

Appendix 3

Investigating Accountants' Report

201 Kent Street
Sydney NSW 2000
GPO Box 4177
Sydney NSW 2001

Telephone (02) 9256 7
Fax (02) 9256 7777
DX 990 Sydney

Price Waterhouse Corporate Finance Pty: Ltd.



A.C.N. 007 296 755
(a member of Price Waterhouse)

Licensed dealer under the Corporations Law.

4 May 1998

The Honourable Michael Egan
Treasurer of New South Wales
Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Board of Directors
TAB Limited
495 Harris Street
SYDNEY NSW 2007

Dear Treasurer and Directors,

Investigating Accountants' Report

A Introduction

This report has been prepared at the request of the Treasurer of NSW and the Directors of TAB for inclusion in an Offer Document to be dated 4 May 1998 relating to the invitation to investors to purchase 450 million Shares from the State of New South Wales, representing 100% of TAB's issued capital at the date of the Offer Document.

Expressions used in this report have the same meaning as defined in the Glossary of Terms.

B Background information

TAB was incorporated on 25 February 1998 in accordance with the Privatisation Act. The Company is a continuation of, and the same legal entity as, the NSW Totalizator Agency Board. Historically, TAB provided an off-course wagering service in NSW on thoroughbred, harness, greyhound racing and other sporting events.

The regulatory and tax regime which applied to these operations was altered by the Totalizator Act. Under the Act, on 6 March 1998 TAB acquired 99 year licences to conduct off-course and on-course wagering activities in NSW including a 15 year exclusive right in respect of off-course wagering. Consistent with the Totalisator Act, TAB entered into the RDA with NSWGR on 11 December 1997 which sets out commercial arrangements for the provision of racing product to TAB.

On 30 April 1998, TAB acquired two 15 year exclusive gaming licences to operate NSW gaming machine linked jackpot businesses and a 15 year exclusive licence to operate a centralised monitoring system. Proposed legislation is currently before the NSW Parliament which, if passed, will entitle TAB to a licence to own, supply and finance gaming machines in hotels in NSW and gaming machines connected to Links in NSW registered clubs.

C Financial information

The information included in Schedule 1 consists of the following:

- the historical statement of assets and liabilities of TAB at 31 December 1997;
- pro-forma profit and loss information for TAB for the three years ended 30 June 1995, 1996 and 1997 and six months ended 31 December 1997; and
- pro-forma cash flow information for TAB for the three years ended 30 June 1995, 1996 and 1997 and six months ended 31 December 1997.

The historical financial information of TAB for the three years ended 30 June 1995, 1996 and 1997 and six months ended 31 December 1997 which forms the basis of the pro-forma information has been extracted from TAB's audited financial statements. The NSW Auditor-General was the auditor of TAB for those periods and his reports state he conducted audits of the financial statements in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial statements were free of material misstatement. Unqualified audit opinions were expressed on the financial statements.

Pro-forma adjustments have been made to the historical profit and loss and cash flow information to give effect to changes to the off-course wagering regulatory regime introduced by the Totalizator Act and the commercial arrangements under the RDA. These revised the existing arrangements relating to:

- wagering taxes/commission;
- distributions to the NSW Racing Industry; and
- fractions and unclaimed bettor returns.

These pro-forma adjustments are described in Notes 1 and 3 to Schedule 1 which includes the pro-forma financial information. The objective of these pro-forma adjustments is to show the significant effect the changes to the off-course wagering regulatory regime introduced by the Totalizator Act and revised commercial arrangements under the RDA would have had on TAB's historical results and cash flows if they had been in effect from 1 July 1994. The pro-forma financial information is not necessarily indicative of the actual results of operations and cash flows that would have been attained by TAB had the transactions described above occurred earlier, nor is it necessarily indicative of future results.

The historical profit and loss and cash flow information has also been adjusted to exclude the results of TAB's Hungarian totalizator project which has been discontinued, and a one-off contribution made by the NSW Government as a consequence of the revised racing industry arrangements.

As disclosed in Note 1 to Schedule 1, the pro-forma financial information does not give effect to any revenue and expenses relating to any other transactions prior to their occurrence, including the acquisition of Sky Channel, the application of a Federal income tax rate of 36% from the date when the NSW Government ceases to beneficially own all shares in TAB, on-course wagering activities prior to 1 October 1997 or amortisation of TAB's wagering licences, as these are new matters.

The presentation of the historical and pro-forma financial information included in Schedule 1 is the responsibility of the Directors.

D Scope of our work

Examination of statement of assets and liabilities

We have audited the statement of assets and liabilities as at 31 December 1997 and the notes thereto included in Schedule 1. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the statement of assets and liabilities is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the statement of assets and liabilities is presented fairly in accordance with the related accounting policies set out in Note 2 to Schedule 1 and accounting policies prescribed in Australian accounting standards and other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views.

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Review of pro-forma financial information

We have reviewed the pro-forma financial information reflecting the revised arrangements described in Notes 1 and 3 to Schedule 1 and the application of those adjustments to the historical financial information in determining the pro-forma profit and loss information and pro-forma cash flow information for the three years ended 30 June 1995, 1996 and 1997 and the six months ended 31 December 1997.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements to report whether, on the basis of the procedures described, anything has come to our attention that would indicate further adjustments are required to present the pro-forma financial information fairly in accordance with the basis of preparation of pro-forma information set out in Notes 1, 2 and 3 to Schedule 1 and accounting policies prescribed in Australian accounting standards and other mandatory professional reporting requirements, being Urgent Issues Group Consensus Views.

The review procedures were substantially less in scope than an audit examination conducted in accordance with generally accepted auditing standards. The review was limited primarily to:

- inquiries of senior management of TAB;
- analytical review procedures applied to the historical financial information;
- review of relevant working papers, accounting records and other documentation, as appropriate; and
- review of the historical results to determine that they are in accordance with TAB's current accounting policies.

A review of this nature provides less assurance than an audit and accordingly, this report does not express an audit opinion on the pro-forma financial information included in Schedule 1.

E Opinion on historical statement of assets and liabilities

In our opinion the statement of assets and liabilities included in Schedule 1 presents fairly the financial position of TAB at 31 December 1997 in accordance with the accounting policies set out in Note 2 to Schedule 1 and accounting policies prescribed in Australian accounting standards and other mandatory professional reporting requirements.

F Review report on pro-forma financial information

Based on our review, which is not an audit, nothing has come to our attention which would require any further adjustment to the pro-forma financial information included in Schedule 1 in order for it to present fairly the pro-forma profit and loss and cash flows of TAB for the three years ended 30 June 1995, 1996 and 1997 and the six months ended 31 December 1997 in accordance with the basis of preparation set out in Notes 1, 2 and 3 to Schedule 1 and accounting policies prescribed in Australian accounting standards and other mandatory professional reporting requirements.

G Subsequent events

The Directors have advised us that the significant events which occurred subsequent to 31 December 1997 are as disclosed in Note 10 to Schedule 1.


Based on our discussions with the Directors, nothing has come to our attention to cause us to believe there have been any significant events subsequent to 31 December 1997 which are likely to significantly affect TAB's results of operations, cash flows or financial position in subsequent financial years, other than the matters disclosed in Note 10 to Schedule 1.

H Declarations

Details of the involvement of Price Waterhouse Corporate Finance Pty Ltd and Price Waterhouse in the Offer Document and the Appendices and declarations relating to their interests are set out in Appendix 4 of this document.

Yours faithfully,

Price Waterhouse Corporate Finance Pty Ltd



MJ Mitchell
Authorised Representative



WJ Andrews
Authorised Representative

Schedule 1

Pro-forma profit and loss information					
	Note	Pro-forma year ended 30 June			Pro-forma
		1995 \$m	1996 \$m	1997 \$m	six months ended 31 Dec 1997 \$m
Wagering turnover		3,492.4	3,590.3	3,644.6	1,967.1
Wagering revenue	3(a)	564.2	581.1	590.9	318.6
Interest revenue	3(b)	5.6	6.2	5.4	2.0
Other revenue	3(b)	3.4	5.0	7.1	1.2
Total revenue		573.2	592.3	603.4	321.8
Earnings before interest and income tax		94.3	97.3	96.0	46.1
Interest revenue	3(b)	5.6	6.2	5.4	2.0
Operating profit before income tax	3(c)	99.9	103.5	101.4	48.1

The pro-forma profit and loss information presented above does not include Federal income tax since TAB was income tax exempt during the relevant periods.

This pro-forma profit and loss information should be read in conjunction with Notes 1 to 4, 8 and 9. Particular reference should also be made to Note 3, which describes adjustments made to the historical financial information.

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Statement of assets and liabilities		
	Note	Actual 31 Dec 1997 \$m
Current assets		
Cash		8.9
Receivables	5	14.1
Inventories		1.6
Investments	2(c)	62.0
Total current assets		86.6
Non-current assets		
Property, plant and equipment	6	102.8
Total non-current assets		102.8
Total assets		189.4
Current liabilities		
Creditors and borrowings	7	63.8
Provisions – employee entitlements		3.2
Total current liabilities		67.0
Non-current liabilities		
Provisions – employee entitlements		5.4
Total non-current liabilities		5.4
Total liabilities		72.4
Net assets		117.0
Capital and reserves		
Contribution by NSW Government		9.0
Asset revaluation reserve		29.8
Accumulated funds		78.2
Total capital and reserves		117.0

This statement of assets and liabilities should be read in conjunction with Notes 2 and 5 to 10.

Pro-forma cash flow information					
		Pro-forma year ended 30 June			Pro-forma six months ended
	Note	1995 \$m	1996 \$m	1997 \$m	31 Dec 1997 \$m
Cash flows from operating activities					
Receipts from customers *		3,494.8	3,589.4	3,647.0	1,858.9
Statutory outgoings paid **		(3,084.5)	(3,167.4)	(3,219.2)	(1,640.3)
Payments to suppliers and employees **		(298.9)	(310.0)	(310.2)	(139.8)
Interest received *		5.6	6.2	5.4	2.0
Rents and miscellaneous income received **		3.1	2.6	1.4	0.6
Net cash provided by operating activities	3(d)	120.1	120.8	124.4	81.4
Cash flows from investing activities					
Payment for non-current assets **		(10.3)	(10.9)	(7.1)	(7.8)
Proceeds from sales of non-current assets *		1.7	3.3	5.7	0.5
Net cash used in investing activities	3(f)	(8.6)	(7.6)	(1.4)	(7.3)
Cash flows from financing activities					
Distributions paid **	3(e)	-	-	-	-
Net pro-forma cash flow		111.5	113.2	123.0	74.1

* Consists of historical amounts for which pro-forma adjustments are not applicable.

** Comprised of historical amounts plus/minus related pro-forma adjustments detailed in Notes 3(d) to 3(f).

This pro-forma cash flow information should be read in conjunction with Notes 1 to 4 and 8 to 10. Particular reference should be made to Note 3, which describes the adjustments made to the historical statements of cash flows.

Reconciliation of pro-forma operating profit before income tax to pro-forma net cash provided by operating activities

	Note	Pro-forma year ended 30 June			Pro-forma
		1995 \$m	1996 \$m	1997 \$m	six months ended 31 Dec 1997 \$m
Pro-forma operating profit before income tax	3(c)	99.9	103.5	101.4	48.1
<i>Historical reconciling items</i>					
Depreciation and amortisation		18.0	14.7	13.8	6.9
Deduct Hungary project	3(i)	(0.3)	(0.2)	-	-
Loss/(gain) on sale of non-current assets		(0.3)	(0.2)	0.2	-
Write-off of deferred expenditure		2.9	3.7	-	-
Deduct Hungary project	3(i)	(2.6)	(3.7)	-	-
Changes in assets and liabilities					
Decrease/(increase) in receivables		(0.3)	(1.3)	3.6	(12.3)
Deduct contribution from NSW Government	3(ii)	-	-	-	10.8
Decrease/(increase) in inventories		0.3	0.1	(0.2)	0.2
Increase in customer balances		3.6	0.2	0.4	0.5
Increase/(decrease) in provisions		(0.9)	0.2	0.9	0.9
Increase/(decrease) in other creditors		(0.2)	3.8	4.3	26.3
Pro-forma net cash provided by operating activities	3(d)	120.1	120.8	124.4	81.4

This pro-forma cash flow information should be read in conjunction with Notes 1 to 4 and 8 to 10. Particular reference should be made to Note 3, which describes the adjustments made to the historical cash flow information.

Non cash operating activities*On-course wagering*

Receipts from customers and statutory outgoings paid do not include TAB's entitlement under the RDA to receive the economic benefit of on-course commissions net of on-course operating costs for the period from 1 October 1997 to 5 March 1998. This benefit will be received by TAB in the form of a reduced payment to the NSW Racing Industry.

Notes to and forming part of the financial information

The presentation of the pro-forma profit and loss and cash flow information (pro-forma financial information) and the historical statement of assets and liabilities is the responsibility of the Directors.

1. Basis of preparation of pro-forma financial information

The pro-forma profit and loss and cash flow information has been prepared to give effect to the changes to the off-course wagering regulatory regime introduced by the Totalizator Act and the revised commercial arrangements under the RDA as if the changes had been in effect from 1 July 1994. These revised the arrangements relating to off-course wagering taxes/commission, distributions to the NSW Racing Industry, fractions and unclaimed bettor returns. The pro-forma adjustments are described in detail in Note 3.

The historical profit and loss and cash flow information has also been adjusted to exclude TAB's discontinued Hungarian operations and a one-off revenue contribution made by the NSW Government as a consequence of the revised racing industry arrangements.

The pro-forma financial information is not necessarily indicative of the actual results of TAB's operations and cash flows that would have been attained by TAB had the matters described above occurred earlier, nor is it necessarily indicative of future results.

The pro-forma financial information in this schedule does not give effect to any revenues and expenses relating to other matters prior to their occurrence including the acquisition of Sky Channel, the application of Federal income tax at a rate of 36% from the date when the NSW Government ceases to beneficially own all shares in TAB, the conduct of on-course wagering activities prior to 1 October 1997 or the amortisation of TAB's wagering licences, as these are new matters.

The historical financial statements for each of the three years ended 30 June 1997 and the six months ended 31 December 1997, which form the basis of the pro-forma financial information, have been audited by the NSW Auditor-General and are not included in the Offer Document or the Appendices.

2. Statement of accounting policies

The significant accounting policies that have been applied in preparing the statement of assets and liabilities, and the historical profit and loss and cash flow information which form the basis of the pro-forma financial information, are:

(a) Basis of accounting

- (i) The historical financial information has been prepared on the basis of historical costs except to the extent that certain property, plant and equipment has been revalued and investments are valued at net market value. The historical financial information has been prepared on an accruals basis and in accordance with accounting policies prescribed in Australian accounting standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).
- (ii) From 1 October 1997 in accordance with the RDA, TAB pays NSW a Product Fee and Wagering Incentive Fee rather than distributing its annual surplus from wagering to the NSW Racing Industry under the Totalizator (Off-Course Betting) Act 1964. In addition, the RDA gives TAB an entitlement to receive the economic benefit of on-course commissions net of on-course operating costs for the period from 1 October 1997 to 5 March 1998 (the period between the effective date of the RDA and the commencement of the Totalizator Act). These amounts were previously received by the NSW Racing Industry. Accordingly, the changes with respect to both off-course and on-course wagering are included in the historical financial information from 1 October 1997.

(b) Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories include wagering tickets, wagering terminal spare parts, general stores and printing stock. Costs are assigned on a first-in, first-out basis.

(c) Investments

Investments are classified as current or non-current assets depending upon the amount expected to be consumed or converted into cash within twelve months of balance sheet date. Investments are held in short term money market deposits and are valued at net market value as at the balance sheet date.

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(d) Property, plant and equipment

Property, plant and equipment is brought to account at cost or at Directors'/independent valuation, less, where applicable, any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed at least annually to ensure it is not in excess of its recoverable amount. Unless otherwise stated, recoverable amounts are not determined using discounted cash flows.

The depreciable amount of all property, plant and equipment, other than land, is depreciated using the straight line method, over the useful life of the relevant asset commencing from the time the asset is held ready for use. Retail outlet improvements are amortised using the straight line method, over the estimated useful lives of the improvements.

The gain or loss on disposal of property, plant and equipment including revalued assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the operating result in the period of disposal. Any realised revaluation increment relating to the disposed asset which is included in the asset revaluation reserve is transferred to accumulated funds.

(e) Leases

Payments for retail premises and equipment are under operating leases and are charged as expenses in the periods in which they are incurred.

(f) Cash

Cash represents cash held in retail outlets and bank accounts as at balance sheet date.

(g) Employee entitlements

Salaries, wages and annual leave

The provisions for employee entitlements to salaries, wages and annual leave represent the amount which TAB has a present obligation to pay resulting from employees' services provided up to the balance sheet date. The amounts provided have been calculated based on current salary and wage rates and include related direct costs.

Long service leave

The liability for employee entitlements to long service leave represents the present value of the estimated future cash outflows expected to be made by the employer resulting from employees' services provided up to the balance sheet date. The liabilities for employee entitlements, which are not expected to be settled within twelve months, are discounted using the rates attached to national government securities at the balance sheet date which match the terms of maturity of the related liabilities up to the balance sheet date.

In determining the liability for employee entitlements, consideration has been given to future increases in salary and wage rates and TAB's experience with staff departures. Related direct costs have also been included.

Superannuation

Superannuation contributions are made by TAB to the appropriate employee superannuation funds and are charged as expenses when incurred.

(h) Foreign currency transactions and balances

Foreign currency transactions are converted at the Australian currency rate of exchange applicable at the date of each transaction. Foreign currency items outstanding at balance sheet date are translated at the balance sheet date spot rate with resulting exchange gains or losses brought to account in the profit and loss statement.

3. Historical financial information and pro-forma adjustments

As indicated in Note 1, in compiling the pro-forma information in the pro-forma statements for the three years ended 30 June 1995, 1996 and 1997 and the six months ended 31 December 1997, the Directors made adjustments

to the historical results. Such historical results were extracted from financial statements audited by the NSW Auditor-General. The historical financial information, adjustments made to derive the pro-forma financial information and explanations thereof, are set out below:

	Note	Pro-forma year ended 30 June			Six months ended
		1995 \$m	1996 \$m	1997 \$m	31 Dec 1997 \$m
Pro-forma profit and loss					
(a) Wagering revenue					
Historical		270.6	278.2	282.6	153.8
<i>Pro-forma off-course wagering adjustments:</i>					
- Fractions and unclaimed bettor returns	(iii)	36.6	37.7	38.5	20.7
- Commission payable to NSW Government	(vii)	257.0	265.2	269.8	144.1
Pro-forma wagering revenue		564.2	581.1	590.9	318.6
(b) Other revenue (excluding interest)					
Historical					
- Proceeds from sale of non-current assets		1.7	3.3	5.7	0.5
- Hungary project		-	-	-	0.6
- Other		1.7	1.7	1.4	0.7
Contribution from NSW Government		-	-	-	10.8
		3.4	5.0	7.1	12.6
<i>Deduct:</i>					
- Hungary project	(i)	-	-	-	(0.6)
- Contribution from NSW Government	(ii)	-	-	-	(10.8)
Pro-forma other revenue (excluding interest)		3.4	5.0	7.1	1.2
Interest revenue					
Historical and pro-forma		5.6	6.2	5.4	2.0
(c) Operating profit before income tax					
Historical		107.2	109.6	110.7	20.7
<i>Add/(deduct):</i>					
- Hungary project	(i)	2.9	3.9	-	(0.6)
- Contribution from NSW Government	(ii)	-	-	-	(10.8)
<i>Pro-forma off-course wagering adjustments:</i>					
- Fractions and unclaimed bettor returns	(iii)	36.6	37.7	38.5	20.7
- Product Fee	(iv)	(120.2)	(123.7)	(125.8)	(31.2)
- Wagering Incentive Fee	(v)	(27.0)	(27.9)	(27.8)	(6.4)
- NSW state wagering taxes	(vi)	(156.6)	(161.3)	(164.0)	(88.4)
- Commission to NSW Government	(vii)	257.0	265.2	269.8	144.1
Pro-forma operating profit before income tax		99.9	103.5	101.4	48.1

	Note	Pro-forma year ended 30 June			Six months ended
		1995 \$m	1996 \$m	1997 \$m	31 Dec 1997 \$m
Pro-forma cash flow information					
(d) Net cash provided by operating activities					
Historical		130.3	130.8	133.7	43.2
Rents and miscellaneous income received					
<i>Deduct</i>					
- Hungary project	(i)	-	-	-	(0.6)
<i>Pro-forma off-course wagering adjustments:</i>					
Statutory outgoings paid					
- Fractions and unclaimed bettor returns	(iii)	36.6	37.7	38.5	20.7
- Commission to NSW Government	(vii)	257.0	265.2	269.8	144.1
- NSW state wagering taxes	(vi)	(156.6)	(161.3)	(164.0)	(88.4)
Payments to suppliers and employees					
- Product Fee	(iv)	(120.2)	(123.7)	(125.8)	(31.2)
- Wagering Incentive Fee	(v)	(27.0)	(27.9)	(27.8)	(6.4)
Pro-forma net cash provided by operating activities		120.1	120.8	124.4	81.4
(e) Net cash used in financing activities					
Historical		(106.4)	(135.2)	(120.5)	(21.2)
<i>Pro-forma off-course wagering adjustment</i>					
- Distributions paid	(viii)	106.4	135.2	120.5	21.2
Pro-forma net cash used in financing activities		-	-	-	-
(f) Net cash used in investing activities					
Payment for non-current assets		(9.6)	(8.5)	(1.4)	(7.3)
<i>Deduct</i>					
- Hungary project	(i)	1.0	0.9	-	-
Pro-forma net cash used in investing activities		(8.6)	(7.6)	(1.4)	(7.3)

Commentary on adjustments

(i) Hungary project

In 1991, TAB contracted with the Hungarian Racing Authority to supply a computerised wagering system and to manage the Hungarian totalizator system until 2001. Costs in respect of the project were deferred and amortised over the period during which future income was expected to be derived. However, following assessments of the recoverable amount of the deferred expenditure, amounts were written off to the profit and loss account in the 1995 and 1996 financial years.

On 31 July 1997, the Hungarian totalizator system was sold to the Hungarian government. Historical other revenue and operating profit have been adjusted to exclude revenue and net costs respectively of the Hungary project as it will not be part of TAB's ongoing operations. Adjustments have also been made to cash flows from operating activities and the reconciliation of this to operating profit, to exclude these amounts.

(ii) Contribution from NSW Government

This amount represents an accrued contribution recorded in historical financial statements from the NSW Government to ensure that TAB has sufficient funds to make the payment of the first Product Fee and Wagering Incentive Fee to NSWGR.

Historical operating profit, other revenue and the reconciliation of pro-forma operating profit to pro-forma net cash provided by operating activities, have been adjusted to exclude this one-off contribution which has been made to facilitate the implementation of the new arrangements under the RDA.

Pro-forma off-course wagering adjustments

(iii) Fractions and unclaimed bettor returns

Fractions and unclaimed bettor returns were previously paid to the NSW Government and historically for off-course wagering were deducted from wagering turnover in arriving at wagering revenue. Fractions represent the rounding down to the nearest 5 cents of a bettor's return on a 50 cent unit of winning wager. Unclaimed bettor returns are uncollected returns on winning wagers.

Under the Totalizator Act, TAB is entitled to all fractions and unclaimed bettor returns from 6 March 1998.

Accordingly, historical wagering revenue, operating profit before income tax, and cash flows from operating activities have been adjusted to include fractions and unclaimed bettor returns as if the new arrangements had applied to off-course wagering in the relevant periods.

(iv) Product Fee

Under the RDA, from 1 October 1997, NSW Racing Industry is to receive a Product Fee equal to a percentage of TAB's wagering revenue exclusive of unclaimed bettor returns, in consideration for the services provided by NSW Racing Industry to TAB. Historical operating profit before income tax and cash flows from operating activities have been adjusted to include a Product Fee as if it had been in effect from 1 July 1994 to 30 September 1997. The Product Fee payable is based on a formula in the RDA and the method of calculation is consistent with that used in calculating the \$36.7 million of Product Fee included in the historical financial statements for the six months ended 31 December 1997.

Historically, the NSW Racing Industry received distributions from TAB in accordance with the Totalizator (Off-Course Betting) Act 1964. These have been adjusted as described in (viii) below.

(v) Wagering Incentive Fee

Under the RDA from 1 October 1997, NSW Racing Industry is to receive a Wagering Incentive Fee calculated by reference to 25% of Wagering Earnings, as defined by the RDA. The Wagering Incentive Fee is in consideration for services provided by NSW Racing Industry under the RDA.

Historical operating profit before income tax and cash flows from operating activities have been adjusted to include a Wagering Incentive Fee calculated as if the Wagering Incentive Fee arrangement had applied from 1 July 1994 to 30 September 1997. Subsequent to 30 September 1997, the historical financial statements for the six months ended 31 December 1997 include \$7.5 million of Wagering Incentive Fee.

(vi) NSW state wagering taxes

Under the provisions of the Totalizator Act, NSW state wagering taxes calculated by reference to 28.2% of wagering revenue exclusive of unclaimed bettor returns are payable to the NSW Government. The NSW state wagering taxes replace the commission which was previously paid to the NSW Government under the Totalizator (Off-Course Betting) Act (see (vii) below).

Historical operating profit before income tax and cash flows from operating activities have been adjusted to include wagering taxes calculated as if these taxes had applied during the relevant periods.

(vii) Commission payable to the NSW Government

Under the Totalizator (Off-Course Betting) Act, commission was payable to the NSW Government based on a percentage of wagering turnover. The commission has been replaced by NSW state wagering taxes payable under the Totalizator Act per adjustment (vi) above. Accordingly, historical operating profit before income tax and cash flows from operating activities have been adjusted to exclude the commission paid to the NSW Government in the relevant periods.

(viii) Distributions paid

Under the Totalizator (Off-Course Betting) Act, the NSW Racing Industry was entitled to receive distributions from TAB. These distributions have been replaced by the Product Fee per adjustment (iv) above and the Wagering Incentive Fee per adjustment (v) above. Accordingly, cash flows from financing activities have been adjusted to exclude these distributions.

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4. Pro-forma operating profit

	Pro-forma year ended 30 June			Six months ended
	1995 \$m	1996 \$m	1997 \$m	31 Dec 1997 \$m
Pro-forma operating profit before income tax has been determined after charging the following:				
NSW state wagering taxes	(156.6)	(161.3)	(164.0)	(88.4)
Distribution network	(105.8)	(109.1)	(113.6)	(62.0)
Product Fee	(120.2)	(123.7)	(125.8)	(67.9)
Wagering Incentive Fee	(27.0)	(27.9)	(27.8)	(13.9)
Salaries, wages and payroll tax	(31.4)	(33.1)	(35.0)	(18.3)
Employee entitlements and superannuation	(4.0)	(4.0)	(4.8)	(2.9)
Depreciation and amortisation	(17.7)	(14.5)	(13.8)	(6.9)

5. Receivables

	31 December 1997 \$m
Amount receivable from NSW Government	10.8
Other	3.3
	14.1

6. Property, plant and equipment

	31 December 1997 \$m
Freehold land	29.8
- At independent valuation - 31 December 1997	
Buildings	39.9
- At independent valuation - 31 December 1997	
Retail outlet improvements	24.2
- At cost	11.6
Less: Accumulated depreciation	12.6
Plant and equipment	97.8
- At cost	77.3
Less: Accumulated depreciation	20.5
Total property, plant and equipment	102.8

Valuations of freehold land and buildings have been undertaken on an open market basis. The independent revaluation of land and buildings as at 31 December 1997 was carried out by Colliers Jardine Consultancy and Valuation Pty Limited under the supervision of Graeme Martin Lfvle and William Doherty Avle.

7. Creditors and borrowings

	31 December 1997 \$m
Current (unsecured)	
Customers' balances	18.9
Amounts payable to NSW	24.0
Amounts payable to agents	7.5
Other creditors	13.4
	63.8

8. Lease and capital commitments

(a) Non-cancellable premises and equipment operating lease commitments contracted for at 31 December 1997 but not provided for:

	31 December 1997 \$m
Payable not later than one year	10.6
Payable later than one year, not later than two years	7.6
Payable later than two years, not later than five years	10.3
Later than five years	2.0
	30.5

(b) Capital expenditure commitments contracted for at 31 December 1997 but not provided for:

	31 December 1997 \$m
Plant and equipment purchases	0.4
Capital expenditure projects	0.5
	0.9

9. Segment information

TAB operates predominantly in the leisure and entertainment industry in Australia providing wagering services and facilities.

10. Subsequent events

(a) Corporatisation/privatisation process

The Totalizator Agency Board of New South Wales was corporatised in accordance with the provisions of the Privatisation Act on 25 February 1998. TAB is a continuation of, and the same legal entity as, the NSW Totalizator Agency Board, as it existed before corporatisation.

Privatisation of TAB in accordance with the Privatisation Act is scheduled to take place during June 1998 by way of this Offer. In relation to this, the following TAB shares have been issued:

- 62.9 million \$1.00 par value shares for \$88.1 million to the NSW Government to capitalise retained earnings of \$78.2 million, realised asset revaluation reserve of \$0.9 million and contribution by the NSW Government of \$9.0 million; and
- 162.1 million \$1.00 par value shares for \$238.0 million to the NSW Government as part consideration for the wagering licences (refer (b) below).

The 225 million \$1.00 par value TAB shares owned by the NSW Government were then split into 450 million \$0.50 par value Shares.

(b) Wagering licences

On 6 March 1998, TAB acquired off-course and on-course totalizator licences from the NSW Government for \$308 million. These licences were granted under the Totalizator Act and include a 15 year exclusive right in respect of off-course wagering in NSW.

(c) Gaming licences

On 30 April 1998, TAB acquired for \$30 million two 15 year exclusive gaming licences to operate a gaming machine linked jackpot business in NSW and a 15 year exclusive licence to conduct a gaming machine central monitoring system in NSW. These businesses and the 15 year exclusive period of the licences acquired by TAB to operate them, are not expected to commence until the second half of 1999 and the cost of the licences will be amortised from that date.

Proposed legislation is currently before the NSW Parliament which, if passed, will entitle TAB to a licence to own, supply and finance gaming machines in hotels in NSW and gaming machines connected to Links in NSW registered clubs.

(d) Federal income tax

TAB is subject to Federal income tax at a statutory rate of 36% from the date when the NSW Government ceases to beneficially own all shares in TAB.

(e) Acquisition of Sky Channel

On 15 April 1998, TAB acquired a 100% interest in Sky Channel. The total consideration for the acquisition was \$260 million payable as follows:

- \$100 million paid on the date of acquisition;
- 25 million shares to be issued to each of PBL and News, the vendors of Sky Channel, at the same time as the Shares are transferred pursuant to the Offer. The shares to be issued to PBL and News are to be issued at a price equal to the Final Price with a cash adjustment to the extent that the total issue price differs from \$100 million; and
- \$60 million deferred consideration payable over the next four years.

The fair value of the consideration and acquisition related costs was approximately \$257.1 million and the fair value of the net identifiable assets of Sky Channel at the date of acquisition was approximately \$19.0 million. The operating results and assets and liabilities of Sky Channel will be consolidated from 15 April 1998 and goodwill of approximately \$238.1 million associated with the transaction amortised over 20 years from that date.

(f) Borrowings

On 9 April 1998, TAB entered into a \$200 million unsecured floating rate loan facility of which it is expected that \$121.5 million will have been drawn at the date of transfer of Shares under the Offer to partially finance the acquisition of TAB's wagering licences and Sky Channel.

Appendix 4 | Additional Information

Share capital

TAB's authorised share capital is \$10 billion, divided into 20 billion shares of \$0.50 par value.

TAB's issued share capital is \$225 million comprising 450 million ordinary shares, each with a par value of \$0.50. All of the issued shares are offered for sale by the NSW Government under the Offer. Following the Offer, TAB will issue an additional 50 million shares to PBL and News in connection with TAB's purchase of Sky Channel. See description of the share sale agreement on page 53.

The Directors believe that other than shares issued to the NSW Government and shares issued in connection with TAB's purchase of Sky Channel, TAB will not need to raise additional capital for at least three months after the date of the Offer Document and the Appendices. In addition, TAB has undertaken to the NSW Government that except for shares issued in connection with its purchase of Sky Channel, it will not issue any shares or other marketable securities for 180 days after its shares commence trading on the ASX.

TAB will also undertake to affiliates of the JLMs and International Co-Lead Manager in the agreement to be entered into in connection with the international portion of the Institutional Offer not to issue shares or other substantially similar securities for 180 days following the date of allocation of Shares, subject to certain limited exceptions (including any Shares issued as part of an acquisition by TAB).

Memorandum and Articles of Association

Rights attaching to ownership of TAB's shares are subject to TAB's Memorandum and Articles of Association which may be inspected during normal business hours at TAB's registered office at 495 Harris Street, Ultimo, NSW. The following is a summary of the major provisions of TAB's Memorandum and Articles of Association which will apply from the time TAB shares commence trading on the ASX.

Restrictions on amendment of Articles

The Memorandum of Association requires the consent of the Minister(s) administering the Privatisation Act and the Totalizator Act to any amendment to the provisions of the Articles relating to:

- any power of TAB or its Directors to request or require information from any person who is a member of the Company or who is, or is suspected by the Directors of being, entitled to TAB shares for the purpose of determining whether that person or any other person has,

or is taking action to acquire, an interest in TAB's shares which contravenes the shareholding restrictions under the Privatisation Act or the Totalizator Act ('Prohibited Shareholding Interest');

- the suspension of, or the power of the Directors to suspend, any voting rights attaching to voting shares in TAB as a result of any person who is entitled to shares having a Prohibited Shareholding Interest in TAB or a person who is the holder or who is, or is suspected by the Directors of being, entitled to shares not providing information requested or required pursuant to a power to request information under the Articles, the Totalizator Act or the Privatisation Act;
- the power of TAB, as a result of any person having a Prohibited Shareholding Interest in TAB, to suspend entitlements to dividends or other amounts which would otherwise be payable by TAB, or to refuse or defer payment of any amount or amounts which would otherwise be due from TAB, in respect of any TAB shares to which that person is entitled;
- the power of TAB, as a result of any person not providing information requested or required pursuant to a power to request information under the Articles, the Totalizator Act or the Privatisation Act, to suspend entitlements to dividends or other amounts which would otherwise be payable by TAB, or to refuse or defer payment of any amount or amounts which would otherwise be due from TAB, in respect of any TAB shares which that person holds, or is suspected by the Directors of being, entitled to; or
- any power of TAB or its Directors to require the disposal of TAB shares to which a person who has a Prohibited Shareholding Interest in TAB is entitled, or which a person who does not provide information requested or required to be provided pursuant to a power to request information under the Articles, the Totalizator Act or the Privatisation Act holds or is, or is suspected by the Directors or the company secretary of being, entitled.

A resolution purporting to amend those provisions of the Articles is ineffective unless and until those Ministerial consents are obtained.

These restrictions do not apply if neither TAB nor any of its subsidiaries holds an on-course or off-course totalizator licence under the Totalizator Act.

Enforcement of shareholding restrictions

The Directors may require information to determine compliance with the shareholding restrictions. The Directors must exercise that power, or their powers to require information under the Totalizator Act or the Privatisation Act, to require information from a person who the Directors have reason to suspect has contravened the shareholding restrictions or is the registered holder of TAB shares to which a person who has contravened the shareholding restrictions is entitled. If a person fails to provide information as required by the Directors, then the Directors may suspend the voting and dividend rights attaching to shares which the person holds or to which they are entitled or require the disposal of those shares.

If the Directors form the opinion that a shareholder has contravened the shareholding restrictions or holds shares to which a person who has contravened the shareholding restrictions is entitled, the Directors must require the disposal of shares held by the shareholder and suspend the voting and dividend rights attaching to those shares. The number of shares affected is the number of shares which, in the opinion of the Directors, would be required to be disposed of so that the shareholding restrictions are no longer contravened.

The Directors must also require the disposal of shares and suspend voting and dividend rights attaching to those shares held by a person who has been given, or in respect of whom TAB has been given, certain notices by the Minister under the Totalizator Act or the Privatisation Act.

Protection of licences

The Articles contain provisions for the protection of TAB's interests under licences or other regulatory approvals for wagering, gaming, broadcasting and other related business ('Licences') which TAB requires to lawfully operate any business which it is currently engaged in or proposes to conduct in the future.

The Directors may require a shareholder to dispose of some or all of their shares if, in the opinion of the Directors, the shareholder holding those shares may prejudice TAB's ability to be granted a Licence or may result in a Licence being revoked, suspended or made subject to conditions which would have a material adverse effect on TAB. Voting and dividend rights attaching to shares which the Directors have required to be disposed of are suspended. The Directors are empowered to require information to be provided to determine whether they should require the disposal of shares.

A Director must resign if the Director's continuance in that office would cause the possibility of a material Licence being revoked, suspended or not granted or the possibility of a contravention of any law relating to a Licence. A Director's appointment is automatically terminated if TAB receives from any government authority, under any law relating to a Licence, a notice which requires the Director to resign. If, under any law relating to a Licence, the approval of any governmental authority is required to the appointment of a Director, the Director's appointment takes effect when that approval is obtained.

Voting

Subject to compliance with the shareholding restrictions as outlined above, at a general meeting, every member present in person or by proxy, attorney or representative has one vote on a show of hands and on a poll for each fully paid share held (with adjustments for partly paid shares).

Dividends

The profits of the Company which the Directors from time to time determine to distribute by way of dividend are divisible amongst the members in proportion to the amounts paid up on the shares held by them. Dividend rights may be suspended as outlined above if shareholding restrictions are contravened.

Issuance of further shares

The Directors may (subject to the restrictions on the allotment of shares imposed by the Articles, the Listing Rules of the ASX and the Corporations Law) allot, grant options in respect of, or otherwise dispose of further shares on such terms and conditions as they see fit.

Transfer of shares

Holders of shares may transfer them by a proper transfer effected in accordance with the business rules of the SCH and the ASX and as otherwise permitted by the Corporations Law.

Winding up

Subject to any special or preferential rights attaching to any class or classes of shares, members will be entitled in a winding up to share in any surplus assets of the Company in proportion to the shares held by them, less any amounts which remain unpaid on these shares at the time of distribution.

Additional Information

Proportional takeover provisions

The Articles contain provisions for shareholder approval in relation to any proportional takeover scheme. The provision will lapse unless renewed by special resolution of shareholders in general meeting within three years from the date of its adoption.

Directors

The minimum number of Directors is five. The maximum number of Directors is fixed by the Directors but may not be more than 10 unless the Company passes a resolution varying that number.

Dividend plans

The Articles contain a provision allowing Directors to implement a dividend reinvestment plan and a dividend selection plan. Details of the dividend reinvestment plan which has been adopted by the Company are set out on page 57.

Participants in a dividend selection plan may elect to receive a dividend from TAB paid wholly or partly out of any particular fund or reserve or out of profits derived from any particular source, or forego a dividend from TAB in place of some other form of distribution from TAB or another body corporate or a trust. TAB has not presently adopted a dividend selection plan.

Directors' indemnity

The Company, to the extent permitted by law, indemnifies each Director, alternate Director or executive officer (and any person who has previously served in any such capacity) against any liability or cost incurred by the person as an officer of the Company or a related body corporate, including but not limited to liability for negligence or costs incurred in defending proceedings in which judgment is given in favour of the person or in which the person is acquitted. The indemnity may be extended to other officers or the auditor at the discretion of the Directors.

Shareholding restrictions

The Privatisation Act and Totalizator Act each impose restrictions on the voting shares in TAB to which any person can be entitled. The Privatisation Act imposes shareholding restrictions while a licence under the Totalizator Act is held by TAB or any of its subsidiaries. The Totalizator Act only imposes the shareholding restrictions while a licence under that Act is held by TAB.

The shareholding restrictions prohibit anyone being entitled to more than 5% of the total number of issued voting shares in TAB unless an exemption is provided by regulation. No exemptions have been granted except limited exemptions to facilitate the transfer of Shares pursuant to the Offer.

Contravention of the shareholding restrictions is an offence which is punishable by a fine of up to \$10,000.

The voting shares in TAB to which a person is entitled include voting shares to which they are entitled under section 609 of the Corporations Law (subject to certain variations set out in the Totalizator Act and Privatisation Act). That entitlement includes any voting shares in TAB which the person or an associate of the person has such a 'relevant interest'.

In addition to circumstances in which people are considered to be associates under the Corporations Law, the Minister administering the Privatisation Act or the Totalizator Act may deem people to be associated in relation to their TAB shareholding if the Minister considers that they are likely to act together with a view of taking control of, or exercising significant influence over, TAB against the public interest.

Generally, a person will have a relevant interest in a voting share in TAB if they have the power to control the exercise of votes attaching to the share or control the disposal of the share, whether or not they are the registered holder of the share. A relevant interest may exist even if a person has indirect control, through a company or series of companies which they control, over the disposal or exercise of votes attaching to a voting share.

Power to require information regarding entitlements to TAB shares

The Totalizator Act and Privatisation Act enable any Director, TAB's company secretary or the Minister administering the Totalizator Act or Privatisation Act to require any person who is entitled to TAB shares (or who they suspect of being entitled to TAB shares) to provide information to determine whether there is any breach of the shareholding restrictions.

It is an offence punishable by a fine of up to \$10,000 to fail to provide information requested or to provide information which is false or misleading in a material particular. Defences apply where the person shows that they believed on reasonable grounds that information provided was true or not misleading.

If a person fails to provide the information requested or the information provided is (in the opinion of the relevant Minister) false or misleading in a material particular, that

Minister may also issue any or all of the following declarations:

- the person to whom the notice was delivered or their associate is in breach of the shareholding restrictions;
- the person to whom the notice was delivered and another person are associates; and
- the person to whom the notice was delivered or their associate is entitled to certain TAB shares.

The Directors also have powers under TAB's Articles to require the provision of information to determine compliance with the shareholding restrictions.

Disposal and forfeiture of shares where shareholding restrictions are breached

If the Minister administering the Totalizator Act or Privatisation Act declares or forms the opinion that a person has breached the shareholding restrictions, that Minister may require that shares to which that person ('Offender') is entitled be disposed of within a period of not less than three months. The Minister may only require the disposal of the number of shares required to be disposed of so that the Offender is no longer in breach of the shareholding restrictions. Orders may require the disposal of shares to which an Offender is entitled even though the Offender is not the registered holder of the shares.

If a person fails to dispose of the shares within the period set by the Minister, the shares referred to in the Minister's notice are forfeited to the State.

The Minister administering the Totalizator Act or Privatisation Act may also declare forfeited to the State any voting shares which were the subject of a transaction which resulted in a person breaching the shareholding restrictions or which resulted in a person who was already in breach of the shareholding restrictions being entitled to more TAB shares.

Where shares are forfeited to the State, the Minister must sell the shares and distribute the net proceeds of the sale (less any unpaid purchase price for shares forfeited as described in the previous paragraph) to the person from whom the shares were forfeited.

The Directors also have powers under TAB's Articles to require the disposal of shares in certain circumstances. These powers are outlined under 'Enforcement of Shareholding Restrictions' on page 39.

Other consequence of breaching shareholding restrictions

TAB's Articles provide for the suspension of voting and dividend rights attaching to shares where there has been a breach of the shareholding restrictions or a failure to provide information as required under the Totalizator Act, the Privatisation Act or the Articles. (see 'Enforcement of Shareholding Restrictions' on page 39).

The Totalizator Act and the Privatisation Act each give the Minister the power to declare a resolution of a general meeting of TAB null and void where the Minister is of the opinion that the resolution has been passed as a result of the admission of votes that should not have been admitted under those provisions of TAB's Articles.

Material contracts

Racing Distribution Agreement

The RDA between TAB, NSW and the Racing Controlling Bodies was executed on 11 December 1997.

Each Racing Controlling Body must ensure that NSW performs its obligations under the RDA insofar as those obligations relate to the racing code which they administer, and must make, maintain and enforce legally binding directions under the Totalizator Act to racing clubs in their respective racing codes to enable NSW to comply with its obligations under the RDA.

Relationship between parties

Subject to their obligations under the RDA, each party to the RDA has the right to conduct and manage its own business as it thinks fit.

Although there is no fiduciary relationship between the parties, no party may take any action or make any decision which is designed to, or would have the effect of, lessening or avoiding its obligations or another party's rights under the RDA.

Each party must perform its obligations under the RDA with due care and skill and in compliance with all applicable laws (including obtaining all necessary licences and approvals). TAB must conduct all of its businesses in respect of which amounts are payable to NSW under the RDA in a proper and prudent manner, using appropriate resources and making rational business judgments based on reasonable inquiry.

TAB has indemnified NSW and its officers, employees and agents against any loss they may suffer as a result of any third party claim which arises directly or indirectly out of TAB's conduct of its wagering, gaming or other businesses

Additional Information

and not from anything done by a Racing Controlling Body or a racing club.

TAB to act and make decisions in the interest of the NSW

TAB is not required to make or continue capital investment which could not provide TAB with appropriate commercial returns for a business of a similar kind. Otherwise, TAB must act and make decisions with the intent of maximising total payments of fees to NSW (other than contributions in respect of on-course totalizators) as set out under 'Fees' on page 44 and returns in respect of new businesses in which NSW invests (see 'New Businesses' on page 46). TAB must not take any action or make any decision which could reasonably be expected to materially reduce the total amount of those payments or materially adversely affect the development of racing in NSW.

TAB must, at its cost, undertake all steps necessary to alleviate the adverse effect of any action or decision it takes that results in either:

- a material reduction in the total payments of fees to NSW (other than contributions in respect of on-course totalizators) and returns in respect of new businesses in which NSW invests from that which could otherwise have reasonably been expected; or
- a material adverse effect on the development of the racing codes in NSW compared to that which could otherwise have reasonably been expected.

Refer to Section 6 of the Offer Document in relation to the effect of these provisions.

Racing and coverage programme

TAB and NSW have agreed on the minimum NSW racing programme and the minimum programme of races on which TAB will conduct off-course totalizators ('TAB Coverage Programme') for FY1999.

The objectives of NSW and TAB in determining the future NSW racing programme and the TAB Coverage Programme must include enhancing and improving those programmes to maximise Wagering Earnings and Net Wagering Revenue (see 'Fees' on page 44), encouraging public interest in racing in NSW and attendance at NSW race meetings and otherwise promoting the quality and development of racing in NSW.

Racing programme

The NSW racing programme for each subsequent programme year must include an agreed minimum race

programme (which may only be varied by agreement or by NSW changing the times, venues or host racing club of the events in the agreed minimum programme) but otherwise is to be determined by NSW following consultation with TAB and consideration of TAB's comments.

NSW is responsible for co-ordinating the NSW racing programme with the relevant interstate bodies and must update TAB on these negotiations. If TAB reasonably forms the view that NSW is not being materially successful in co-ordinating the NSW racing programme with interstate racing bodies, TAB may become involved in those negotiations provided certain conditions are satisfied.

TAB Coverage Programme

The TAB Coverage Programme for programme years after FY1999 must include the agreed minimum race programme. It is otherwise to be determined by TAB following consultation with NSW and consideration of NSW's comments. NSW must not unreasonably withhold its consent to variations to the interstate races in the minimum TAB Coverage Programme. If there is a conflict of timing of two races where one of those races is in NSW and the other interstate, TAB must include in the TAB Coverage Programme the race in NSW unless to do so would have a material adverse effect on Net Wagering Revenue or Wagering Earnings (determined as set out on page 44).

TAB must conduct off-course totalizators on all race meetings in the TAB Coverage Programme. If TAB cannot conduct a totalizator on a race in the TAB Coverage Programme due to a force majeure event, TAB must use its best endeavours to overcome the effect of the force majeure event by conducting, if possible, an off-course totalizator on another race meeting in NSW.

If TAB does not conduct a totalizator on a race in the TAB Coverage Programme for any other reason without NSW's consent (which may not be unreasonably withheld), the Product Fee and Wagering Incentive Fee payable by TAB (see page 44) are determined as if TAB had received Net Wagering Revenue of the amount, if any, by which the Net Wagering Revenue which TAB would have earned on that race would have exceeded the Net Wagering Revenue on any race covered by TAB instead of the race in the TAB Coverage Programme. The RDA contains a mechanism for determining the Net Wagering Revenue which TAB would have earned on the race which was not covered.

TAB coverage of additional races

NSW may request TAB to conduct off-course totalizators

on races in NSW which are not part of the TAB Coverage Programme. If TAB receives such a request, it must conduct an off-course totalizator on that race unless:

- the request is received less than 10 business days before the race;
- conducting a totalizator on that race would not be consistent with maximising the total amount payable to NSW under the RDA (other than contributions in respect of on-course totalizators);
- TAB does not have the capacity to cover the race; or
- coverage of that race would conflict with a race in the TAB Coverage Programme.

Staging of NSW races in TAB Coverage Programme

NSWR must ensure that all race meetings in NSW included in the TAB Coverage Programme are staged.

If a race meeting in NSW which is included in the TAB Coverage Programme cannot be staged due to a force majeure event, NSW must use its best endeavours to overcome the effect of the force majeure event by ensuring, if possible, that an alternative race meeting in NSW is staged in which case TAB must conduct an off-course totalizator on that alternative race meeting.

If for any other reason a race in NSW which is included in the TAB Coverage Programme is not held without TAB's consent (which may not be unreasonably withheld), then TAB is entitled to receive from NSW the amount, if any, by which the Net Wagering Revenue which TAB would have earned on that race less the Product Fee on that Net Wagering Revenue (see 'Fees' on page 44) exceeds the Net Wagering Revenue on any race covered by TAB instead of the race in the TAB Coverage Programme less the Product Fee on that Net Wagering Revenue. The RDA contains a mechanism for determining the Net Wagering Revenue which TAB would have earned on the race which was not covered.

NSWR may elect to pay that amount in cash or to have that amount (plus interest) deferred and set-off against future Product Fees payable by TAB to NSW. The maximum amount which TAB may set-off against any one Product Fee payment is 50% of the Product Fee which would have been payable in the absence of any set-off.

NSW racing information

NSWR must supply TAB with specified information in relation to races in NSW ('NSW Racing Information'). TAB may only obtain that information from NSW.

TAB must obtain, at its cost, all information it requires in relation to races conducted outside NSW.

While the RDA is in force, TAB has a non-exclusive right to use, and authorise others to use, the NSW Racing Information and the NSW racing programme, without charge, on the condition that:

- no fee is charged or benefit received by TAB or any person it authorises to use the NSW Racing Information in respect of that information or its use; and
- the information is to be used only for the purpose of totalizator betting and any other wagering business in Australia. If TAB acquires or commences a wagering business outside Australia and wishes to use that information in that business, then TAB and NSW must negotiate the terms and conditions on which TAB may use the information in that business. Those terms and conditions may include a commercially reasonable fee if NSW does not invest in the new business as set out under 'New Businesses' on page 46 but must not include any fee if NSW invests in that business.

A breach of those conditions does not affect TAB's right to use the NSW Racing Information and the NSW racing programme but may result in TAB being liable in damages to NSW.

TAB does not have any industrial or intellectual property rights in the NSW racing programme or any information in relation to races in NSW provided by NSW under the RDA.

TAB must provide all necessary racing and wagering information, free of charge, to NSW, the Racing Controlling Bodies and each racing club.

Broadcasts

NSWR must use its best endeavours to ensure that each racing club makes available facilities at their racecourse to enable all race meetings in NSW in the TAB Coverage Programme to be broadcast by television and radio, live or as soon as practicable, to TAB outlets and racecourses where on-course totalizators are conducted. TAB must use its best endeavours to facilitate TAB outlets' receipt of those broadcasts.

TAB and NSW must each use their best endeavours to ensure that any future arrangements for the broadcasting of races in NSW will be on commercial terms which do not cause either of them financial detriment or commercial disadvantage. TAB and NSW must also use their best endeavours to develop a strategy to address broadcasting issues.

Additional Information

Fees

TAB is required to pay NSW:

- a Product Fee;
- a Wagering Incentive Fee; and
- a Gaming Incentive Fee.

NSWR is also entitled to receive a contribution in respect of on-course totalizators where a racing club acts as agent for TAB. The contribution is currently set at 4.9% of on-course turnover that is generated by the relevant race club as agent for TAB or on an Authorised Betting Auditorium which was operating as of 11 December 1997.

Transitional provisions apply to enable the Product Fee and the Wagering Incentive Fee to be introduced with effect from 1 October 1997, even though the Totalizator Act did not take effect until 6 March 1998.

TAB is required to provide NSW with periodic reports from TAB's auditors to verify the calculations of fees payable to NSW under the RDA.

Product Fee

The Product Fee is 21.64% of 'Net Wagering Revenue'. Net Wagering Revenue is the sum of:

- (a) all wagers on totalizators conducted on thoroughbred, harness or greyhound races which are received or deemed to be received by:
 - TAB under an off-course totalizator licence and which are not pooled receipts; or
 - a racing club on a race on which TAB also conducts a totalizator (so that, under the Totalizator Act, the racing club receives those wagers as agent for TAB) or from the operation of an Authorised Betting Auditorium; and
- (b) all other revenue (other than pooled receipts and derivative earnings from the conduct of wagering, such as unclaimed dividends, pooling fees, intellectual property licence fees, rent, advertising) arising directly or indirectly from the conduct of a totalizator by TAB, its related bodies corporate or associates in NSW or pursuant to a licence or approval granted under NSW legislation on any event or contingency including sports totalizator wagering, in each case less bettor returns payable to the public (after fractions), cancellations and refunds.

Revenue on totalizator products or wagering activities offered by TAB pursuant to a licence or approval granted under NSW legislation and introduced after 1 October 1997 is included in the Net Wagering Revenue unless TAB and NSW agree otherwise.

TAB is required to pay 33% of the amount of Product Fee payable in respect of wagers referred to in paragraph (a) above within 3 business days of the relevant race. An estimate of the balance of the Product Fee based on TAB management accounts is payable quarterly with adjustments based on audited accounts following completion of half-yearly audits.

Wagering Incentive Fee

The Wagering Incentive Fee is an amount calculated by reference to 25% of Wagering Earnings. Wagering Earnings is calculated in accordance with the formula:

$(NWR + NTR + NPS + DR) - (OC + T + C + AC + CCC)$
where:

- NWR is Net Wagering Revenue determined in the same manner as in relation to the Product Fee;
- NTR is revenue generated directly or indirectly from betting activities other than totalizators conducted by TAB, its related bodies corporate or associates pursuant to an approval under section 13(1) of the Totalizator Act (eg fixed-odds wagering) less winnings payable to the public (after fractions), cancellations and refunds;
- NPS is the net after corporate tax profit or loss recognised by TAB in its audited accounts as a result of the disposal or realisation of assets used in TAB's wagering business (other than the TABLink system or any replacement of that system);
- DR is any other revenue derived from the conduct by TAB of wagering (whether by totalizator or otherwise) pursuant to any licence, approval or permission under NSW legislation from a wagering business or which uses the TABLink system (or any replacement of that system) or from any other activity or business which uses assets used in TAB's wagering business but excluding any revenue which is independent of and unrelated to gaming or wagering revenue from a gaming business, or revenue from a new wagering business outside NSW;
- OC is the operating costs and expenses incurred to earn the revenue referred to above excluding any interest expense or company tax;
- T is direct wagering taxes payable by TAB to the State of NSW in respect of bets or wagers under the Totalizator Act, the Liquor Act or the Registered Clubs Act;
- C is payments to the operators of TAB agencies, ClubTABs and PubTABs and other third parties in NSW to facilitate the collection of wagers or the payment of winnings;
- AC is fair and equitable depreciation and amortisation

charges on the assets used in TAB's wagering business other than any goodwill in existence when the on-course and off-course totalizator licences were acquired by TAB under the Totalizator Act; and

- CCC is a cost of capital charge, equal to the five year Commonwealth Treasury Bond rate plus a margin of 2.5%, on the written down value of assets used in TAB's wagering business, other than the on-course and off-course totalizator licences and any goodwill in existence on the date those licences were acquired by TAB.

The Wagering Incentive Fee is payable half-yearly based on TAB's management accounts, with adjustments based on the audited accounts for the half-year made to the next Wagering Incentive Fee payment.

If the Wagering Incentive Fee for any half-year is negative, the negative amount is carried forward and may be off-set by TAB against future Wagering Incentive Fees. No interest is payable in respect of any amount carried forward in this manner.

Gaming Incentive Fee

The Gaming Incentive Fee is an amount calculated by reference to 25% of Gaming Earnings. Gaming Earnings are calculated in accordance with the formula:

$$(GE + NPS) - (OC + T + C + AC + CCC)$$

where:

- GE is the operating revenue (whether received or accrued) derived from CMS or Links or associated businesses of providing or financing the acquisition of gaming machines;
- NPS is the net after corporate tax profit or loss recognised by TAB in its audited accounts as a result of the disposal or realisation of assets used in TAB's CMS or Links business or the TABLink system (or any replacement of that system);
- OC is the operating costs and expenses incurred to earn the revenue referred to above excluding any interest expense or company tax;
- T is direct gaming taxes payable by TAB to the State of NSW in respect of bets or wagers under the Liquor Act or the Registered Clubs Act;
- C is payments to the operators of TAB agencies, ClubTABs and PubTABs and other third parties in NSW to facilitate the collection of wagers or the payment of winnings in respect of Links;
- AC is fair and equitable depreciation and amortisation charges on the TABLink system (or any replacement of

that system) or the assets used in TAB's CMS or Links business or the associated business of providing or financing gaming machines other than any goodwill in existence as at the grant of the exclusive CMS Licence or exclusive Links Licences or licence under the Liquor Act or Registered Clubs Act for TAB to provide or finance gaming machines; and

- CCC is a cost of capital charge equal to the five year Commonwealth Treasury Bond rate plus a margin of 2.5% on the written down value of the TABLink system (or any replacement of that system) or the assets used in TAB's CMS or Links business or the associated business of providing or financing gaming machines other than the exclusive CMS Licence or exclusive Links Licences or other licence under the Liquor Act or Registered Clubs Act for TAB to provide or finance gaming machines and any goodwill in existence on the date those licenses were acquired by TAB. This cost of capital charge is not taken into account in determining the Gaming Incentive Fee until Gaming Earnings (without allowance for a cost of capital charge) has been positive for each of six consecutive months.

The Gaming Incentive Fee is payable half-yearly based on TAB management accounts with adjustments based on the audited accounts for the half-year made by adjustment to the next Gaming Incentive Fee payment.

If the Gaming Incentive Fee for any half-year is negative, the negative amount is carried forward and may be off-set by TAB against future Gaming Incentive Fees. No interest is payable in respect of any amount carried forward in this manner. TAB must set-off in full, against any obligation to pay Gaming Incentive Fees, all contributions by NSW to any fees or charges payable to the NSW Government in connection with the renewal of licences to conduct CMS, Links or to supply or finance gaming machines and any interest on those contributions before TAB can set-off any amounts carried forward in respect of negative Gaming Incentive Fees from prior periods.

Contribution to on-course totalizator operations

TAB must pay to NSW on the day after each race meeting, a contribution to racing clubs' costs of conducting on-course totalizators on the race meeting.

For the period from 6 March 1998 to 5 September 1999, the contribution is 4.9% of the total amount of wagers on on-course totalizators received by racing clubs on races on which TAB also conducts a totalizator or on an Authorised

Additional Information

Betting Auditorium which was operating as of 11 December 1997, in each case less cancellations and refunds.

The level of contributions after 5 September 1999 is to be agreed between TAB and NSWGR having regard to the following objectives:

- ensuring racing clubs control and, where possible, reduce the costs of conducting their on-course totalizators without compromising the efficiency, effectiveness and attractiveness of the level of service; and
- maintaining performance standards at a level to be agreed between TAB and NSWGR by 30 June 1998.

Until agreement is reached on the level of contributions after 5 September 1999 or any dispute resolved in accordance with the RDA, those contributions are to be 4.0% of the total amount of bets on on-course totalizators received by racing clubs on races on which TAB also conducts a totalizator or on an Authorised Betting Auditorium, in each case less cancellations and refunds.

TAB must be invited to tender, on the same basis as third party operators, for any renewal of any existing contract to operate and manage a racing club's on-course totalizator and for the operation and management of the on-course totalizator conducted by any racing club which does not have a written contract for the operation and management of that totalizator. If TAB submits a tender which complies with the agreed minimum performance standards and would have reduced the cost of operating the on-course totalizator to less than the rate of TAB's contribution, then the amount of the contribution payable in relation to that racing club's on-course totalizator is reduced to the level of the costs provided for in TAB's tender. TAB's tender need not be accepted.

New businesses

TAB must give NSWGR an option to invest in any new gaming or wagering business (other than a wagering business within NSW as that business is subject to the Product Fee and Wagering Incentive Fee (see page 44)) which TAB establishes or acquires unless, in relation to a business that TAB is acquiring, to give NSWGR that option would prevent TAB acquiring the business due to objections from the vendor to the identity of NSWGR. TAB must use its best endeavours to secure any vendor's agreement to NSWGR investing in the business to be acquired.

TAB may only establish or acquire the new business:

- if the conduct of the new business could reasonably be expected to maximise (over a reasonable period) total

payments of fees to NSWGR (other than contributions in respect of on-course totalizators) and returns in respect of new businesses in which NSWGR invests; and

- on terms which give NSWGR an option to invest in the business, if NSWGR is entitled to that option to invest. If these conditions are satisfied, TAB may establish or acquire the new business without prior consultation with NSWGR.

Unless TAB and NSWGR agree on a different form, the option enables NSWGR to invest in the new business by way of loan to TAB of an amount equal to 25% of the total amount of TAB's costs and expenses directly attributable to the new business (together with interest on those costs and expenses) up to the date on which the new business commences trading or, where TAB acquires an existing business, the date of that acquisition.

The loan will be on the following principal terms:

- the loan attracts interest at a 2% margin over the Australian bank bill rate plus an amount equal to 25% of the earnings of the new business determined in accordance with the formula:
$$R - (I + NI + OC + T + C)$$
where:
 - R is the revenue from the new business plus the gross proceeds of sale of assets owned or acquired for the purpose of the new business less any sale expenses;
 - I is four times the interest which would be payable on the amount of the loan at the Australian bank bill rate plus a margin of 2%;
 - NI is the interest which would be payable at the Australian bank bill rate plus a margin of 2% on an amount equal to the capital expenditure in respect of the new business funded by TAB to which NSWGR does not contribute;
 - OC is the operating costs and expenses of the new business;
 - T is taxes in respect of the new business other than company or income tax;
 - C is payments to the operators of TAB agencies, ClubTABs and PubTABs and other third parties in NSW to facilitate the collection of wagers or the payment of dividends in respect of the new business;
- interest is payable six monthly in arrears. If the interest payable in respect of any six month period is negative, that amount is to be carried forward and set off against future interest payments;