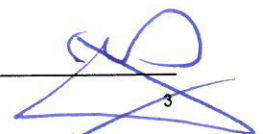
Personal involvement in the harness racing industry

- 10 My family has had a long association with harness racing, and in 2013 my family celebrated 100 years in the sport, dating back to my grandfather's involvement in the industry as a driver. I have been involved in all aspects of the harness racing industry including as an owner, trainer, driver and breeder.
- 11 I am currently a Standardbred horse breeder and maintain a facility for breeding at my property near Parkes, NSW.

OVERVIEW OF HARNESS RACING

General information

- 12 Harness racing is a form of horse racing which involves horses racing around a track in an anti-clockwise direction while pulling a driver in a two wheeled cart, known as a gig. Standardbred horses are a breed of horse used in harness racing and have either a trotting or pacing gait. In Australia, the majority of Standardbred horses have a pacing gait which means that the horse moves its legs laterally simultaneously (as opposed to a trotter which moves its diagonal legs forward simultaneously).
- 13 If an owner of a Standardbred horse wants to enter it into professional race meetings, the owner will usually appoint a horse trainer with particular expertise in harness race training. The trainer is responsible for training the horse to participate in harness races, as well as building the horse's stamina, muscular endurance, strength and speed. In consultation with the horse's owner, the trainer decides when to enter the horse in races, and the appropriate type of race (including race length and level of competition) the horse should enter. Although many horses participating in harness races have a trainer, some owners train their own horse and participate in races as the horse's driver.



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- 14 Owners and trainers enter their horses in harness races with the aim that it will place (first, second or third) and receive prize money from the harness racing club hosting the race. Although prize money is an important incentive for owners and trainers to enter their horses in races, for the majority of owners, it may not be adequate enough to cover the costs of owning and training a horse. In my experience, most harness racing owners are involved in the sport not because it is generally profitable, but because they have a passion for the sport.

Wagering on harness races

- 15 A key attraction of harness racing for the public is the ability to place a wager (also known as a 'bet') on the outcome of a race held by a harness racing club. By placing a wager on the outcome of a harness race, individuals are able to engage with the race and increase the excitement of attending the racecourse or viewing the race on television. In NSW, wagering has become an integral part of the harness racing industry as it attracts patrons to clubs' race meetings and promotes individuals to view televised races off-course. In NSW, wagering operators also provide the primary source of funding for the industry, which means that the success of the harness racing industry is linked to the success of the wagering industry.
- 16 To place a bet on a harness race in NSW, punters traditionally had to attend the racecourse because off-course wagering was prohibited, and only permitted on licensed racecourses. Once a punter was at the racecourse, they could place a bet with an on-course bookmaker, providing fixed odds betting, or an on-course totalisator, providing pari-mutuel betting. Due to the prohibition on wagering off-course, harness clubs' race meetings attracted considerable crowds, and provided a major source of local entertainment for families and punters.
- 17 I have observed that since the 1960s, when the NSW Government passed legislation which permitted off-course totalisator wagering and established the Totalisator Agency Board (**TAB**), there has been a considerable decline in NSW harness race meeting attendances because punters are no longer required to attend the racecourse to place a wager. This has also resulted in a long-term shift from on-course wagering to off-course wagering.
- 18 Wagering operators offer several types of wagering products to punters who wish to place a bet on a NSW harness race. Pari-mutuel wagering involves punters betting on the outcome of a particular harness race (for example, which horse will place first) before the race takes place. All of the punters' bets on a specific race are consolidated into a 'totalisator pool'. Once the outcome of the race is known, the totalisator operator deducts from the pool, a fixed percentage of the funds bet, and the remaining funds in the pool are distributed to the winning punters. The size of the payout is not known by the punter before the race (ie they do not receive any odds before placing their bet). This is because the size of the payout for the winning punters is determined by the number of bets in the pool and the number of punters who have bet on the horses that place. In each state and territory in Australia there is only one off-course totalisator

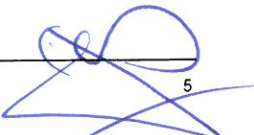
operator. In most jurisdictions, that operator is required to contribute towards the costs incurred by the racing industry in providing harness race meetings and races. The amount of funds the totalisators have to contribute to the industry is often linked to their wagering turnover, therefore an increase in wagering turnover by a totalisator often means that the racing industry receives increased funding.

- 19 Fixed odds wagering involves punters betting on the outcome of a particular harness race. At the time the punter places the bet, the bookmaker (the provider of the wagering service) makes known to the punter the odds that apply to their particular bet, which means that the punter knows how much they will receive as a payout if they win.
- 20 Fixed odds wagering is provided by both totalisator operators and fixed odds bookmakers. The totalisator operator contributes towards the cost of the racing industry in the way I describe below. Fixed odds bookmakers (on the other hand) are generally only required to pay the racing industry fees for the use of their race clubs' 'race field information' (refer to paragraphs 53 – 57 for further information regarding race field fees).
- 21 In recent years, the Australian racing wagering industry has seen a significant departure from the traditional pari-mutuel totalisator betting (through the TAB) to fixed odds betting offered by corporate bookmakers and betting exchanges. This shift towards fixed odds betting (from the traditional form of wagering through the TAB) has been intensified by the internet and the development of digital wagering platforms which have allowed wagering operators, in particular corporate bookmakers, to access a broader group of punters. Corporate bookmakers have also undertaken significant national marketing campaigns across a range of media (such as television, online, radio and print) to attract punters. The shift away from pari-mutuel wagering has impacted the financial stability of the harness racing industry in NSW because its primary source of revenue is linked to the financial performance of TAB Limited (**NSWTAB**), owned by Tabcorp. Set out below is further information regarding NSWTAB's industry funding arrangements and the initiatives HRNSW has implemented to address the decline in pari-mutuel wagering revenue.

HARNESS RACING NSW

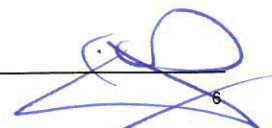
Background

- 22 HRNSW is a statutory authority established by the *Harness Racing New South Wales Act 2009* (NSW). HRNSW conducts the commercial and regulatory functions of the harness racing industry in NSW, and is required to act independently of the government in managing the strategic and commercial development of harness racing in NSW.



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- 23 Functions of HRNSW include:
- (a) to control, supervise and regulate harness racing in the state;
 - (b) to register harness racing clubs, harness racing horses, owners, trainers and drivers of harness racing horses, bookmakers for harness racing and other persons associated with harness racing;
 - (c) to initiate, develop and implement policies considered conducive to the promotion, strategic development and welfare of the harness racing industry in the state;
 - (d) to distribute money received as a result of commercial arrangements required by the *Totalizator Act 1997 (NSW) (Totalizator Act)*; and
 - (e) to allocate to harness racing clubs the dates on which they may conduct harness racing meetings.
- 24 HRNSW employs over 40 staff to undertake the day-to-day running, management and administration of the industry. The structure of HRNSW covers both the regulatory and commercial responsibilities with four core business units comprising of:
- (a) *Integrity*: This unit is tasked with ensuring that the NSW harness racing industry is conducted with integrity and in accordance with Australian Harness Racing Rules & Regulations and HRNSW policies.
 - (b) *Racing Product and Development*: This unit is responsible for ensuring the harness racing code in NSW appeals to a wide audience. It is also responsible for maximising the income earned from wagering and implementing optimal racing schedules.
 - (c) *Commercial Services*: This unit is responsible for HRNSW's commercial functions such as negotiation of industry funding arrangements and distribution of funds to clubs, inclusive of corporate governance of harness racing clubs and kindred bodies.
 - (d) *Marketing*: This unit is responsible for the promotion of harness racing as a sport in NSW and assisting the clubs to attract race day patrons, trainers and owners.
- 25 I am responsible for the preparation HRNSW's Annual Report, I am also involved in the planning and implementation of HRNSW's strategic direction. Annexed at **Annexure JD-2** and **Annexure JD-3** are the relevant pages of HRNSW's 2015/2016 Financial Year Annual Report referred to in this statement and HRNSW's 2015-2017 Strategic Plan.
- 26 HRNSW is responsible for distributing the funds it receives from the NSW totalisator, operated by NSW TAB, to harness racing clubs in NSW. These funds are used by the harness racing



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clubs to organise and host race meetings, fund prize monies for races and cover the administration costs associated with their activities. The harness racing clubs are reliant on these funds because they do not generate sufficient revenue from admissions and sponsorship to cover their costs. Further information regarding the distribution of these funds is set out below at paragraphs 62 - 71.

- 27 There are 34 harness racing clubs located in NSW from the following regions:
- (a) Metropolitan (Sydney);
 - (b) Hunter;
 - (c) North West;
 - (d) Western Districts;
 - (e) Far West; and
 - (f) Riverina.
- 28 In the 2015/2016 financial year, the Harness Racing Clubs hosted a total of 469 race meetings with 3,688 TAB races and 103 non-TAB races. A 'TAB race' refers to a race for which a recording is generated and broadcast in all TAB agencies, and off-course pari-mutuel wagering on the race is accepted by TAB. Non-TAB races are races for which no totalisator pool is offered off-course, and punters can only place pari-mutuel wagers on-course. These races are usually conducted by smaller clubs where there is no infrastructure to transmit the race footage to SKY, or the cost of transmitting the footage is often far greater than the value of the wagering.
- 29 From TAB races, HRNSW attracted \$158,829,000 in turnover in the 2015/2016 financial year, with an average turnover per race of \$43,066 on the TAB. The Harness Racing Clubs had a total of 35,533 starters (with 3,777 individual starters) in their races, and paid out a total of \$34,225,510 in prize money and bonuses (refer to page 14 of Annexure JD-2).
- 30 The activities of the harness racing industry in NSW provide valuable social and economic contributions to the state, including community entertainment, local employment and tourism. From 2013 to 2015, HRNSW has held the prestigious annual Inter Dominion Series at Tabcorp Park Menangle. This event is the premier harness race meeting in Australasia, attracting participants and visitors to NSW from overseas. HRNSW's 2015 - 2017 Strategic Plan notes that the 2013 Inter Dominion Series generated over 7,600 commercial bed nights in NSW, attracted close to 1,800 out-of-state visitors to NSW and has generated an increase of 16% in net wagering revenue year-on-year (refer to page 9 of Annexure JD-3).



- 31 In 2014, the NSW Government's Office of Liquor, Gaming and Racing, commissioned a report by IER Pty Ltd into the size and scope of the racing industry in NSW (which included the activities of the three NSW racing codes). Annexed at **Annexure JD-4** is an extract of relevant pages of IER's Report entitled '*Size and Scope of the NSW Racing Industry*' that are referred to in this statement. At page 9 of this Report, IER notes that the harness racing industry provides \$313.9m in expenditure to NSW. This expenditure is associated with producing foals (breeding and rearing), preparing race horses, wagering related services, racing customer expenditure and non-race day revenues. The harness racing industry's expenditure in NSW creates a total value added economic impact of \$427.4m. The Report also noted that the harness racing industry was responsible for sustaining more than 3,544 full-time equivalent jobs in NSW.
- 32 As the controlling body for the harness racing industry in NSW, HRNSW is a member of Harness Racing Australia; the peak national body for the harness racing code. Harness Racing Australia's executive consists of a Chair or nominated representatives from each of the state and territory controlling bodies, with an independent Chairman. Harness Racing Australia provides a forum and co-ordination point between the state and territory controlling bodies, for uniformity of rules and reciprocity of horsemen's licences, registration of horses and suspensions and disqualifications.

Harness racing broadcast arrangements

- 33 It is important for HRNSW to ensure that its clubs' race meetings are broadcast and accessible to punters. This is because the majority of punters engage with harness racing off-course rather than on-course. There are various ways in which punters can view NSW harness racing off-course, including in a NSW TAB retail outlet, at a club or at home.
- 34 HRNSW has an agreement with Sky Racing (**SKY**) for the broadcast of its clubs' harness races, excluding NSW HRC which has a separate broadcast agreement with SKY for the distribution of its races. These arrangements are approaching the time for renewal and are currently under commercial negotiation with SKY. Given the rise of digital media, HRNSW is reviewing its broadcasting arrangements to potentially facilitate the distribution of its race vision on digital platforms by other providers.
- 35 To my knowledge, apart from SKY, HRNSW has never received any other bids for the right to distribute its clubs' race vision on digital or non-digital platforms. However, on occasion, HRNSW has entered into ad hoc commercial arrangements with other broadcasters, such as Channel 9, for the distribution of selected harness race meetings.
- 36 I consider that it is beneficial, from a punter's perspective, to have access to one racing vision product displayed in-venues such as pubs and clubs. This is because a single broadcast vision product promotes comprehensive, quality broadcasting that is accessible to punters. I



understand that previous experiences with racing broadcasts being split between different providers has resulted in a decline in wagering activity, due to the lack of consistency and accessibility of the delivery of the racing vision product to punters.

HARNESS RACING NSW – FINANCIAL INFORMATION

Financial position

- 37 HRNSW recorded a total comprehensive income of \$6,881,300 for the financial year ending 30 June 2016.
- 38 Set out at page 61 of Annexure JD-2 (HRNSW's 2015/2016 Annual Report) is HRNSW's statement of profit and loss and other comprehensive income for the financial year ended 30 June 2016, which sets out HRNSW's revenue and expenditure from continuing operations.

Revenue

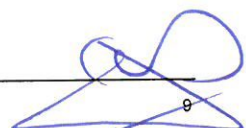
- 39 HRNSW recorded \$53m in revenue for the financial year ending 30 June 2016. The largest source of income for HRNSW was the distributions it received from NSW TAB under the Racing Distribution Agreement. I refer to the sources of HRNSW's revenue in further detail below, including further information regarding the Racing Distribution Agreement (at paragraphs 42 – 47).

Expenditure

- 40 HRNSW recorded \$47m in expenditure for the financial year ending 30 June 2016. I refer to the key items of HRNSW expenditure in further detail below.

HARNESS RACING NSW – KEY FUNDING SOURCES

- 41 HRNSW has 3 key funding sources:
- (a) distributions paid by NSW TAB under the Racing Distribution Agreement (received through Racingcorp as HRNSW's agent pursuant to the Racing Inter-Code Deed referred to below at paragraph 48);
 - (b) product fees paid by wagering operators for use of HRNSW's race field information; and
 - (c) tax parity revenue paid to HRNSW by NSW TAB.



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Distributions paid by NSWTAB to the NSW racing industry

- 42 In NSW, NSWTAB holds a licence under the Totalizator Act to provide off-course and on-course totalisator wagering services for harness racing (and the other two racing codes; thoroughbred and greyhound racing) until 2097.
- 43 NSWTAB's totalisator pool is known as the '*NSWTAB Pool*'. The pool only contains bets placed with the NSWTAB. The NSWTAB Pool is not pooled with any other state or territory totalisator pools. For some races, the NSWTAB Pool pools with an international totalisator, this means that either the international totalisator's pool is pooled with the NSWTAB Pool, or the NSWTAB Pool is pooled into an international totalisator's pool on an international race.
- 44 Under the Totalizator Act, the grant of the licence is conditional on the licensee entering into commercial arrangements with the racing industry. Section 21A of the Totalizator Act states that the Minister must not grant a totalisator licence, unless:
- (a) the Minister is satisfied that the applicant has entered into commercial arrangements with the racing industry in respect of the licence and the conduct of activities authorised by the licence;
 - (b) the racing industry has provided the Minister with a written acknowledgement to the effect that the racing industry is satisfied with those arrangements; and
 - (c) the Minister has been provided with a copy of any agreement or other instrument that those arrangements involve.
- 45 To satisfy this section of the Totalizator Act, NSWTAB has entered into various funding arrangements with the racing industry in NSW.

Racing Distribution Agreement

- 46 NSWTAB has entered into an agreement with the three codes of racing and New South Wales Racing Pty Limited (now known as Racingcorp Pty Limited), as an agent for the three codes (referred to as the '**Racing Distribution Agreement**'). This Agreement governs the number of race meetings, fees due to the racing industry and governance arrangements. Under the Racing Distribution Agreement, NSWTAB pays certain fees to Racingcorp Pty Ltd on behalf of the three codes (as their agent) for distribution in accordance with the Racing Inter-Code Deed (see paragraph 49 below).
- 47 In accordance with the Racing Distribution Agreement, NSWTAB pays the NSW racing industry a range of fees including a fixed product fee, a variable product fee and a wagering incentive fee, which I understand totalled \$35,802,926 for the 2015/2016 financial year (refer to page 67



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of Annexure JD-2). Under the Racing Distribution Agreement, HRNSW received the income set out in Table 1 from NSWTAB for the 2014/2015 and 2015/2016 financial years.

Table 1: NSWTAB Distributions to HRNSW for FY 2014/2015 and FY 2015/2016

NSWTAB Distribution	FY 2015/2016 (\$)	FY 2014/2015 (\$)
Product Fee	19,104,384	20,385,149
Wagering Incentive Fee	16,698,542	15,266,533
Total	35,802,926	35,651,682

Racing Inter-Code Deed

48 Racingcorp, Racing NSW, Greyhound Racing NSW and Harness Racing NSW have also entered into a Racing Inter-Code Deed. The Inter-Code Deed provides for the allocation of the funds received under the Racing Distribution Agreement to each of the three codes of racing in NSW. The distribution of the funds is based on a fair and relevant percentage formula which was agreed by the three codes of racing.

Harness Racing Intra-Code Deed

49 As noted above at paragraph 26, HRNSW is responsible for the distribution of the funds it receives from Tabcorp (through Racingcorp) to the harness racing industry, as a result of commercial arrangements required by the Totalizator Act.

50 In satisfaction of this requirement, HRNSW has entered into an Intra-Code Deed with NSW harness racing clubs. The Intra-Code Deed sets out how the funds received are to be distributed to each harness racing club in NSW and the dates on which each of the clubs may conduct harness racing meetings and harness races.

51 Each harness racing club in NSW is required to enter into an annual Performance Agreement with HRNSW which contains performance targets for the following financial year. These targets include:

- (a) the agreed percentage of the distribution to be paid by the club as prize money;
- (b) the agreed target for NSWTAB turnover on races conducted by the club;
- (c) the racing operational budgets (by producing published accounts to HRNSW);



- (d) the racing programme (as set by HRNSW); and
 - (e) the agreed target for average field size per race.
- 52 Each financial year, HRNSW is required to prepare an operating budget and a draft Club Funding Allocation Table which is provided to each of the clubs. This table sets out the number of race meetings and races each club must hold, the amount of funds that HRNSW proposes to distribute to each club in the ensuing financial year, the amount of funds to be distributed to the Racecourse Development Fund and the amount of funds to be distributed to the Industry Fund (further information regarding these funds is set out below at paragraphs 67 – 69).

Race Field Information fees paid to the harness racing industry by wagering operators

- 53 In 2008, the Government introduced Race Field Legislation which requires wagering operators to make payments to HRNSW for use of its race field information in Australia. The Act defines 'NSW race field information' as information that identifies, or is capable of identifying, the name or number of a horse:
- (a) as a horse that has been nominated for, or is otherwise taking part in, an intended race to be held at any race meeting on a licensed racecourse in NSW, or
 - (b) as a horse that has been scratched or withdrawn from an intended race to be held at any race meeting on a licensed racecourse in NSW.
- 54 A person or entity seeking to use HRNSW's race field information must apply to HRNSW for approval to use the information. Once a person or entity is granted approval (referred to as an 'Approval Holder'), the Approval Holder is required to pay HRNSW for use of its NSW race field information. The *Betting and Racing Regulation 2012* (NSW), sets caps on the amount of fees that may be imposed by HRNSW on wagering operators and permits HRNSW to impose conditions on Approval Holders. HRNSW's current Approval Conditions are annexed at **Annexure JD-5**. Under the Approval Conditions, an Approval Holder is required to pay an amount equal to:
- (a) 2.5% of the Approval Holder's net harness turnover for all races held at a premium race meeting (other than turnover of wagers made at totalisator derived odds) and any amount of GST payable;
 - (b) 1.5% of the Approval Holder's net harness turnover for all races held at a standard race meeting (other than turnover of wagers made at totalisator derived odds) and any amount of GST payable;

- (c) 3.0% of the Approval Holder's net harness turnover for all races made at totalisator derived odds for all races held at a premium race meeting and any amount of GST payable; and
- (d) 2.5% of the Approval Holder's net harness turnover for all races made at totalisator derived odds for all races at a standard race meeting and any amount of GST payable, within 15 days of the beginning of each calendar month.

55 All amounts payable to HRNSW for use of its race fields information are required to be paid by direct electronic funds transfer to HRNSW's account.

56 These payments to HRNSW are designed to charge individuals and entities a fee for the commercial use of NSW harness racing clubs' intellectual property. In the 2015/2016 Financial Year, HRNSW received \$10,128,235 in payments from wagering operators for use of its race field information.

57 While race field information fees paid to HRNSW are an important source of funding for the NSW harness racing industry, the principal source of funding for the industry is through the NSW TAB and any erosion of this funding would undermine the financial stability of the industry. It is my view that without the distributions paid by NSW TAB under the Racing Distribution Agreement (totalling \$35.8m in the 2015/2016 financial year), race field information fees (totalling \$10.1m in the 2015/2016 financial year) would not be sufficient to financially sustain the harness racing industry in NSW.

Tax parity revenue

58 In November 2015, the NSW Government passed the *Betting Tax Legislation Amendment Bill 2015* (NSW) and associated amendments to the Totalisator Act (also known as **Tax Parity Legislation**), which provides a rebate to the racing industry on the tax paid by NSW TAB on pari-mutuel and fixed odds wagers. The legislative reform is designed to bring the tax paid on wagers placed in NSW in line with the Victorian Government's tax rates (which were lower than NSW's tax rates), and reduce the share of the tax taken by the NSW Government (increasing the share provided to the NSW racing industry) over a five year period.

59 HRNSW's Annual Report (refer to page 4 of Annexure JD-2) notes that the NSW Treasury estimates the revenue to the NSW harness racing industry will be:

- (a) financial year 2015/2016: \$3.2m (actual \$3.04m);
- (b) financial year 2016/2017: \$5.7m;
- (c) financial year 2017/2018: \$5.7m;

- (d) financial year 2018/2019: \$7.0m;
- (e) financial year 2019/2020: \$8.3m; and
- (f) financial Year 2020/2021 and onwards: estimated \$11.5m.

60 As part of the Government's reform package, HRNSW was required to deliver the additional funds to the industry in general accordance with a strategic plan. From January to May 2016, HRNSW received and considered submissions from industry stakeholders regarding the additional funding and how it should be used. HRNSW also conducted a board and management planning session over two days to assess those submissions. Following consideration by the board and management, HRNSW adopted a five year plan (which commenced in the 2015/2016 financial year) which sets out how the additional funds will be used by the industry. Annexed at **Annexure JD-6** is a copy of a presentation I delivered on behalf of HRNSW to the Harness Racing Industry Conference.

61 Throughout the industry consultation process and preparation of the funding plan, HRNSW's board and I were mindful that Treasury's estimates of the revenue that would flow to the NSW harness racing industry (listed above at paragraph 59) are not guaranteed, and are reliant on the financial performance of the NSW TAB totalisator pool. Given the current level of competition faced by NSW TAB for wagering revenue, HRNSW's board adopted a conservative approach for use of the additional funds.

HARNESS RACING NSW – KEY EXPENSE ITEMS

62 HRNSW's largest expenditure items for the 2015/2016 Financial Year were:

- (a) HRNSW NSW TAB distributions to clubs, Industry Fund and Racecourse Development Fund; and
- (b) prize money.

63 HRNSW also incurred a number of other expenses which are set out in its Profit and Loss Statements contained in its 2015/2016 Annual Report at Annexure JD-2 on page 61.

HRNSW NSW TAB Distributions

64 As noted above at paragraph 47, HRNSW receives distributions from NSW TAB under the Racing Distribution Agreement (through the Inter-Code Deed) which it is required to distribute to the harness racing industry. From the funds it receives from Racingcorp as its agent under the agreement, HRNSW makes the distributions to:

- (a) NSW harness racing clubs, in accordance with the Intra-Code Deed (referred to above at paragraph 49);
- (b) the Industry Fund; and
- (c) the Racecourse Development Fund.

65 HRNSW also retains an amount from the distributions received from Racingcorp for its administration costs (i.e. to pay the costs associated with its operations). This amount is approved annually by the Harness Racing Clubs Committee. In the 2015/2016 financial year, administration funding of \$4.503m was provided to HRNSW (refer to page 13 of Annexure JD-2).

A Distributions to harness racing clubs in NSW

66 In the 2015/2016 financial year, HRNSW distributed \$17,055,186 to harness racing clubs in NSW (refer to page 14 of Annexure JD-2). All clubs, except NSW HRC, only received administration funding (i.e. amounts to be used to pay the cost of the clubs' operations). Prize money was paid directly to participants by HRNSW. Set out at page 68 of HRNSW's 2015/2016 Annual Report is a breakdown of the amounts paid to each club.

B Distribution to Industry Fund

67 In the 2015/2016 financial year, HRNSW distributed \$2,479,920 to the Industry Fund from NSWTAB's distribution (refer to page 68 of Annexure JD-2). The Industry Fund receives a set allocation from NSWTAB's Distribution that is used by HRNSW to finance general activities such as the Breeders Challenge Series, Breeders Challenge Owners Bonus Scheme, the Carnival of Cups Series, Trotters Foundation Series, promotion of the industry's youth and younger drivers including Mini Trots and assistance to Industry Associations.

68 The majority of Industry Fund expenditure for the last financial year was dedicated to HRNSW's breeding initiatives, which are designed to encourage Standardbred horse breeding in NSW. These initiatives are essential to the development of the breeding industry and hence long-term sustainability of harness racing in NSW.

C Distribution to Racecourse Development Fund

69 In the 2015/2016 financial year, HRNSW distributed \$708,000 to the Racecourse Development Fund from NSWTAB's distribution (refer to page 11 of Annexure JD-2). The Racecourse Development Fund was established by HRNSW to provide financing for industry capital works programs. These programs include track development, enhancement of facilities and the acquisition of plant and equipment to support racing operations.

Prize money

- 70 A considerable expense for HRNSW is the payment of prize money to participants. In the 2015/2016 financial year, HRNSW paid almost \$16m in prize money. Since the 2012/2013 financial year, HRNSW has paid prize money directly to participants, instead of paying it through the clubs (excluding NSW HRC because it supplements the prize money offered to participants).
- 71 Often prize money is not enough to cover the costs of owning and training a horse. However, prize money is a key inducement for owners to enter their horses in races. The higher the prize money offered by a club, the more likely it will be able to attract owners to race their horses and race a full field. This increases the level of competition at race meetings and, as noted below at paragraph 77(b), field sizes are positively correlated with average wagering turnover. To field full races at its clubs' race meetings, HRNSW needs to offer prize money that incentivises owners to enter their horses into race meetings.

CURRENT STATE OF THE NSW WAGERING INDUSTRY & HARNESS RACING NSW'S RESPONSE

- 72 I consider that the major challenge for the NSW racing industry is and will continue to be the ever evolving gambling market. As Chief Executive Officer of HRNSW, I consider it important to continually monitor the wagering industry and its developments because the industry's performance and the types of wagers placed by punters directly impact HRNSW revenue.
- 73 In the 2015/2016 financial year, total wagering income (that is, fees received from the NSW TAB under the Racing Distribution Agreement (through Racingcorp under the Inter-Code Deed), and race field information fees) received by HRNSW from all wagering operators decreased by \$489,721 (or 1%) from the amount received in the 2014/2015 financial year. I consider this decline in wagering income to be particularly concerning from a revenue perspective for HRNSW.
- 74 Although gross revenues from NSW TAB for the 2015/2016 financial year were \$35.803m (representing a slight increase of \$0.152m on the \$35.651m derived in the 2014/2015 financial year), income from NSW TAB reflected the continuing shift from pari-mutuel to fixed odds wagering, with the pari-mutuel component decreasing by \$1.281m and the wagering incentive fee (which includes fixed odds wagering) increasing by \$1.432m. In my view, this shift within the NSW TAB to fixed odds wagering is less preferable for HRNSW from a revenue perspective as income received under the Racing Distribution Agreement from fixed odds wagering is a less sustainable form of wagering revenue for the industry. This is because the revenue received by HRNSW from NSW TAB fixed odds wagers is dependent on individual punters not being successful. Whereas for pari-mutuel betting, the revenue received by HRNSW under the

Racing Distribution Agreement is not dependent on whether individual punters win or lose because the NSW TAB retains a fixed percentage of the funds in each pari-mutuel pool.

- 75 Punters are also shifting away from the products offered by the NSW TAB to the products offered by corporate bookmakers. This results in HRNSW receiving a lesser share of overall wagering revenue than it would have otherwise received if the wagers were placed with the NSW TAB. This is because:
- (a) corporate bookmakers are only required to pay HRNSW for the use of its race field information, which represents a lower contribution to the industry than the contributions provided by the NSW TAB; and
 - (b) HRNSW receives distributions from the NSW TAB under the Tax Parity Legislation on bets placed with the NSW TAB. As outlined above at paragraph 61, this revenue source is dependent on punters placing bets with the NSW TAB.
- 76 Unless the NSW TAB is able to compete against corporate bookmakers, it is my view that this shift to fixed odds wagering with corporate bookmakers will continue to the detriment of the NSW racing industry.
- 77 HRNSW has responded to the decline in received wagering revenue by taking active steps to create a competitive harness racing industry in NSW to attract punters, which in turn is intended to generate sustainable income for the harness racing code. These measures include:
- (a) Divided pace initiative: This initiative involves HRNSW's handicapping panel framing race conditions and selecting race fields from the nominations it receives. The initiative has allowed for more competitive racing at the clubs. It also offers more attractive betting options for both punters and wagering operators which has seen an increase in average wagering turnover per race. This initiative also provides a more diverse group of winning horses, which equates to more owners, trainers and drivers receiving a return for their investment and involvement in harness racing. This leads to increased prize money and breeding bonuses being distributed across the industry.
 - (b) Twelve horse field initiative: HRNSW's 'twelve horse field' initiative has also delivered increased average wagering turnover. It ensures that, after the inevitable reduction in field size (through attrition), ten horses start in each race. The importance of having a full race field in every race is demonstrated by the decline in average turnover that occurs at Tabcorp Park Menangle's metropolitan meetings when the field has less than 12 horses (refer to page 4 of Annexure JD-2). With a 12 horse field, the average turnover is \$66,443, without a full field this reduces to:
 - (i) 11 horses: \$64,438;



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- (ii) 10 horses: \$60,302;
- (iii) 9 horses: \$55,359;
- (iv) 8 horses: \$47,149; and
- (v) 7 horses: \$40,107.

78 These initiatives are important for the financial sustainability of the harness racing code, and HRNSW's board plans to continually re-assess the performance of each initiative to ensure HRNSW is providing an attractive race product for punters.

VIEWS ON THE PROPOSED TRANSACTION

79 I am aware of Tabcorp's proposal to acquire the issued shares of Tatts by way of scheme of arrangement (the **Proposed Transaction**). On 19 October 2016, I received a copy of Tabcorp and Tatts' ASX Announcement. Annexed at **Annexure JD-7** is a copy of this Announcement. I subsequently attended a briefing by Tabcorp which outlined the Proposed Transaction.

80 I understand that Tabcorp and Tatts have applied to the Australian Competition and Consumer Commission (**ACCC**) for informal merger clearance of the Proposed Transaction. In November 2016, the ACCC sent HRNSW a copy of its Market Inquiries Letter requesting its views on certain matters regarding the Proposed Transaction. A copy of this letter is annexed at **Annexure JD-8**.

81 In response to the ACCC Market Inquiries Letter, I prepared a submission to the ACCC on behalf of HRNSW. A copy of this submission is annexed at **Annexure JD-9**. As set out in the submission, HRNSW is fully supportive of the Proposed Transaction. I consider that the Proposed Transaction will not reduce competition in the wagering industry, and consider that the Proposed Transaction will deliver a number of benefits to the harness racing industry in NSW that would not be available in the absence of the Proposed Transaction.

82 I have also prepared a submission in response to a request for information from the ACCC regarding racing media. Annexed at **Annexure JD -10** is a copy of this submission. HRNSW does not consider that the Proposed Transaction will change the structure of media rights in Australia. Tatts is not a provider of any racing vision channel and has never expressed any interest in broadcasting harness races in NSW. I also do not consider that the Proposed Transaction will have any impact on HRNSW's ability to negotiate future broadcast distribution agreements on behalf of its clubs.

83 As noted at page 1 of Annexure JD-7 and based on the briefing I received from Tabcorp, I understand that the Proposed Transaction is expected to result in at least \$50m per annum of



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additional funding to the Australian racing industry. I understand that the racing industry will benefit from the Proposed Transaction by:

- (a) achieving cost and revenue synergies which will flow through to the racing industry;
- (b) allowing the merged entity to increase investment in wagering and develop wagering innovations; and
- (c) potentially creating a national totalisator pool which would enhance the sustainability of the racing industry in NSW.

Cost and revenue synergies

84 I understand that the additional funds are expected to flow through to the racing industry through cost and revenue synergies, including from removal of duplicate functions across the two businesses.

85 If synergies are achieved by the merged company, it will be in a better position to increase its wagering earnings. Under the Racing Distribution Agreement NSWTAB currently has in place with the three codes of racing in NSW, an increase in wagering earnings will result in increased NSWTAB distributions to HRNSW. That is because increased wagering earnings by NSWTAB will lead to higher distributions being made under the Racing Distribution Agreement. If NSWTAB increases its earnings at the expense of corporate bookmakers, this is advantageous to HRNSW because:

- (a) corporate bookmakers only pay race field information fees in respect of their earnings;
- (b) the race field information fees that are lost from the corporate bookmakers are likely to be more than made up for by the fees payable by NSWTAB which is therefore favourable to the revenue streams of the harness racing industry; and
- (c) HRNSW receives revenue from the wagers placed with the NSWTAB through the tax parity legislation.

86 Increased NSWTAB distributions to HRNSW will allow HRNSW to increase the size of its distributions to participants and clubs, and provide a strong financial base for the harness racing code's operations in NSW.

Increased investment and innovation in the wagering industry

87 I understand that the Proposed Transaction will provide increased revenue for the merged company, which will allow it to pursue more investment and innovation. Tabcorp has noted that this will allow it to deliver 'a winning offer for customers, including best-in-class digital products

and experiences' (see page 3 of Annexure JD-7). I consider that increased investment and innovation by the merged company in its wagering product offering, and investment in its retail outlets will improve customer experience. This is important for the racing industry because if customers consider that another wagering operator is providing a better customer experience or product offering compared to NSWTAB, they will elect to place their wagers with the other operator. For the reasons I have set out above, in light of the various funding commitments provided by the NSWTAB, it is in the interests of the racing industry for wagering to be carried out with the NSWTAB.

- 88 For the NSW racing industry to receive a sustainable source of funding, NSWTAB must be able to compete with other wagering product providers. The additional resources available to the merged company will allow it to improve the customer experience offered by the NSWTAB, through increased product innovation, investment in retail outlets and marketing and promotional activities. I believe this will strengthen the NSWTAB wagering offering in competing with other wagering product providers, leading to increased totalisator and fixed odds betting through NSWTAB. This will benefit the racing industry in NSW by increasing the distributions paid out by the NSWTAB under the Racing Distribution Agreement.

Larger totalisator pools and potential pathway to a national totalisator pool

- 89 As noted above at paragraph 21, in recent years there has been a considerable shift by punters away from pari-mutuel betting towards fixed odds betting. This shift is reflected in the revenue HRNSW receives from NSWTAB under the Racing Distribution Agreement. I consider that the Proposed Transaction will provide the merged company with a national presence in Australia, which could create a pathway to larger totalisator wagering pools, and potentially in the future, a national totalisator pool.
- 90 I consider that larger pools will allow the merged company to deliver a superior wagering experience for punters. This is because punters' wagers are placed in a larger pool, which provides them with a potentially higher return. This makes the totalisator pool more attractive to punters. This will be particularly of value for punters placing wagers on races which are not conducted in premium time allocations. This is because the current size of the pools for these races are often small, and therefore the return is less attractive to punters. Harness racing is primarily conducted in non-premium time allocations.
- 91 I also consider that the merged company will be in a better position to adopt national marketing and promotional strategies to address the decline in pari-mutuel betting, which is considerably impacting HRNSW's funding levels. If those marketing and promotional strategies are successful, punters will place pari-mutuel wagers instead of fixed odds wagers with corporate bookmakers, leading to increased totalisator revenue and stronger returns to the Australian racing industry, supporting its continued sustainability.

Further benefits of the Proposed Transaction

- 92 As noted above at paragraph 83, I understand that Tabcorp has estimated that the Proposed Transaction will deliver over \$50m per annum in additional funding to the racing industry. If the Proposed Transaction proceeds, HRNSW considers that it would benefit the harness racing industry in NSW. I consider that the Proposed Transaction could also have flow on effects to the broader NSW economy.
- 93 If the Proposed Transaction proceeds, HRNSW's board (supported by its management team) would have to carefully consider how it would deliver the increased funding to its participants, clubs and the harness racing industry in NSW more broadly. This would require consideration of many stakeholder interests and the views of harness racing participants. Following the industry consultation HRNSW recently carried out, after the NSW Government's announcement that it would implement tax parity legislation (see paragraphs 58 - 61 above), HRNSW's board and I have an informed understanding of the areas in which the harness racing industry would like to see additional funding applied to secure the future of the harness racing code in NSW. The additional funds would be used to enhance the initiatives that HRNSW commenced implementing this financial year in the following areas:
- (a) increased prize money: HRNSW would distribute additional prize money to the NSW harness racing clubs for direct benefit of owners;
 - (b) administration relief for clubs: HRNSW would provide additional financial support to cover the increasing administrative cost burdens faced by clubs. The areas in which HRNSW has already identified include covering ambulance costs at race meetings, paying mobile starter costs and covering photo finish equipment costs;
 - (c) industry marketing: HRNSW is responsible for providing industry marketing, organisation of industry events and sponsorship. This is an area in which HRNSW is seeking to increase community interest and exposure for the harness racing code. Additional funds would be used to enhance HRNSW's industry marketing initiatives;
 - (d) breeding support: breeders are a key part of the harness racing industry and HRNSW has a longstanding tradition of fully supporting breeding in NSW. Breeders in NSW need to maintain quality stallions to avoid a downturn in foal numbers. To promote breeding in NSW, HRNSW subsidises the owners of foals born and registered with HRNSW. Additional funding would continue to support NSW breeders and the initiatives HRNSW has in place achieve a strong state-based breeding industry;
 - (e) development in equine welfare: HRNSW is committed to equine welfare and has an Integrity Department which monitors, reviews and seeks to improve the industry.

Additional funds would be used to support the operations of the Integrity Department and develop strategies to improve and enhance the lives of horses after racing;

- (f) development of youth in the industry: the harness racing industry is focussed on the development of its youth in the industry. Additional funding would be used to enhance career pathways and ensure development for young participants and club personnel;
- (g) infrastructure: HRNSW is continually seeking to maintain quality facilities for its race day patrons, owners, trainers and horses. Many NSW harness racing clubs operate out of facilities and conduct races on tracks that are over 50 years old. HRNSW is currently working with several clubs to deliver essential infrastructure projects and additional funding could be used to support these projects and increase the number of upgrades; and
- (h) integrity matters: to maintain the integrity of the sport, HRNSW is committed to ensuring funds are available to complete adequate swabbing, research into new products, increase its intelligence and surveillance measures, monitor betting markets, offer stewards cadetships and better analyse intelligence and information. Additional funding would be used to enhance these activities.

94 For these reasons, and as set out in Annexure JD-9 (HRNSW's response to the ACCC's Market Inquiries Letter), I consider that it is important that the Proposed Transaction proceed for the racing industry to remain sustainable. I do not consider that the Proposed Transaction will reduce competition in the wagering industry, and instead it will allow the merged company to compete with other large international wagering operators in Australia.

95 The benefits the Proposed Transaction can deliver to the harness racing industry in NSW, will also have a positive flow-on effect for the NSW economy. In this regard, it is noted that IER has estimated the racing industry's economic contribution to the NSW economy in terms of its impact on gross state or regional product, household income and employment. The IER Report concluded that the racing industry contributed value of approximately \$3.3b per year to the NSW economy, including \$2.4b of direct expenditure (see page 9 of Annexure JD-4). As noted above at paragraphs 30 - 31, HRNSW makes a considerable contribution to the NSW economy, particularly in regional and rural areas. Additional funding to the harness racing industry, in line with this analysis, through this transaction would increase the contribution made by the industry to the NSW economy.



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ANNEXURES

96 Set out in Schedule "A" of my statement is a table of annexures that I refer to in my statement.



Signature

John Dumesny, Chief Executive Officer, Harness Racing New South Wales

Date: 22 February 2017

SCHEDULE A

TABLE OF ANNEXURES REFERRED TO IN STATEMENT OF JOHN DUMESNY

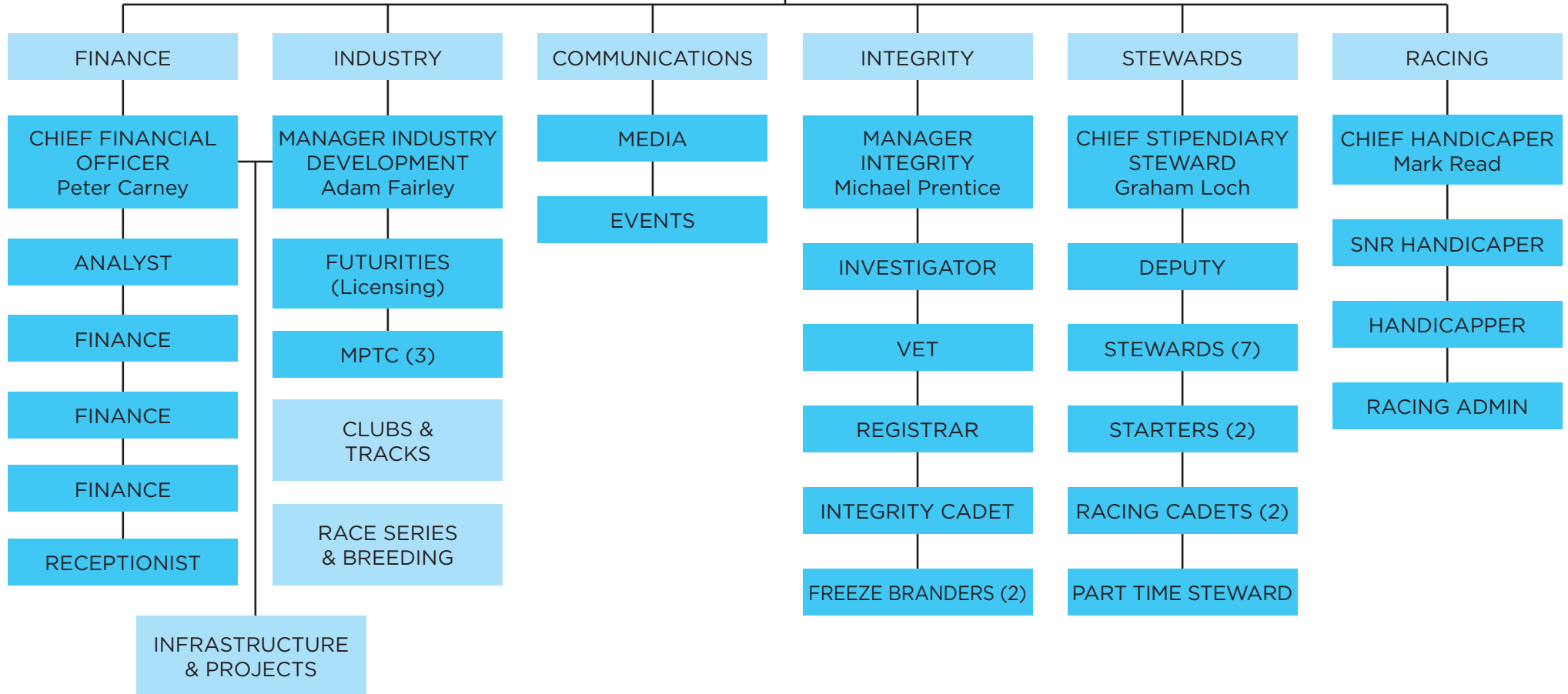
Annexure	Description	Confidentiality
JD-1	Diagram of HRNSW's organisational structure	
JD-2	Extract from HRNSW 2015/2016 Financial Year Annual Report	
JD-3	HRNSW's 2015 - 2017 Strategic Plan	
JD-4	Extract from IER Report: Size and Scope of the NSW Racing Industry (2014)	
JD-5	HRNSW Approval Conditions 2016/2017	
JD-6	HRNSW Tax Parity Allocation Presentation	
JD-7	Tabcorp / Tatts Public Investor Announcement entitled ' <i>Tabcorp and Tatts to combine to create a world-class, diversified gambling entertainment group</i> ' (19 October 2016)	
JD-8	ACCC Market Inquiries Letter (25 November 2016)	
JD-9	HRNSW response to the ACCC's Market Inquiries Letter (16 December 2016)	
JD-10	HRNSW response to the ACCC regarding race media (31 January 2017)	



HRNSW BOARD MEMBERS

CHIEF EXECUTIVE
John Dumesny

EA & APPEALS





ANNUAL REPORT

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Chairman's Report

It is with considerable pleasure that I report on the highlights of the year for Harness Racing New South Wales.

Undoubtedly, the most important development through the year was the announcement by the Deputy Premier and Minister for Racing, the Honourable Troy Grant MP, that the Government would introduce so called Tax Parity over a 5 year period.

The idea is that the State would reduce its tax on TAB turnover from its historical rates to the same rate as applies in Victoria over that period.

On current projections this will deliver the following additional funding to the New South Wales Harness Racing Industry:

FY 2016	\$3.2m
FY 2017	\$5.7m
FY 2018	\$5.7m
FY 2019	\$7.0m
FY 2020	\$8.3m
FY 2021	\$11.5m

These amounts are not guaranteed and depend on TAB turnover.

I wish to place formally on record our appreciation to the Baird Government, and Mr Grant in particular, for levelling the playing field for New South Wales Harness Racing. This is an important step in securing the future of a vibrant and sustainable sport that is so much enjoyed by so many participants.

HRNSW decided to consult widely with Industry participants before planning on how this additional funding should be applied. There were many legitimate claims on the additional funding but the Board's starting point was planning for a secure future for the Sport. The key items stood out:

- Prize Money;
- Club Administration;
- Marketing;
- Breeding;
- Equine Welfare;
- Youth development;
- Infrastructure;
- Integrity.

Practically all the submissions we received called for the opportunity to be taken to market our Sport better to attract new followers and participants. We have set aside an unprecedented amount for various aspects of marketing into the future. I emphasise that effective marketing, in the Board's view, encompasses all aspects of the Sport, including communication and presentation.

Our in principle decisions on the application of this additional funding were announced by the Chief Executive, John Dumesny, at the Industry Conference held in late June 2016. The Industry Conference, the first of its kind in recent memory, marked one of the other highlights of the year, being supported by some 150 attendees. The Panel of presenters covered a wide range of topics from challenging perspectives. Every session seemed to bring new ideas and challenges to the fore.

This brings me to Reid Sanders, our Chief Operating Officer, who has recently announced his resignation. Reid was recruited in 2011 to head up the integrity operations of Harness Racing New South Wales in a peculiarly distressed time for the Sport. He was instrumental in cleaning up the so called 'Green Light Affair'. He went on to put in place a highly organised system of swabbing that statically will pick up, over the course of a year, some 98% of breaches of the drug rules. And it was Reid who led worldwide the attack on the use of Cobalt in horse racing. More recently Reid has led the development of the Menangle Training Centre.

It is not often that a Chairman gets to pay tribute to someone who has contributed so much to an organisation, and more widely to a Sport.

The Menangle Training Centre has already proved an outstanding success with demand for barns outstripping our supply. It has attracted trainers from out of the State and provides a facility for young trainers to get into the Sport. It is also the prototype for similar centres the Board would like to develop in due course in other locations, such as Bathurst and Wagga.

The planning for the new track at Wagga is well underway. Tenders are in, and being assessed. Cost, as always, is an issue but the Board is determined to build a facility that will take the Sport in the Riverina into the future. The Development Application for the new Tamworth Track has now been lodged; this development will provide exciting possibilities.

I mentioned that we had consulted widely with Industry Participants about how to apply the additional 'Tax Parity' funding. The Board of Harness Racing NSW is committed to engage with the Industry, both through the formal mechanisms mandated by the Act, and more widely. Our program of meetings with Clubs regionally has been especially valuable to us as a Board. Personally, I have enjoyed the opportunity to hear from Club committees and to discuss issues directly with the individuals who give so much to the Sport in their communities.

On giving much to the Industry, I should pay special tribute to my predecessor, Rex Horne, whose term expired in February after a total of 8 years on the Board of HRNSW, the last 2 as Chairman. Rex has thrown his all at Harness Racing both on the Board of HRNSW and of the NSW Harness Racing Club. Rex uniquely contributed to the sale of Harold Park (and all the benefits it has brought the Industry); to the development of the Menangle track and its top class facilities; to the development of the new Bathurst facilities; and to the progress towards the proposed new Wagga track. He will be remembered as one of the great infrastructure builders Harness Racing in New South Wales will ever see.

So the year under report was a busy year of change. 2016 – 17 will be at least as challenging but the Board is committed to looking to the future to secure an enduring Sport loved by so many. Our focus will be on sustainability across all areas. We want many, many more to enjoy it's fun and spectacle.

Graham Kelly
Chairman

Chief Executive's Report

The key focus of the Board and Management of HRNSW during the 2015-16 Financial Year has been engagement with the industry stakeholders. Such engagement involved numerous actions to grow and sustain the harness racing industry.

Stakeholders were invited and encouraged to become involved in the delivery of a cohesive industry through consultation, reviews and the inaugural Industry Conference.

As expressed by Lyall Gorman, the keynote speaker at the Harnessing Our Future Conference, the delivery of a 'point of difference' is essential and this resonated with all in attendance. Those delegates have carried this proposition forward throughout the year and the code's future is clearly in their mindset.

Wagering

The major challenge the racing industry faces is and will continue to be the ever evolving gambling environment.

Where an industry's primary revenue revolves around the competitive nature of securing adequate wagering income, the entire industry must be committed to the initiatives instigated.

This critical aspect was addressed by HRNSW on a number of platforms throughout the past year.

It is alarming that the total wagering income received from all wagering operators in FY16 decreased by \$489,721 or 1% from the amount received in FY15. This position is in fact worse from a revenue perspective as the significant departure from the traditional pari-mutuel totalisator betting (TAB) to corporate bookmakers is clearly evident.

By operation of the 1998 Intercode Deed, the three racing codes in NSW share by fixed percentage the total income generated. When wagering with the corporate operators attracts a lesser fee and the revenue is remitted only on the racing activities of the individual code, there is a need to act.

HRNSW has taken steps to create competitive racing to attract punters to harness racing which in turn is aimed to generate sustainable income. These steps include race programming such as the 'Divided Pace' races which have conclusively allowed for competitive racing. This same action has offered more attractive betting options for both punters and wagering operators.

From the wagering perspective prohibitive odds-on favourites (>\$1.60) have decreased and average turnover per race has increased. The optimum range for favourites to attract punters to harness racing is \$1.70 to \$2.50.

A further key benefit from the 'Divided Pace' is participant-based whereby there is a more diverse group of winning horses. This in turn equates to more owners, trainers and drivers receiving a return for their investment and involvement in harness racing which naturally leads to increased prize money and Breeders Challenge Bonuses being distributed across the industry.

The 'twelve horse field' initiative has also delivered increased average turnover although the real advantage with the initiative is that, after the inevitable reduction in field size (through attrition), ten horses actually start.

At Tabcorp Park Menangle - metropolitan meetings (the highest wagering track and primary meeting in NSW) \$66,443 is the average turnover for 12 horse fields. The slide in average turnover is \$64,438 (11 horses), \$60,302 (10), \$55,359 (9), \$47,149 (8) and \$40,107 (7). This clearly demonstrates the absolute necessity of maximum field sizes.

Both measures - Divided Stakes and twelve horse fields - will continually be assessed for delivery of the overall needs of the Industry.

Whilst wagering revenue has decreased by 1% total prize money and bonuses distributed by HRNSW has increased by 2.5%.

In FY16 the total amount distributed by HRNSW in prize money and bonuses was \$28,725,510 which was an increase of \$555,574 over the previous financial year. This figure does not include amounts distributed by Clubs and Associations from their own resources. The Principal Club (NSWHRC) alone contributes \$5.5 million above the funding emanating from HRNSW.

A concerted effort to re-introduce Claiming races has proved successful. These races have become the staple filler for meetings at Tabcorp Park Menangle and Penrith. This is not dissimilar to the contribution of trotters races over the past decade. HRNSW is moving forward with the revitalisation of an Association for the enthusiasts of the trotting gait which will further improve opportunities for these horses through direct involvement from stakeholders.

Tax Parity

Crucial to the sustainability of the racing industry has been the Baird/Grant Government's wagering tax rebate legislation referred to as 'Tax Parity'.

The wagering tax parity with Victoria was confirmed with the passing in the NSW Parliament of the Betting Tax Legislation Amendment Bill 2015. The NSW Treasury based the percentage share to the three codes of racing on the Government's Size and Scope of the NSW Racing Industry Report 2014 and in particular, the economic delivery analysis.

According to that analysis, the economic output generated by each of the codes of racing in NSW was 77.3% thoroughbred, 12.7% harness and 10% greyhound. The Government had an additional requirement that the delivery of funding by the Controlling Bodies to the industry was to be in general accordance with the Industry Strategic Plans.

With a staged reduction of these monies, revenue to the harness racing industry is estimated by Treasury to be FY16: \$3.2 million (actual \$3.04M; FY17: \$5.7M; FY18: \$5.7M; FY19: \$7.0M; FY20: \$8.3M; FY21 and onwards estimated \$11.5 million).

However these amounts are not guaranteed and a reliance on the wagering on the NSW TAB is paramount to the wellbeing and delivery of the HRNSW Tax Parity Strategy. A conservative approach was therefore adopted by HRNSW during the five year Strategy.

Tax Parity Fund Strategy

Over a five month period between January and May 2016, HRNSW received and assessed submissions from industry stakeholders which included a Board and Management planning session over two days. The result was a comprehensive five year plan announced in June for implementation in FY2016-17.

The plan allows for prize money increases, administration relief to Clubs, industry marketing, breeding support, development in equine welfare and the youth of the industry, infrastructure and integrity measures. The Plan which is supported by drawing down on the Industry Future Fund can be reviewed in this Annual Report.

GHRRA Loan Relief

It is also with a significant degree of satisfaction to the industry that in November 2015 the Government released HRNSW from payment of the remainder of the unjust loan forced on the Industry when the GHRRA was dissolved.

Despite the unjust nature of the loan, repeated representations to Governments since 2010 had been rejected. A concerted effort over the previous year and many personal representations to a number of influential politicians and advisors resulted in NSW Treasury releasing HRNSW from the \$1 million outstanding amount.

The gratitude of the Industry must be extended to key politicians Premier Mike Baird, Chris Patterson, Jai Rowell, Bryan Doyle (former), Paul Toole, Stuart Ayres, Andrew Constance and the Treasurer Gladys Berejiklian.

I especially acknowledge the Deputy Premier and Minister for Racing Troy Grant and his Chief of Staff Alex Bruce and Policy Advisor Nick Santucci who were relentless in assisting with the relief.

Consultation with Industry

Consultation and reviews were undertaken in key components of the industry. The purpose of the consultation is to understand the needs of stakeholders and to take into account their respective requirements in decisions made. As for reviews, these are to assess the delivery of established policies and practices. HRNSW met with the Harness Racing Industry Consultation Group in accordance with the Act with several initiatives implemented.

Review into Two-Year-Old Racing

A review of two year old racing was undertaken by HRNSW with two rounds of submissions from industry stakeholders being accepted over an extended period.

This review was activated following concerns of participants and administrators as a consequence of the low number of juvenile pacers races being conducted during the season to date and thus the lack of confirmed opportunities.

An increased number of races had also been conducted with six or, on occasion, with less than six starters. In particular 2015 had witnessed the record lowest number of starters in the Heats of all futurity race series.

The review was twofold in that first stakeholders were requested to comment on various issues including the length of the season (for two-year-old pacers), minimum starters in races, rotational programming of races at various tracks in regions and the timing and number of futurity events.

Following the second round of submissions, stakeholders were then requested to respond to an electronic survey. The survey focused on key issues identified in the written submissions received. The electronic survey in relation to the Review into Two-Year-Old Racing was completed by 577 respondents or 31% of stakeholders.

The Management of HRNSW analysed the individual outcomes of each survey question and referred this data back to the Board for construction of a Policy.

Essentially, the resultant key points of the Policy are:

- Two-year-old racing will commence on January 1 from 2018;
- A full schedule of two-year-old races for the period January 1 to August 31 will be released in October (preceding the Two-Year-Old Racing Season). The schedule will include exclusive races for two-year-old fillies that are geographically placed on a regional basis to accommodate the pool of available horses;
- Six horses will be the minimum number of original nominations/acceptors for a two-year-old race to be conducted;
- A Fund will be created to guarantee two-year-old races which attract a minimum six original nominations/acceptors with these race (where applicable) additional to the standard eight race program;
- The maximum field size for two-year-old races will be 10 on all track sizes with reserves being drawn in Finals and Group races.
- Connections can choose to start two-year-old pacers against older horses but on a limited basis however two-year-old pacers will not be permitted to contest races in NSW between September 1 and December 31 each year.

Breeding

The breeding sector of the Industry has been holding at a level of apparent sustainability through foaling numbers however the discontinuance of physically standing stallions at stud in NSW by leading nursery Pepper Tree Farm is a concern. Despite the fact that artificial insemination is the primary practice in harness racing for mare impregnation, in NSW without quality stallions standing in the State a downturn can be envisaged.

Whilst the decision of individual owners of stallions to stand horses at stud is their commercial choice (which as the regulator HRNSW cannot become involved in) through new initiatives HRNSW continues the tradition of fully supporting breeding in the State.

As from this breeding season, the owners of foals born and registered with HRNSW for the Breeders Challenge will have the registration fee of \$185 subsidised by the Principal Club (NSWHRC), an initiative in respect of which Club Directors and Management must be acknowledged. The subsidization is for a period of three years (2016 to 2018) after which the registration fee will be covered from the Tax Parity Fund by HRNSW.

Effective from the 2016 breeding season, the owners of stallions physically standing in NSW will not be required to pay the \$750 Registration Fee. The \$110 fee previously required to be paid to HRNSW for the resultant foals of these stallions (born 2017) has also been removed.

HRNSW continued to expand the Colonial Stallions Scheme by increasing the inclusion from three to six years and has also introduced a \$3,000 True Blue Bonus for winning horses from the foal crop sired from this breeding season. The Stallion Incentive Scheme which assists with marketing of specifically credentialed stallions standing in NSW continues to attract patronage to the State.

A review of all aspects of the NSW Breeders Challenge was commenced and will be considered by the Board in due course. This review will include both the Breeding Conditions and the Race Series.

With the reliance on imported horses from New Zealand and the migration of horses across State boundaries HRNSW will continue to be vigilant in assessing the foal population as these factors relate to the 'tipping point' for the supply of a robust pool of racing stock.

In the breeding sector however NSW lost three iconic pioneers through the passing of Mr Eric Hando of Rosewood Stud and Mr John Gibson of Success Stud. Whilst the passing of harness racing legend Mr Don Clough OAM occurred after the end of this financial year, his loss to the industry is immeasurable.

All three highly respected gentlemen were initiators, innovators and instigators in the advancement of the breeding of standardbreds to the betterment of trotting/harness racing in New South Wales then, now and into the future.

Three generations of the Hando Family - William (Ethel), Eric (Dorothy) and Graeme (Lyn) were honoured with an Award for their outstanding service to the breeding industry by HRNSW.



Don Clough OAM



Dorothy & Eric Hando



John Gibson

Equine Welfare

The observance of equine welfare has always been at the forefront of the administration of HRNSW.

The Policies and actions which are in place will be vigilantly monitored, reviewed and improved by the Integrity Department. There is zero tolerance of unacceptable practices and HRNSW has a proven record of prosecuting non compliant persons.

In collaboration with Harness Racing Australia, HRNSW is undertaking an extensive and intensive investigation of the data held on the Harvey System to improve the tracing of horses whilst active in the industry.

Where feasible the retraining and rehoming of horses past the requirements of the racing and breeding aspects of harness racing will require a concerted whole of industry approach. HRNSW in consultation with HRICG will work diligently towards a plan which is both achievable and acceptable to the majority of owners.

Integrity

Integrity measures remain paramount to the future of the Industry. HRNSW has been an international equine industry leader in investigations and research into aspects which will if not addressed retard the growth and future of any organisation.

Challenges were mounted within and outside the HRNSW judicial system. These challenges were defended on behalf of the Industry at large. The confirmation this past year that it is the absolute liability of a licensee to prepare horses under their care clean of prohibited substances was a benefit for all fair participants and a clear warning to those others.

HRNSW is committed to address all aspects of integrity and develop appropriate measures to protect compliant participants the industry in general.

Reid Sanders who was engaged to scour the sport of identified corrupt practices emanating from the infamous 'Green Light' issues resigned from HRNSW after completing five years of exemplary service. The harness racing industry in New South Wales as a result of his efforts is now recognised as the benchmark for integrity across all racing in Australia.

Infrastructure

The provision of new and adequate infrastructure at venues where meetings are to be conducted and for the training of horses has been an aim of HRNSW since the sale of Harold Park (in 2010) and the release of the Industry Strategic Plan at that time.

In 2016 two projects were completed at Penrith Paceway and Menangle Park whilst attention was also directed to the Hawkesbury Training track.

New race night stalls appropriately named in honour of Club stalwart Don Clough OAM were opened at Penrith where an upgrade to the track lighting was also completed.

The Menangle Park Training Centre which had been the vision of the industry since 2006 was opened in 2016 by the retiring HRNSW Chairman and former Chairman of the NSW Harness Racing Club Rex Horne.

The training centre includes eight barns to accommodate 160 horses with walk-in walk-out stalls, walking machines, 16 large day yards, 1000 metre exercise track and is complemented by a private water walker facility which is low cost to trainers. Located next to Tabcorp Park Menangle trainers also have access to the 1400 metre race track and the 800 metre sand training track.

The Development Application was approved by the South West Regional Planning Panel for the Wagga Wagga Racing Facility whilst the planning for the Tamworth Training and Racing Facility was progressed.

The Conditions placed on the development of the Wagga Project are onerous whilst the Tamworth Project is not able to be progressed past development approval until the proceeds of the sale of the Tamworth Showground are received by HRNSW.

Carnival of Cups

The TAB.COM.AU Carnival of Cups was yet again the main event at the majority of tracks across the State. As is always the case year-by-year the competition for the 'best' was evident amongst the Clubs. This year, the awards went to:

- Best Club with a feature race to a maximum of \$50,000 (but no less than \$25,001) – Eugowra HRC.
- Best Club with a feature race to a maximum of \$25,000 (but no less than \$14,001) – Parkes HRC.
- Best Club with a feature race to a maximum of \$14,000 (but no less than \$10,001) - West Wyalong HRC.
- Best Club with a feature race to a maximum of not more than \$10,000 – Griffith HRC.
- Best Community Engagement Club – Goulburn HRC.
- Best Fraternity Engagement Club – Leeton HRC.
- Best New Innovation Club – Temora HRC.

Breeders Challenge

The Alabar NSW Breeders Challenge Finals were again a resounding success for the NSW industry with the widest spread of winners (let alone distribution of \$840,000 in stakes) ever experienced.

Naturally there were nine different winners – Empire Bay, Red Hot Tooth, Iona Grinner, Sapphire Stride, Shezallapples,

Conviction, Charlaval, Rockmemama and Mouse In The House. It is worth noting that from those nine crowned champions there were:

- Nine different breeders
- Nine different sets of owners
- Nine individual winning drivers
- Eight different trainers (Steve Turnbull scoring with a double)
- Eight different sires (Four Starzzz Shark siring two)

The Breeders Challenge Blue and Regional Finals rounded off another outstanding year of state-bred futurity races and the trend continued with a cross section of winners. Only Bernie Hewitt trained multiple winners in Ima Black Beauty and Hez All Courage.

Alabar stallions Rock N Roll Heaven and Courage Under Fire sired two winners each in Thunder Dance and My Mackenzie (Rock n Roll Heaven) and Hez All Courage and Si Nardore (Courage Under Fire).

Fun Magic Trix (Blake Fitzpatrick) with a time of 1:55.9 and Pixies Parlour (Steve and Amanda Turnbull) with a time of 1:54.4 both established new class records for two and three-year-old fillies Regional Finals at Newcastle International Paceway.

Industry Conference

Whilst the Alabar Breeders Challenge Finals delivered the champions of the season the inaugural Industry Conference – Harnessing Our Future - was the milestone event.

From the opening welcome by Chairman Graham Kelly through to the close the Conference delivered emphatically across all sessions on the theme of Harnessing Our Future.

The key note speaker was Cronulla Sharks Chief Executive Lyall Gorman who captured the imagination of the delegates with his delivery on the need to establish a point of difference for any sport or form of entertainment to be an attractive option for patrons and followers.

Chief Executives Edward Rennell (Harness Racing New Zealand) and Andrew Kelly (Harness Racing Australia) demonstrated that the Australian challenges are in fact international.

Marketing experts Sean Callanan and Paul Dunn opened the minds to the rapidly changing media and marketing world which must be addressed for an operation to grow.

Denise Martin of Star Thoroughbreds revealed that to be in the game you must respect and service those people already involved and those people whom you wish to attract.

Bulli Club representative John Crittenden again awakened the delegates to the awareness and responsibility aspect of conducting a harness racing club or business.

Doug Freeman and his Tabcorp Team highlighted where harness racing needs to aim to capture wagering revenue in an extremely competitive market.

Detective Paul King and Reid Sanders (Chief Operating Officer) demonstrated how the past will shape the future. Corrupt practices will impact on the required resources and wellbeing of any industry.

Heather Neil (RSPCA) gave a fair warning on community expectations whilst Dr Eliot Forbes (Tas Racing Chief Executive and veterinarian) articulated how harness racing can meet community expectations. In particular both clearly explained that a poor record in the area of animal welfare will derail an industry.

Brett Coffey facilitated the diverse range of views of leading industry participants Jackie Gibson, Donna Egan, Melanie Settree and Harvey Kaplan on breeding and other industry aspects.

Governance

Government and in particular the Deputy Premier Troy Grant and his office have been champions for the racing industry for which harness racing will be continually indebted. Tax Parity and relinquishing the GHRRRA Loan from Government were principally driven by the Deputy Premier.

There were changes in the composition of the Board during the financial year with Chris Edwards re-joining as a member in December following the short tenure of Grant Mayer. Rex Horne retired in February after fulfilling the maximum eight year term permissible under the Harness Racing Act.

The inaugural female member to the Board of HRNSW was welcomed in February when Robyn Stubbs was appointed for a four year term. Post the end of the financial year (July) Alex Smith resigned his position on the Board which he had held for the previous four years.

Under the stewardship of Graham Kelly assisted by the aforementioned and Rod Smith, who were re-appointed to the Board in February, HRNSW has further grown in Industry acceptance.

The open consultative nature of the Members, evidenced by the Regional Meetings with individual Clubs and the regular attendances at race meetings and functions by the Board Members, demonstrates the strong leadership of an involved and committed Board.

I thank all these dedicated Board Members for the vision they have for the advancement of our industry and the support given to the HRNSW Management and Staff to drive the code forward.

I acknowledge the dedication of stakeholders in particular the countless volunteers to the welfare of the industry and the dedicated staff of HRNSW.

In Conclusion

The year ahead is encouraging and can be rewarding but it will have challenges.

The growth and protection of the industry's revenue sources will be paramount.

All stakeholders must work diligently towards ensuring the optimum is attainable.

One specific task however is again before HRNSW namely the formulation of the Industry Strategic Plan (2018 to 2020). This function which is required on a three year cycle is in accordance with the legislative requirements of the Harness Racing Act. As is the policy of the Board of HRNSW a consultative process with Industry stakeholders and HRICG will be commenced during 2017.

John Dumesny
Chief Executive



HRNSW Board Members and Executive Management

All Other income

The majority of all other operational income items were in line with those received in the prior financial year.

Expenditure

Total Harness Racing NSW expenses decreased slightly from \$47.939m to \$47.132m.

TAB distributions and prize money payments for the majority of race meetings increased however prize money and marketing payments for the Inter Dominion were not required in FY2016.

Salaries and related expenses increased slightly during the year mainly as the result of three additional staff at the new training centre at Menangle Park.

Gazette expenses have again decreased following the decision to phase out the printed publication and move it to an electronic format.

The increased occupancy expenses can be attributed to the establishment costs of setting up the Menangle Park Training Centre.

IT costs have increased due to a few 'one off' project related expenses which will have long term beneficial impacts on the business. Projects funded include upgrades required for the implementation of drivers' superannuation and upgrades to the general ledger and stakes systems.

Depreciation expenses increased due to the decision in early FY2016 to purchase photo finish equipment rather than lease the equipment through a third party. The resultant savings were passed on to the clubs.

Although Integrity expenses are showing a decrease in FY2016 it is mainly due to a substantial payment received in settlement of a matter that has been before the courts for a number of years. The payment relates to legal fees incurred in prior years.

The settlement involved the recovery of certain legal expenses involving cases where the Board and Management pursued a number of matters through the court system to ensure the integrity of the Act, the Rules of Racing and Local Rules.

However HRNSW has ensured that all other integrity expenses have remained high and in line with the substantial amounts spent over the past few years.

Loan Forgiven

HRNSW received a 'one off' benefit following the forgiveness by the NSW Government of the outstanding loan provided to HRNSW in 2009 to fund amalgamation expenses and unfunded superannuation liabilities.

The net benefit of the loan and outstanding interest payments was \$918,572.

Industry Fund

The Industry Fund receives a set allocation from the TAB Distribution that is used by Harness Racing NSW to finance general activities such as the Breeders Challenge Series, Breeders Challenge Owners Bonus Scheme, the Carnival of Cups series, Trotters Foundation Series, promotion of the industry's youth and younger drivers including Mini Trots and assistance to Industry Associations.

In FY2016 \$2.479m was received by the Industry Fund from the TAB Distribution.

The Fund also received \$1.450m from race fields monies derived during FY2016 for breeding initiatives and a further \$0.100m as a contribution towards marketing expenses.

Expenditure for the year was \$5.554m. The majority of Industry Fund expenditure was dedicated to the Breeders Challenge Series as well as the State Bred Bonus Scheme and Breeders Challenge Owners Bonus Scheme all of which are essential to the development of the breeding industry and hence long-term sustainability of racing. The total amount devoted to breeding activities amounted to \$3.647m.

In FY2016 a total of 430 NSW Breeders Challenge Owners Bonus Certificates were issued with a total value of \$1,292,000.

There were 308 Foal Nominators bonuses won during FY2016. This amounted to \$924,000 in cash being distributed.

A further \$48,774 was distributed in Group 1 Winning Bonuses which were paid at 10% of the advertised first prizemoney to any 2YO, 3YO and 4YO Foal Nominator.

Therefore in total \$2,264,774 in NSW Breeding Scheme Bonuses were paid in FY2016, this was an increase of \$188,014 (9.1%) on FY2015.

Financial support to the Mini-Trotting Association and Rising Stars and Young Drivers series was in line with previous initiatives designed to develop younger drivers and participants into the industry.

Racecourse Development Fund

The Racecourse Development Fund (RDF) is used to provide financing for industry capital works programs including track development, enhancement of facilities and the acquisition of plant and equipment to support racing operations.

In FY2016 \$0.708m was provided to the RDF from the TAB Distribution.

The Fund earned a significant amount of investment income during the year as a consequence of moving the investment portfolio from bank term deposits to an array of investments under the management of JBWere.

Monies remaining from the sale of Harold Park were invested in portfolios under the management of JBWere. As with the Future Fund a number of objectives were set including investment returns.

Given that a substantial portion of the funds will be required to fund new tracks and other infrastructure over the next few years the composition of the portfolio differs from that of the Future Fund.

The Menangle Park Training Centre facility was completed and officially opened in January 2016. The facility is already fully leased and planning work is underway to expend the facility.

Planning continued for the proposed new track at Wagga, although the project has encountered some difficulties which have delayed its originally planned starting date. Work on the proposed new track at Tamworth will continue.

In addition to expenditure on infrastructure outlined above, the Board also committed to a program of grants to assist with the maintenance of existing facilities.

The program commenced in FY2015 and will run for three years with \$0.750m being allocated to clubs and training centres each year.

Benevolent Fund

The Benevolent Fund is a trust established by the harness racing industry to provide financial assistance to current and past participants who may find themselves in difficult financial circumstances.

The Benevolent Fund is administered by Harness Racing NSW which, in the past, has approved requests for assistance to contribute towards funerary costs and provide levels of financial respite especially in cases where there has been a lag in the release of insurance benefits by providers.

As in past years, portions of fines levied on participants for transgressions of the Rules of Racing were directed to the Benevolent Fund to grow and maintain its reserves.

These reserves will supplement funds secured through the establishment of the Benevolent Fund as a Charitable Fundraising organisation which allows the Fund to conduct fundraising activities under licence as a means of growing its resources and providing assistance to participants.

In keeping with confidentiality provisions, Harness Racing NSW does not report on applications received by the Benevolent Fund and amounts disbursed. The operation of the Fund is governed by the *Harness Racing Act 2009*.

Future Fund

The Board of HRNSW established a Future Fund from race fields monies remaining after the various loans had been repaid which maintained race and club administration funding from FY2009 to FY2012.

The objectives of the Fund, which is overseen by an Investment Committee, are to produce capital growth and income to increase the real value of the Fund over the longer term, plus provide financial sustainability, so that HRNSW is better resourced to achieve its mission. Specifically the Future Fund provides financial sustainability for now and into the future.

After repaying loans and other disbursements over the period to 30 June 2014 the Board determined that Future Fund be set at \$10.0m less any required working capital. These funds are not governed by the Intra Code Agreement and therefore the Board can determine how the funds are prudently invested and utilised.

The objective of the Future Fund income is to provide a buffer for the industry against future shocks or to contribute to future growth initiatives. The Fund enables HRNSW to even out the revenue cycle and to contribute to recurrent income for the industry.

The investment return objective for the Fund is to achieve a long term total returns (income and capital growth) of Consumer Price Index (CPI) All Groups + 2.5%, over a rolling 5 year period after fees.

The strategy adopted by the Investment Committee set a risk objective of limiting the probability of a negative return on the total portfolio to 1 year in every 5 years. This equates to a 68% probability that the range of returns will be between -2.2% and 17%.

The fund derived a satisfactory return in FY2016.

Industry Funding and Turnover

NSW harness racing turnover with the NSW TAB for FY2016 was \$158.829 million, down \$8.293 million (5.0%) from the \$167.122 million recorded in FY2015.

When comparing turnover by region, country/provincial racing decreased by 5.0%, while metropolitan meetings (NSW Harness Racing Club) decreased by 5.1% year on year.

When interstate and international turnover is included, total turnover on harness racing increased by \$10.081 million (1.5%) year on year to \$662.722 million.

Of significance 40.9% of all wagering on harness racing with the NSW TAB was through Fixed Odds betting compared to 34.7% in FY2015, an increase of 17.9%.

Land

There are no major developments to report this year on the project to realise a commercial benefit from the parcel of land at Beresfield. This project remains on Harness Racing NSW's agenda to be pursued when circumstances allow.

There are also no developments to report on the two parcels of land owned by HRNSW adjacent to the Goulburn Harness Racing Club track.

The parcel of Land purchased at Tamworth will be assessed for commercial activities during FY2017 and the development of a racing track and related infrastructure will occur following the completion of the track at Wagga. A total of \$5.000m inclusive of the \$1.400m to be received following the sale of the Tamworth Showgrounds has been allocated to this project.

Land was also purchased at Wagga in 2014 which will be used for the new track and related infrastructure.

Club and Administrative Funding

Part of Harness Racing NSW's mandate is the disbursement of funds received under the *Totalizator Act 1997* to the industry including payments to clubs for prizemoney and administration, funding of general industry activities (Industry Fund) and capital works (Racecourse Development Fund), and funding of the controlling body's (Harness Racing NSW) operating costs.

Commonly referred to as the TAB Distribution, funds received from the TAB are allocated annually by Harness Racing NSW according to the provisions of the *Intracode Agreement 2004* negotiated between Harness Racing NSW and clubs, and operating budgets prepared by HRNSW.

The TAB Distribution for FY2016 amounted to \$35.803m, an increase of \$0.152m on funding received in FY2015. The increase was mainly due to the higher WIF received.

In accordance with the *Harness Racing Act 2009* and the *Intracode Agreement*, a series of provisions were made 'off-the-top' of the Distribution before determination of allocations to clubs.

A total of \$3.187m was allocated from the TAB Distribution to the Industry Fund (\$2.479m) and Racecourse Development Fund (\$0.708m) at the prescribed rates of 7% (including the 1% Carnival of Cups allocation) and 2% respectively. Administration Funding of \$4.503m was provided to Harness Racing NSW as endorsed by the Harness Racing Clubs Committee.

The balance of \$28.113m remaining after the 'off-the-top' funding provisions was allocated to clubs to fund racing prize money and club operating costs.

Additional funding of \$4.825m was distributed to the industry to fund racing prize money and club operating costs from Race Fields revenues.

Insurance

All trainers and registered harness racing clubs are covered by either a Public Liability, Personal Accident or Workers Compensation policy whilst undertaking harness related activities.

All trainers, drivers, stablehands, attendants, voluntary workers and mini trot participants are covered by a Personal Accident policy when not covered by a NSW Workers Compensation policy.

A Public and Products Liability policy was also taken out to cover participants and clubs for potential claims made against them. Allocation of the premium was made on the basis of past claims and other criteria.

All trainers and drivers now pay a small fee each time they participate in a race which represents a contribution to their insurance coverage. As a result of this change a large lump sum insurance charge is no longer levied on annual licences fees.

Other policies are purchased by Harness Racing NSW to cover the building at Meredith Street, the motor vehicle fleet, directors and insurance for equipment such as trailers and photo finish equipment which are used throughout the state for race meetings.

Stakes Payment System

There were no major enhancements made to the system during the year.

In keeping with Harness Racing NSW's commitment to the environment and process improvement, stakes system statements are no longer printed and posted to participants.

Statements are available online.

Racing Integrity

In accordance with Section 24 of the *Harness Racing Bill 2009*, Harness Racing NSW appointed "a person who, in the opinion of Harness Racing NSW, has suitable legal qualifications to hold the office of Harness Racing Integrity Auditor" During the year Mr Graham Gorrie fulfilled this role.



Have Faith In Me (Natalie Rasmussen) became the fastest horse in the Southern Hemisphere when it won the 2016 SEW Eurodrive Miracle Mile at Tabcorp Park Menangle in 1:47.5

Summary Of Financial Performance

Harness Racing NSW	FY2016	FY2015	FY2014	FY2013	FY2012	FY2011	FY2010
Racing Metrics							
Clubs	34	34	34	33	32	32	32
Meetings	469	487	505	501	509	515	518
TAB Races	3,688	3,692	3,851	3,832	3,818	3,594	3,713
Non TAB Races	103	153	161	185	155	323	365
Total Races	3,791	3,845	4,012	4,017	3,973	3,917	4,078
Individual Starters	3,777	3,687	3,980	4,085	4,093	4,100	4,099
Total Starters	35,533	34,181	34,640	35,492	35,094	35,145	36,273
Starters per race	9.4	8.9	8.6	8.8	8.8	9.0	8.9
Prizemoney	32,904,560	32,204,734	31,336,496	31,345,821	27,205,098	24,269,000	25,384,100
Starts per starter	9.4	9.3	8.7	8.7	8.6	8.6	8.8
Prizemoney on offer per starter	8,712	8,735	7,873	7,673	6,647	5,919	6,193
Average Prizemoney per race	8,680	8,376	7,811	7,803	6,847	6,196	6,225
NSW TAB Turnover	158,829,000	167,122,000	185,891,000	192,759,000	188,931,000	192,651,000	208,710,000
Average Turnover per NSW TAB race	43,066	45,266	48,271	50,302	49,484	53,604	56,211
Total Turnover	662,722,000	652,641,000	660,641,000				
Average Turnover per Race	179,697	176,772	171,551				
Income							
Wagering-TAB	35,802,926	35,651,682	33,458,278	34,145,540	33,566,158	32,907,952	33,654,924
Wagering-Race Fields	10,128,235	10,769,201	9,472,759	6,995,743	22,748,365	(i) -	-
Tax Parity Revenue	3,044,587	-	-	-	-	-	-
Stewarding and Other Fees Charged To Clubs	1,067,757	1,074,008	1,050,018	1,048,720	849,623	850,000	827,182
Registration & Licensing Income	712,259	613,611	668,775	759,141	959,381	901,251	739,271
Grants Received	643,179	802,082	1,603,001	(ii) 393,342	2,386,731	(iii) 184,010	155,000
Investment Income	1,359,913	938,462	533,249	935,128	2,218,996	(iv) 58,828	42,521
Other	336,363	317,566	260,830	202,947	246,420	333,581	991,851 (v)
Total Income	53,095,220	50,166,612	47,046,910	44,480,561	62,975,674	35,235,622	36,410,749
Expenditure							
Club Distributions	17,055,186 (vi)	16,968,308	16,159,965	16,404,109	34,661,585	26,181,714	29,013,674
Prizemoney and Other	15,883,176 (vi)	17,727,569	17,322,790	16,413,891	-	-	-
IF/ RDF Distributions	4,737,658	4,106,528	3,652,729	3,049,789	3,010,589	2,961,716	3,002,284
Integrity	1,528,982	1,820,738	1,387,801	1,311,445	1,230,839	661,427	631,476
Video Production and Photo Finish Costs	1,817,332	1,632,194	1,578,214	1,542,606	486,514	-	-
Administration/Other	6,110,157	5,683,928	4,918,033	5,553,594	8,117,984	(vii) 5,091,359	4,423,632
Total Expenditure	47,132,491	47,939,265	45,019,532	44,275,434	47,507,511	34,896,216	37,071,066
Surplus/ (Loss)	5,962,728	2,227,347	2,027,378	205,127	15,468,163	339,406	(660,317)
Non Recurring Items	-	-	-	-	-	-	-
RDF Grant- Land Purchase	-	-	(1,351,492)	-	-	-	-
Other Non Cash Adjustments	-	-	19,465	-	-	-	-
Amalgamation Expenses/ Loan forgiveness	918,572	-	-	-	-	-	(1,080,329) (viii)
5th Quarter Race Fields Income	-	(1,857,583)	-	-	-	-	-
Surplus/ (Loss) Carried Forward	6,881,300	369,764	695,351	205,127	15,468,163	339,406	(1,740,646)

Summary Of Financial Performance

	FY2016	FY2015	FY2014	FY2013	FY2011	FY2011	FY2010	FY2010
Industry Fund								
TAB Distribution	2,479,290	2,448,676	2,324,567	2,372,058	2,344,452		2,303,563	2,335,485
Race Fields Distribution to Fund	1,550,000	950,000	664,000	785,178	-		-	-
Foal and Other Registration Fees	706,984	683,916	1,130,465	764,146	645,297		366,126	296,353
Carnival Of Cups	594,072	673,006	613,561	604,566	462,359		455,695	580,139
Prizemoney Subsidies	1,107,812	1,103,000	1,441,120	920,905	961,182		1,050,889	773,289
Breeders Incentives	2,386,274	1,792,282	886,878	652,726	604,000		528,615	464,401
Racecourse Development Fund								
TAB Distribution	708,368	707,852	664,162	677,731	666,141		658,159	666,799
Investment Income	920,940	791,846	1,115,966	1,364,443	1,597,309		20,801	46,880
Other	-	820	436,019	549,506	3,265,425	(ix)	420,000	283,287
Repayment of IFIL	-	-	-	-	25,499,783	(x)	-	-
Election Promise Grants	-	129,320	328,018	1,062,211	446,319		-	-
Training Centre Grants	618,976	548,702	694,929	293,296	-		-	-
New Infrastructure	7,074,205	6,396,260	5,321,145	850,856	100,734		109,825	-
Land Purchases	-	-	1,351,492	-	1,694,708		15,965	-
Video Production Subsidy	-	-	-	-	-	(x)	1,130,165	1,147,627
Other Grants	528,387	709,897	(xii) 94,648	268,620	789,477	(xi)	348,254	359,966

- (i) Prior year revenue held in Trust but recognised in FY2012 following favourable decision in race fields high court litigation.
- (ii) Grants Received in FY2014 includes \$1.351m for Tamworth land acquisition.
- (iii) Grants Received are higher in FY2012 and FY2014 as result of funds received from RDF for land purchases.
- (iv) Prior year interest income on race fields funds recognised in FY2012, as a result of the favourable race fields high court decision.
- (v) The profit of \$512,016 arising from acquisition of GHRRA assets for nil consideration has been recognised in Other Income.
- (vi) Commencing FY2013 HRNSW paid prizemoney direct to participants on behalf of clubs and other participants with administration funding only being paid to all clubs except the Principal Club. Prior to this both prizemoney and administration funding were paid to all clubs.
- (vii) FY2012 Administration Fee is high due to reimbursement of \$3.1m to RDF for video fees paid by RDF during race fields dispute.
- (viii) Amalgamation expenses relating to the integration of GHRRA and HRNSW. \$652,544 was paid in FY2009.
- (ix) The RDF subsidised HRNSW for Sky video production costs until the decision on the race fields case was handed down. This subsidy was repaid in FY2012 (refer (vii) above).
- (x) Repayment of IFIL by the Principal Club - from proceeds from the sale of the Harold Park Site
- (xi) Other Grants are high in FY2012 due to a contribution of \$412,490 being made to HRNSW's special investigation program.
- (xii) Other Grants are high in FY2015 due to a contribution of \$450,000 being made to HRNSW's integrity expenses.

Statement of Profit or Loss and Other Comprehensive Income

for the financial year ended 30 June 2016

		2016	2015
	Note	\$	\$
REVENUE from continuing operations			
Product Fee	4(a)	19,104,384	20,385,149
Wagering Incentive Fee	4(a)	16,698,542	15,266,533
Race Fields Revenue	4(b)	10,128,235	10,769,201
Tax Parity Revenue	4(c)	3,044,587	-
Investment Income - Future Fund	4(d)	1,228,414	682,773
Finance Income – Interest Revenue		131,500	255,689
Grants Received - RDF - Equipment Purchases	4(e)	456,519	169,276
Grants Received - RDF - Integrity Related Expenses	4(f)	-	450,000
Grants Received - Industry Funds	4(g)	186,660	182,806
Gazette Income	4(h)	140,820	194,762
Registration & Licensing Income		712,259	613,611
Stewarding and Other Fees Charged to Clubs	4(i)	1,067,757	1,074,008
Lease Income - Menangle Park Training Centre		94,000	-
Profit on Sale of Assets		7,103	-
Other Income	4(j)	94,441	122,804
Total Revenue		53,095,220	50,166,612
EXPENSES from continuing operations			
HRNSW TAB Distribution:			
	to Clubs	5(a)	17,055,186
	to Industry Fund	5(b)	2,479,290
	to Racecourse Development Fund	5(c)	708,368
Prizemoney Paid		11,058,585	11,809,095
Payments from Race Fields Receipts	5(d)	6,374,591	6,613,474
Payments from Future Fund	5(e)	-	255,000
HRA Membership Levy		109,646	110,973
Employee Salaries and Related Expenses	5(f)	3,824,068	3,531,984
Members Fees	5(g)	108,196	106,493
NSW Harness Racing Gazette		6,482	168,713
Media Centre		56,036	176,140
Postage, Printing & Stationery		82,361	111,504
Travel Expenses	5(h)	355,908	269,483
Consultancy & Contractors		49,606	63,679
Occupancy Expenses		306,140	120,961
Equipment Expenses		17,107	16,947
IT and Communication Expenses	5(i)	450,682	408,398
Depreciation Expense		351,947	238,110
Insurance		77,433	66,299
Racing Integrity Expenses	5(j)	1,528,982	1,820,738
Sky Video/Photo Finish Expenses	5(k)	1,817,332	1,632,194
Bad Debt Expense	5(l)	(1,422)	4,785
Other Expenses	5(m)	245,992	176,493
Amalgamation Expenses	5(n)	-	56,181
Transfer Fine Income to Other Funds		69,975	56,784
Total Expenses		47,132,492	47,939,266

SURPLUS FOR THE YEAR		5,962,728	2,227,347
Comprehensive Income			
Loan Forgiveness - NSW Treasury	5(o)	918,572	-
Other Comprehensive Income for the Year		918,572	-
Total Comprehensive Income for the Year		6,881,300	2,227,347
The accompanying notes form part of these financial statements			

Statement of Financial Position

for the financial year ended 30 June 2016

		2016	2015
	Note	\$	\$
CURRENT ASSETS			
Cash and Cash Equivalents	6	890,926	257,596
Investments	7	5,043,154	10,734,057
Trade and Other Receivables	8	15,075,072	15,799,788
Other	9	20,706	28,678
Total Current Assets		21,029,858	26,820,119
NON-CURRENT ASSETS			
Investments	7	10,272,607	-
Property, Plant and Equipment	11	4,959,234	4,599,512
Land	10	950,398	950,398
Total Non-Current Assets		16,182,239	5,549,910
TOTAL ASSETS		37,212,097	32,370,029
LIABILITIES			
CURRENT LIABILITIES			
Trade and Other Payables	12	9,932,677	11,263,604
Provision for Employee Benefits	13	562,382	565,141
Total Current Liabilities		10,495,058	11,828,745
NON-CURRENT LIABILITIES			
Trade and Other Payables	15	-	705,545
Total Non-Current Liabilities		-	705,545
TOTAL LIABILITIES		10,495,058	12,534,290
NET ASSETS		26,717,039	19,835,739
EQUITY			
Accumulated Surplus		26,717,039	19,835,739
TOTAL EQUITY		26,717,039	19,835,739
The accompanying notes form part of these financial statements			

Statement of Cash Flows

for the financial year ended 30 June 2016

		2016	2015
	Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers		57,649,838	48,436,381
Interest Received		1,359,914	938,462
Payments to Suppliers, Employees and Participants		(53,149,203)	(48,893,577)
Amalgamation Costs		-	(56,181)
Net Cash Provided by Operating Activities	20	5,860,548	425,085
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for Property, Plant & Equipment		(971,503)	(184,525)
(Payments for) / Proceeds From Investments		(4,581,703)	151,117
Proceeds from the sale of Property, Plant & Equipment		325,987	-
Net Cash Used in Investing Activities		(5,227,219)	(33,408)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan repayment		-	(213,027)
Net Cash Used in Financing Activities		-	(213,027)
Net Increase in Cash and Cash Equivalents Held		633,330	178,651
Cash and Cash Equivalents at the Beginning of the Year		257,596	78,946
Cash and Cash Equivalents at the End of the Year	6	890,926	257,596
The accompanying notes form part of these financial statements			

Statement of Changes in Equity

for the financial year ended 30 June 2016

		2016	2015
		\$	\$
Total Equity at the Beginning of Financial Year		19,835,739	17,608,391
Total Comprehensive Income		6,881,300	2,227,348
Total recognised income and expense for the year		6,881,300	2,227,348
Total Equity at the End of the Financial Year		26,717,039	19,835,739
The accompanying notes form part of these financial statements			

Notes to the Financial Statements

for the financial year ended 30 June 2016

1. THE REPORTING ENTITY

a) Harness Racing New South Wales (HRNSW)

HRNSW is an independent body incorporated as a statutory body under the *Harness Racing Act 2009* to fund and control the harness racing industry in New South Wales.

b) Benevolent Fund

The Benevolent Fund was set up to assist persons associated with the harness racing industry in New South Wales who are in indigent circumstances and require financial assistance. The assets, liabilities and transactions of the Fund are incorporated into these financial statements and summarised in Note 14.

c) Separate Funds

The following funds administered by HRNSW are not incorporated in these financial statements:

- i. Harness Racing Racecourse Development Fund.
- ii. Harness Racing Industry Fund.

HRNSW prepares and furnishes separate financial statements for these funds in its Annual Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied by the entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

This financial report is a general purpose financial report that has been prepared in accordance with International Financial Reporting Standards as applicable to not-for-profit entities, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

a) Income Tax

HRNSW is registered as a not-for-profit organisation with the Australian Taxation Office. Income is not subject to income tax.

b) Revenue Recognition

Revenue is measured at fair value of the consideration received or receivable, net of goods and services tax (GST) payable to the taxation authority and net of any allowances. Revenue is recognised in the period to which the revenue relates.

TAB Distributions

Distributions from Tab Limited ("TAB") are recognised as they accrue to the benefit of the entity based on distribution advices received from TAB.

Interest Earned / Financial Income

Interest and other investment revenue is recognised as it accrues taking into account the effective yield on the financial asset.

Available-For-Sale financial assets including fixed interest and listed securities included in the JBWere Investment Future Fund Portfolio are measured at fair value. Gains and Losses are recognised in the Statement of Profit or Loss and Comprehensive Income.

Other Income

Revenue earned from all other activities is recognised when the product or service in respect of which the fees have been charged is receivable.

c) Accounts Receivable and Other Debtors

Accounts receivable and other debtors include amounts due from members as well as amounts receivable from customers for goods sold in the ordinary course of business. Receivables expected to be collected within 12 months of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Accounts receivable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

d) Financial Instruments

Categories

Financial assets are classified into the following specified categories: Financial assets 'at fair value through the profit or loss', 'held to maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Initial Recognition and Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit and loss. Transaction costs related to instruments classified at fair value through profit or loss are expensed to profit or loss immediately.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity Investments

These investments have fixed maturities. Held to maturity investments held by HRNSW are stated at amortised cost using the effective interest rate method.

Available-for-Sale Financial Assets

Available-For-Sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed nor determinable payments. They are held at fair value with changes in fair value taken through the profit or loss statement.

Notes to the Financial Statements (Continued)

for the financial year ended 30 June 2016

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal repayment and amortisation.

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities.

Impairment of Financial Assets

At each reporting date HRNSW assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

Impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire.

The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed is recognised in profit or loss.

e) Property, Plant and Equipment

Each class of Buildings, Property, plant and equipment is measured at cost (except for land as described in Notes 10 and 11) less accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by the Board to ensure that it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the accepted net cash flows which will be received from the asset's employment and subsequent disposal.

Buildings, property, plant and equipment are depreciated on a straight line basis over their useful lives, as follows:

Buildings and fitouts	4% - 10%
Plant and equipment	10% - 40%
Telecommunications, computer hardware	25% - 40%
Motor Vehicles	20% - 33%

Fixed asset purchases of items below \$2,500 are written off to expense in the year of acquisition.

The asset's residual values are reviewed and adjusted if appropriate at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

f) Revaluation of Non-Current Assets

Non-current assets are revalued every five years or sooner if a revaluation is deemed to be material and may be performed for all the non-current assets or a class of non-current assets. None the less, as stated above, non-current assets are not carried at an amount exceeding the recoverable amount.

The carrying amount of non-current assets is reviewed annually by the Members to ensure that they are not in excess of the recoverable amount of those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining the recoverable amount. AASB 136 allows a not-for-profit entity to determine value in use of an asset using the depreciated replacement cost of the asset if the future economic benefits of the asset are not primarily dependent on net cash inflows and the asset would be replaced if the entity were deprived of it.

g) Loans and Borrowings

All loans are measured at principal amount. Interest is charged as it occurs.

h) Employee Salaries and Related Expenses

Provision is made for employee entitlement benefits accumulated as a result of an employee's service up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts, plus related on-costs. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Contributions are made by the entity to employee superannuation funds and are charged as expenses when incurred.

i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included where possible.

The net amount of GST recoverable for, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash Flows are included in the statement of cash flows as a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Notes to the Financial Statements (Continued)

for the financial year ended 30 June 2016

j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks and other financial institutions.

k) Comparative Figures

Where required by Accounting Standards, comparative figures have been adjusted to conform with changes in presentation for the current financial year.

l) Revision of Accounting Estimates

Revisions of accounting estimates are recognised prospectively in current and future periods only.

m) New Accounting standards and interpretations

There are no new standards or interpretations which have a material effect on the financial statements.

n) Operating Leases

Where HRNSW is a lessee, payments on operating lease agreements are recognised as an expense on a straight line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

o) Software

Significant costs associated with software development are deferred and amortised on a straight line basis over the period of their expected benefit, being 5 years.

p) Finance Income and Expenses

Finance costs are expensed in the period in which they are incurred.

Finance income consists of interest from banks and other financial institutions. Interest is recognised as it accrues.

q) GHRRA Assets and Liabilities transferred

By order of the Minister for Gaming and Racing, all harness related assets and liabilities of the Greyhound and Harness and Harness Racing Regulatory Authority ("GHRRA") were transferred to Harness Racing New South Wales on 1 July 2009.

r) Accounts Payable and Other Payables

Accounts payable and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the company during the reporting period which remain unpaid. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

3. BASIS OF PREPARATION

a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Harness Racing Act 2009 (as amended). The financial report of the entity also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments that are measured at revalued amounts or fair values, as explained in the Summary of Significant Accounting Policies above.

c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the entity's functional currency.

d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There are no major estimates that impact these financial statements.

Notes to the Financial Statements (Continued)

for the financial year ended 30 June 2016

4	REVENUE	2016	2015
		\$	\$
(a)	Product Fee	19,104,384	20,385,149
	Wagering Incentive Fee	16,698,542	15,266,533
	HRNSW's share of the TAB Distribution is paid by NSW Racing Pty Ltd. HRNSW's share is determined by the Intercode Deed. Product fees (Daily, and quarterly) are based on wagering turnover (all codes) and Wagering Incentive Fees (WIF), paid half yearly, are based on wagering profitability (All Codes).	35,802,926	35,651,682
(b)	Race Fields Revenue		
	From various Corporate Wagering Operators	10,128,235	10,769,201
		10,128,235	10,769,201
(c)	Tax Parity Revenue		
	Revenue from reduction in NSW betting tax	3,044,587	-
		3,044,587	-
	The Betting Tax Legislation Amendment Act 2015 was assented to on 24 November 2015.		
	The effect of the Act is to reduce the tax paid on wagers placed through the TAB. The legislation will facilitate tax parity with Victoria over a five year period and thereby ensure that additional funds are available for the industry.		
(d)	Investment Income - Future Fund		
	Investment Income - JBWere Portfolio	1,228,414	682,773
		1,228,414	682,773
	Investment Income recognised on Future Fund monies held for the industry and remaining after distribution of race fields receipts received from September 2008 to March 2012 and released following the High Court win March 2012.		
(e)	Grants Received - RDF - Equipment Purchases		
	Funding for purchase of Fixed Assets	456,519	169,276
		456,519	169,276
(f)	Grants Received - RDF - Integrity Related Expenses		
	Grant received - Integrity Expenses	-	450,000
		-	450,000
(g)	Grants Received - Industry Fund		
	Management of Centralised Stakes Payment System	163,200	160,212
	Breeders Challenge Stakes Management Fee	23,460	22,594
		186,660	182,806
(h)	Gazette Income		
	Subscriptions	140,820	150,677
	Advertising Income	-	44,085
		140,820	194,762

Notes to the Financial Statements (Continued)

for the financial year ended 30 June 2016

4	REVENUE (Continued)	2016	2015
		\$	\$
(i)	Stewarding and Other Fees Charged to Clubs		
	Stewarding Costs	936,276	920,254
	Photo Finish Costs	114,697	140,729
	Swab Recovery and Other	16,784	13,025
		1,067,757	1,074,008
(j)	Other Income		
	Other	24,466	122,804
	Benevolent Fund Income	69,975	-
		94,441	122,804
5	OPERATING EXPENSES		
(a)	HRNSW TAB Distribution - To Clubs		
	NSWHRC - Principal Club	12,181,152	12,066,958
	NSWHRC - Menangle	252,000	252,000
	Bankstown	151,200	189,000
	Bathurst	699,906	671,400
	Bulli	15,000	116,550
	Dubbo	189,450	189,450
	Goulburn	126,000	126,000
	Newcastle	917,147	907,650
	Parkes	170,100	161,100
	Penrith	642,115	529,200
	Tamworth	302,400	296,100
	Wagga Wagga	369,217	419,400
	Young	255,150	245,700
	All Other Clubs	784,351	797,800
		17,055,186	16,968,308
	During FY2016 all clubs except the NSWHRC only received administration funding.		
	HRNSW paid prize money direct to participants.		
	The \$12.181m paid to the NSWHRC includes prize money and administration funding.		
(b)	HRNSW Distribution - to Industry Fund		
	HRNSW is required under the Intra Code Agreement to distribute a percentage of its share of the TAB Distribution to the Industry Fund for the development and furtherance of the industry in NSW.		
	The amount distributed to the Industry Fund is equal to		
	6% (2015: 6%) of the HRNSW share of the TAB Distribution.	2,125,105	2,123,556
	Additional Carnival of Cups Levy - 1% (2015: 1%).	354,184	325,120
		2,479,290	2,448,676

Notes to the Financial Statements (Continued)

for the financial year ended 30 June 2016

5	OPERATING EXPENSES (Continued)	2016	2015
		\$	\$
(c)	HRNSW TAB Distribution - to Racecourse Development Fund		
	The amount distributed to the Industry Fund is equal to 2% (2015: 2%) of the HRNSW share of the TAB Distribution.	708,368	707,852
		708,368	707,852
(d)	Payments from Race Fields Receipts		
	Payments for club administration funding and prizemoney	4,824,591	5,663,474
	Payments to Industry Fund for Breeding	1,450,000	700,000
	Payments to Industry Fund for Marketing	100,000	250,000
		6,374,591	6,613,474
(e)	Payments From Future Fund		
	Contribution to Inter-Dominion Prizemoney	-	255,000
		-	255,000
(f)	Employee Salaries and Related Expenses		
	Salaries	3,300,579	3,050,290
	Superannuation	278,486	248,789
	Payroll Tax	158,256	129,594
	Annual & Long Service Leave	(2,760)	6,253
	Workers Compensation Insurance	17,295	16,157
	Temporary Staff and Other	72,212	80,901
		3,824,068	3,531,984
(g)	Members Fees		
	Graham Kelly	30,320	15,332
	Chris Edwards	9,123	10,601
	Alex Smith	15,819	15,397
	Rod Smith	15,837	15,397
	Robyn Stubbs	6,516	-
	Rex Horne	30,581	49,766
	Grant Mayer	-	-
		108,196	106,493
(h)	Travel expenses		
	Employees	318,328	230,211
	Members	35,259	38,464
	Other	2,321	808
		355,908	269,483
(i)	IT and Communication Expenses		
	IT Support & Software	335,879	271,224
	Phone, fax and related expenditure	114,802	137,175
		450,682	408,398

Notes to the Financial Statements (Continued)

for the financial year ended 30 June 2016

5	OPERATING EXPENSES (Continued)	2016	2015
		\$	\$
(j)	Racing Integrity Expenses		
	Swab Testing and reporting	885,033	876,843
	Stewards inquiries/appeals & related legal expenses	330,471	638,303
	Analytics & Research	110,636	154,518
	Registration Processing	72,040	60,810
	Integrity Auditor	20,464	19,289
	Freeze Branding expenses	9,181	9,359
	Menangle Park Training Centre Expenses	43,647	-
	Other Integrity	57,511	61,616
		1,528,982	1,820,738
	The figures above do not include employee costs which are reported in note 5(f).		
	The reduction in total integrity expenses during FY2016 is mainly due to the receipt of \$350,000 as a settlement of legal expenses incurred by HRNSW in prior years.		
	When employment costs are included total integrity expenses have increased.		
(k)	Sky Video/Photo Finish Expenses		
	Sky Video	1,768,592	1,496,762
	Photo Finish	48,740	135,432
		1,817,332	1,632,194
(l)	Bad Debts		
	Bad Debts Written Off	(1,422)	4,785
	Movement in Provision	-	-
		(1,422)	4,785
	Current provisions provide adequate cover for any risk in bad debts.		
(m)	Other Expenses		
	Bank and Investment Portfolio Charges	94,823	30,542
	Legal and Audit fees	90,970	73,561
	Benevolent Fund Expenses	15,879	40,709
	Sundry Expenses	44,321	31,682
		245,992	176,493
(n)	Amalgamation Expenses		
	Interest on the \$2m NSW Government Loan	-	56,181
	Refer Note 12	-	56,181
(o)	Other Comprehensive income		
	Loan forgiven - NSW Treasury	918,572	-
	Refer Note 12	918,572	-
	The remaining portion of the \$2.0m loan provided by the NSW Government through NSW Treasury to fund amalgamation expenses and unfunded superannuation liabilities of the Greyhound and Harness Racing Regulatory Authority in 2009 was forgiven in June 2016.		



Strategic Plan

2015 to 2017

**A pathway for the future
through the unification of strengths.**





Vision

Unifying the Industry's Strengths



Mission

- **Maintain an effective regulatory & governance framework**
 - **Optimise the industry to realise growth**
- **Provide a platform for increased participation by all stakeholders**



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Introduction – Unifying the Industry’s Strengths

Unifying the industry’s strengths will create a pathway forward . . .

Harness racing has an abundance of strengths which, with unity, will elevate the industry to new levels of stakeholder satisfaction. This will create an alluring attraction for participation from those not currently involved in harness racing.

This Strategic Plan (2015 – 2017) addresses a pathway for the future years of harness racing within New South Wales with goals that will only be achieved through the diligent and valuable contributions of all stakeholders as both individuals and groups as well as the industry leaders.

The challenges which have confronted harness racing this millennium have been met and dealt with by strong leadership and a will by devoted participants to continue the traditions of the sport.

Harness racing is a sport which can be enjoyed by all demographics from the very young to older generations, from those with wealth to those of self reliance.

Harness racing is an activity which can easily be accessed and has a state-wide visibility from Sydney to Broken Hill and Inverell to Albury.

Recognition of the strengths, weaknesses, threats and opportunities allows the leadership and stakeholders within the industry the opportunity to self reflect, address and to create the pathway forward.

Awareness of the needs of the industry constituents and the requirements of industry partners and customers allows the industry leadership to adapt to the respective and at times diverse requirements of these stakeholders.

To take the industry forward this recognition and awareness combined with diligence to the Strategic Plan will be the genesis for a future of longevity and satisfaction for the NSW Harness Racing Industry.

The Strategic Plan encompasses the basic component (racing and breeding systems) whilst addressing marketing, customer connection, integrity and the continued transition into new technologies. It addresses regionalisation and administrative support to the Clubs whilst retaining harness racing from the grass roots level Clubs to the pinnacle of the Principal Club.

This strategic direction for the ensuing years 2015 to 2017 allows the leadership and the industry stakeholders further opportunities to contribute in unison to the sustainability and advancement of harness racing.

A cohesive engagement by the industry stakeholders who have the passion for maintaining the traditions of harness racing is a prerequisite for the growth of this great sport.



I. Size and Scope of Harness Racing in NSW

I.1 Harness Racing Clubs in NSW

NSW Region	Harness Racing Clubs
Central West	Bathurst Blayney Cowra Eugowra Forbes Orange Parkes Peak Hill West Wyalong
Far West	Broken Hill
Hunter	Maitland Muswellbrook Newcastle
Murray	Albury
Northern Inland	Armidale Inverell Narrabri Tamworth
Orana	Dubbo
Riverina	Coolamon Cootamundra Griffith Junee Leeton Temora Wagga
Southern Inland	Goulburn Young
Western Sydney	Bankstown Bulli @Menangle Park Fairfield NSWHRC (Principal Club) Penrith



1.2 Impacts of Harness Racing in NSW

Measurement Factor	* Quantity of Impact
Direct Expenditure	\$313.9m
Economic Impacts	
Total Value Added	\$427.4m
% Of Industry Value Added	12.7%
Total Household Income	\$219.5m
Total Fulltime Equivalent Employment	3,544
Number of Breeders	1,074
Number of Foals Produced	1,268
Number of Owners & Syndicate Members	5,446
Number of Horses in Training	3,575
Number of Trainers	1,018
Number of Drivers	821

In 2012/13 the NSW Harness Racing industry generated total direct spending of nearly \$314 million.

The flow on effects linked to this expenditure increase the size of the harness racing industry's value added contribution to more than \$427 million.

Participants (& stakeholders) are the lifeblood of the industry. They provide the investment, time, skills and passion that underpins harness racing in the State. Many people in the industry find gainful employment of their specific skill set, where they may find limited opportunities otherwise. Furthermore, many participants hold more than one role within the industry.

Owners are a key participant group, as they provide much of the investment from which the chain of activity follows. In NSW, there are more than 5,000 people who have an ownership interest in a horse. Many of these owners are involved in the industry as part of a group ownership initiative such as syndication or partnership. The industry is also supported by many people who volunteer their time and resources. This is particularly prevalent in regional areas where many racing clubs are run almost entirely by volunteers.



* Size & Scope of the NSW Racing Industry - NSW Government - 2014 IER Report

2. Employment & Participation in Harness Racing

2.1 Participation

Participants in the Industry	* Numbers
Breeders	1,074
Breeders Staff	1,677
Owners & Syndicate Owners	5,446
Trainers and Drivers	1,839
Stablehands	653
Total Participants in Producing Horses	10,687
Full-Time Club Staff	85
Part-Time Club Staff	65
Casual/Contractor Staff	827
Farriers/Vets/Equine Dentists/Chiropractors	251
Club Volunteers	929
Industry Administration Staff	43
Total Participants in Producing Racing	2,200
Total Participants in Harness Racing	12,887

The concept of “participation” is broader than simply considering those employed in the industry. Participants include employees, trainers, breeders, owners, contractors and volunteers who are involved in varying levels of engagement from occasional to full-time.

Participants are the lifeblood of the industry. For the majority of participants, involvement is part business and part hobby. Passion drives many to pursue the challenges and opportunities available in harness racing. For some participants, however, the harness racing industry is their livelihood - their occupation. This is especially true in relation to the trainers, breeders, drivers, farriers, vets, equine dentists and chiropractors for whom the industry provides significant opportunity to employ their specialist skills. Breeders kick-start a chain of activity which leads to the creation of a racing product that is consumed by audiences on most days of the year.

Owners provide much of the investment from which the chain of activity follows.

In total, there are more than 13,000 individuals who participate in the NSW harness racing industry. Nearly 75% of these participants fulfill roles relating to the production (breeding) and/or preparation (training) of horses.



* Size & Scope of the NSW Racing Industry - NSW Government - 2014 IER Report

2.2 Employment

There are more than 13,000 stakeholders directly involved in the NSW harness racing industry. This takes into consideration participants, volunteers and employees (full time, part time, casual and contractor). The economic activity generated by the harness racing industry sustains more than 3,500 full time equivalent (FTE) positions in NSW.

The NSW harness racing industry, like racing industries all over Australia, relies on a large number of part time and casual labour. Further to that, it employs a large number of people in roles that are not plentiful in the marketplace (such as horse care). It is important to note that the FTE job creation does not necessarily directly follow direct spending within the NSW economy. This is because some regions have a higher need to import labour (due to supply side constraints) than others.

The FTE positions that are sustained by the NSW racing industry result in nearly \$200 million in wages and salaries for the people employed in the racing industry as well as those employed in other down-the-line industries that receive increased demand as a result of racing. Some examples of the other industries that are stimulated by harness racing include; veterinary, feed, retail, tourism, accommodation, transport, entertainment & fashion.



3. Expenditure by Harness Racing's Customers

Measurement Factor	* Quantity of Impact
Number of Clubs	33
Number of Race Meetings	519
Number of Races	4,048
Number of Racing Club Members	7,517
Number of Attendees	298,776
Raceday Customer Spending On-Course	\$6.8m
Raceday Customer Spending Off-Course	\$16.3m

During the 2012/13 racing season, 519 harness race meetings attracted attendances of just under 300,000. Racegoers attending these race meetings were responsible for generating expenditure of more than \$23.0 million in spending both on-course and in the community.

In addition to this the utilisation of harness racing club facilities, for non-raceday purposes, generated a further \$7.5 million of expenditure. Some of the uses of racing club facilities, on non-racedays, includes agricultural shows, markets and function centre hire. The largest regions, in terms of customer spending are the Western Sydney, Central West, and Hunter regions.



* Size & Scope of the NSW Racing Industry - NSW Government - 2014 IER Report

4. Returns to Owners

Measurement Factor	** Quantity of Impact
Total Prize Money Paid	\$31.33m
Total Incentive Payments	\$0.78m
Total Returns to Owners	\$32.11m
Number of Starters	35,666

During the 2013/14 racing season, the NSW harness racing industry provided owners with the opportunity to share in \$32 million of available prize money and bonuses. Whilst the majority of prize money is shared by owners, it is important to note that trainers and drivers also receive financial benefits for various elements of their involvement in harness racing.

Previous research in a number of jurisdictions has shown that most owners do not necessarily expect to achieve a 100% return on their investment. This “acceptable loss” concept exists within the industry, and is mostly a recognition that ownership is often driven by a combination of business and leisure motivations. It is important, however, that owners have the ability to generate a considerable return on investment to ensure their continued involvement in the industry.



** HRNSW Annual Report 2014

5. Benefits to NSW Economy

In celebrating its major events, harness racing attracts visitors to NSW and delivers significant economic and tourism benefits to the State. The relationship between the harness racing industry and tourism has been established over many years. At a regional level, harness racing events are an important part of driving both intrastate and out-of-state visitors to regional parts of NSW. From a statewide perspective, major harness racing events have the ability to generate economic impacts for the State, not only from visiting attendees, but also from visiting participants.

Over the past 3 years NSW has held the rights to run the prestigious Inter Dominion Series at Tabcorp Park Menangle in Sydney. Contested since 1936, the Inter Dominion is the pinnacle race on the Australasian harness racing calendar attracting horses, participants and visitors from Australia, New Zealand and the USA. In 2014, the Inter Dominion Series showcased the state of the art reconstruction of the venue, including the new \$28 million grandstand.

The impacts delivered by the Inter Dominion in 2013 include:

- Generating a total gross economic benefit of \$10 million attributable to Inter Dominion Series
- Generating over 7,600 commercial bed nights in NSW
- Attracting close to 1,800 out-of-state visitors to NSW
- An increase of 16% in net wagering revenue year-on-year.

In addition to the metropolitan events highlighted above, harness racing conduct events and carnivals which are important contributors to local and regional economies in terms of economic benefits, local employment and social impacts (i.e. through volunteerism and community pride). The Bathurst Gold Crown Carnival and Carnival of Cups are examples of these events. These events create significant economic stimulus for their local economies in areas such as fashion purchases, accommodation, retail, transport and food & beverage spending.



6. Community & Social Benefits

6.1 Social Benefits

Harness racing in NSW plays an important role in the development and preservation of social and community benefits throughout rural, regional and metropolitan areas. The majority of these social impacts are initiated through Club activities, both on racedays and non-racedays, as well as the partnerships they form with many community organisations. This contribution to community social benefit enhances both individual and community well-being throughout the regions where the industry exists.

The economic activity generated by the NSW harness racing industry complements the social impacts, particularly in regional areas where racing events and facilities foster social cohesion and provide benefits for a broad range of individuals and community organisations. Racing and non-racing events attract community members, independent of socio-economic status, age or gender. This is highlighted within the racing industry throughout NSW, where racing is a profession, sport, hobby and leisure activity.

The development of social and environmental initiatives also has a positive impact in terms of family socialisation and volunteerism. With this, harness racing also supports health, education, employment and environmental practices. However, maintaining and building the trust and respect of the communities in which racing clubs operate is also extremely valuable. The implementation and communication of social and environmental initiatives plays an important role in managing community perceptions and in doing so, protects and enhances harness racing's image and reputation. This in turn provides the industry with a greater opportunity to foster the support of customers, corporate partners and Government, as well as building pride and increased satisfaction with internal stakeholders.

The sport of harness racing demonstrates a rich cultural significance in terms of its history and heritage throughout NSW. It was in Parramatta, in 1810, that the first trotting race in Australia was held during a sports carnival. The historical elements of all harness racetracks throughout the state are an important part of the fabric of many local communities. These tracks and clubs are the focal point for the achievements of some of NSW great sportsmen and sportswomen, racing identities and horses. The importance of racing clubs and tracks extends beyond simply those with an interest in racing. They are valuable community assets – particularly in regional parts of the State.



6.2 Education & Training

Education and training are also vitally important for the continued growth and success of harness racing across NSW. Education and training programs work to support communities through various avenues. Metropolitan hubs and regional areas alike feel the positive impact provided by community partnerships, training programs and welfare initiatives provided throughout NSW.

Trainers and drivers within the Harness Racing industry are exposed to courses both practical and on-line in NSW. Registered courses must be undertaken for those looking to move through the graded licensing system that exists within the industry. In the beginning, new participants looking to obtain a licence must enroll in an approved TAFE course before obtaining a licence. To then move from a C grade licence through to a B grade licence, more training modules must be completed. These courses, modules and procedures through training and education help ensure the quality standard exemplified throughout participants within the harness racing industry in NSW and include traditional media presentation and acceptable social media usage.

In addition to formal tertiary qualifications for those within and outside of the harness racing industry, Harness Racing NSW conducts various in-house programs and initiatives to further develop the skills and standards of those currently employed within the industry. Recently, Harness Racing NSW embarked on a program to train head office, club and volunteer staff on the latest work health and safety issues and regulations, following a change in legislation. This was an important program for all participants, and the industry as a whole, to help ensure the new legislation was understood. It was also particularly important in understanding and planning for the impact the legislation would have on harness racing in NSW.

In the breeding sector training is undertaken in the technology of collection and preservation of semen from stallions, artificial insemination of mares as well as the scanning of mares for pregnancy.



6.3 Mini Trots

The Mini Trotting Association of NSW is playing a pivotal role in connecting and engaging families with the sport of harness racing in NSW. Mini Trots replicates the skills and knowledge required in harness racing to introduce five to sixteen year old children to the sport in a fun and safe environment utilising trained and registered ponies.

The association has a charter to foster the sport of mini trotting for children and to promote friendly competition in an atmosphere of cooperation and good sportsmanship and to encourage interaction for all. Mini Trots is successfully engaging families at the introductory level to the sport. Events are designed to cater to each age and experience level within structured competition formats. Furthermore parents and other family members are playing an important support role actively engaged in volunteering to deliver competitions and fundraising activities.

There are currently eleven Mini Trots Clubs across NSW with junior participants (drivers) competing in competition at registered harness racing tracks, local shows and organised trial days with the pinnacle event, the state championships, held annually at Easter. The 2014 championships hosted at Gundagai represented a milestone for the Mini Trotting Association with the state championships celebrating its 30th Anniversary; 167 ponies competed in the two day event.

As a result of Mini Trots success introducing young people to the sport, the association has introduced “come and try” education days. On these days attendees are supplied the necessary equipment and appropriate horses and are introduced to the basics of harness racing. These events are proving very popular and have recorded promising participation from ethnic communities displaying an interest in careers within the sport.

Mini Trots has become an important pathway for the development of future participants within the industry. Graduates are transitioning into careers within the harness racing industry producing numerous professional drivers and leading to alternative career paths including careers as stewards, race callers and stable hands.

Extending upon the success of Mini Trots, the association has introduced Maxi Trots for participants fourteen years old and over with a minimum of three years Mini Trots experience. Through this program, participants transition to the next phase of development driving retired pacers in structured competition. The graduates of this program are achieving phenomenal success when entering into professional harness racing with every graduate winning a race in his or her first year.



7. Wagering

Source of Wagering	*** Value of Wagering
NSW TAB Pari-Mutual	\$127.94m
NSW TAB Fixed Odds	\$57.97m
Total NSW TAB	\$185.91m
Other Totes	\$271.65m
Corporate Bookmakers	\$194.38m
On Course Bookmakers	\$1.70m
TOTAL TURNOVER	\$653.64m

Wagering is not only an important part of the harness racing customers' experience, it is also a critical source of funding for the industry. Wagering in NSW occurs through the following operators:

- Totalizator wagering – operated by Tabcorp and available through on-course and off-course channels. - Fixed odds wagering on-course and off-course. Also offered by Tabcorp.
- On-course bookmaker wagering – operated by individual bookmakers who 'stand' at race meetings throughout the State.
- Corporate and Betting Exchange wagering – operated by wagering businesses, licensed in the Northern Territory or Tasmania (Betfair).

Revenues from these sources provide the majority of the funds that are used to run the harness racing industry. Totalizator betting is the largest source of revenue for the industry. Once successful bets are paid out to punters, the remaining 'net wagering revenue' is then distributed between the harness racing industry, the Government (in taxes and GST) and the wagering service operator. In addition to receiving revenue from all betting on NSW racing product, the harness racing industry also benefits from a share of revenue from wagering turnover on interstate and overseas racing product by Tabcorp's NSW wagering business.

In addition to revenues from totalizators wagering turnover, in recent years the NSW harness racing industry has also been able to secure product, or racefields fees from non-totalizator wagering operators selling NSW product.



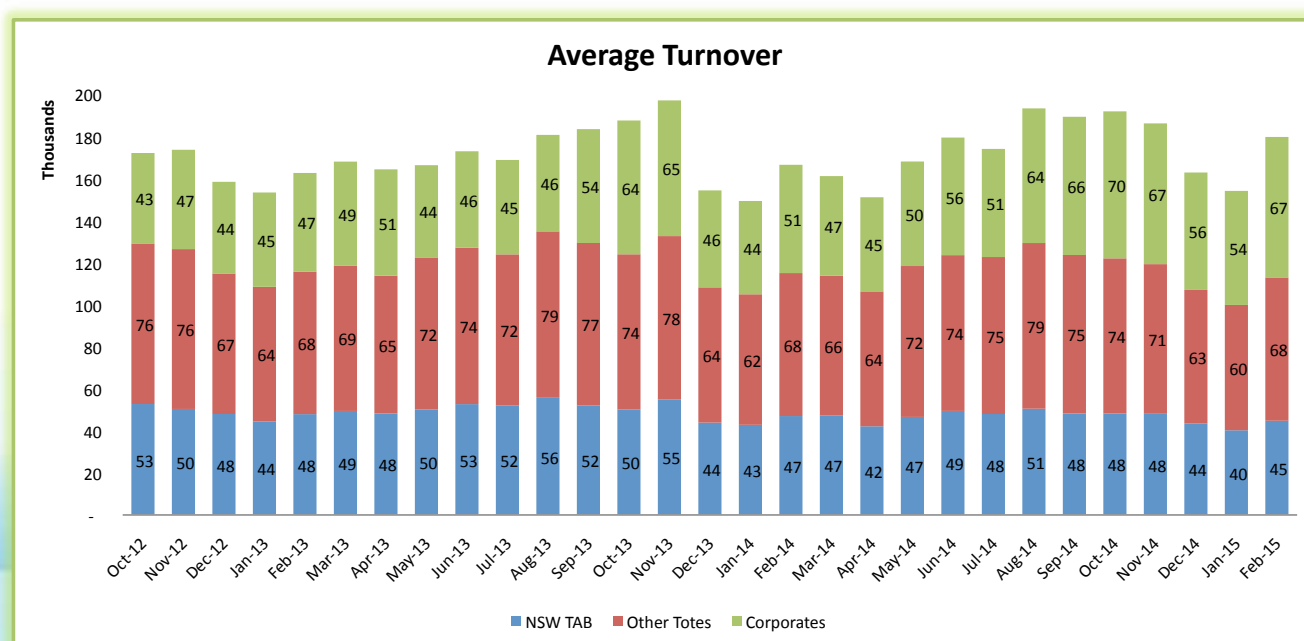
*** HRNSW Wagering Statistics 2014

This revenue is divided from Race Fields Fees from Corporate bookmakers, betting exchanges and Interstate TAB's. With recent changes to the landscape of cross-border betting and corporate bookmaker wagering, NSW receives an amount of money from betting exchanges, corporate and interstate bookmakers and interstate TAB's - referred to as a race field's product fee based on a percentage of turnover.

The table above illustrates the total wagering turnover generated on harness racing product in NSW. More than \$650 million was wagered on NSW harness racing in 2013/14.

The revenue distributed to harness racing is used to fund the following industry activities:

- Prize money payments to winning owners, trainers and drivers
- Other returns to owners including breeding incentive scheme bonuses
- General grants to clubs for various uses including capital improvements to racing, training and customer facilities
- Industry operational costs including integrity assurance, race day services and administrative expenditures.



To ascertain the growth and decline of each turnover segment view the corresponding months:

For example:

- NSW TAB Average Turnover per race in December 2012 was \$48k, in December 2013 was \$44k and in December 2014 was \$44k.
- Other Totes Average Turnover per race in December 2012 was \$67k, in December 2013 was \$64k and in December 2014 was \$63k.
- Corporate Bookmaker Average Turnover per race in December 2012 was \$44k, in December 2013 was \$46k and in December 2014 was \$56k.

8. Harness Racing NSW Stakeholders

Harness Racing NSW understands the breadth and diversity of its many stakeholders. The relationship of Harness Racing NSW with these stakeholders and between stakeholders is depicted below.



These stakeholders in each group are as shown below, as well as the “services” which are provided to each group by Harness Racing NSW.

Stakeholder Group	“Services” Provided
Clients (Participants) <ul style="list-style-type: none"> - Owners - Breeders - Trainers - Drivers - Other Licences 	<ul style="list-style-type: none"> - Implementation of Strategies to reduce operating costs - Implementation of strategies to maximise returns - Leadership strategies to improve efficiencies - Leadership in strategies to improve focus on “services” and service culture
Business Partners <ul style="list-style-type: none"> - Clubs - Associations & Accredited bodies 	<ul style="list-style-type: none"> - Leadership in strategies to increase productivity - Provision of enhanced support to clubs & bodies
Strategic Partners <ul style="list-style-type: none"> - Wagering operators - Sky Racing 	<ul style="list-style-type: none"> - Commitment to enhanced relationships with partners - Leadership in strategies to improve product quality
Customers <ul style="list-style-type: none"> - Punters - On track attendees 	<ul style="list-style-type: none"> - Leadership in provision of product enhancements - Provision of better, more accessible product information



II. Strategic Priorities

Strategic Priorities

- II.1 Optimising Racing System**
- II.2 Emphasis “Service” Focus**
- II.3 Developing a Modern Industry**
- II.4 Promotion & Marketing**
- II.5 Ensuring Integrity & Compliance**

II.1 Optimising Racing System

Primary Goal:

To achieve average field size at tracks: 1st Year – 8.5; 2nd Year - 9; 3rd Year - 9.5

Background/Rationale:

- The racing system represents our key product for stakeholders, so its optimisation is a strategic imperative
- If the system is viable (and perceived as viable), then owners will feel encouraged to buy and/or breed more horses
- Stakeholders (especially punters) appreciate more attractive field sizes and perceived value
- Unless the racing system is optimised, including providing increased returns, then stakeholders (especially punters) will engage in other interactive forms, or turn their interests to other racing codes or wagering products

No.	Action/Initiatives	Person(s) Responsible	Time Frame
1	Complete the proposed revised handicapping system	Racing & Products Manager	30 June 2014 (Completed)
2	Implement the revised handicapping system	Racing & Products Manager	1 September 2014 (Completed)
3	Optimise the racing program (including calendar) to increase participation and enhance wagering	Racing & Products Manager	30 June 2015
4	Adequately utilise the Future Fund to viably sustain the industry	Board & Chief Executive	30 June 2016
5	Complete the infrastructure build to assist in achieving increased field sizes	Board & Chief Executive	30 June 2017
6	Regionalise the industry to achieve industry efficiencies and sustainability	Board & Chief Executive	31 December 2017

11.2 Emphasising “Service” Focus

Primary Goal:

To achieve 10% year on year increases in service ratings.

Background/Rationale:

- Recognising the breadth & diversity of the Harness Racing NSW stakeholder base, and providing “services” to meet their needs and interests is a strategic imperative
- Need for a stronger focus on a “service” culture within the organisation
- Need for provision of specifically targeted “service” points to specific external stakeholders
- Need for service to stakeholders as a means of growing the overall industry

No.	Action/Initiatives	Person(s) Responsible	Time Frame
1	Create a service-focused culture, organisation and systems	Chief Executive	30 June 2015
2	Review and select an appropriate survey tool/system to measure/monitor “service” feedback	Chief Operating Officer	30 June 2015
3	Develop & provide tools/platforms for business partners to enable them to increase effective interaction with the harness racing industry	Chief Operating Officer	31 December 2015
4	Develop an industry wide system for promoting “service” focus	Chief Operating Officer	30 June 2016
5	Earmark a specific number of feature race days, working with the clubs	Chief Operating Officer	30 June 2016

“Service” focus is critical to perception of professionalism in the industry



II.3 Developing a Modern Industry

Primary Goal:

To ensure relevance, viability and sustainability as a major player in the entertainment industry as a sporting attraction.

Background/Rationale:

- The development of an industry that is perceived by its stakeholders as “modern” and up-to-date with contemporary practices and of value as entertainment to its stakeholders is a strategic imperative
- Unless the industry is perceived as relevant by its stakeholders, then the risks of sustainability, and ultimately survival, are significant
- Need for engagement with the clubs and other stakeholders to embrace the regional management and industry rationalisation strategies

No.	Action/Initiatives	Person(s) Responsible	Time Frame
1	Review structure and resources of overall organisational structure	Chief Executive	30 June 2015
2	Develop a pathways “map” for the entry of new participants into industry	Chief Operating Officer	30 June 2016
3	Create a widespread coordinated industry development program embracing training and junior development	Chief Operating Officer	30 June 2016
4	Develop a commercial plan to leverage off regional hubs	Chief Executive	31 December 2016
5	Engage with the clubs to achieve their partnership activity in delivering the overall industry strategy	Chief Executive	30 June 2017
6	Investigate & develop new income streams	Chief Executive	Current



11.4 Promotion & Marketing

Primary Goal:

To achieve an increase in our recognition across the community & participation of Owners, Licences, On-course attendances and visitors.

Background/Rationale:

- Growth in the recognition and perceived relevance of harness racing within the wagering market, the racing industry and the community is a strategic imperative
- Need to grow active participation rates of key stakeholders within the industry
- Need to harness relevant technologies available to the industry which help to engage the broader (& younger) stakeholder base

No.	Action/Initiatives	Person(s) Responsible	Time Frame
1	Complete the creation of an overall I.T. framework, media centre and infrastructure – including a customer friendly communications system embracing efficiencies in all systems	Chief Operating Officer	31 December 2015
2	Drive the active utilisation by stakeholders of the Harness Racing NSW website & media centre	Chief Operating Officer	31 December 2015
3	Develop the utilisation of digital social media platforms	Chief Operating Officer	31 December 2015
4	Investigate the re-branding of the harness racing industry	Chief Executive	31 December 2015
5	Develop and implement a marketing campaign to improve the image and reputation of the industry	Chief Executive	30 June 2016



11.5 Ensuring Integrity & Compliance

Primary Goal:

To ensure compliance with all regulatory, statutory & industry requirements.

Background/Rationale:

- The harness racing industry in NSW has a sound reputation for integrity in its operations, and a continued and increased focus on this is a strategic imperative for the wellbeing of the Industry
- Need to ensure all of the industry's clubs and associations are maintaining compliance with all relevant statutory requirements
- Need to ensure all the industry's clubs and associations are unified in embracing Harness Racing NSW policies and procedures

No.	Action/Initiatives	Person(s) Responsible	Time Frame
1	Ensure compliance by the industry with all Harness Racing NSW rules, policies and procedures	Chief Operating Officer	30 June 2015
2	Review the constitutions of the industry's clubs and associations to ensure compliance with statutory requirements	Chief Executive	30 June 2016
3	Drive and maintain our leadership role in focusing on meeting regulatory requirements across the industry	Chief Executive	30 June 2016
4	Drive and maintain our leadership role in focusing on integrity within the industry	Chief Executive	30 June 2016



12. The Strategic Future

12.1 Prizemoney & Incentives to Breeders & Owners

12.2 Administration Funding & Corporate Governance

12.3 Marketing

12.4 Regionalisation

12.5 Industry Training/Education & Employment Opportunities

12.6 Infrastructure at Tracks & Training Centres

12.7 Technology

12.1 Prizemoney and Incentives to Owners & Breeders

Prizemoney

- Increase per race base prizemoney to the following levels:
 - Tabcorp Park Menangle Midweek \$8,000
 - Regional "A Meeting" \$7,000
 - Regional "B Meeting" \$6,000
 - Regional "R" Meeting \$3,500
- Develop the Carnival of Cups brand
- Increase the prizemoney for the NSW flagship races the Miracle Mile, Ladyship Mile, Chariots of Fire, NSW Derby and NSW Oaks to significant national levels

Breeding Incentives for NSW Breeders Challenge eligible horses

- Increase Owners Bonus Certificates to \$5,000
- Increase Nominators Cash Bonus to \$5,000
- Increase 2YO, 3YO & 4YO Finals to \$150,000 (Group 1)
- Increase 2YO, 3YO & 4YO Semi Finals to \$30,000 (Group 3)
- Increase 2YO & 3YO Heats to \$20,000
- Increase all Regional Finals to \$50,000 (Group 2)
- Increase the 2YO, 3YO & 4YO Trotters Finals to \$50,000 (Group 1)

12.2 Administration Funding

- Increase TAB Club meeting funding to \$20,000
- Increase Non TAB Club meeting funding to \$15,000



12.3 Marketing

- Promote Trots TV and Social Media to the 18-35yo market – work with advertising experts to ensure penetration of the market
- Continue to produce Trots TV, targeting those segments that create the most interest
- Focus on regional events and work with the Regional Managers to ensure the same strong message is being delivered
- Initiate a “Harness Racing Experience” whereby the public can learn how to handle, gear up, and drive a horse – ending with a dual sulky race.
- Savvy promotion to show the affordability of Standardbreds and try to lure new owners to our industry through syndications and partnerships.

12.4 Regionalisation

Creation of Regional Administration Manager Positions

Role:

- Corporate Governance adherence
- Regional Marketing
- Club liaison within their Region
- Increasing harness racing awareness (Traditional & Social)
- Sponsorship & Promotions

Creation of Regional Track Curator Positions

Role:

- Head Regional Track Curator at the Major Club in the Region
- Attend race meetings conducted by clubs that race less than 10 times per annum
- Overseeing Track & Equipment Maintenance
- Ensure a track maintenance regime at all tracks in line with the HRNSW Track Maintenance Manual
- Inspect all tracks within the Region on a regular rotational basis and educate all track curators on how to properly prepare a track with the track equipment in varying weather conditions

Creation of Regional Race Callers Positions

Role:

- Call all race meetings within a Region
- Undertake Trots TV interviews as previews and reviews for each meeting
- Prepare regional Media Releases
- Assist in the promotion of the industry in the region

Creation of Regional Regulatory Roles

Roles:

- Stewards
- Mobile Starters
- Mobile Drivers
- Judges

12.5 Industry Training/Education – Employment Opportunities

Employ a Development/Liaison Officer

Role:

- Mini Trotting Marketing/Participation
- Development of 6 to 12 year olds
- Development of 12 to 16 year olds
- Promote and develop career pathways for the industry
- Revitalisation of Maxi Trots
- Transition from Minis to Maxis to Racing
- Attend schools to demonstrate industry career pathways
- Liaise with and develop participants through ongoing industry training



12.6 Integrity

- Maintain current volume of swabbing and testing measures with an aim to increase
- Maintain high level surveillance activities with an aim to increase
- The development of technology to assist
- Enhancing the racetrack team, to embrace “real time” wagering monitoring
- Animal welfare enhancements inclusive of a retraining and re-homing strategy for retired horses
- Education of Industry Stakeholders in relation to socially acceptable obligations in the treatment of horses inclusive of the damage caused through the administration of illegal substances and other non compliant practices

12.7 Technology

- Update systems so that all stakeholders are provided information about the industry via the digital network.
- Upgrade audio visual to enhance product delivery
- Enhance systems for HRNSW communication
- Develop systems/templates for stakeholders
- Develop information on industry for stakeholders/public awareness

12.8 Infrastructure

Racecourses

- Modernised facilities for patrons & participants
- Ensure our facilities provide modern technological infrastructure for customers & participants
- Semaphore boards at our major venues (20 meetings or more)
- Stewards towers at our major venues (20 meetings or more)
- Upgrade the audio visual system to enhance the telecast quality
- Upgrade structures to enhance integrity/vision quality

Training Centres

- Create training centres at major regional centres



THE ASPIRATIONAL FUTURE

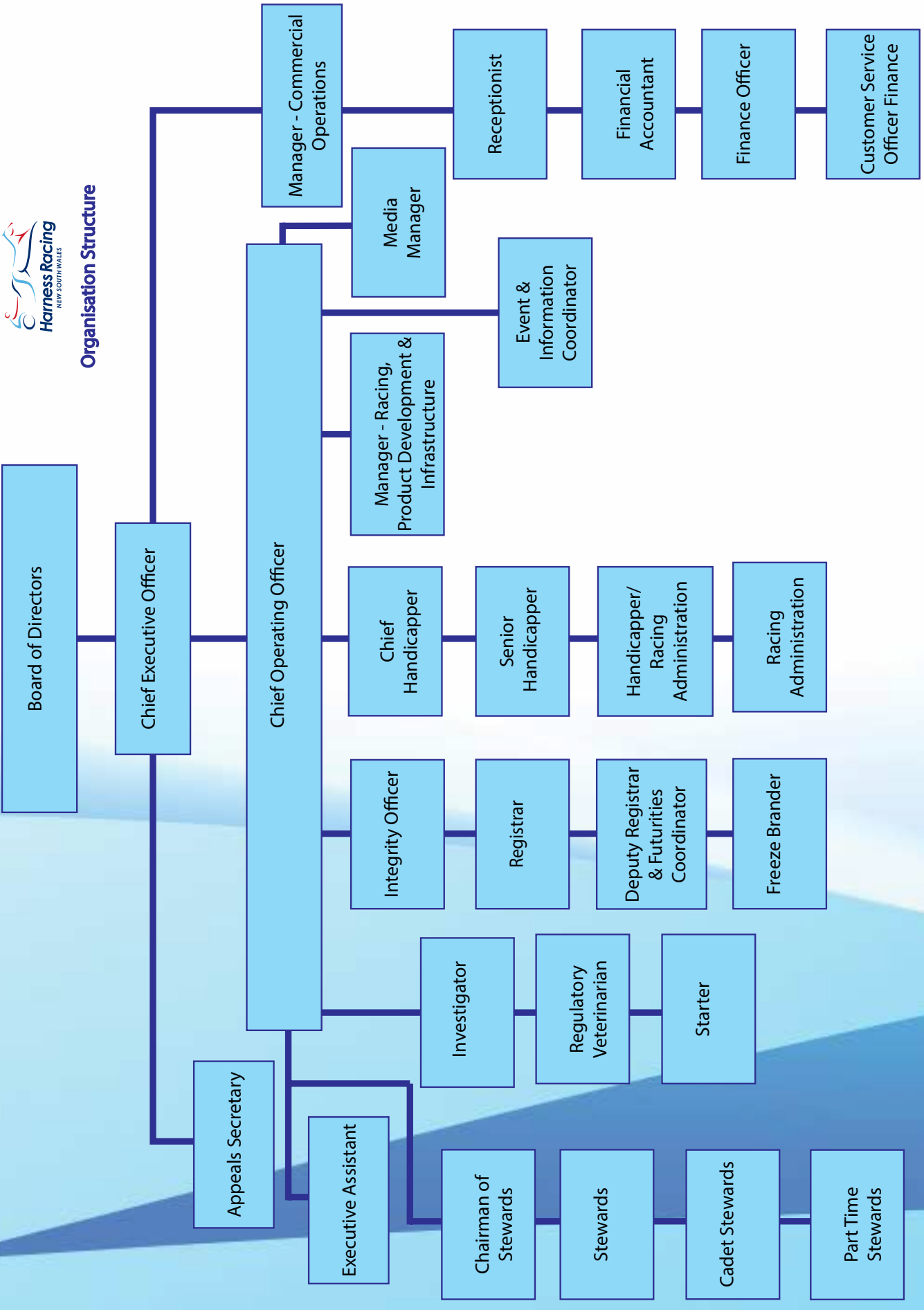
The aspirational future of harness racing, to its fullest extent, can only be achieved through the infusion of significant additional funding.

Initiatives are being undertaken seeking wagering taxation parity as compared to other States from the NSW Government.

If this is achieved HRNSW will be in a position to commence the required enhancement of the NSW Harness Racing Industry.



Organisation Structure





Harness Racing

NEW SOUTH WALES

“Don’t just look to the future....

make the future”

SIZE AND SCOPE OF THE NSW RACING INDUSTRY



PREPARED BY IER | 2014





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KEY FINDINGS

THE NSW RACING INDUSTRY IS RESPONSIBLE FOR GENERATING **MORE THAN \$3.3 BILLION** IN REAL GROSS VALUE-ADDED TO THE NSW ECONOMY



Overview of Key Results

DIRECT SPENDING IMPACTS

	Thoroughbred	Harness	Greyhound	Total
Total Direct Expenditure ¹	\$1,909.4m	\$313.9m	\$241.5m	\$2,464.8

¹ Direct expenditure is defined as expenditure associated with producing foals & pups (breeding & rearing), preparing racehorses and greyhound (training), wagering related revenues, racing customer expenditure and non raceday revenues

In 2012/13 the NSW Racing industry generated total direct spending of \$2.4 billion. This expenditure is responsible for creating a direct value added impact (or wages, salaries and profits) of \$1.2 billion.

However, the flow on effects linked to this expenditure increase the size of the industry's value added contribution to more than \$3.3 billion.

The economic output generated by the racing industry in NSW is responsible for sustaining more than 27,500 full time equivalent jobs in the State.

Just over 55% of the total value added impact occurs in regional parts of NSW, with the Hunter (18.5%), and Western Sydney (13.5%) regions representing the largest areas of racing related economic activity. Thoroughbred racing is responsible for generating more than 77.0% of this impact, with harness racing (12.7%) and greyhound racing (10.0%) generating the remainder.

ECONOMIC IMPACTS

	Thoroughbred	Harness	Greyhound	Total
Total Value Added ²	\$2,600.5m	\$427.4m	\$335.7m	\$3,363.5m
% of Industry Value Added	77.3%	12.7%	10.0%	
Total Household Income ³	\$1,331.5m	\$219.5m	\$176.9m	\$1,727.9m
Total FTE Employment	21,232	3,544	2,781	27,558

Note: Some totals do not add due to rounding

² Value added is defined as the value of sales less the value of inputs used in production, ie it is equal to the income (wages, salaries and profits) generated in production

³ Household Incomes is defined as being wages and salaries (before tax) earned from employment generated by the racing industry



Background

The Office of Liquor, Gaming and Racing (OLGR), as part of the New South Wales (NSW) Government, have commissioned a study into the size and scope of the racing industry in NSW. This study includes the activities of the three codes of racing; thoroughbred, harness and greyhound.

PURPOSE OF THE STUDY

The primary purpose of this study is to determine the economic contribution made, to the NSW economy, by the three codes of racing. In addition to this, the study also aims to determine the following outcomes:

- + The level of full time equivalent employment generated by racing industry activities in NSW
- + The number of participants in racing industry related pursuits, in both a professional and non-professional capacity
- + The extent (in percentage terms) of the racing industry's contribution to the NSW economy
- + The social and community importance of the NSW Racing Industry
- + The economic value of the racing industry within each of the Trade & Investment regions in NSW

STUDY METHODOLOGY

In assessing the size and scope of the industry, the study took into account a number of the

traditional measures adopted by the racing industry such as foal production, attendances, horse training activities and wagering activities. For the purpose of this study, thoroughbred, harness and greyhound racing in NSW is defined as covering the full spectrum of activities associated with the conduct of the racing industry within these codes. This study does not include other 'horse related industries' outside of the racing industry such as equestrian horses and hobby horses.

The data that underpins this study has been gathered from a number of sources. Peak Racing Bodies provided data related to registered participants and wagering related information. Racing clubs provided a considerable amount of data relating to their club and raceday operations. Existing research was synthesised with raceclub data in order to estimate racing customer expenditure impacts whilst a sample of breeders, trainers and owners were interviewed in order to build a profile of the cost of production and preparation of racehorses and greyhounds.

Throughout the report, data has been presented both within a State and regional framework. The regional level analysis is based on the thirteen Trade & Investment regions identified within the

Government department (of the same name) tasked with driving sustainable economic growth across the state.

ECONOMIC METHODOLOGY

The development of an economic model of the racing industry requires a strong understanding of the internal and external flows of money. The analysis takes care to de-duplicate expenditures, ensuring that multiple rounds of spending within the industry are not counted. In this regard, the key is to identify the final expenditures - which then drive the assessment of the direct and indirect economic outputs.

The expenditure profile of the racing industry is based on the following elements:

- + Production (breeding related activities) of racehorses and greyhounds - the expenditure generated by the breeding sector in maintaining breeding animals and producing foals and pups
- + Preparation of racehorses and greyhounds for racing (training related activities) - the expenditure by owners on training services as well as other non-training related expenses such as major veterinary, agistment etc.
- + Net wagering and industry body revenues - includes net wagering revenue from TAB



INTRODUCTION & BACKGROUND



turnover (shared by operator, Government and racing industry), bookmaker revenues, product race fields fees and other non-wagering industry revenues (code and kindred bodies)

- + Other peak and kindred body expenditures – the expenditure generated by the peak racing bodies which are not funded by wagering related revenues
- + On course raceday customer expenditure – the expenditure generated on-course at race meetings by attendees at race meetings
- + Off course raceday customer expenditure – the expenditure generated in the community by racing customers as part of their raceday attendance
- + Non raceday customer expenditure – the expenditure generated through non-raceday utilisation of facilities and venues owned by racing clubs in NSW

The study also excludes major capital expenditure items that have been incurred during the assessment period. It is assumed that the majority of capital expenditure is funded using revenue that is captured in other parts of this study. As such, its inclusion would amount to double counting of some expenditure impacts.

The economic model used within this study follows three key steps:

1. Gathering Industry Expenditure

As outlined previously, this is the most important step in the calculation of the economic outputs as a failure to accurately generate the expenditure profile of the industry only leads to a multiplication of this error throughout the latter parts of the economic methodology.

2. Categorisation of industry expenditure into ANZSIC classifications

The 'racing industry' does not exist within the

Australian and New Zealand Standard Industry Classification (ANZSIC) structure. For modelling purposes, it is necessary to allocate direct expenditures to the appropriate industry groups. The majority of expenditures are classified within their relevant ANZSIC codes. A number of horse and greyhound racing activities are contained within ANZSIC classification segment 91 - Sports and Recreation Services.

3. Economic modelling

IER has utilised an input-output methodology for the calculation of economic impacts associated with the racing industry in NSW. The input-output methodology provides direct and indirect impacts in relation to value added, income and employment.

DISCLAIMER

IER has prepared this report for the NSW Office of Liquor, Gaming and Racing, for its sole use and within the scope of work set out in the project terms of reference. Much of the data provided by the industry, in particular the racing clubs, has been accepted without audit and in good faith. We do not assume or accept or owe any responsibility or duty of care to any person other than the intended recipient of this report, the NSW Office of Liquor, Gaming and Racing. We did not, and do not by consenting to publication of this report, assume or accept or owe any responsibility or duty of care to any other person.



Racing clubs in New South Wales

Thoroughbred:

CENTRAL COAST

- + Gosford
- + Wyong

CENTRAL WEST

- + Bathurst
- + Bedgerebong Picnic
- + Condobolin Picnic
- + Cowra
- + Cowra Picnic
- + Forbes
- + Grenfell
- + Grenfell Picnic
- + Orange & District Picnic
- + Parkes
- + Racing Orange

FAR WEST

- + Broken Hill St Patrick's
- + Silver City

HUNTER

- + Merriwa
- + Muswellbrook
- + Newcastle
- + Scone
- + Tuncurry - Forster
- + Wine Country

ILLAWARRA/SOUTH COAST

- + Illawarra (Kembla Grange)
- + Moruya
- + Sapphire Coast
- + Shoalhaven City

MID NORTH COAST

- + Coffs Harbour
- + Kempsey
- + Krumbach
- + Nambucca River
- + Port Macquarie
- + Taree-Wingham
- + Wauchope

MURRAY

- + Albury
- + Balranald

- + Berrigan & District

- + Corowa
- + Corowa Picnic
- + Deniliquin
- + Holbrook
- + Jerilderie
- + Moulamein
- + Pooncarie
- + Tocumwal
- + Wentworth & District

NORTHERN INLAND

- + Armidale
- + Barraba
- + Bingara District
- + Bundarra
- + Deepwater
- + Glen Innes
- + Gunnedah
- + Inverell
- + Mallowa Amateur Picnic
- + Moree
- + Moree Picnic
- + Mungindi
- + Narrabri
- + Quirindi
- + Talmoi Amateur Picnic
- + Tamworth
- + Walcha
- + Wallabadah
- + Wyallda
- + Wean Amateur Picnic

NORTHERN RIVERS

- + Ballina
- + Casino
- + Clarence River
- + Lismore
- + Tabulam
- + Tweed River

ORANA

- + Binnaway
- + Bligh
- + Brewarrina

- + Carinda & District
- + Corowa Miners'
- + Collarenebri
- + Come-By-Chance Picnic
- + Coonabarabran
- + Coonamble
- + Dubbo
- + Duck Creek Picnic
- + Enngonia
- + Geurie Picnic
- + Gilgandra
- + Gulargambone
- + Gulgong
- + Lightning Ridge
- + Louth
- + Macquarie Picnic
- + Marthaguy Picnic
- + Mendooran
- + Mudgee
- + Mungery Amateur Picnic
- + Narromine
- + Nyngan
- + Tomingley Picnic
- + Tottenham Picnic
- + Trangie
- + Tullibigeal Picnic
- + Walgett
- + Warren
- + Wellington

- + RIVERINA
- + Ardlethan Picnic
- + Carrathool
- + Cootamundra
- + Griffith
- + Gundagai-Adelong
- + Hay
- + Hillston
- + Leeton
- + Lockhart Picnic
- + Murrumbidgee
- + Narrandera

- + Southern Districts Picnic
- + Wagga Amateur Picnic

SOUTHERN INLAND

- + Adaminaby
- + Bombala
- + Bong Bong Picnic
- + Boorowa Amateur Picnic
- + Braidwood
- + Crooma Monaro
- + Crookwell & District Amateur Picnic
- + Goulburn & District
- + Harden District Picnic
- + Queanbeyan
- + Tumbarumba
- + Tumut
- + Yass Picnic
- + Young
- + Young Burrangong Picnic

SYDNEY

- + Canterbury Park (ATC)
- + City Tattersalls Club
- + Royal Randwick (ATC)
- + Tattersalls Club
- + WESTERN SYDNEY
- + Hawkesbury
- + Rosehill Gardens (ATC)
- + Warwick Farm (ATC)

Harness:

CENTRAL WEST

- + Bathurst
- + Blayney
- + Cowra
- + Eugowra
- + Forbes
- + Orange
- + Parkes
- + Peak Hill
- + West
- + Wyalong

FAR WEST

- + Broken Hill

HUNTER

- + Maitland
- + Muswellbrook
- + Newcastle

MURRAY

- + Albury
- + Coolamon

NORTHERN INLAND

- + Armidale
- + Inverell
- + Narrabri
- + Tamworth

ORANA

- + Dubbo

RIVERINA

- + Cootamundra
- + Griffith
- + Junee
- + Leeton
- + Temora
- + Wagga

SOUTHERN INLAND

- + Goulburn
- + Young

WESTERN SYDNEY

- + Bankstown
- + Bulli*
- + Menangle Park
- + Penrith
- + Fairfield

Greyhound:

CENTRAL COAST

- + Gosford

CENTRAL WEST

- + Bathurst
- + Cowra
- + Lithgow

FAR WEST

- + Broken Hill

HUNTER

- + Maitland
- + Muswellbrook
- + The Gardens

ILLAWARRA/SOUTH COAST

- + Bulli
- + Dapto
- + Shoalhaven

MID NORTH COAST

- + Hastings River
- + Kempsey Macleay
- + Taree

NORTHERN INLAND

- + Armidale
- + Gunnedah
- + Moree
- + Tamworth

NORTHERN RIVERS

- + Casino
- + Grafton
- + Lismore
- + Tweed Heads

ORANA

- + Coonabarabran
- + Coonamble
- + Dubbo
- + Mudgee

RIVERINA

- + Temora
- + Wagga

SOUTHERN INLAND

- + Goulburn
- + Young

SYDNEY

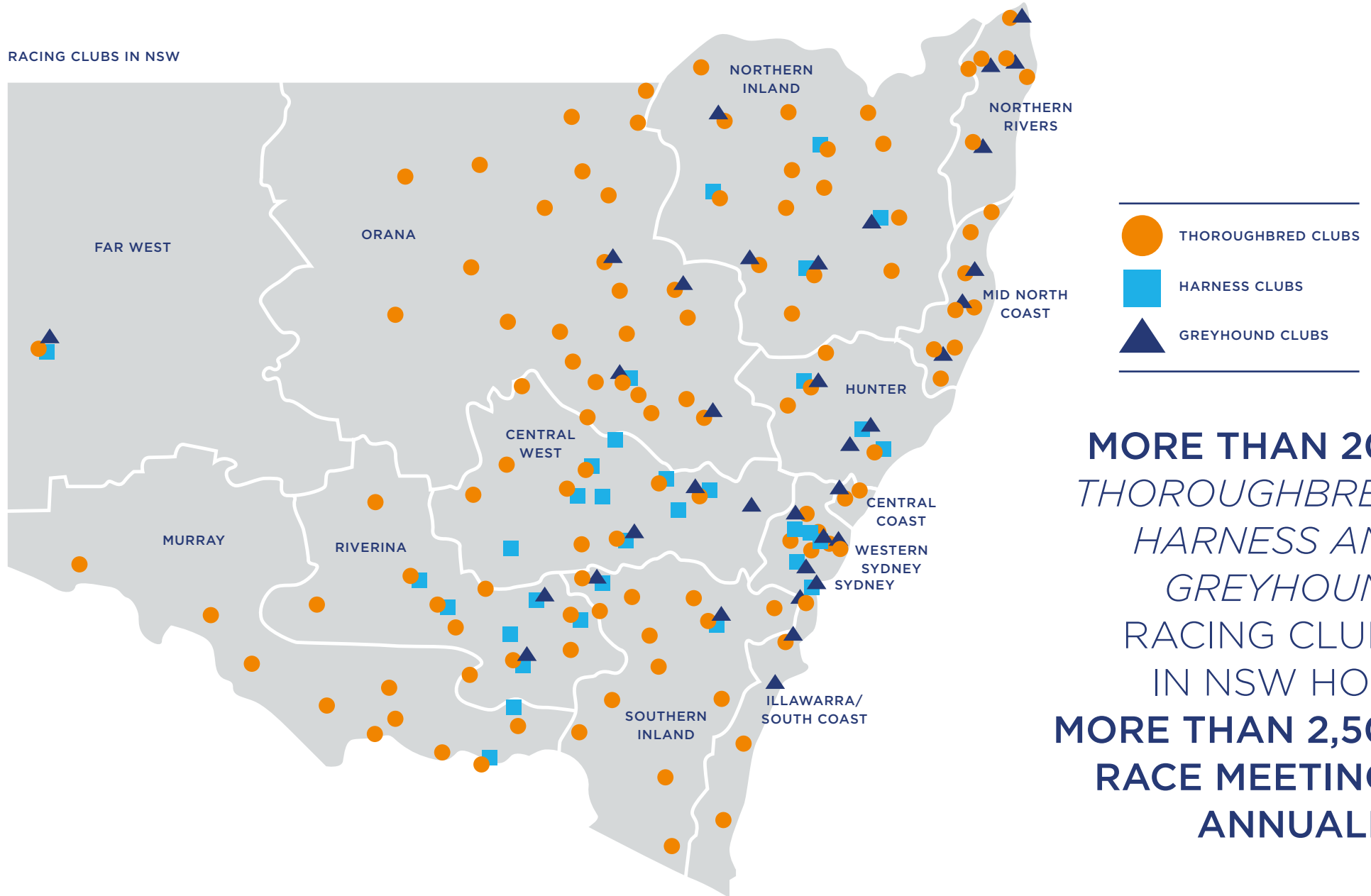
- + Wentworth Park

WESTERN SYDNEY

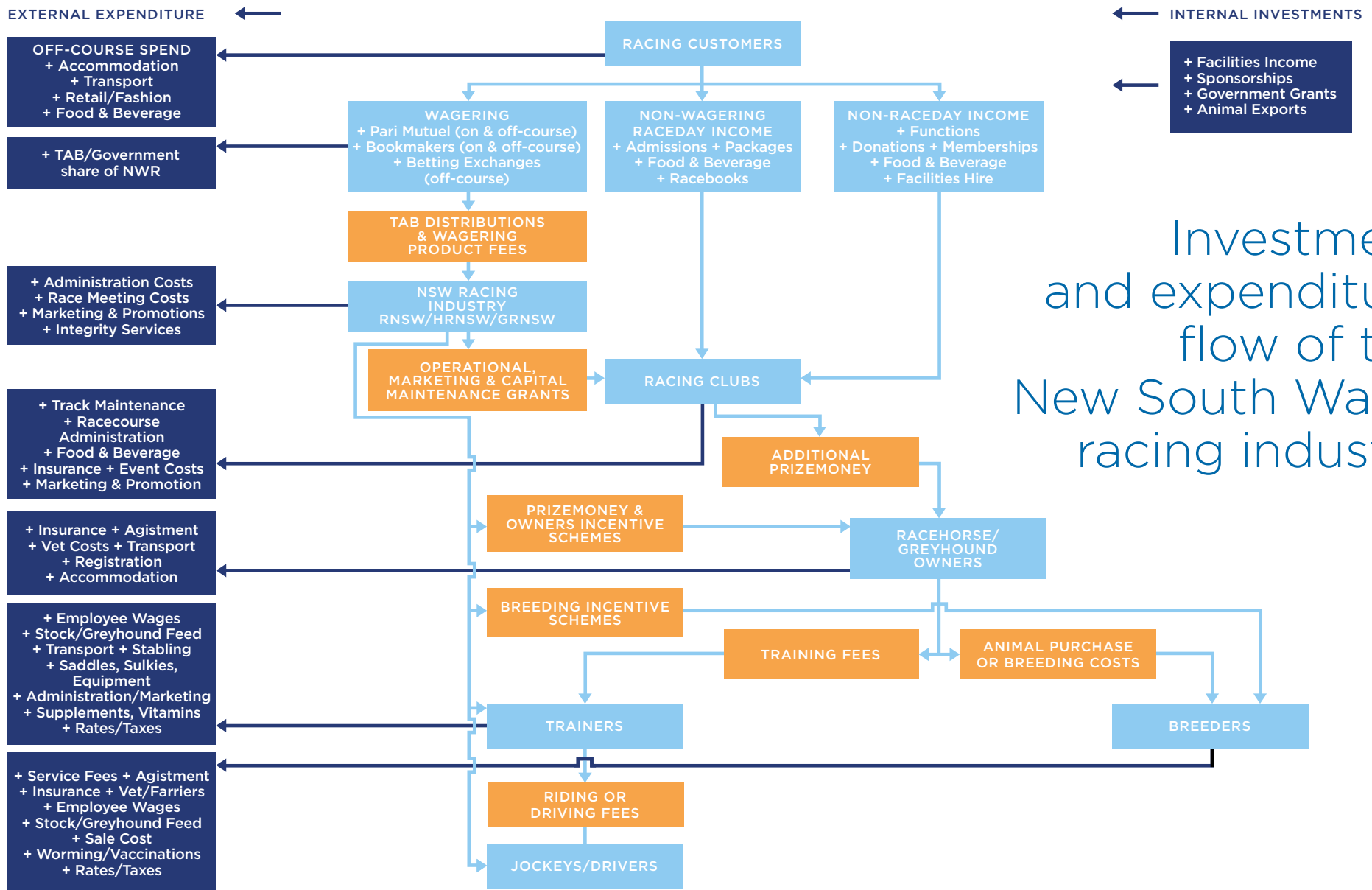
- + Appin**
- + Greyhound Social Club
- + Richmond

* Races at Menangle Park
** Races at Wentworth Park

RACING CLUBS IN NSW



MORE THAN 200
THOROUGHBRED,
HARNESS AND
GREYHOUND
RACING CLUBS
IN NSW HOST
MORE THAN 2,500
RACE MEETINGS
ANNUALLY.



Investment and expenditure flow of the New South Wales racing industry

KEY FINDINGS

THE NSW RACING INDUSTRY IS RESPONSIBLE FOR GENERATING **MORE THAN \$3.3 BILLION** IN REAL GROSS VALUE-ADDED TO THE NSW ECONOMY



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Note: Some totals do not add due to rounding

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AT A GLANCE

3,897 Breeders

THOROUGHBRED 2,048
HARNESS 1,074
GREYHOUND 775

14,918 Pups & Foals Produced

THOROUGHBRED 6,178
HARNESS 1,268
GREYHOUND 7,472

43,921 Owners & Syndicate Members

THOROUGHBRED 31,402
HARNESS 5,446
GREYHOUND 7,073

5,837 Trainers

THOROUGHBRED 1,077
HARNESS 1,016
GREYHOUND 3,744

24,056 Horses & Greyhounds in Training

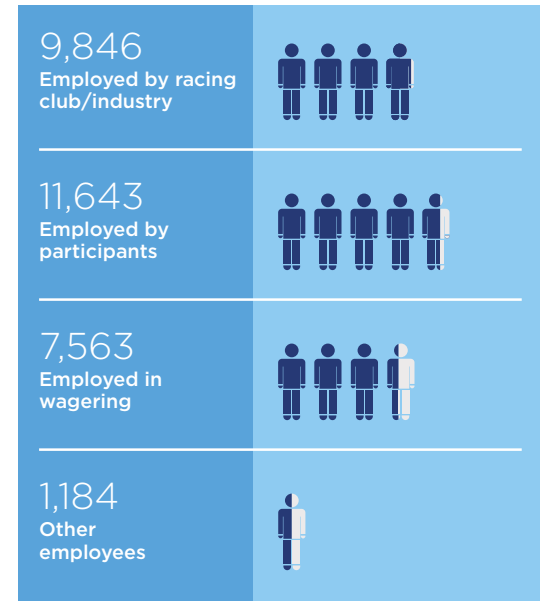
THOROUGHBRED 10,624
HARNESS 3,575
GREYHOUND 9,857

1,085 Jockeys, Drivers & Apprentices

THOROUGHBRED 264
HARNESS 821

MORE THAN 90,214 PEOPLE PARTICIPATE DIRECTLY WITHIN THE RACING INDUSTRY IN NSW AS AN EMPLOYEE, PARTICIPANT OR VOLUNTEER - APPROXIMATELY 1 IN EVERY 59 ADULT RESIDENTS IN THE STATE.

EMPLOYED DIRECTLY IN RACING (TOTAL)



Key:  = 2,500 PEOPLE

Participants are the lifeblood of the industry. They provide the investment, time, skills and passion that underpins horse and greyhound racing in the State.

In total, there are more than 90,200 individuals who participate in the racing industry. Many of these people find gainful employment of their specific skillset where they may find limited opportunities otherwise - particularly in the horse and greyhound related disciplines. Furthermore, many participants hold more than one role within the industry. This is generally more prominent within the harness and greyhound racing industries.



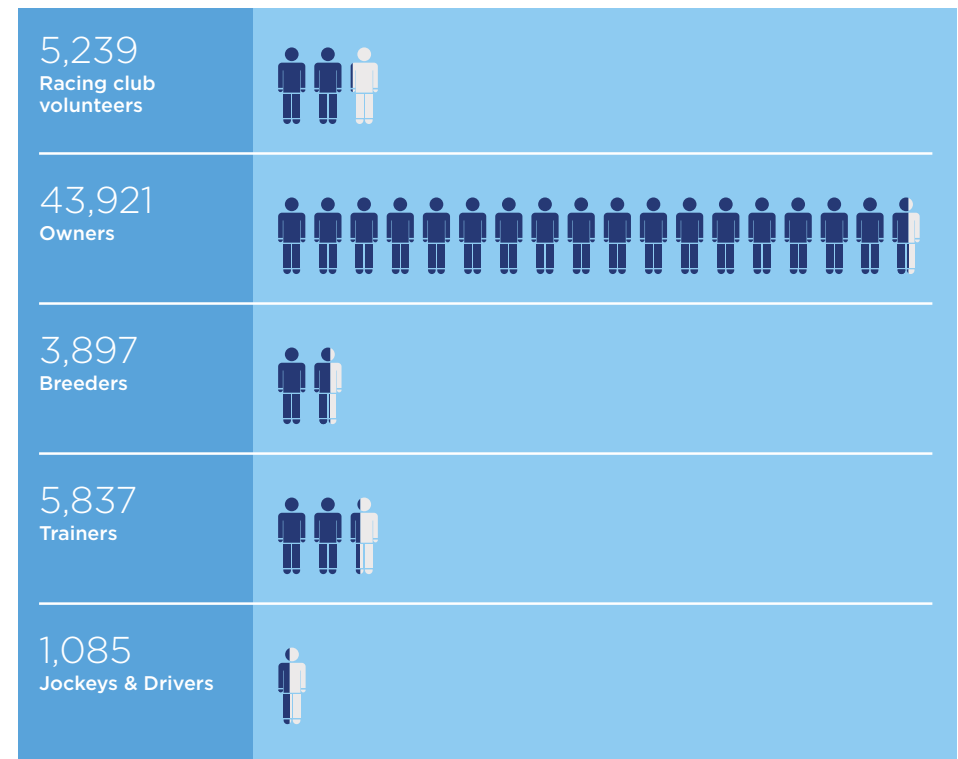


Owners are a key participant group, as they provide much of the investment from which the chain of activity follows. In NSW, there are more than 43,900 people who have an ownership interest in a racehorse or greyhound. Many of these owners are involved in the industry as part of a group ownership initiative such as syndication or partnership.

The industry is also supported by more than 5,200 people who volunteer their time and resources. This is particularly prevalent in regional areas where many racing clubs are run almost entirely by volunteers.

Key:  = 2,500 PEOPLE

PARTICIPANTS IN RACING (TOTAL)



AT A GLANCE

201 Racing Clubs

THOROUGHBRED 134
HARNESS 33
GREYHOUND 34

2,576 Race Meetings

THOROUGHBRED 761
HARNESS 519
GREYHOUND 1,296

22,702 Races

THOROUGHBRED 5,436
HARNESS 4,048
GREYHOUND 13,218

52,928 Racing Club Members

THOROUGHBRED 39,227
HARNESS 7,517
GREYHOUND 6,184

1,814,947 Attendances

THOROUGHBRED 1,233,786
HARNESS 298,776
GREYHOUND 282,375



In 2012/13, more than 1.8 million attendances were recorded at thoroughbred, harness and greyhound race meetings in NSW. More than 80% of these attendances were made at regional racecourses, with Western Sydney (479,000), Hunter (157,200) and Illawarra/South Coast (153,300) representing the largest regions. The table below illustrates the attendances at race meetings, for each code within each region.

Attendees, at race meetings in NSW, are responsible for generating more than \$249 million in spending – more than 57% of which occurs outside the racecourse. Major racing events, in particular, generate significant stimulus for the businesses in the local economy. Over the years, this has been reinforced through the strong link established between racing and fashion retail. Overall, it is estimated that for every dollar spent on-course by racing customers, a further \$1.36 is spent off course. Retail, fashion, food & accommodation are particular beneficiaries of this expenditure.

ATTENDANCES (TOTAL)

	Thoroughbred	Harness	Greyhound	Total
Central Coast	61,061	0	12,707	73,768
Central West	31,200	17,739	13,504	62,443
Far West	8,627	6,200	3,312	18,139
Hunter	100,416	20,500	36,331	157,247
Illawarra/South Coast	90,316	0	62,997	153,313
Mid North Coast	48,479	0	9,982	58,461
Murray	68,771	4,638	0	73,409
Northern Inland	52,450	5,050	7,110	64,610
Northern Rivers	56,619	0	30,853	87,472
Orana	76,807	4,839	8,780	90,426
Riverina	60,958	10,700	7,377	79,035
Southern Inland	48,813	6,900	6,368	62,081
Western Sydney	237,411	222,210	19,224	478,845
Total Regional NSW	941,928	298,776	218,545	1,459,249
Sydney	291,858	0	63,830	355,688
Total	1,233,786	298,776	282,375	1,814,947

\$105.6 mil Raceday Customer Spending On-Course

THOROUGHBRED \$92.8 MIL
HARNESS \$6.8 MIL
GREYHOUND \$6.0 MIL

\$143.9 mil Raceday Customer Spending Off-Course

THOROUGHBRED \$122.3 MIL
HARNESS \$16.3 MIL
GREYHOUND \$5.3 MIL



HRNSW APPROVAL CONDITIONS – 2016/2017

1 Race Fields Publication Approval

- 1.1 In accordance with *section 33A* of the *Racing Administration Act*, HRNSW grants to the Approval Holder approval to Use NSW Harness Race Field Information in Australia for the Duration of Approval subject to these conditions or any Special Conditions.
- 1.2 For the purpose of these conditions, 'Use NSW Harness Race Field Information in Australia' includes:
- (a) use in the course of the wagering operations of the Approval Holder which are conducted under its Australian Wagering Licence; and
 - (b) use on or in connection with any websites or other internet technology including Wi-Fi services maintained and hosted in Australia by the Approval Holder and conducted under its Australian Wagering Licence even if that website or other internet technology is accessible by persons outside Australia, provided that the website or other internet technology only relates to wagering operations conducted under Australian Wagering Licences and not to any other wagering operations (including any wagering operation conducted under a licence or approval granted under the laws of any jurisdiction other than an Australian State or Territory),

subject to, and on the terms set out in, these conditions and any Special Conditions.

2 Duration of Approval

The Duration of Approval is for the period specified in the Approval Notice unless cancelled earlier in accordance with these conditions.

3 Fees – Monthly Payments

- 3.1 The Approval Holder must pay to HRNSW a monthly fee of an amount equal to:
- (i) 2.5% of the Approval Holder's Net Harness Turnover for all races held at a Premium Race Meeting (other than Turnover of wagers made at Totalizator Derived Odds) and any amount of GST payable; and
 - (ii) 1.5% of the Approval Holder's Net Harness Turnover for all races held at a Standard Race Meeting (other than Turnover of wagers made at Totalizator Derived Odds) and any amount of GST payable; and
 - (iii) 3.0% of the Approval Holder's Net Harness Turnover of wagers made at Totalizator Derived Odds for all races held at a Premium Race Meeting and any amount of GST payable; and
 - (iv) 2.5% of the Approval Holder's Net Harness Turnover of wagers made at Totalizator Derived Odds for all races held at a Standard Race Meeting and any amount of GST payable.

within 15 days of the beginning of each calendar month (**Monthly Fee Payments**) (ie- payment for the calendar month of July 2016 is due on 15 August 2016).

Bet Back Credits

- 3.2 For the purpose of determining amounts payable by the Approval Holder under clause 3.1, the Approval Holder is entitled to a credit of an amount equal to the amount staked by the Approval Holder in any Bet Back made during the period to which the relevant payment relates if:
- (a) the Bet Back is made through an account with an Australian Wagering Operator to whom HRNSW has, prior to the Bet Back being made, granted an Approval; and
 - (b) the Approval Holder pays fees in a sum greater than zero to HRNSW under the Approval in the Financial Year in which the Bet Back was made.
- 3.3 The Approval Holder is not entitled to a credit of an amount equal to the amount staked by the Approval Holder in any Bet Back during the period to which the relevant payment relates if the Bet Back is made in cash rather than through an account unless the Approval Holder can prove with documentary evidence that the Approval Holder is entitled to that credit under clause 3.2.
- 3.4 The Bet Back Credit is to be applied as follows:
- (a) Firstly against Turnover of wagers made on the same wagering type (Fixed Odds or Totalizator Derived Odds) in relation to the NSW Harness Race as the approval Holder has staked in the Bet Back;
 - (b) If, and only if, any part of the Bet Back remains after allocation pursuant to clause 3.4 (a); it is then to be allocated against Turnover on wagers made on the same wagering type (Fixed Odds or Totalizator Derived Odds) which attracts the fee pursuant to clause 3.1 closest to the wagering type (Fixed Odds or Totalizator Derived Odds) in relation to the NSW Harness Race as the approval holder has staked in the Bet Back, provided that the Approval holder is required to pay a fee representing the difference between the fee on the wagering type of the Bet Back and the fee on the wager accepted by the Approval Holder.

Final Fee Adjustment

- 3.5 If the amount which is 3.0% or 2.5% or 2.5% or 1.5% of the Approval Holder's Net Harness Turnover for the year to 30 June 2017 exceeds the sum of all Monthly Fee Payments paid for the year to 30 June 2017 pursuant to clause 3.1, HRNSW must issue the Approval Holder with a Final Adjustment Notice:
- (a) by 31 July 2017; or
 - (b) by such other date as determined by HRNSW, in its absolute discretion, where HRNSW considers it is reasonably necessary for HRNSW to obtain information in accordance with clauses 6, 17, 18 and 19.
- 3.6 The Approval Holder must pay to HRNSW any Final Adjustment Amount within 28 days of receipt of a Final Adjustment Notice.
- 3.7 If the amount which is 3.0% or 2.5% or 2.5% or 1.5% of the Approval Holder's Net Harness Turnover for the year to 30 June 2017 is less than the sum of all Monthly Fee Payments paid for the year to 30 June 2017 pursuant to clause 3.1, HRNSW must issue the Approval Holder with a Final Adjustment Notice:
- (a) by 31 July 2017; or

- (b) by such other date as determined by HRNSW, in its absolute discretion, where HRNSW considers it is reasonably necessary for HRNSW to obtain information in accordance with clauses 6, 17, 18 and 19.
- 3.8 HRNSW must pay to the Approval Holder any Final Adjustment Refund within 28 days of receipt of a Final Adjustment Notice.
- 3.9 Neither the acceptance of a payment from the Approval holder nor the payment of a refund by HRNSW under Clauses 3.4, 3.5, 3.6 or 3.7 constitutes an admission by HRNSW that the amount is correctly determined and HRNSW retains the right to seek adjustments if those amounts are subsequently proven to be incorrect.

4 Provision of Quarterly Turnover Information

- 4.1 Within 10 days of the end of each of the following quarterly periods:
- (a) 1 July 2016 to 30 September 2016; and
 - (b) 1 October 2016 to 31 December 2016; and
 - (c) 1 January 2017 to 31 March 2017; and
 - (d) 1 April 2017 to 30 June 2017,
- the Approval Holder must lodge a return in a form approved by HRNSW that contains the Approval Holder's Net Harness Turnover and any other information relevant to the assessment of fees or instalments payable under these conditions as HRNSW may specify from time to time.
- 4.2 The information in the return to be provided to HRNSW must be certified by the Approval Holder or, if the Approval Holder is a body corporate, by a director of that body corporate, as being true and correct.
- 4.3 The information to be provided will include all information relating to the Approval Holder's Net Harness Turnover (including amounts paid in relation to betting transactions, Bet Backs made on wagers made at Totalizator Derived Odds and Bet Backs made on wagers other than at Totalizator Derived Odds) on a race-by-race, venue-by-venue and day-by-day basis including breakdown of turnover by win, place, Turnover of wagers made at Totalizator Derived Odds, Turnover of wagers made other than at Totalizator Derived Odds and exotics.
- 4.4 HRNSW may request the details of the Australian Wagering Operator with whom any Bet Backs were made during the period.

5 Provision of Monthly Turnover Information

- 5.1 The Approval Holder must also provide the information in clause 4.3 within 10 days of the end of each month.

6 Final Certification

- 6.1 Within 30 days after 30 June 2017, the Approval Holder must lodge a return to HRNSW in a form approved by HRNSW which contains the following information in respect of the period 1 July 2016 to 30 June 2017:
- (a) the Approval Holder's NSW Harness Turnover (with a breakdown between Turnover of wagers made at Totalizator Derived Odds and wagers other than at Totalizator Derived Odds) at Premium and Standard Race Meetings;
 - (b) the amount of any credits on any Bet Back which the Approval Holder claimed to be entitled to and evidence to support the Approval Holder's entitlement to those

credits (with a breakdown between Bet Backs made at Totalizator Derived Odds and Bet Backs other than at Totalizator Derived Odds);

- (c) the Approval Holder's Net Harness Turnover (with a breakdown between Turnover of wagers made at Totalizator Derived Odds and wagers other than at Totalizator Derived Odds);
 - (d) the Monthly Fee Payments payable in accordance with clause 3.1; and
 - (e) such other information relevant to the assessment of fees payable under these conditions as HRNSW may specify from time to time.
- 6.2 The information in the return referred to in clause 6.1 must be certified by the Approval Holder (or, if the Approval Holder is a body corporate, by a director of that body corporate) as being true and correct and must be verified by:
- (a) a certificate from a registered auditor to be submitted within 90 days after the end of the period identified in clause 6.1;
 - (b) if the Approval Holder's NSW Harness Turnover in respect of the Financial Year for the period identified in clause 6.1 is less than \$2.5 million, by a statutory declaration duly made by the Approval Holder (or, if the Approval Holder is a body corporate, by a director of that body corporate).
- 6.3 HRNSW may permit the Approval Holder to submit a certificate from a registered auditor for a different twelve month period if the Approval Holder's balance date for financial reporting purposes does not end on 30th June in any year. The Approval Holder must seek written permission from HRNSW for such a change.

7 Payment Method

Amounts payable under these conditions are to be remitted to HRNSW by Electronic Funds Transfer (EFT) to the HRNSW Account unless otherwise agreed in writing with HRNSW and must include the provision of a Recipient Created Tax Invoice.

8 Late Payment of Fees – Interest and Penalty Fees

- 8.1 HRNSW may charge interest on overdue fees. Interest charges will be based on a 90 day bank bill rate published by the Reserve Bank of Australia plus 2% and will be payable from the date the fees were due to HRNSW until the date the fees are paid in full.
- 8.2 Interest may be capitalised by HRNSW at monthly intervals.
- 8.3 Failure to pay fees within the required time frame in clause 3.1 will incur a late payment fee of \$500 for each month that the fees are unpaid after falling due and may also result in the approval to Use NSW Harness Race Field Information in Australia being cancelled or revoked.

9 GST

- 9.1 The Approval Holder represents and warrants that it is registered for the purposes of the GST Law.
- 9.2 Unless expressly included, the consideration for any supply under or in connection with these conditions or the race field approval does not include GST.
- 9.3 Both parties will enter into an agreement to issue Recipient Created Tax Invoices for the express purpose of payment for the supply.

- 9.4 To the extent that any supply made under or in connection with these conditions or the Approval is a taxable supply and GST is not expressly included in the consideration, the recipient must pay in addition to the consideration provided under the Approval for that supply an amount (additional amount) equal to the amount of that consideration multiplied by the rate at which GST is imposed in respect of the supply. The recipient must pay the additional amount at the same time as the consideration to which it is referable.
- 9.5 If either party is entitled under these conditions or the Approval to be reimbursed or indemnified by the other party for a cost or expense incurred in connection with these conditions, the reimbursement or indemnity payment must not include any GST component of the cost or expense for which an input tax credit may be claimed by the party being reimbursed or indemnified, or by its representative member.
- 9.6 Words and expressions used in this clause which have a defined meaning in the GST Law have the same meaning in this clause as in the GST Law unless the context indicates otherwise.

10 Australian Wagering Licence

The Approval Holder warrants that as at the Approval Date it holds, and must at all times during the Duration of Approval hold and maintain, an Australian Wagering Licence which authorises the wagering operations conducted by the Approval Holder in Australia and through any of the means referred to in clause 1.

The Approval Holder warrants that it has advised HRNSW of any Notifiable Events during the Approval Period.

11 Approval Application

- 11.1 The Approval Holder warrants that as at the Approval Date:
- (a) the Approval Holder has made all reasonable enquiries of the Approval Holder's Key Employees and Close Associates in connection with matters disclosed in the Approval Holder's application for Approval;
 - (b) the information contained in the Approval Holder's application for Approval is complete, true, correct and not misleading (in either its content or by omission) except to the extent that Approval Holder has on or before the Approval Date given HRNSW notice in writing specifically correcting or updating that information;
 - (c) the Approval Holder's application for Approval was appropriately authorised and executed by or on behalf of the Approval Holder.

12 Cancellation or Variation

- 12.1 HRNSW may cancel the Approval or vary the conditions of the Approval in a manner specified by HRNSW if:
- (a) the Approval Holder has breached a condition of the Approval; or
 - (b) if, in the opinion of HRNSW, the actions of the Approval Holder are materially detrimental to NSW harness racing; or
 - (c) the Approval Holder or a Key Employee of the Approval Holder has been convicted of an offence, whether in New South Wales or elsewhere; or
 - (d) the Approval Holder or a Key Employee of the Approval Holder is the subject of disciplinary action or incurs a fine under the Rules of Racing or under any legislation, whether in New South Wales or elsewhere, or
 - (e) the Approval Holder has employed or engaged a person as a Key Employee who has a criminal record or who has been subject to disciplinary action under the Rules of Racing or under any legislation whether in New South Wales or elsewhere, or

- (f) there is a change in the persons that have Control of the Approval Holder; or
 - (g) an Insolvency Event occurs in relation to the Approval Holder; or
 - (h) any grounds for cancellation or variation prescribed by the Regulations at any time.
- 12.2 Without limiting clause 12.1 HRNSW may, by written notice to the Approval Holder, cancel or vary the terms of the Approval on any grounds prescribed by the *Racing Administration Regulations*.
- 12.3 Without limiting clause 12.1, HRNSW may, by written notice to the Approval holder, vary the conditions of the Approval Notice in a manner specified by HRNSW if there is a change in the financial circumstances of the Approval Holder.
- 12.4 If HRNSW cancels or varies the Approval, HRNSW must provide the Approval Holder with written notice including reasons which indicate why the Approval was cancelled or varied.
- 12.5 The expiration, cancellation or variation of the Approval in accordance with these conditions does not prejudice any rights accrued to HRNSW prior to the expiration, cancellation or variation.
- 12.6 For the purposes of clauses 12.2 and 12.3, a cancellation or variation of the Approval takes effect on the date specified in the written notice provided by HRNSW.

13 Personal Rights

This approval may not be assigned, sub-licensed or delegated and the Approval Holder may not authorise any other person to publish a NSW Harness Race Field.

14 Relationship between Parties

The Approval Holder does not have (and nothing in these conditions confers) any authority to bind to HRNSW or to enter into any agreement or commitment for or on behalf of HRNSW or to incur any liability or obligation on behalf of HRNSW. These conditions do not create a relationship of employer and employee, principal and agent, partnership or joint venture between the Approval Holder and HRNSW.

15 Group Members

The Approval Holder must procure no member of the Group to Use NSW Harness Race Field Information in breach of section 33 of the *Racing Administration Act*.

16 Notifiable Events

The Approval Holder must immediately notify Harness Racing NSW in writing if any Notifiable Event occurs.

17 Access to information

- 17.1 The Approval Holder must:
- (a) maintain all accounts, financial and wagering records as may reasonably be required to enable HRNSW to monitor or verify compliance with these conditions and all amounts payable to HRNSW in accordance with these conditions;
 - (b) provide HRNSW with full access to any accounts and records referred to in clause 17.1(a) at such times and locations as reasonably requested by HRNSW and allow HRNSW to take copies of any accounts and records referred to in clause 17.1(a); and
 - (c) maintain all accounts, financial and wagering records for a period of five (5) years after the Duration of Approval.

18 Information and Assistance with Inquiries and Investigations

- 18.1 The Approval Holder must provide HRNSW or its nominee with:
- (a) any Document or information including details of any betting accounts in the Approval Holder's power, possession or control, at such times and locations specified by HRNSW and allow HRNSW or its nominee to take copies of any Document or information; and
 - (b) access to the Approval Holder's wagering information and analyses in relation to NSW Harness Races and NSW Harness Turnover at such times, in such manner and locations as requested by HRNSW; and
 - (c) any other assistance, requested in writing by HRNSW in connection with any investigation or inquiry specified by HRNSW.
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19 Audit

- 19.1 HRNSW will have the right to require that any accounts, records, Documents or information provided to HRNSW pursuant to clauses 17 and/or 18, or maintained by the Approval Holder pursuant to clause 20 be audited by a registered auditor nominated by HRNSW to confirm amounts payable to HRNSW in accordance with these conditions.
- 19.2 HRNSW must give written notice to the Approval Holder that it requires an audit under this clause.
- 19.3 A registered auditor conducting an audit under this clause will be subject to the same confidentiality obligations as apply to HRNSW under clause 25.
- 19.4 The Approval Holder must provide the registered auditor nominated by HRNSW under this clause with:
- (a) full access to any accounts and records referred to in clause 17 and/or 18 and any other documents in the Approval Holder's power, possession or control and allow the auditor to take copies for those accounts, records or documents for the purpose of the audit; and
 - (b) access to the Approval Holder's premises; and
 - (c) such other assistance, including making staff available to provide information, explanations or answers to questions, as the registered auditor may request for the purpose of an audit. For the avoidance of doubt, the fact that information may be commercial in confidence is not a basis for declining to provide that information to a registered auditor nominated by HRNSW under this clause.
- 19.5 HRNSW must notify the Approval Holder in writing within 14 days of HRNSW receiving the final written report in respect of an audit conducted under this clause, whether the audit identified any increase in the amounts payable to HRNSW in accordance with these conditions compared to the amounts which the Approval Holder has previously notified HRNSW that the Approval Holder calculates as being the amount payable.
- 19.6 The Approval Holder must reimburse HRNSW for all costs and expenses of an audit under this clause if, following that audit, the amount payable to HRNSW in accordance with these conditions is found to be greater than the amounts which the Approval Holder has previously notified HRNSW.
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20 Audit and Systems Trail

- 20.1 The Approval Holder must:
- (a) maintain accurate, complete and proper records:
 - i.) of all wagering accounts of the Approval Holder's customers;

- ii.) of all wagering transactions of the wagering operation conducted under the Approval Holder's Australian Wagering Licence, including an audit trail of those transactions;
 - iii.) as required under the Approval Holder's Australian Wagering Licence, the laws of the Commonwealth or any Australian State or Territory or the Rules of Racing; or
 - iv.) as may reasonably be required to enable the Approval Holder's compliance with these conditions or any Special Conditions to be reviewed, monitored or verified;
- (b) uphold appropriate internal systems, controls and measures to enable the Approval Holder to comply with these conditions and any Special Conditions;
 - (c) uphold and implement appropriate and reasonable internal systems, controls and measures for identifying suspect betting transactions or other matters which may impact on the reputation or integrity of NSW Harness Racing;
 - (d) ensure that any computer systems used for the Approval Holder's wagering operations comply with all specifications (including security and integrity requirements) required under the Approval Holder's Australian Wagering Licence; and
 - (e) ensure that all records and systems are appropriately secure and protected from unauthorised access.

21 Integrity

- 21.1 The Approval Holder must:
- (a) provide to HRNSW or its nominee at such times and locations as requested by HRNSW any Document or information in the Approval Holder's power, possession or control as specified by HRNSW in connection with the performance of HRNSW's functions or responsibilities regarding the integrity and reputation of NSW Harness Racing;
 - (b) provide to HRNSW or its nominee, at such times, in such manner and locations as requested by HRNSW, access to the Approval Holder's wagering information and analyses in relation to NSW Harness Racing and NSW Harness Turnover;
 - (c) allow HRNSW or its nominee to take copies of any information referred to in clauses 21.1(a) and (b);
 - (d) allow HRNSW or its nominee, at such times and in such manner as may be specified by HRNSW, to monitor wagering transactions and activity in relation to NSW Harness Races which transactions and activity are effected in the course of the wagering operations conducted by the Approval Holder under its Australian Wagering Licence; and
 - (e) report to HRNSW any matter of which the Approval Holder becomes aware which the Approval Holder reasonably considers may materially and adversely impact on the integrity or reputation of NSW Harness Racing or warrant disciplinary action under the Rules of Racing against a person licensed by HRNSW.
- 21.2 Without limiting clause 21.1, in relation to information and assistance with inquiries and investigations, the Approval Holder must:
- (a) provide HRNSW or its nominee, any Document or information in the Approval Holder's power, possession or control (including details of any betting accounts);
 - (b) allow HRNSW or its nominee to take copies of any Document or information referred to in paragraph 21.2 (a); and

- (c) provide HRNSW or its nominee any Documents, information or other assistance requested by HRNSW in connection with any investigation or inquiry specified by HRNSW.

The Approval Holder must provide any Documents, information or other assistance required by HRNSW under clause 21.2 at such times and locations as specified by HRNSW.

- 21.3 The Approval Holder will not disclose to its Customer the fact that the Customer is or may be the subject of an inquiry or investigation conducted by HRNSW or any other authority, without the prior approval of HRNSW.
- 21.4 The Approval Holder will take all reasonable steps to obtain its Customer's cooperation with a request from HRNSW in relation to an inquiry or investigation conducted by HRNSW.

22 Wagering Accounts

- 22.1 The Approval Holder must:
 - (a) not open a wagering account for any person under a false or misleading name;
 - (b) require any person who opens a wagering account with the Approval Holder to prove their identity in accordance with any Rules of Racing applicable to the Approval Holder and standards sufficient to comply with the prescribed verification procedure pursuant to the *Financial Transactions Reports Act 1988 (Cth)* or the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (Cth)* as applicable;
 - (c) not, without prior approval, open a wagering account for a person, or on behalf of a person, who is warned off a racecourse or who is a disqualified person under the Rules of Racing and immediately notify HRNSW in writing if any person who is warned off a racecourse or who is a disqualified person under the Rules of Racing attempts to open a wagering account with the Approval Holder;
 - (d) not enter or permit to be entered in his or her wagering records (including any betting sheets) any false, misleading or fictitious entries or information; and
 - (e) notify HRNSW in writing if any person who is warned off a racecourse or who is a disqualified person under the Rules of Racing attempts to open a wagering account, transacts on an account with the Approval Holder or a bet is accepted by the Approval Holder.
- 22.2 HRNSW may from time to time supply the Approval Holder with the name(s) and other relevant details of those persons who are prohibited from betting on NSW Harness Races for the purpose of the Approval Holder complying with clause 22.1.
- 22.3 The Approval Holder will take all reasonable steps to identify all natural persons who are directors or material shareholders (persons who own or control 25% or more of the issued shares of the relevant company) of non listed company corporate Customers.
- 22.4 Where:
 - (a) a Customer is warned off, disqualified or otherwise excluded from racecourses under the Rules of Racing, or equivalent rules of other racing codes or jurisdictions; and
 - (b) HRNSW has notified the Approval Holder of the identity of the Customer

The Approval Holder will, where the warning-off, disqualification or exclusion relates to an integrity or probity issue, take all necessary measures to prevent the said Customer entering into a wagering transaction in relation to NSW Harness Races after the Notification Date.

23 Online Wagering Monitoring System

- 23.1 If HRNSW gives the Approval Holder written notice requiring it to do so, the Approval Holder must:

- (a) participate in an Online Wagering Monitoring System specified by HRNSW; and
- (b) take such action as required (including systems development) to enable computer systems used by the Approval Holder in its wagering operations to interface with an Online Wagering Monitoring System in accordance with the specifications determined by HRNSW.

24 Bet Types

- 24.1 If HRNSW considers that there are reasonable concerns that any bet types offered by the Approval Holder may be conducive to, or the subject of, corrupt practice in the conduct of NSW Harness Racing, it shall give notice in writing to the Approval Holder to cease such bet types.
- 24.2 If the Approval Holder received a notice referred to in clause 24.1, the Approval Holder will cease such bet types identified in the notice within 7 days of receiving the notice.
- 24.3 The Approval Holder's failure to comply with clause 24.2 will constitute a breach of a condition of the Approval for the purposes of clause 12.1(a).

25 Confidentiality

- 25.1 HRNSW must keep confidential all Confidential Information of the Approval Holder and may only disclose that Confidential Information:
 - (a) to other persons with the consent of the Approval Holder; or
 - (b) in any proceedings arising out of, or in connection with, the Approval or any other legal or dispute resolution proceedings involving HRNSW and the Approval Holder (whether those other proceedings relate to an approval under Section 33 of the *Racing Administration Act*, any Intellectual Property or otherwise); or
 - (c) to the extent required by lawful requirement of any Government Agency or if required under any law, or administrative directive or the Rules of Racing; or
 - (d) on a confidential basis, to its directors, officers, employees, advisers, agents, consultants or financiers (including any registered auditor appointed to conduct an audit under these conditions); or
 - (e) to the controlling body of any racing code in New South Wales or any other State who has a legitimate interest in the Confidential Information in connection with the exercise of their powers or functions as a controlling body; or
 - (e) as HRNSW considers appropriate in the exercise of HRNSW's statutory functions and powers under legislation or the Rules of Racing, including in connection with an investigation or inquiry conducted by HRNSW.
- 25.2 Notwithstanding anything in these conditions, HRNSW may disclose aggregated information which includes Confidential Information provided that a reasonable person to whom the aggregated information is disclosed could not readily identify the Approval Holder's Confidential Information and attribute that Confidential Information to the Approval Holder.

26 Communications

- 26.1 Any communication or notice in relation to matters provided for in these conditions must be in legible writing and in English.
- 26.2 Any communication or notice addressed to the Approval Holder must be sent to the address set out in the Approval Notice or such other address as the Approval Holder may nominate in writing to HRNSW provided that the other address includes a postal address, an office address and an e-mail address to be used for notices to the Approval Holder.

- 26.3 Any communication or notice addressed to HRNSW must be sent to the address stated on the HRNSW website (www.harnessmediacentre.com.au) from time to time for the provision of such notices in connection with Approval(s) under section 33A of the *Racing Administration Act*.
- 26.4 Any communication or notice can be relied upon by the addressee and the addressee is not liable to any other person for any consequences of that reliance if the addressee believes it to be genuine, correct and authorised by the sender.
- 26.5 Any communication is regarded as being given by the sender and received by the addressee:
- (a) if by post, on delivery to the addressee; or
 - (b) if by e-mail, on delivery to the addressee; or
 - (c) if by delivery in person, when delivered to the addressee; or
 - (d) if by facsimile transmission, whether or not legibly received, when legibly received by the addressee, but if the delivery or receipt is on a day which is not a Business Day or is after 5pm (addressee's time) it is regarded as received at 9am on the following Business Day. A fax transmission is regarded as legibly received unless the addressee telephones the sender within 2 hours after transmission is received or regarded as received and informs the sender that it is not legible.

27 Non-Exclusive

The Approval is non-exclusive. Neither the granting of the Approval nor the conditions of the Approval in any way restricts HRNSW from exploiting any Intellectual Property or in granting to any person approvals under section 33A of the *Racing Administration Act* or the conditions imposed by HRNSW on any such approval.

28 No Intellectual Property Rights

Neither the granting of the Approval nor the conditions of the Approval confers on the Approval Holder any right, title, interest or licence in relation to any Intellectual Property in any NSW Harness Race Field, any other racing information or any wagering information (including the Australian Prices Network which provides the official Australian oncourse bookmakers' prices between racecourses).

29 Prohibition and Enforceability

- 29.1 Any provision of, or the application of any provision of, these conditions or any right, power, authority, discretion or remedy which is prohibited in any jurisdiction is, in that jurisdiction, ineffective only to the extent of that prohibition.
- 29.2 Any provision of, or the application of any provision of, these conditions which is void, illegal or unenforceable in any jurisdiction does not affect the validity, legality or enforceability of that provision in any other jurisdiction or of the remaining provisions in that or any other jurisdiction.

30 Waivers

- 30.1 Waiver of any right under these conditions or arising from a breach of these conditions or of any right, power, authority, discretion or remedy under these conditions or arising upon default under these conditions must be in writing and signed by the party granting the waiver.
- 30.2 A failure or delay in exercise, or partial exercise, of:
- (a) a right under these conditions or arising from a breach of these conditions; or
 - (b) a right, power, authority, discretion or remedy under these conditions or created or arising upon default under these conditions,
- does not result in a waiver of that right, power, authority, discretion or remedy.

- 30.3 The Approval Holder is not entitled to rely on a delay in the exercise or non-exercise of a right, power, authority, discretion or remedy of HRNSW arising under these conditions or from a breach of these conditions or on a default under these conditions as constituting a waiver of that right, power, authority, discretion or remedy.
- 30.4 The Approval Holder may not rely on any conduct of HRNSW as a defence to exercise of a right, power, authority, discretion or remedy by that other party.

30 Survival

- 31.1 Without limiting the survival of any other clauses which would be construed as surviving the expiration or cancellation of the Approval:
- (a) HRNSW's rights to receive amounts payable to HRNSW under these conditions and any Special Conditions; and
 - (b) the rights of HRNSW and the obligations of the Approval Holder as described in the Approval
- survive the expiration or cancellation of the Approval.

32 Cumulative rights

The rights, powers, authorities, discretions and remedies of HRNSW arising out of or under these conditions are cumulative and do not exclude any other right, power, authority, discretion or remedy.

33 Governing Law

These conditions and the Approval are governed by the laws of New South Wales.

DEFINITIONS

In these conditions:

Approval means the approval granted by HRNSW to the Approval Holder in accordance with Section 33A of the *Racing Administration Act* and subject to, and on the terms set out in, these conditions;

Approval Date means the date on which the Approval is granted to the Approval Holder by HRNSW;

Approval Holder means the person or entity to whom the Approval is granted by HRNSW as named in the Approval Notice;

Approval Notice means a written notice issued by HRNSW to an Australian Wagering Operator who has applied for Approval.

Approvals to Group Members means the Approval granted by HRNSW in accordance with section 33A of the *Racing Administration Act* to the Australian Wagering Operators in the Group other than the Approval Holder;

Associate has the meaning given to that term in the Corporations Act;

Australian State or Territory means New South Wales, Victoria, Queensland, Western Australia, South Australia, Tasmania, the Australian Capital Territory, the Northern Territory or Norfolk Island;

Australian Wagering Licence means licence, permit, approval or authority (however described) under the laws of any Australian State or Territory to conduct any form of wagering including totalizator wagering, bookmaking, a betting exchange (as defined in the Regulations) or any other form of wagering whether now existing or subsequently designed or developed;

Australian Wagering Operator means a wagering operator (as defined in the *Racing Administration Act* or Regulations) who holds an Australian Wagering Licence;

Bet Back means a wager which is made by the Approval Holder on the backers side of the wagering transaction in relation to NSW Harness Races (or contingencies related to NSW Harness Races):

- (a) for the purpose of genuinely reducing or laying-off the Approval Holder's liability on a fixed-odds wager which has already been accepted by the Approval Holder and on which the Approval Holder has taken risk on the layers side of the wagering transaction;
- (b) on the same contingency in relation to the NSW Harness Race as the Approval Holder has already accepted risk on the layers side of the wagering transaction referred to in paragraph (a) above; and
- (c) in respect of which the amount which the Approval Holder stands to win does not exceed the amount that the Approval Holder stands to lose on the same contingency on the layers side of the wagering transaction referred to in paragraph (a) above.

Business Day means a day on which banks are open for business in Sydney excluding a Saturday, Sunday or public holiday;

Close Associate has the meaning given to that term in the Regulations;

Confidential Information means confidential information in relation to the Approval Holder (including confidential financial information and confidential information in relation to the wagering operations of the Approval Holder, trade secrets, confidential know-how or confidential technical or product information) disclosed by the Approval Holder to HRNSW in the Approval Holder's application for or pursuant to the Approval but does not include information which:

- (a) was in the possession of HRNSW at the time of disclosure and was not subject to an obligation of confidentiality;
- (b) is generated by HRNSW independently of data or information provided by the Approval Holder under the Approval;

- (c) is received independently by HRNSW from a third party who HRNSW is not aware is subject to an obligation of confidentiality in respect of that information;
- (d) is provided to HRNSW by the Approval Holder other than in the Approval Holder's application or pursuant to the Approval in circumstances where HRNSW is not subject to obligations of confidentiality in respect of that information; and/or
- (e) is or has become part of the public domain other than as a result of a breach of an obligation of confidentiality;

Control means control within the meaning of that term in either Section 50AA of the Corporations Act or generally accepted accounting standards required under the Corporations Act, by the Australian Accounting Standards Board and other mandatory professional financial reporting requirements applicable in Australia;

Corporations Act means the *Corporations Act 2001* (Cth);

Customer means a person or entity who entered a wagering transaction in relation to NSW Harness Races.

Document has the meaning given to that term in the *Evidence Act 1995* (NSW);

Duration of Approval means the duration of the Approval as determined in accordance with clause 2;

Final Adjustment Amount means any amount greater than zero calculated in accordance with the formula:

C less D

Where:

C is 3.0% of the Approval Holder's Net Harness Turnover of wagers made at Totalizator Derived Odds for all races held at a Premium Race Meeting or 2.5% of the Approval Holder's Net Harness Turnover of wagers made at Totalizator Derived Odds for all races held at a Standard Race Meeting or 2.5% of the Approval Holder's Net Harness Turnover of wagers made other than at Totalizator Derived Odds for all races held at a Premium Race Meeting or 1.5% of the Approval Holder's Net Harness Turnover of wagers made other than at Totalizator Derived Odds for all races held at a Standard Race Meeting for the Duration of the Approval.

D is the sum of all Monthly Fee Payments paid under clause 3.1 and the sum of all adjustments paid under clause 3.4 for the Duration of the Approval.

Final Adjustment Notice means a written notice issued to an Approval Holder by HRNSW which:

- (a) states that it is a Final Adjustment Notice issued in accordance with clause 3.5 or 3.7;
- (b) identifies a Final Adjustment Amount pursuant to clause 3.4 or a Final Adjustment Refund pursuant to clause 3.6.

Final Adjustment Refund means any amount greater than zero calculated in accordance with the formula:

D less C

Where:

C is 3.0% of the Approval Holder's Net Harness Turnover of wagers made at Totalizator Derived Odds for all races held at a Premium Race Meeting or 2.5% of the Approval Holder's Net Harness Turnover of wagers made at Totalizator Derived Odds for all races held at a Standard Race Meeting or 2.5% of the Approval Holder's Net Harness Turnover of wagers made other than at Totalizator Derived Odds for all races held at a Premium Race Meeting or 1.5% of the Approval Holder's Net Harness Turnover of wagers made other than at Totalizator Derived Odds for all races held at a Standard Race Meeting for the Duration of the Approval.

D is the sum of all Monthly Fee Payments paid under clause 3.1 and the sum of all adjustments paid under clause 3.6 for the Duration of the Approval.

Financial Year means a period of 12 months commencing on 1 July in any year and ending on 30 June in the following year;

Free Bet means the amount of any wagering transaction in relation to NSW Harness Races where the Customer does not make or does not agree to make a financial contribution at the time the wagering transaction is made.

Government Agency means any government or any governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity;

Group means the Approval Holder and any Australian Wagering Operator who is Related to the Approval Holder from time to time;

GST means goods and services tax or similar value added tax levied or imposed in Australia pursuant to the GST Law or otherwise on a supply;

GST Law means *A New Tax System (Goods and Services Tax) Act 1999 (Cth)*;;

HRNSW means Harness Racing New South Wales;

HRNSW Account means the account name 'HRNSW – Race Field Revenue' at Commonwealth Bank, Bankstown branch, New South Wales, BSB number 062 111 and account number 10702361.

Insolvency Event means:

- (a) a receiver, receiver and manager, official manager, trustee, administrator or similar official is appointed, or steps are taken for such an appointment, over any of the assets or undertaking of a person;
- (b) an application or order is made or petition presented seeking winding up, dissolution or deregistration of a body that is not discharged or withdrawn within 10 Business Days of its presentation;
- (c) a person suspends payment of its debts generally;
- (d) a person is or becomes unable to pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act 2001 (Cth), the Bankruptcy Act 1996 (Cth) or other applicable legislation or is presumed to be insolvent under the Corporations Act 2001 (Cth), the Bankruptcy Act 1996 (Cth) or other applicable legislation;
- (e) a person enters into or resolves to enter into any arrangement, composition or compromise with, or assignment for the benefit of, its creditors or any class of them;
- (f) an order is made for the winding-up or dissolution of a company or a resolution is passed otherwise than for the purpose of an amalgamation or reconstruction while solvent;
- (g) a resolution is passed to liquidate the body or any steps are taken to pass a resolution for the liquidation of the body; or
- (h) a company becomes an "externally-administered body corporate", as that term is defined in the *Corporations Act*, or that company's assets otherwise becomes subject to a law relating to insolvency; or a person appointed under a power of attorney or other arrangement with a company's financiers becomes entitled to manage the business or affairs of a company or to perform obligations of the company;

Intellectual Property means all intellectual and industrial property rights and interests in Australia and throughout the world (whether registered or unregistered), including any copyright or analogous rights, trade or service mark, design, patent, semiconductor or circuit layout right, trade, business, company name or internet domain names or other proprietary right; and any right of registration of any of those rights.

Interest Rate means the interest rate applicable from time to time on judgement debts arising from orders of the Supreme Court of NSW;

Key Employee has the meaning given to that term in the Regulations;

Month means a calendar month;

Net Harness Turnover means any amount greater than zero calculated in accordance with the formula:

HRT - BBC

Where:

HRT is the Approval Holder's NSW Harness Turnover during the periods identified in clause 4.1;

BBC is the amount of credit for Bet Backs to which the Approval Holder is entitled.

Notifiable Event means:

- (a) an Insolvency Event occurs in relation to the Approval Holder;
- (b) the Approval Holder becomes Related to an Australian Wagering Operator during the Duration of Approval;
- (c) the Approval Holder ceases to be Related to an Australian Wagering Operator within paragraphs (a)-(i) of the definition of "Related" during the Duration of Approval;
- (d) there is a change in the persons that have a Controlling interest in the Approval Holder;
- (e) a prosecution is commenced against the Approval Holder, any of its Key Employees or another member of the Group;
- (f) a verdict is delivered and/or a fine is imposed in respect of a prosecution against the Approval Holder, any of its Key Employees or another member of the Group or such a prosecution is dismissed or discontinued;
- (g) disciplinary action is taken under the Rules of Racing or under any legislation whether in New South Wales or elsewhere against the Approval Holder, any of its Key Employees or another member of the Group or formal notice is given of an investigation or inquiry to determine whether to take such disciplinary action;
- (h) the Approval Holder is aware that any person who is a Key Employee of the Approval Holder has a criminal record or has been subject to disciplinary action under any legislation, whether in New South Wales or elsewhere, or under the Rules of Racing;
- (i) there is a material change in the events on which the Approval Holder conducts wagering or in the mechanisms which the Approval Holder uses to facilitate the receipt of wagers (for example, if during the period, the Approval Holder commences using the internet to facilitate the receipt of wagers, that would be a "Notifiable Event");
- (j) the Approval Holder breaches or fails to comply with any of the conditions of the Race Field Publication Approval;
- (k) the Approval Holder is aware that any other member of the Group publishes a NSW Harness Race Field in breach of section 33 of the Racing Administration Act;
- (l) the Approval Holder is aware that any other member of the Group has breached or failed to comply with the conditions imposed on Approval(s) granted by HRNSW in accordance with section 33A of the Racing Administration Act to that member of the Group;
- (m) the Approval Holder's Australian Wagering Licence is withdrawn or changes are made to the terms and conditions of the Licence; or
- (n) any other change in circumstances relating to matters that were advised to HRNSW by the Approval Holder in its application.

Notification Date means the date HRNSW advises the Approval Holder to initiate some form of action;

NSW Race Field Information has the meaning given to that term in the *Racing Administration Act*;

NSW Harness Race(s) means a harness or other horse race (other than a Thoroughbred race) held, or to be held, at any race meeting on a licensed racecourse in New South Wales;

NSW Harness Racing means the New South Wales Harness racing industry;

NSW Harness Race Field means a New South Wales Race Field in relation to a NSW Harness Race;

NSW Harness Race Field Information means the same as 'NSW Race Field Information' in section 27 of the *Racing Administration Act* as if the words in that section 'NSW Race Field Information' were replaced with the words 'NSW Harness Race Field Information'.

NSW Harness Turnover means Turnover in respect of wagering transactions in relation to NSW Harness Races (or contingencies related to NSW Harness Races) where, without limiting the generality of this definition:

- (a) the result of a single wagering transaction depends on the combined outcome of a number of events (for example: "doubles" bets); and
- (b) a NSW Harness Race is at least one of the events on which the outcome of that wagering transaction depends, NSW Wagering Turnover will include the same proportion of the amount of the wagers made on the "backers" side of the wagering transaction as the number of NSW Harness Races on which the outcome of the wagering transaction depends bears to the total number of events on which the outcome of the wagering transaction depends, irrespective of the order in which those events are conducted or determined or the outcome of those events.

For example:

-if a "doubles bet" requires the selection of the winner of a NSW Harness Race and the winner of a harness race conducted in Melbourne, then ½ of the amount of the wager on the "backers" side of the wagering transaction would be included as NSW Harness Turnover even if the race in Melbourne was held first and irrespective of the outcome of the Melbourne race;

-if a "doubles bet" requires the selection of the winner of two NSW Harness Races, then the whole amount of the wager on the "backers" side of the wagering transaction would be included as NSW Harness Turnover;

- if a "doubles bet" requires the selection of a winner of a race conducted at a NSW Harness Premium Race Meeting and the winner of a race at a NSW Harness Standard Race Meeting, then one half (1/2) of the amount on the wager on the "backers" side of the wagering transaction would be included in the NSW Harness Premium Turnover even if the race at the Standard Race Meeting was held first and irrespective of the outcome of that race.

-if a bet was placed on the combined outcome of a NSW Harness Race, a rugby league match and a greyhound race, then 1/3 of the amount of the wager on the "backers" side of the wagering transaction would be included as NSW Harness Turnover; and

-by contrast, if a bet was placed on the outcome of a NSW Harness Race and the "layer" directed that any winnings on that bet be applied in a wager on another event (e.g. an "All-up" bet) so that each was a separate wagering transaction, then the entire amount of the wager on the "backers" side of the first wagering transaction would be included as NSW Harness Turnover and the second transaction would be assessed as an independent wagering transaction).

- (c) the face value of any Free Bets is included.

Online Wagering Monitoring System means a system with specifications determined by Harness Racing NSW which provides remote, real-time online access and monitoring of wagering transactions in relation to NSW Harness Races and such other functionality as determined by Harness Racing NSW in the specifications of the system.

Premium Race means a NSW Harness Race offering prizemoney of \$30,000 or more.

Premium Race Meeting means a race meeting at which at least one race offering prizemoney of \$30,000 or more is held. The list of such race meetings will be supplied by HRNSW.

Racing Administration Act means the *Racing Administration Act 1998* (NSW);

Recipient Created Tax Invoice means a written record sent by the Approval Holder to HRNSW recording the amount paid by the Approval Holder to HRNSW in accordance with these conditions;

Regulations means the *Racing Administration Regulations 2012* (NSW);

Related means, in relation to the Approval Holder and another Australian Wagering Operator, that:

- (a) they are “related bodies corporate” within the meaning of the Corporations Act;
- (b) one has Control over the other;
- (c) they are both under the Control of by the same person or group of people;
- (d) one is a Key Employee, a director or an “associate” (within the meaning of the *Corporations Act*) of the other (*for example: if a company has an Australian Wagering Licence and a director or key employee of that company also has an Australian Wagering Licence, then the company and the director/key employee are considered “Related”*);
- (e) they have a common Key Employee or a common director (*for example: if a person is a director or key employee of two companies both of which have Australian Wagering Licences, then those two companies are considered “Related”*);
- (f) one is a partner in another wagering operation that is conducted as a partnership;
- (g) a Key Employee or a director of one is a partner of the other;
- (h) they are acting in concert with each other in relation to activities conducted under their respective Australian Wagering Licences or the taking of wagers on NSW Harness Races; or
- (i) they are “Related” to a common person under paragraphs (a)-(h) (*for example: “Company A” and its subsidiary “Company B” are related. If “Mr X” is a director of Company B, he would be “Related” to both Company B and to Company A*), and, if the Approval Holder is Related to another Wagering Operator, then they are deemed for the purpose of these conditions to continue to be Related until the later of:
 - a. the Approval Holder ceasing to be “Related” to the other Australian Wagering Operator under any of paragraphs (a)-(i); or
 - b. the Approval Holder giving written notice to HRNSW that it has ceased to be “Related” to the other Australian Wagering Operator.

Rules of Racing includes:

- (a) the Australian Rules of Racing (Harness);
- (b) the local rules of racing applicable in any Australian State or Territory (including the Rules of Racing); and
- (c) the rules of betting applicable under the laws of an Australian State or Territory or the local rules of racing of an Australian State or Territory to the extent that those rules of betting apply to the wagering activities conducted by an Australian Wagering Operator.

Special Conditions means any conditions other than standard conditions set out in the Approval Notice.

Standard Race Meeting means any race meeting other than a Premium Race Meeting.

Totalizator Derived Odds has the meaning given to that term in clause 16(3) of the Regulations.

Turnover means, in relation to a race or class of races, the total amount of wagers made on the “backers” side of wagering transactions made in connection with that race or class of races. For the avoidance of doubt, in the case of a person who holds an Australian Wagering Licence to operate a betting exchange, the “backers” side of wagering transactions made through the operation of that betting exchange is regarded as that person’s “Turnover” even if that person is not a party to the contract which constitutes the wagering transaction;

Use NSW Harness Race Field Information means the same as ‘use NSW race field information’ in section 32A of the *Racing Administration Act* as if the words in that section ‘NSW race field information’ were replaced with the words ‘NSW Harness Race Field Information’.



TAX PARITY ALLOCATION

PRESENTED BY CHIEF EXECUTIVE - JOHN DUMESNY



PROJECTED REVENUE

- **IN THE CURRENT HRNSW BUDGET THERE IS A CAPPED RECURRENT FUNDING DEFICIT OF \$2,000,000**
- **THE PROJECTED TAX PARITY REVENUE FOR THE FIRST 5 FINANCIAL YEARS IS THEREFORE AS FOLLOWS:**

• FY2017	\$5,700,000	LESS \$2M DEFICIT	\$3,700,000
• FY2018	\$5,700,000	LESS \$2M DEFICIT	\$3,700,000
• FY2019	\$7,000,000	LESS \$2M DEFICIT	\$5,000,000
• FY2020	\$8,300,000	LESS \$2M DEFICIT	\$6,300,000
• FY2021	\$11,500,000	LESS \$2M DEFICIT	\$9,500,000

OVERVIEW

PRIZEMONEY

CLUB ADMINISTRATION

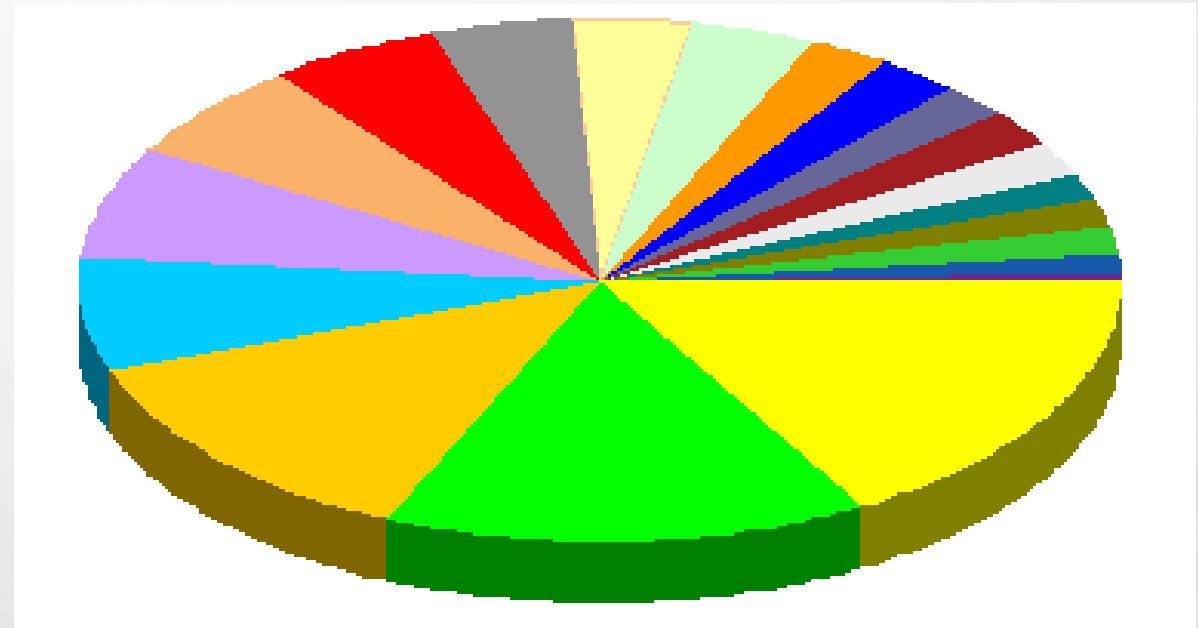
MARKETING

BREEDING

INDUSTRY DEVELOPMENT

INFRASTRUCTURE

INTEGRITY



PRIZEMONEY

TWO-YEAR-OLD RACES FUND

UNPLACED/UNFUNDED PRIZEMONEY

DRIVERS SUPERANNUATION GUARANTEE FUND

NON TAB INCREMENTAL INCREASES

\$3,000 MEETINGS PRIZEMONEY INCREASES

REALLOCATION OF 10 \$3,000 MEETINGS TO \$5,000 MEETINGS

NSWHRC MIDWEEK & \$6,000 MEETING INCREASES



TWO-YEAR-OLD RACES FUND

- **FUNDS ADDITIONAL RACE PRIZEMONEY & FORECAST BONUSES AS A RESULT OF THE GUARANTEED TWO-YEAR-OLD RACING POLICY**

• FY2017	\$200,000
• FY2018	\$224,000
• FY2019	\$248,000
• FY2020	\$272,000
• FY2021	\$296,000



UNPLACED/UNFUNDED PRIZEMONEY

- **PAYS THE PRIZEMONEY FOR HORSES THAT PLACE 10TH TO LAST IN PACERS RACES AND 11TH TO LAST IN TROTTERS RACES**

• FY2017	\$275,000
• FY2018	\$325,000
• FY2019	\$400,000
• FY2020	\$475,000
• FY2021	\$550,000



DRIVERS SUPERANNUATION GUARANTEE FUND

- **PAYS DRIVERS 9.5% OF GROSS EARNINGS (DRIVERS FEE ONLY)
(PROVIDED THAT THEY EARN IN EXCESS OF \$450 FOR THE MONTH)**

- **FY2017 \$363,000**
- **FY2018 \$363,000**
- **FY2019 \$400,000**
- **FY2020 \$425,000**
- **FY2021 \$450,000**



NON TAB INCREMENTAL INCREASES

- **INCREASES ARE INTRODUCED INCREMENTALLY IN LINE WITH THE PROJECTED REVENUE**

FROM \$1,500 TO \$2,000

- **FY2017 \$55,500**
- **FY2018 \$55,500**
- **FY2019 \$55,500**

FROM \$2,000 TO \$3,500

- **FY2020 \$222,000**
- **FY2021 \$222,000**



\$3,000 MEETINGS PRIZEMONEY INCREASES

- **INCREASES ARE INTRODUCED INCREMENTALLY IN LINE WITH THE PROJECTED REVENUE**

FROM \$3,000 TO \$3,500

- **FY2017 \$187,500**
- **FY2018 \$187,500**

FROM \$3,500 TO \$5,000

- **FY2019 \$750,000**
- **FY2020 \$750,000**
- **FY2021 \$750,000**



RECLASSIFICATION OF MEETINGS

- **10 X \$3,000 RACE MEETINGS ARE RECLASSIFIED TO \$5,000 RACE MEETINGS**
FROM \$3,000 TO \$5,000
 - **FY2017 \$120,000**
 - **FY2018 \$120,000**
- **FROM FY2019 ONLY NON TAB CLUBS WILL CONDUCT RACES FOR \$3,500**
- **ASPIRATIONAL FUTURE PROVIDES FOR NO NON TAB MEETINGS**



INCREASED STAKES – NSWHRC MIDWEEK & \$6,000 RACES

- **INCREASES ARE INTRODUCED INCREMENTALLY IN LINE WITH THE PROJECTED REVENUE**
 - **FY2017 NSWHRC MIDWEEK RACES = \$6,500 (BASE PRIZEMONEY)**
- **NSWHRC MIDWEEK & \$6,000 RACES - \$500 INCREASE**
 - **FY2020 \$1.029M**
- **NSWHRC MIDWEEK & \$6,500 RACES - \$500 INCREASE**
 - **FY2021 \$2.059M**



PRIZEMONEY OVERVIEW (BASE FUNDING)

MEETING TYPE	<i>CURRENT</i>	FY2017	FY2018	FY2019	FY2020	FY2021
NSWHRC MIDWEEK *	<i>\$6,000</i>	\$6,500	\$6,500	\$6,500	\$7,000	\$7,500
A	<i>\$6,000</i>	\$6,000	\$6,000	\$6,000	\$6,500	\$7,000
B	<i>\$5,000</i>	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
C	<i>\$3,000</i>	\$3,500	\$3,500	\$5,000	\$5,000	\$5,000
NON-TAB	<i>\$1,500</i>	\$2,000	\$2,000	\$2,000	\$3,500	\$3,500

**** The NSWHRC currently contributes an additional \$2,000 to the base funding of each Tuesday race***



CLUB ADMINISTRATION

AMBULANCE

MOBILE STARTERS

PHOTO FINISH EQUIPMENT

MOBILE BARRIERS

AMBULANCE

- **AMBULANCE COSTS WILL BE PAID BY HRNSW ***
- **CLUB SAVINGS WILL EQUATE TO:**
 - **FY2017 \$650,000**
 - **FY2018 \$670,000**
 - **FY2019 \$690,000**
 - **FY2020 \$710,000**
 - **FY2021 \$730,000**



**** Clubs will be required to assign the Ambulance Agreements to HRNSW***

MOBILE STARTERS

- **MOBILE STARTER COSTS WILL BE PAID BY HRNSW ***
- **CLUB SAVINGS WILL EQUATE TO**
 - **FY2017 \$150,000**
 - **FY2018 \$153,000**
 - **FY2019 \$156,000**
 - **FY2020 \$170,000**
 - **FY2021 \$200,000**

**** HRNSW will engage all Mobile Starters***



PHOTO FINISH EQUIPMENT

- **PHOTO FINISH EQUIPMENT COSTS WILL BE PAID BY HRNSW**
- **CLUB SAVINGS WILL EQUATE TO**
 - **FY2017 \$75,000**
 - **FY2018 \$80,000**
 - **FY2019 \$90,000**
 - **FY2020 \$95,000**
 - **FY2021 \$100,000**



MOBILE BARRIERS

- **HRNSW ARE TO PURCHASE FIVE NEW CONCEPT MOBILE BARRIERS – ONE FOR EACH REGION**

(PURCHASE, MAINTENANCE & RUNNING COSTS)

- **FY2017 \$1,250,000**

(MAINTENANCE & RUNNING COSTS)

- **FY2018 \$250,000**
- **FY2019 \$250,000**
- **FY2020 \$250,000**
- **FY2021 \$250,000**



TOTAL CLUB ADMINISTRATION ALLOCATION

- **TOTAL SAVINGS TO CLUBS * WILL EQUATE TO**

- **FY2017** **\$2,125,000**
- **FY2018** **\$1,152,500**
- **FY2019** **\$1,185,000**
- **FY2020** **\$1,225,000**
- **FY2021** **\$1,280,000**



** Includes new concept Mobile Barrier Units, maintenance and running costs*

The Daily Telegraph



MARKETING

DEVELOP MARKETING STRATEGIES

DELIVERY OF THE STRATEGIES



MARKETING

- **FUNDING TO DEVELOP MARKETING STRATEGIES AND TO DELIVER THEM ONCE DETERMINED**

- **FY2017 \$750,000 (\$500,000 DRAWN DOWN FROM FUTURE FUND)**
- **FY2018 \$750,000 (\$500,000 DRAWN DOWN FROM FUTURE FUND)**
- **FY2019 \$750,000**
- **FY2020 \$750,000**
- **FY2021 \$750,000**



BREEDING

NSW RESIDENT STALLIONS

MICROCHIPPING

FOAL REGISTRATION FEE

TRUE BLUE BONUS (2YO & 3YO)



NSW RESIDENT STALLIONS

- **ABOLITION OF STALLION REGISTRATION FEES & BREEDERS CHALLENGE STALLION NOMINATION FEES PAID BY STALLION OWNERS FOR NSW RESIDENT STALLIONS**

- **FY2017 \$30,000 (STALLION REGISTRATION FEES ONLY)**
- **FY2018 \$85,000 (STALLION & FOAL REGISTRATION FEES)**
- **FY2019 \$85,000 (STALLION & FOAL REGISTRATION FEES)**
- **FY2020 \$85,000 (STALLION & FOAL REGISTRATION FEES)**
- **FY2021 \$85,000 (STALLION & FOAL REGISTRATION FEES)**



MICROCHIPPING

- **FREE MICROCHIPPING OF ALL FOALS BORN AND REGISTERED IN NSW**

- **FY2018 *** **\$110,000**
- **FY2019** **\$112,000**
- **FY2020** **\$114,000**
- **FY2021** **\$117,000**

** Expected National Implementation*



FOAL REGISTRATION FEE

- **CONTINUATION OF THE NSW HRC BREEDERS CHALLENGE FOAL REGISTRATION SUBSIDY**

- **FY2020 \$185,000**
- **FY2021 \$185,000**



TRUE BLUE BONUS

- **INTRODUCTION OF A TRUE BLUE BONUS FOR FOALS CONCEIVED IN THE 2016/17 BREEDING SEASON**
- **\$3,000 CASH PAYABLE TO THE OWNERS OF 100% NSW BRED HORSES UPON THEIR FIRST CAREER PENALTY RACE WIN IN NSW EITHER AS A 2YO OR 3YO**
 - **FY2020 \$171,000 2YO ONLY**
 - **FY2021 \$423,000 2YO & 3YO (THAT DID NOT WIN A BONUS AS A 2YO)**





INDUSTRY

EQUINE WELFARE

YOUTH DEVELOPMENT

NSW RISING STARS 2016 AT THE MENANGLE PARK TRAINING CENTRE



EQUINE WELFARE

- **STRATEGIES TO IMPROVE & ENHANCE LIFE AFTER RACING**
- **STRATEGIES TO IMPROVE COMPLIANCE**
- **DEREGISTRATION OF HORSES**

• FY2017	\$150,000
• FY2018	\$165,000
• FY2019	\$181,000
• FY2020	\$200,000
• FY2021	\$220,000



YOUTH DEVELOPMENT

- **FUNDING TO ENHANCE DEVELOPMENT & CAREER PATHWAYS FOR MINI TROTS, YOUNG PARTICIPANTS & CLUB PERSONNEL**

- **FY2017** **\$150,000**
- **FY2018** **\$165,000**
- **FY2019** **\$181,000**
- **FY2020** **\$200,000**
- **FY2021** **\$220,000**



DUBBO MINI TROTS 2016

INFRASTRUCTURE

ESSENTIAL INFRASTRUCTURE PROJECTS



MENANGLE PARK TRAINING CENTRE

ESSENTIAL INFRASTRUCTURE PROJECTS

PROJECT	FY2017	FY2018	FY2019	FY2020	FY2021
BATHURST TRAINING CENTRE	\$500,000				\$150,000
NEWCASTLE – TRACK DRAINAGE	\$140,000				
TRACK UPGRADES		\$200,000			
TRAINING CENTRES		\$265,000	\$300,000	\$150,000	
STRATEGIC RACING CENTRES			\$65,000	\$115,000	\$115,000
IMPROVEMENTS & COMPLIANCE	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
TOTAL	\$990,000	\$815,000	\$715,000	\$615,000	\$615,000

** Strategic Racing Centres are to be determined from FY2019*

Racecourse Development Fund to revert to application based from FY2019 onwards

INTEGRITY

ADDITIONAL INTEGRITY FUNDING

- **SWABBING**
- **SURVEILLANCE**
- **COMPLIANCE**
- **ITELLIGENCE**



ADDITIONAL INTEGRITY FUNDING

- **ITEMS INCLUDED IN THE FUNDING ARE ADEQUATE SWABBING, REASEARCH OF NEW PRODUCTS, INCREASED INTELLIGENCE AND SURVEILLANCE, INCREASED COMPLIANCE INSPECTIONS, MONITORING OF BETTING MARKETS, STEWARDS CADETSIPS & ANALYSING INTELLIGENCE AND INFORMATION**

• FY2017	\$350,000
• FY2018	\$357,000
• FY2019	\$365,000
• FY2020	\$370,000
• FY2021	\$380,000



INDUSTRY BUDGET OVERVIEW

FY2016/17 INDUSTRY BUDGET

- **THE 2016/17 INDUSTRY BUDGET INCLUDES AN INCREASE IN FUNDING OF \$777,000 IN PRIZEMONEY AND \$277,000 IN CLUB ADMINISTRATION**
- **THE 2016/17 BUDGET WILL BE KNOWN AS THE PRIZEMONEY & ADMINISTRATION BASE**
- **TAX PARITY FUNDS ARE PROVIDED IN ADDITION TO THE 2016/17 BASE.**



TAX PARITY FUND OVERVIEW

SECTOR	FY2017	FY2018	FY2019	FY2020	FY2021
PROJECTED REVENUE	\$5,700,000	\$5,700,000	\$7,000,000	\$8,300,000	\$11,500,000
<i>RECURRENT DEFICIT</i>	<i>\$2,000,000</i>	<i>\$2,000,000</i>	<i>\$2,000,000</i>	<i>\$2,000,000</i>	<i>\$2,000,000</i>
PRIZEMONEY	\$1,201,000	\$1,275,000	\$1,853,500	\$3,173,500	\$4,327,000
CLUB ADMINISTRATION	\$2,125,000	\$1,152,500	\$1,185,645	\$1,225,272	\$1,280,581
MARKETING	\$250,000	\$250,000	\$750,000	\$750,000	\$750,000
BREEDING	\$30,000	\$195,000	\$197,200	\$555,444	\$809,733
INDUSTRY DEVELOPMENT	\$300,000	\$330,000	\$363,000	\$399,300	\$439,230
INFRASTRUCTURE	\$640,000	\$465,000	\$365,000	\$265,000	\$265,000
INTEGRITY	\$350,000	\$357,000	\$364,140	\$371,423	\$378,851
TOTAL	\$4,896,000	\$4,024,500	\$5,078,485	\$6,739,939	\$8,250,395

FUTURE FUND DRAW DOWN

SECTOR	FY2017	FY2018	FY2019	FY2020	FY2021
INFRASTRUCTURE	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
MARKETING	\$500,000	\$500,000	\$0	\$0	\$0
TOTAL	\$850,000	\$850,000	\$350,000	\$350,000	\$350,000



THANK YOU





19 October 2016

Tabcorp and Tatts to combine to create a world-class, diversified gambling entertainment group

- Creates a leading, diversified portfolio of gambling entertainment businesses well placed to compete in a rapidly evolving marketplace and pursue growth opportunities globally
- Anticipated to provide a wide range of benefits for stakeholders and is expected to result in at least \$50 million per annum of additional funding to the Australian racing industry, which enhances its long term sustainability
- Pro forma enterprise value of approximately \$11.3 billion¹, revenue of over \$5 billion, EBITDA of over \$1 billion² and a strong balance sheet with an intended investment grade credit rating
- Combination expected to deliver at least \$130 million of annual EBITDA synergies and business improvements, net of benefits to the racing industry
- Transaction expected to be EPS accretive (before significant items) and value accretive for both Tabcorp and Tatts shareholders
- Combined Group expected to target a dividend payout ratio of 90% of net profit after tax, before significant items and amortisation of the Victorian Wagering and Betting Licence
- Combined Group expected to undertake a \$500 million share buyback, post implementation of the Transaction and subject to Board approval and market conditions
- Completion expected mid-2017 following Tatts shareholder, regulatory and other approvals
- Transaction is unanimously recommended by the Boards of Tabcorp and Tatts³

Transaction details

Tabcorp Holdings Limited ("Tabcorp") and Tatts Group Limited ("Tatts") are pleased to announce the companies have reached an agreement to combine the two companies via a Tatts Scheme of Arrangement in which Tatts shareholders will receive 0.80 Tabcorp shares plus 42.5 cents cash for each Tatts share held (the "Transaction").

The Transaction will create a world-class, diversified gambling entertainment group, with a pro forma enterprise value of approximately \$11.3 billion¹, a national footprint and a diverse suite of product offerings across wagering, media, lotteries, Keno and gaming services (the "Combined Group").

Based on the most recent closing price of Tabcorp shares (\$4.89 per share as at 17 October 2016), the Transaction implies a value of \$4.34 per Tatts share (before the value of synergies and business improvements). This represents:

- a premium of approximately 20.8% to the most recent closing price of Tatts shares (\$3.59 per share);

¹ Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction and pro forma net debt of the Combined Group as at 30 June 2016

² Based on reported FY 2016 revenue and EBITDA for Tabcorp and Tatts. Excludes the impact of synergies and business improvements

³ In Tatts Board's case, subject to there being no superior proposal and also to an independent expert concluding the Transaction is in the best interests of Tatts shareholders



- a premium of approximately 18.4% to the 1-month volume weighted average price ("VWAP") of Tatts shares (\$3.66 per share)⁴; and
- an implied enterprise value (EV) for Tatts of \$7.4 billion and an implied FY 2016 EV/ EBITDA valuation multiple of 15.0x.⁵

On completion of the Transaction, existing Tabcorp shareholders will own approximately 42% of the Combined Group and existing Tatts shareholders will own approximately 58%.⁶

Based on a blended FY 2017 EV/EBITDA multiple for Tabcorp and Tatts of 10.7x⁷, the estimated synergies and business improvements are worth approximately \$1.4 billion.⁸

Taking into account the estimated synergies and business improvement benefits, the Transaction implies a pro forma value uplift for Tatts shareholders of approximately 30% per Tatts share (before taking into account any potential market re-rating).⁹

Tatts intends to pay its shareholders a fully-franked special dividend of 20 cents per share¹⁰ (subject to the availability of franking credits) immediately prior to implementation of the Transaction in lieu of part of the cash consideration. A fully-franked dividend of 20 cents per share would have approximately 8.6 cents per share of franking credits attached.

The Directors of both Tabcorp and Tatts believe the Transaction represents a unique and compelling opportunity to create significant value for Tabcorp and Tatts shareholders, a winning offer for customers and material benefits for stakeholders, including the racing industry, TAB agencies, licensed venues, small businesses, and Federal, State and Territory Governments and regional communities.

The Directors of Tabcorp believe the Transaction is in the best interests of Tabcorp shareholders and unanimously support the Transaction. The Directors of Tatts believe the Transaction is in the best interests of Tatts shareholders and unanimously recommend that Tatts shareholders vote in favour of the Transaction, in the absence of a superior proposal and subject to an independent expert concluding the Transaction is in the best interests of Tatts shareholders. Subject to those considerations, the Directors of Tatts intend to vote all shares they personally hold in favour of the Transaction.

AustralianSuper, one of Tatts' largest shareholders, has indicated that it intends to vote its Tatts shares in favour of the Transaction, in the absence of a superior proposal and subject to there being no material adverse change in circumstances.

⁴ Based on the 1-month volume weighted average price of Tatts shares up to and including 17 October 2016, being the last trading day prior to the announcement of the Transaction

⁵ Based on Tatts' reported net debt of \$1,041 million as 30 June 2016, FY 2016 reported EBITDA of \$495 million, Tatts' fully diluted shares outstanding of 1,469 million (including performance rights) and the Tabcorp share price as at 17 October 2016, being the last trading day prior to the announcement of the Transaction

⁶ Based on Tabcorp's ordinary shares outstanding of 835 million and Tatts' fully diluted shares outstanding of 1,469 million (including performance rights) as at 18 October 2016

⁷ Based on the Bloomberg consensus FY 2017 EBITDA estimates as at 18 October 2016, implying an FY 2017 EV/EBITDA multiple for Tabcorp of 9.1x, Tatts of 12.4x and the implied weighted average for the Combined Group of 10.7x

⁸ Based on \$130 million of expected EBITDA synergies and business improvements

⁹ Based on the Bloomberg consensus FY 2017 NPAT estimates as at 18 October 2016, implying a FY 2017 P/E multiple for Tabcorp of 20.6x, Tatts of 19.6x and an implied weighted average for the Combined Group of 20.0x. Potential value uplift assuming Transaction terms and taking into account full pro forma run-rate EBITDA synergies and business improvements of \$130 million, estimated transaction costs of approximately \$90 million and net one-off estimated integration costs and capital expenditure of approximately \$110 million

¹⁰ Whilst Tatts estimates the special dividend will be 20 cents per Tatts share, under the Implementation Deed Tatts is able to pay a special dividend of up to 25 cents per share (subject to the availability of franking credits)



Chairman's comment

Tabcorp's Chairman, Paula Dwyer, said:

"In today's rapidly changing landscape, bringing together our businesses will create a strong and diversified business that is well placed to invest, innovate and compete, both in Australia and globally.

"This Transaction is expected to deliver significant value for both sets of shareholders, and material benefits to other key stakeholders including the racing industry, business partners, customers, and Governments.

"Together we will be able to pursue more investment and innovation to deliver a winning offer for customers, including best-in-class digital products and experiences.

"In wagering, combining our two complementary businesses will give us a national footprint and could create a pathway to larger wagering pools. We are excited by this opportunity, which we believe will deliver an enhanced wagering experience for our customers and, in turn, will generate stronger returns to the Australian racing industry, underpinning its sustainability.

"At the same time, bringing together our lotteries, Keno and gaming services businesses will give us the capability to create an even more compelling offer for customers and retail stakeholders as the combination increases capability, while increasing diversification."

Tatts' Chairman, Harry Boon, said:

"The combination of Tabcorp and Tatts is based on clear industrial logic and a strong and tangible synergy proposition. It comes at a time of escalating competition from new business models and rapid consolidation of gaming and wagering companies globally. The scale and efficiency benefits from this combination will provide a stronger platform in this dynamic environment.

"We believe the implied value accretion for Tatts shareholders fairly reflects the strategic value of our businesses. Further, the scrip consideration allows Tatts shareholders the opportunity to participate as shareholders in the Combined Group, with ongoing exposure to the future growth of wagering, while also retaining exposure to Tatts' unique and growing lotteries business.

"In addition to our shareholders, the benefits of this combination are also very clear for the racing industry and for customers who should, in due course and with racing industry support, be able to access deeper and more liquid wagering pools.

"A combination of Tabcorp and Tatts has been the subject of numerous discussions between the two companies over time and this transaction is fully supported by our respective Boards."

Significant value for Tabcorp and Tatts shareholders

The Directors of both Tabcorp and Tatts expect the Transaction to deliver a number of financial and other benefits to both sets of shareholders:

- The Combined Group is expected to have an attractive, diversified national portfolio of predominantly long-dated gambling licences, and be strongly positioned to invest, innovate and compete in an evolving marketplace
- The Transaction is expected to generate earnings per share accretion (before significant items) and value accretion for both Tabcorp and Tatts shareholders. The combination is expected to deliver at least \$130 million of annual EBITDA synergies and business improvements, net of benefits to the racing industry, in the first full year following completion of integration. Completion of integration is expected to take approximately two years, subject to the receipt of all necessary regulatory approvals.



Net one-off estimated integration costs and capital expenditure are estimated at approximately \$110 million

- The Combined Group is expected to have a strong balance sheet, with the capacity to pursue capital management initiatives. The Combined Group will target a gross debt to EBITDA ratio of 3.0x to 3.5x and intends to have an investment grade credit rating
- The Combined Group expects to undertake a \$500 million share buyback, post implementation of the Transaction and subject to Board approval and market conditions
- The Combined Group is expected to target a dividend payout ratio of 90% of net profit after tax, before significant items and amortisation of the Victorian Wagering and Betting Licence. Both Tabcorp and Tatts expect to continue to pay dividends in the ordinary course (subject to the Implementation Deed) until implementation of the Transaction

Benefits to the Australian racing industry and beyond

- Tabcorp and Tatts are together the largest source of funding for Australia's racing industry, having delivered approximately \$1 billion to the racing industry in FY 2016
- The Combined Group's commitment to investment, its national footprint and enhanced operational platform will create a stronger business, and provide a strong financial base to support the racing industry, strengthening its overall sustainability
- The Transaction is expected to result in at least \$50 million per annum of additional funding to the racing industry, which will flow to participants and related industries across Australia
- Additional payments to the racing industry will create broader economic benefits, including in regional areas
- The Transaction provides a pathway to national pooling for pari-mutuel wagering, subject to regulatory and racing industry approvals and an enhanced ability to adopt strategies to address the national decline in pari-mutuel betting

Profile of the Combined Group

The Combined Group is expected to have a pro forma enterprise value of approximately \$11.3 billion, market capitalisation of approximately \$8.6 billion¹¹, revenue of over \$5 billion and EBITDA of over \$1 billion.¹²

The Combined Group will have diversified national wagering, media, lotteries, Keno, and gaming operations including:

Wagering & Media

- Totalisator and fixed odds licences and retail wagering networks in NSW, VIC, QLD, SA, TAS, ACT and NT, offering wagering products in approximately 4,300 retail outlets
- National Sky Racing media business

Lotteries

- An iconic Australian lotteries business with licences to offer products in NSW, VIC, QLD, SA, TAS, ACT and NT

¹¹ Based on the closing share prices of Tabcorp and Tatts as at 17 October 2016, being the last trading day prior to the announcement of the Transaction. Pro forma net debt of the Combined Group as at 30 June 2016 (including estimated transaction costs of \$90 million) adjusted for cash paid to Tatts shareholders under the Transaction of \$624 million based on a cash consideration component of 42.5 cents per Tatts share and Tatts' fully diluted shares outstanding of 1,469 million (including performance rights). Excludes synergies and business improvements

¹² Based on reported FY 2016 revenue and EBITDA of Tabcorp and Tatts. Excludes impact of synergies and business improvements



Keno

- Keno distribution network of over 4,200 venues across clubs, hotels and TAB agencies in VIC, QLD, SA and the ACT, and in clubs and hotels in NSW

Gaming Services

- Gaming machine monitoring operations in NSW, QLD and NT under the MAX and Odyssey¹³ brands, and venue services operations nationwide, under the TGS, Intecq¹³ and Bytecrafter brands

Governance

The Combined Group will benefit from a highly experienced Board and senior executive team.

The Board will be comprised of the existing Tabcorp Board of Directors with Paula Dwyer as Chairman. Tatts Chairman Harry Boon will join the Board of the Combined Group as a Non-Executive Director following implementation of the Transaction.

David Attenborough will be Managing Director and Chief Executive Officer of the Combined Group and Damien Johnston will be Chief Financial Officer.

Implementation process

In addition to the approval by Tatts shareholders of the Tatts Scheme of Arrangement, the Transaction is also subject to satisfying regulatory conditions, including competition approval and approvals from various industry and State Government wagering, gaming, monitoring and lotteries regulators, obtaining court approval for the Scheme and an independent expert concluding the Transaction is in the best interests of Tatts shareholders.

The obligations of Tabcorp and Tatts regarding the implementation of the Transaction, the deal protections and break fee are agreed and set out in the Implementation Deed entered into by both parties. A copy of this Deed is attached to this announcement.

Tabcorp and Tatts currently expect the Transaction to complete in mid-2017 following Tatts shareholder, regulatory and other approvals.

Transaction costs are estimated at approximately \$90 million.

Presentation and market briefing details

To provide an overview of the Transaction in further detail, a presentation has also been released to the ASX today.

A briefing for investors and analysts will be held today at 10.00 a.m. AEDT. The briefing will be hosted by Paula Dwyer, Chairman of Tabcorp, Harry Boon, Chairman of Tatts, David Attenborough, Managing Director and Chief Executive Officer of Tabcorp and Robbie Cooke, Managing Director and Chief Executive Officer of Tatts.

Advisers

UBS is acting as financial adviser and Herbert Smith Freehills is acting as legal adviser to Tabcorp.

Goldman Sachs is acting as financial adviser and Clayton Utz is acting as legal adviser to Tatts.

¹³ Subject to implementation of the Intecq scheme of arrangement



Key contacts

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25 November 2016

Dear Interested Party

Re: Request for submissions: Proposed merger of Tabcorp and Tatts

The Australian Competition and Consumer Commission (**ACCC**) is seeking your views on the proposed merger of Tabcorp Holdings Limited (**Tabcorp**) and Tatts Group Limited (**Tatts**) (the **proposed merger**).

Tabcorp is a gambling entertainment company that comprises a wagering and media business, gaming services business and Keno business. Tatts is a provider of lotteries, wagering and gaming products and services. Both businesses are listed on the Australian Stock Exchange. Further details regarding the merger can be found at **Attachment A**.

The ACCC's investigation is focused on the impact on competition. In particular, we are seeking your views on:

- whether Tabcorp and Tatts compete closely in the supply of wagering products and services, in particular, pari-mutuel wagering provided by their respective totalisators ("totes")
- the extent to which other corporate bookmakers or other businesses will constrain the merged entity
- the extent to which the proposed merger is likely to impact on future bidding processes for licences (e.g. retail wagering licences, lottery licences)
- the likely impact of the proposed merger in the supply of gaming and promotional management systems and related services for electronic gaming machines

Further issues you may wish to address are set out in **Attachment B**.

This matter is public and you can forward this letter to anybody who may be interested.

The legal test which the ACCC applies in considering the proposed acquisition is in section 50 of the *Competition and Consumer Act 2010*. Section 50 prohibits acquisitions that are likely to have the effect of substantially lessening competition in a market.

Please provide your response by no later than **5pm on Friday 16 December 2016**. Responses may be emailed to mergers@acc.gov.au with the title: *Submission re: Tabcorp*

/ Tatts - attention Sam Campbell / Sarah Hilborn. If you would like to arrange a time to discuss the matter with ACCC officers, or have any questions about this letter, please contact Sam Campbell on 03 9290 1870 or Sarah Hilborn on 03 9658 6409.

Updates regarding the ACCC's investigation will be available on the ACCC's Public Mergers Register at ([ACCC mergers register](#)).

Confidentiality of submissions

The ACCC will not publish submissions regarding the proposed acquisition. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the *Competition and Consumer Act 2010*. Where the ACCC is required to disclose confidential information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, if the information provided to the ACCC is of a confidential nature, please indicate as such. Our [Informal Merger Review Process Guidelines](#) contain more information on confidentiality.

Yours sincerely



Tom Leuner
General Manager
Merger Investigations

Attachment A – Background to the proposed merger

The proposed merger

Tabcorp and Tatts have reached an agreement to combine the two companies via a Tatts Scheme of Arrangement. On completion of the merger, existing Tabcorp shareholders will own approximately 42 per cent of the combined company, and existing Tatts shareholders will own approximately 58 per cent.

Tabcorp Holdings Limited

Tabcorp Holdings Limited (**Tabcorp**) is a gambling entertainment company listed on the Australian Stock Exchange. Tabcorp encompasses three business divisions: Wagering and Media, Gaming Services and Keno.

Wagering and Media

Tabcorp's wagering and media business comprises:

- a retail network of TAB outlets and licensed venues in Victoria, NSW and the ACT which supply racing and sports wagering products. In these states/territories, Tabcorp holds wagering licences and is the exclusive operator of the off-course totalisator and retail wagering services.
- the operation of bookmakers Luxbet and TAB Sportsbet, which have a national online presence and telephone betting service supplying racing and sports wagering products.
- the operation of computerised racing game 'Trackside', which features virtual thoroughbreds, greyhound and harness racing in TAB agencies.
- three Sky Racing TV channels, which broadcast thoroughbred, harness and greyhound racing and other sports to TV subscribers nationwide, and Sky Sports Radio, which broadcasts racing and other sports in NSW and the ACT.

Gaming Services

Tabcorp's gaming services business comprises Tabcorp Gaming Solutions (**TGS**) and Intecq (previously named eBet Limited), which is to be acquired by Tabcorp in late 2016. In Queensland, Intecq's relevant gaming services division is Odyssey Gaming.

TGS and Intecq provide gaming systems and services (financing, gaming and promotional management services, including consulting and venue management, and repair and maintenance services) to venues (primarily pubs and clubs) in Victoria, New South Wales, Queensland and Tasmania. These services allow venues to manage their gaming floors, their membership, and to satisfy regulatory requirements in their state or territory.

Intecq provides gaming monitoring services to government for compliance and taxation purposes. Odyssey Gaming holds a licence to provide gaming machine monitoring services to the Queensland state government.

Keno

Keno is a random number draw game that is played in-venue at pubs, clubs, hotels and casinos throughout Australia. Tabcorp's Keno business comprises a network of over 3,600 venues in Victoria, Queensland, the ACT and NSW. Tabcorp holds licences to operate its Keno business in each state and territory respectively.

Tatts Group Limited

Tatts Group Limited (**Tatts**) is a provider of lotteries, wagering and gaming products and services and is listed on the Australian Stock Exchange. Tatts comprises three business divisions: Lotteries, Wagering and Gaming.

Lotteries

Tatts currently operates all major lotteries in each state and territory, with the exception of Western Australia, which is the only remaining state-owned and operated lottery (Lotterywest).

Tatts operates Set for Life, Powerball, Oz Lotto, TattsLotto, Saturday Lotto, Gold Lotto, X Lotto, Monday & Wednesday Lotto, Lucky Lotteries, The Pools, Lotto Strike, Super 66 and Instant Scratch. Tatts also operates a Keno product in South Australia as part of its South Australian Lotteries master agency agreement with the Lotteries Commission of South Australia.

Wagering (Racing and Sports)

Tatts wagering business comprises:

- a retail network of TAB outlets and licensed venues in Queensland, South Australia, the Northern Territory and Tasmania. In these states/territories, Tatts (UBET) holds wagering licences and is the exclusive operator of the off-course totalisator and retail wagering services.
- the operation of bookmaker UBET, which has a national online presence and telephone betting service supplying totalisator and fixed odds racing and sports wagering products.
- the operation of RadioTAB, which broadcasts racing in Queensland, South Australia, Tasmania and the Northern Territory.

Gaming

Tatts is a provider of gaming and promotional management solutions and gaming monitoring services through its gaming segment, known as 'MAX' (which is comprised of Maxgaming and Bytecraft). Maxgaming operates in NSW, Queensland, Victoria and the Northern Territory. Maxgaming provides loyalty systems, jackpot systems and marketing tools to gaming venues and repair and maintenance services.

Maxgaming holds licences to provide gaming monitoring services to state governments in NSW, Queensland and the Northern Territory.

Overlap

The ACCC understands that the merger parties primarily overlap in the following:

- **Retail wagering / totalisator operations:** Tabcorp and Tatts both operate off-course totalisators and retail wagering networks (in different states and territories subject to long term exclusive licences), supplying totalisator (pari-mutuel) and fixed odds wagering products to punters through their retail outlets and licensed venues.
- **Online and telephone wagering:** Tabcorp and Tatts both operate online and have telephone betting services supplying totalisator (pari-mutuel) and fixed odds wagering services nationally.

- **Gaming and promotional management systems and related services:** Tabcorp and Tatts both supply gaming and promotional management systems and services to gaming venues.
- **Gaming monitoring services:** Tabcorp, following completion of its acquisition of Intecq, and Tatts will both supply gaming monitoring services in Queensland.

Attachment B – Questions for interested parties

1. If you are a business or organisation, please provide a brief description of your business or organisation.
2. Please outline the reasons for your interest in the proposed merger, including any commercial relationship/s with either of Tabcorp or Tatts.

Specific questions and areas of focus are provided below, separated out for the type of organisation/individual that is responding.

Wagering (racing and sports)

The ACCC has previously considered the following markets to be relevant for its analysis of the likely competitive effects of mergers in the wagering industry:

- state and territory-based markets for the supply of off-course retail totalisator wagering products and services
- the national market for the supply of wagering on racing events
- the national market for the supply of wagering on sporting events
- the national market for the supply of pooling services
- the bidding market for state-based totalisator licences

The ACCC seeks your feedback on these relevant markets, and your response to the following questions.

Questions for professional and recreational punters / bookmakers (other interested parties may be interested in addressing some of these questions)

1. To what extent do suppliers of racing wagering products closely compete with suppliers of sports betting products?
2. To what extent do suppliers of wagering products (racing and sports betting) closely compete with suppliers of other forms of gambling (e.g. lotteries, casinos, pokie machines) for punters' dollars?
3. Are different forms of gambling close alternatives to one another? What factors, if any, make different forms of gambling close substitutes (e.g. expected payout, environment where the gambling takes place)?
4. Do you consider corporate bookmakers (such as Sportsbet, William Hill, Ladbrokes, Bet365) and betting exchanges (Betfair) are close competitors to Tabcorp and Tatts for wagering products and services?
5. To what extent are fixed odds or "tote derivative" wagering products (such as "best of the totes") a viable alternative to totalisator (pari-mutuel) wagering, and vice versa? To what extent are betting exchanges a viable alternative to these forms of wagering? Are some punters restricted to only betting on the totalisators as corporate bookmakers will not accept their bets?
6. To what extent is retail wagering (eg. placing bets at TAB outlets, licensed venues) a viable alternative to wagering through online channels (e.g. placing bets via the internet or mobile phone apps)?

7. The ACCC understands that both online and fixed odds wagering has increased its share of wagering turnover in recent years, and retail and phone wagering and totalisator (pari-mutuel) wagering share has decreased. What factors do you consider have contributed to these changes (e.g. product offering, increase in popularity of internet betting, service levels)?
8. Do you consider that the totalisators operated by Tabcorp and Tatts in separate states/territories closely compete (by accepting bets from interstate)? Why/why not? To what extent do punters substitute between totalisators in separate states when betting online or over the phone?
9. Do either Tabcorp or Tatts offer unique wagering products or services (e.g. unique bet types, price promotions, lack of restrictions on betting size limits) that are not offered by corporate bookmakers?
10. Are corporate bookmakers and Betfair stronger competitors to Tabcorp and Tatts for some wagering products and services and not for others (e.g. bets on sports, racing or novelty events)?
11. Do you consider that corporate bookmakers and betting exchanges are likely to competitively constrain a merged Tabcorp/Tatts in the supply of wagering products and services (racing and/or sports betting)?
12. Please provide examples of competitive responses of Tabcorp and Tatts to each other (e.g. changes or improvements to their retail or online offering).
13. Please provide your view as to the likely impact of the proposed merger on the price (odds / totalisator operator takeout rates) and quality and breadth of services offered for wagering (racing and/or sports betting).
14. Please comment on the increased economies of scale of a merged Tabcorp/Tatts and the impact of this increased scale on competing suppliers of wagering products and services and/or barriers to entry and expansion.

Questions for state and territory governments

15. Please comment on the extent to which the proposed merger is likely to impact the future bidding process for state and territory-based wagering licences. For example, would the proposed merger remove the closest competitors bidding for licences and result in lower bids for these licences in future?
16. Do you consider that there are credible alternative bidders to Tabcorp and Tatts for licences to operate off-course totalisators and retail wagering services?
17. Do you consider that the proposed merger will exacerbate any existing incumbency advantages that Tabcorp and Tatts may have as the current licensed totalisator operators?

Gaming and promotional management systems and related services

The ACCC appreciates that your organisation may have recently responded to the ACCC's market inquiries with respect to Tabcorp's recent acquisition of Intecq.

The proposed merger between Tabcorp and Tatts involves overlap in the supply of gaming and promotional management systems and related services and monitoring services in additional states and territories to those considered in the Tabcorp/Intecq merger review.

Accordingly, the questions below seek your views on the competitive effects of the current merger proposal. If you would like information recently provided to the ACCC to be taken into account in its assessment of the current matter, please make a note to that effect in your response.

Questions for gaming venues (pubs and clubs)

18. Please describe your venue's purchase of gaming and promotional management systems and/or related services. The ACCC would appreciate receiving information about:
 - a. the specific systems/services you use, (e.g. loyalty programs, repair and maintenance of electronic gaming machines (EGMs))
 - b. the number of electronic gaming machines requiring these systems/services, and
 - c. how much you pay for these systems/services
19. Do you provide some or all of your own gaming and promotional management systems and/or related services (e.g. do you manage your own gaming floor, organise your own service/maintenance/repair of electronic gaming machines, or do you obtain all of these services from an external supplier)? Please describe the different options available in your state and how much it would cost you to switch.
20. Do you consider Tabcorp (TGS / Intecq) and Tatts (MAX, formerly Maxgaming) to be each other's closest competitors for the supply of gaming and promotional management systems and/or related services to your organisation? Consider:
 - a. the comparability of systems/services supplied by Tabcorp and Tatts in terms of functionality and cost
 - b. the geographic areas where Tabcorp and Tatts supply
 - c. whether Tabcorp and Tatts tend to participate in the same tender processes to supply your venue/s.

21. Please identify and describe other suppliers of gaming and promotional management systems and related services, including the extent to which they compete with TGS / Intecq and/or MAX. Relevant factors may include:
- a. the similarity of the services they offer, including the level of functionality
 - b. whether they are willing to supply to venues in your state/territory/local area
 - c. supplier size and reputation
 - d. service standards
 - e. whether they supply at a similar price and
 - f. examples of any especially vigorous or effective competition such as pricing discounting, promotional activity or new technologies.

Please provide specific examples where possible.

22. Please describe how a merged Tabcorp/Tatts may affect the supply of gaming and promotional management systems and/or related services to your venue. How may your organisation respond to a potential attempt by the combined Tabcorp/Tatts to increase prices or otherwise reduce service quality?

Questions for suppliers of gaming and promotional management systems and/or related services (gaming venues may be interested in addressing some of these questions)

23. Please describe the gaming and promotional management systems and/or related services your organisation offers. The ACCC would appreciate receiving information about:
- a. the specific systems/services you supply including any related/value add services
 - b. the number of venues and electronic gaming machines you supply these systems/services to
 - c. the estimated value of your supply of these systems/services annually in each local area or state and
 - d. your price structure to customers.
24. Please consider the extent to which you believe you compete with Tabcorp (TGS / Intecq) and Tatts (MAX, formerly Maxgaming / Bytecrafft) in the supply of gaming and promotional management systems and/or related services. Relevant factors may include:
- a. the similarity of the systems/services you offer
 - b. where geographically you currently supply or would be willing to supply
 - c. your size and reputation
 - d. service standards
 - e. price
 - f. whether you win/lose venues to Tabcorp and/or Tatts and/or tend to participate in the same tender processes.

25. Please identify close existing competitors and potential new competitors to each of Tabcorp and Tatts in each of New South Wales, Victoria and Queensland for the supply of gaming and promotion management systems and/or related services. Please consider:
- the comparability of systems/services supplied by Tabcorp and Tatts in terms of functionality and cost
 - the time and cost involved in venue switching to an alternative supplier
 - examples of any vigorous or effective competition e.g. promotional activity or new technology.
26. Please address the extent to which larger venues or groups of venues may have the ability to develop and use their own gaming and promotional management systems and/or related services, or partner with a new or existing supplier.

Gaming monitoring services

Questions for gaming venues (pubs and clubs)

27. If you are in a state with multiple licenced monitoring operators, can you choose which of the licenced operators will provide you with monitoring services?
28. If you can choose your licenced monitoring operator, what factors are important to your decision? Have you switched licenced monitoring operators in the past? What are the costs involved in switching to an alternative operator?

Questions for gaming monitoring suppliers

29. Please describe how a combined Tabcorp/Tatts may affect your organisation's ability to compete in the supply of gaming monitoring services.
30. Please identify close existing competitors or new entrants to each of Tabcorp and Tatts for the supply of gaming monitoring services.

Questions for state and territory governments

31. Please comment on the extent to which the proposed merger is likely to impact on the future bidding process for licences to supply monitoring services. Please consider whether the proposed merger could provide a combined Tabcorp/Tatts with an increased advantage in the supply of gaming monitoring services.
32. Please identify any state regulation/s applying to licenced monitoring operators, which you consider could act as a constraint on the merged Tabcorp/Tatts (e.g. to increasing its prices, reducing its service quality). Please address the extent to which you think this regulation/s would be effective in constraining the merged Tabcorp/Tatts.

Lotteries and Keno

33. Are lotteries and Keno in competition with each other? Do customers consider them substitutes?

Questions for state and territory governments

34. Please comment on the extent to which the proposed merger is likely to impact the future bidding process for state and territory-based lottery and Keno licences. For example, would the proposed merger remove the closest competitors for bidding licences and result in lower bids for these licences in future?
35. Do you consider that there are credible alternative bidders to Tabcorp and Tatts for lottery and Keno licences?
36. Do you consider that the proposed merger will exacerbate any existing incumbency advantages that Tabcorp and Tatts may have as the current holders of lottery and Keno licences?

Other information or competition issues

37. Please comment on the extent to which the proposed acquisition is likely to impact on the supply of pooling services to suppliers of wagering product and services.
38. Please provide any additional information or comments, or identify other competition issues, that you consider relevant to the ACCC's consideration of the proposed acquisition under section 50 of the Act.



Friday 16th December 2016

Mr Tom Leuner
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Dear Sir

Harness Racing NSW is fully supportive of the proposed merger of Tabcorp and Tatts primarily as the racing industry is already experiencing a threat to its traditional long term funding. The threat is due to the diminishing revenue received from Tabcorp brought on by the competitive global market with the expansion of corporate wagering operators. For the racing industry to remain sustainable the proposed Tabcorp/Tatts merger must proceed to allow a merged identity to again become competitive with other significantly large wagering operators.

The merger will permit efficiencies which will benefit wagering customers.

The merger will allow for additional investments in innovations which will benefit and satisfy the requirements of wagering customers.

The merger will create a national totalisator pool which will benefit wagering customers in particular those who wager on races which are not conducted in the premium time allocations.

The merger will sustain racing revenue and in turn on-going employment in the industry.

Harness Racing NSW responds to the questions posed by the ACCC as follows:

- 1. To what extent do suppliers of racing wagering products closely compete with suppliers of sports betting products?**

The supply is highly competitive to the extent it goes beyond the national reach on a global front and in fact to illegal offshore suppliers.

- 2. To what extent do suppliers of wagering products (racing and sports betting) closely compete with suppliers of other forms of gambling (e.g. lotteries, casinos, pokie machines) for punters' dollars?**

Wagering is a skill-based activity, involving some knowledge of the 'form' of the various runners or contestants whilst other forms of gambling involve games of chance.

- 3. Are different forms of gambling close alternatives to one another? What factors, if any, make different forms of gambling close substitutes (e.g. expected payout, environment where the gambling takes place)?**

Yes as expressed in the above point (2) racing product is 'skill' based whilst lotteries and gaming machines are pure chance.

- 4. Do you consider corporate bookmakers (such as Sportsbet, William Hill, Ladbrokes, Bet365) and betting exchanges (Betfair) are close competitors to Tabcorp and Tatts for wagering products and services?**

Absolutely to the extent corporate operators have successfully attained significant market share off a global strategy. Effectively these corporate operators offer wagering services on the same events Tabcorp and Tatts on a much larger scale.

- 5. To what extent are fixed odds or "tote derivatives" wagering products (such as "best of the totes") a viable alternative to totalisator (pari-mutuel) wagering, and vice versa? To what extent are betting exchanges a viable alternative to these forms of wagering? Are some punters restricted to only betting on the totalisator as corporate bookmakers will not accept their bets?**

It is the traditional Australian punters preference to wager on fixed odds and more recently through betting exchanges as strong substitutes for totalisator wagering. Australian punters have a preference to bet fixed odds against the wagering operator (person) as opposed to the totalisator (machine) a consequence is as these operators have risks of increased exposure there is clear evidence that they choose not to accept bets from certain winning customers.

- 6. To what extent is retail wagering (e.g. placing bets at TAB outlets, licensed venues) a viable alternative to wagering through online channels (e.g. placing bets via internet or mobile phone apps)?**

The simple response is in the affirmative there has been substantive movement away from TAB outlets to telephone and online betting especially more recently including via mobile devices.

- 7. The ACCC understands that both online and fixed odds wagering has increased its share of wagering turnover in recent years, and retail and phone wagering and totalisator (pari-mutuel) wagering has decreased. What factors do you consider have contributed to these changes (e.g. product offering, increase in popularity of internet betting, service levels)?**

Note above point (5) and point (6) wagering via the internet has experienced significant growth in Australia over the last decade.

There are many reasons for this, including:

- Convenience;
- Choice by comparing wagering operators offerings via websites or apps;
- Ease of electronic money transfers;
- Marketing particularly by international corporate bookmakers to across all Australia as compared to Tabcorp and Tatts who market only to States where they hold the licence.
- The development of betting products by international corporate operators;
- The development of sophisticated online betting apps.

- 8. Do you consider that the totalisators operated by Tabcorp and Tatts in separate states/territories closely compete (by accepting bets from interstate)? Why/why not? To what extent do punters substitute between totalisators in separate states when betting online or over the phone?**

Not to any significant extent as customers generally recognise Tabcorp and Tatts through retail outlets as they are the licensed operators in their State.

9. **Do either Tabcorp or Tatts offer unique wagering products or services (e.g. unique bet types, price promotions, lack of restrictions on betting size limits) that are not offered by corporate bookmakers?**

No in fact they are limited to a certain extent.

10. **Are corporate bookmakers and Betfair stronger competitors to Tabcorp and Tatts for some wagering products and not for others (e.g. bets on sports, racing or novelty events)?**

Yes as is evidenced by the significant growth in market share of corporate operators.

11. **Do you consider that corporate bookmakers and betting exchanges are likely to competitively constrain a merged Tabcorp/Tatts in the supply of wagering products and services (racing and/or sports betting)?**

Yes.

12. **Please provide examples of competitive responses of Tabcorp and Tatts to each other (e.g. changes or improvements to their retail or online offering).**

The competition is more both Tabcorp and Tatts as individual operators against the international wagering operators not against each other. They both adopt measures designed to strengthen their overall pari-mutuel and fixed odds offerings in direct response to increased competition from international wagering operators. Investing in retail outlets to attract customers. Developing new products, investment in digital improvements and Rewards programs.

13. **Please provide your view as to the likely impact of the proposed merger on the price (odds/totalisator operator takeout rates) and quality and breadth of services for wagering (racing and/or sports betting).**

Regulation by respective governments through legislation ensures there will be no adverse impact. A merger will enhance the quality and number of services, new product development; improved outlet experience and the combined identities digital offering thus creating a pathway for combined pools.

14. **Please comment on the increased economies scale of a merged Tabcorp/Tatts and the impact of this increased scale on competing supplies of wagering products and services and/or barriers to entry and expansion.**

There should be zero affect as each of Tabcorp and Tatts holds long-term exclusive State licenses. In digital the barriers to entry are low, and will remain low, as demonstrated by the strong growth of corporate bookmakers in recent years. Large global operations allow corporate wagering operators to benefit the scale economies.

Finally, on behalf of the harness racing industry in NSW it is vitality essential that the merger of Tabcorp and Tatts proceeds for the longevity of the racing industry which has a constituency of near 90,000 (Reference NSW Government Size and Scope of the NSW Racing Industry (IER 2014)).

Yours sincerely

John Dumesny
Chief Executive



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Tuesday 31st January 2017

Ms Rebecca Burns
Merger Investigations
Australian Competition & Consumer Commission
Level 35
360 Elizabeth Street
Melbourne Victoria 3000

Dear Madam

Harness Racing NSW does not recognise any change to the structure of the media rights in Australia as a result of the merger of Tatts Group Limited with Tabcorp Holdings Limited.

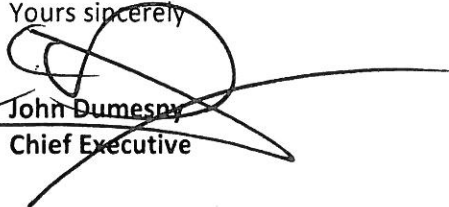
Tabcorp (SKY Racing) has agreements with retain wagering outlets and race clubs already in place in those States which are under the licence currently held by the Tatts Group. These and future agreements will be essential to the ongoing operation of Tabcorp.

These two identities (wagering outlets and race clubs) will want to ensure their vision is received in retail outlets as primarily they are both funded through wagering. If there was a failure for Tabcorp to continue the licences (out of race tracks or into retail outlets) it would be necessary for Tabcorp to secure the vision from an alternative provider in any case for its wellbeing.

Historically where there has been a dispute concerning vision rights these have been efficiently and effectively resolved as Tabcorp has an absolute requirement for the vision of the product to be acquired and displayed in retail wagering outlets.

Currently an alternate vision provider (Racing.com) operates in a State where Tabcorp holds the totalisator licence as it is unlikely there is or will be restrictions on the supply of digital rights. Further the Tatts Group do not operate channels which telecast racing product having relied on SKY as the provider.

Yours sincerely



John Dumesny
Chief Executive