# ASX Announcement

8 August 2018

## Tatts Group Limited – Release of Tabcorp Group 2018 full year results

Tatts Group Limited (**Tatts Group**) (ASX:TTSHA) advises that its sole shareholder, Tabcorp Holdings Limited (**Tabcorp**), today released its results for the financial year ended 30 June 2018 (**Tabcorp Results**) and attaches a copy of the announcements.

For more information:

Media: Nicholas Tzaferis, Tabcorp GM Corporate Affairs, +61 3 9868 2529

Financial analysts: Sacha Krien, Tabcorp GM Investor Relations, +61 3 9868 2794

Tabcorp

8 August 2018

Australian Securities Exchange
Companies Announcements Platform
20 Bridge Street
Sydney NSW 2000

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

**FOR THE FULL YEAR ENDED 30 JUNE 2018**

In accordance with the ASX Listing Rule 4.3A, the following information in respect of Tabcorp Holdings Limited's results for the financial year ended 30 June 2018 is transmitted for lodgment:

1. Appendix 4E;
2. Media Release; and
3. Annual Report.

Yours faithfully

**Chris Murphy**
Acting Company Secretary

# APPENDIX 4E

Tabcorp

**Results for announcement to the market**

**Preliminary final report for the year ended 30 June 2018**
**Tabcorp Holdings Limited (ABN 66 063 780 709)**

| Results | $m | % change increase/(decrease) |
|---|---|---|
| Revenue from ordinary activities | 3,828.7 | 71% |
| Profit from ordinary activities after tax attributable to members | 28.7 | >100% |
| Net profit for the period attributable to members | 28.7 | >100% |

| Dividends | Record date | Payable / paid | Amount per share | Franked amount per share |
|---|---|---|---|---|
| Final dividend | 16 August 2018 | 14 September 2018 | 10.0 ¢ | 10.0 ¢ |
| Interim dividend | 14 February 2018 | 13 March 2018 | 11.0 ¢ | 11.0 ¢ |
| **Total dividend per share (interim plus final)** | | | 21.0 ¢ | 21.0 ¢ |

No foreign conduit income is attributable to the final dividend.

### Dividend reinvestment plan

Tabcorp's dividend reinvestment plan (DRP) will operate in respect of the final dividend, with the last date for receipt of election notices being 17 August 2018. No discount is applicable to shares allocated to participants and no brokerage, commission or other transaction costs will be payable by participants on shares acquired under the DRP. Shares will be allocated on 14 September 2018 and will rank equally in all respects with existing shares. The price at which shares are allocated is the daily volume weighted average market price of Tabcorp shares sold in the ordinary course of trading on the Australian Securities Exchange over a period of 10 business days beginning on the second business day after the dividend record date.

| Net tangible asset backing | **30 June 2018 $** | 30 June 2017 $ |
|---|---|---|
| Net tangible asset backing per ordinary share | (2.12) | (1.45) |
| Net tangible asset backing per ordinary share including licences | (0.95) | (0.69) |

### Supplementary information

The previous corresponding period is the year ended 30 June 2017.

For additional Appendix 4E disclosures, refer to the Annual Report 2018 and the Media Release lodged with the Australian Securities Exchange on 8 August 2018.

This Appendix 4E should be read in conjunction with the Directors' Report and the audited Financial Report for the year ended 30 June 2018.

**MEDIA RELEASE**

Tabcorp

8 August 2018

**Tabcorp 2017/18 Full Year Results**

**FY18 Overview – A company-defining year**

- Combination with Tatts Group completed, creating a world-class, diversified gambling entertainment group
  - Top 50 ASX company
  - Annualised revenues in excess of $5bn
  - Annualised EBITDA of approximately $1bn
- EBITDA synergies and business improvements from the combination are on track
  - Delivered $8m in FY18
  - Decisions taken underpin $50m in FY19
  - Target remains at least $130m of EBITDA in FY21
- Exited loss-making businesses - Sun Bets exit announced July 2018, Luxbet closure December 2017
- A more sustainable regulatory environment
  - Federal legislation passed banning synthetic lottery products
  - Wagering point of consumption tax regimes announced
  - New advertising restrictions and stronger consumer protections
- Capital management
  - Refinanced $1.8bn bridge loan into long-dated maturities in US market
  - Full year dividend of 21.0 cents per share, including final dividend of 10.0 cents per share
- Well positioned for growth
  - Positive 2H18 performance, driven by Wagering & Media and Lotteries & Keno
  - Accelerated digitalisation across the company
  - New products launched and licences renewed

**FY18 Financial Overview**

- Statutory results[1]
  - Revenues $3,828.7m, up 71.4%
  - EBITDA $529.4m, up 69.5%
  - NPAT $28.7m, up from $20.8m loss in pcp
  - EPS[2] 1.9 cents per share, up from 2.5 cents loss per share in pcp
  - Results impacted by significant items expense after tax of $217.5m from Tatts combination, Sun Bets exit and Luxbet closure
- Results before significant items[1, 3]
  - Revenues $3,828.7m, up 71.7%
  - EBITDA $736.4m, up 46.1%
  - NPAT $246.2m, up 37.6%
  - EPS[2] 16.6 cents per share, down 22.4%
- Final dividend 10.0 cents per share, fully franked, taking the full year ordinary dividend to 21.0 cents per share, fully franked
- Group pro-forma[4] results before significant items
  - Revenues $5,109.3m, up 2.5%
  - EBITDA $989.2m, up 2.8%
  - EBIT $695.6m, up 2.0%

1 Results include Tatts Group from 14 December 2017.
2 EPS calculated using weighted average shares for the period.
3 Tabcorp results before significant items include the Sun Bets operating result in FY18 (treated as a significant item in FY17).
4 Pro-forma results include various adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group for the year, including 12 months of Tatts results in FY18 and FY17, and excluding Sun Bets in FY18. Refer to slide 12 of the Tabcorp 2017/18 Full Year Results Presentation for further details.

# MEDIA RELEASE

Tabcorp

## GROUP RESULTS[1, 2]

| $m | FY18 | FY17 | Change on pcp |
|---|---|---|---|
| Revenues | 3,828.7 | 2,229.6 | 71.7% |
| Variable contribution | 1,489.9 | 1,006.3 | 48.1% |
| Operating expenses | (753.5) | (502.2) | 50.1% |
| **EBITDA before significant items** | **736.4** | **504.1** | 46.1% |
| D&A | (248.6) | (178.7) | 39.2% |
| **EBIT before significant items** | **487.8** | **325.4** | 49.9% |
| Interest | (118.6) | (68.3) | 73.6% |
| Tax expense | (123.0) | (78.2) | 57.4% |
| **NPAT before significant items** | **246.2** | **178.9** | 37.6% |
| Significant items (after tax)[3] | (217.5) | (199.7) | 8.9% |
| **Statutory NPAT** | **28.7** | **(20.8)** | >100.0% |

1. Results include Tatts Group from 14 December 2017.
2. Sun Bets was treated as a significant item in FY17.
3. Significant items expense (after tax) of $217.5m comprise Tatts Group combination $114.6m, Sun Bets exit $90.5m, and Luxbet closure $12.4m.

## BUSINESS RESULTS (PRO-FORMA[1])

| FY18 ($m) | Wagering & Media | Change on pcp | Lotteries & Keno | Change on pcp | Gaming Services | Change on pcp | Group[2] | Change on pcp[3] |
|---|---|---|---|---|---|---|---|---|
| Revenues | 2,461.8 | 0.6% | 2,332.3 | 4.7% | 315.0 | (0.1%) | 5,109.3 | 2.5% |
| Variable contribution | 993.8 | 0.6% | 607.8 | 6.0% | 301.1 | (0.8%) | 1,904.4 | 2.1% |
| Operating expenses | (542.0) | 1.1% | (212.9) | (1.5%) | (149.1) | (2.0%) | (915.2) | 1.4% |
| **EBITDA** | **451.8** | 0.1% | **394.9** | 10.5% | **152.0** | 0.5% | **989.2** | 2.8% |
| D&A | (144.8) | 4.1% | (84.4) | 2.6% | (65.1) | 10.3% | (293.6) | 4.8% |
| **EBIT** | **307.0** | (1.7%) | **310.5** | 12.9% | **86.9** | (5.8%) | **695.6** | 2.0% |
| Opex / Revenue (%) | 22.0% | 10.1% | 9.1% | (0.6%) | 47.3% | (0.9%) | 17.9% | (0.2%) |
| EBIT / Revenue (%) | 12.5% | (0.3%) | 13.3% | 1.0% | 27.6% | (1.7%) | 13.6% | (0.1%) |

1. Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year. See slide 12 of the Tabcorp 2017/18 Full Year Results Presentation for further details.
2. Business results do not aggregate to Group total due to intercompany eliminations and unallocated items. Unallocated items include lease costs of $9.4m for new Brisbane office (FY17: nil).
3. Pro-forma results in FY17, including a reconciliation to the pro-forma results in the Tatts Scheme Booklet, are set out on slide 34 of the Appendices in the Tabcorp 2017/18 Full Year Results Presentation.

MEDIA RELEASE

Tabcorp

## MANAGING DIRECTOR AND CEO COMMENTARY

"FY18 was a company-defining year for Tabcorp. The combination with Tatts has created a world-class, diversified gambling entertainment group with an attractive portfolio of market-leading brands across wagering, media, lotteries, Keno and gaming services. The integration of the two businesses is on track, with initial business improvements and cost initiatives implemented. We have taken decisions to underpin $50m of EBITDA synergies and business improvements in FY19 and are on target to deliver at least $130m in FY21. We are focused on delivering the substantial value the combination is expected to create for shareholders, customers, the racing industry and venue partners.

“During the year we accelerated digitalisation across the company, launched new products and implemented new licences. The group delivered a positive second half performance and we are well positioned for profitable growth and sustainable returns to shareholders.

“FY18 has also been a year of positive change for the gambling sector. A number of reforms have been introduced which aim to make the industry more sustainable. The introduction of point of consumption taxes, the prohibition of synthetic lottery products, advertising restrictions and improved consumer protection measures are creating a fairer playing field. Tabcorp is very well placed to perform in this improved environment.”

## WAGERING & MEDIA

On a pro-forma basis, Wagering & Media revenues and EBITDA were steady. Revenues were $2,461.8m, up 0.6% on the prior corresponding period (pcp) and EBITDA was $451.8m, up 0.1%. The business experienced 2H18 earnings momentum supported by improved variable contribution and expense management, with 2H18 EBITDA growth of 10.4% compared to a 7.6% decline in 1H18.

TAB revenue growth was 2.5%. UBET revenues grew in 2H18 but declined 0.7% for the full year. Media revenues were $167.2m, up 1.2%. The TAB performance relative to UBET highlights business improvement opportunities across UBET’s digital and retail channels, products and yield management.

TAB’s key drivers performed well, with digital turnover of $5,071.8m, up 16.3%, off a larger base, offsetting a decline in retail turnover ($6,033.3m, down 3.3%). Fixed odds products drove revenue growth (racing $680.3m, up 12.7%; sport $244.0m, up 14.4%), more than offsetting the decline in tote revenue ($1,037.5m, down 5.2%).

Tabcorp achieved successful results for the Soccer World Cup. This was supported by an integrated campaign across retail and digital, with 2H18 total business revenues of $17m and 1H19 total business revenues of $9m across the TAB and UBET brands. The World Cup helped boost TAB and UBET active account customer numbers to almost 720,000, up 8.0%.

## LOTTERIES & KENO

On a pro-forma basis, Lotteries & Keno revenues were $2,332.3m, up 4.7%. EBITDA was $394.9m, up 10.5%.

Lotteries revenues were $2,112.2m, up 4.9%. The retail network grew sales, while digital sales grew 27.8% and accounted for 17.7% of total lottery sales. Tabcorp has more than 2.9m registered online lottery players. A new Powerball game was launched in April, creating bigger jackpots and more overall winners, in line with consumer demand.

Keno revenues were $220.1m, up 3.5%. During the year Keno launched Mega Millions in Queensland and accelerated its digital expansion. Digital accounted for 3.8% of Keno sales, with 58,000 digital account holders.

MEDIA RELEASE

Tabcorp

## GAMING SERVICES

On a pro-forma basis, Gaming Services revenues were steady at $315.0m. EBITDA was $152.0m, up 0.5%. Revenues declined 2.1% in 2H18, partly impacted by the expiry of Tabcorp Gaming Solutions (TGS) venue contracts in Victoria. TGS now has 7,800 electronic gaming machines under contract in Victoria, of which 87% are contracted to 2022 and 11% beyond 2022. During the year, the Victorian Government announced new gaming machine arrangements post-2022, providing certainty to hotels and clubs. As well as attracting new sign-ups, TGS is seeking to transition existing Victorian venue customers to longer-term contracts beyond 2022. These extensions will support the sustainability of the business, albeit at lower margins.

An operational highlight for the year was MAX's successful roll-out of the Centralised Monitoring System for gaming machines in NSW.

## SUN BETS

As previously announced, Tabcorp has exited its agreement with News UK to operate Sun Bets and the business has ceased trading. Tabcorp will make a payment to News UK of approximately A$71m to exit.

## DIVIDEND

Tabcorp has announced a fully franked final dividend of 10.0 cents per share, payable on 14 September 2018 to shareholders on the register at 16 August 2018. The ex-dividend date is 15 August 2018. Reflecting the phasing of integration benefits, the FY19 dividend target is 100% of NPAT before significant items, amortisation of the Victorian wagering licence and purchase price accounting. The Dividend Reinvestment Plan will operate for the final dividend.

## INTEGRATION

The delivery of EBITDA synergies and business improvements from the integration of Tabcorp and Tatts is on track. Initial synergies and business improvements of $8m of EBITDA were delivered in FY18 and all decisions have been taken to deliver $50m in FY19. The target remains at least $130m of EBITDA from synergies and business improvements in FY21.

## CONCLUSION

Mr Attenborough said: “Our focus in FY19 is on managing integration, as well as executing sustainable growth initiatives across each of our three businesses. We will continue to invest in the powerful mix of our digital and retail channels, as well as new product initiatives. Tabcorp is well placed to grow by using our channels, brands and people to consistently deliver great customer experiences.

"We remain very focused on unlocking the benefits from the Tabcorp and Tatts combination for our many stakeholders. A key part of bringing the two businesses together involves building a strong and shared organisational culture. We're making good progress on this priority.

“We will also continue to prioritise the highest standards of regulatory compliance across the Group and maintain a disciplined approach to operating expenditure, capital investment and balance sheet management.”

For more information: Media: Nicholas Tzaferis, GM Corporate Communications, +61 3 9868 2529
Financial analysts: Sacha Krien, GM Investor Relations, +61 3 9868 2794


ANNUAL REPORT

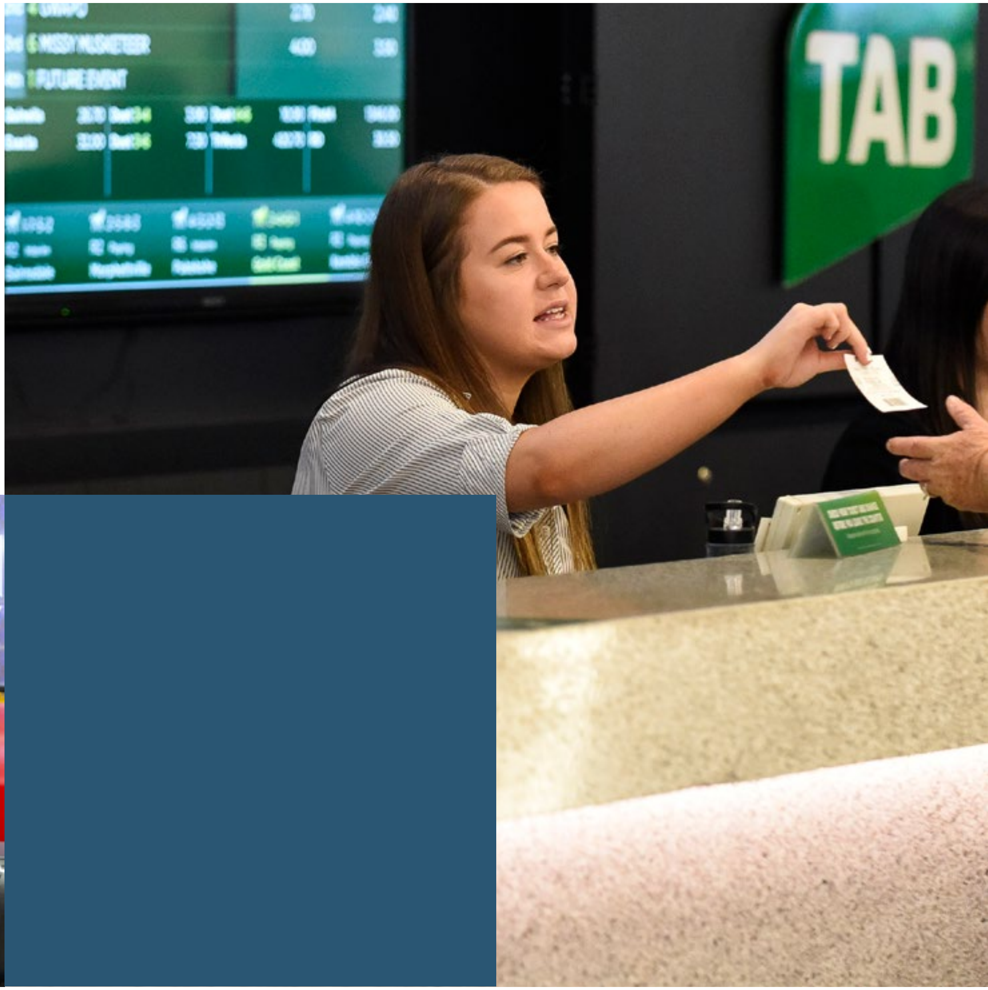
2018

Tabcorp

# CONTENTS



**Notice of meeting**
The Annual General Meeting of Tabcorp Holdings Limited will be held at 10.00am (Brisbane time) on Wednesday 17 October 2018 at the Brisbane Convention & Exhibition Centre, corner of Merivale and Glenelg Streets, South Bank (Brisbane), Queensland.




**About the Annual Report**
Tabcorp publishes its Annual Report as a single document and on the day it releases its full year results, which provides information to stakeholders in a timely and efficient manner. A copy of the Annual Report is available, free of charge, on request. Current and past Annual Reports are available from the Company's website at **www.tabcorp.com.au**.

**Elect not to receive a hard copy**
Shareholders can elect not to receive a hard copy Annual Report by updating their communications preferences with the share registry – go online at **linkmarketservices.com.au** or call 1300 665 661.

Tabcorp and Tatts combined effective December 2017, creating a world-class, diversified gambling entertainment group. More brands, more possibilities, more entertainment.

The combined group has a large national footprint, an extensive portfolio of leading brands and a diverse product offering across wagering, media, lotteries, Keno and gaming services.

The combination brings together two highly complementary businesses and a strong pool of talent from within each organisation, ensuring that the combined group is well positioned to invest, innovate and compete for future growth.

| WAGERING AND MEDIA | LOTTERIES AND KENO | GAMING SERVICES |
|---|---|---|
| TAB | the Lott | TGS Tabcorp Gaming Solutions |
| UBET | KENO let's play! | MAX |
| SKY RACING | | eBET |

TABCORP'S VISION IS TO BE THE WORLD'S MOST RESPECTED GAMBLING-LED ENTERTAINMENT COMPANY.

# COMPANY OVERVIEW

More than 3 million registered customers

$3.8 billion(i) of revenues in FY18

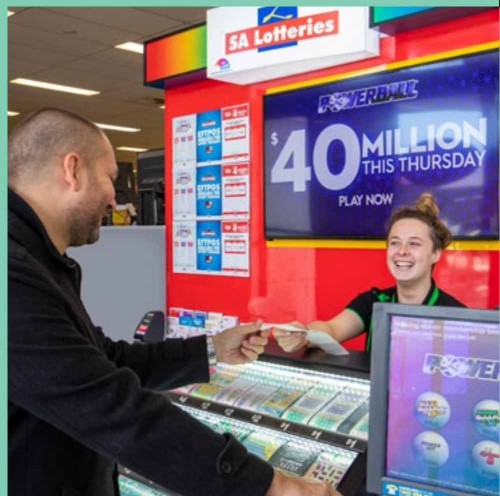
$7.2 billion of net assets

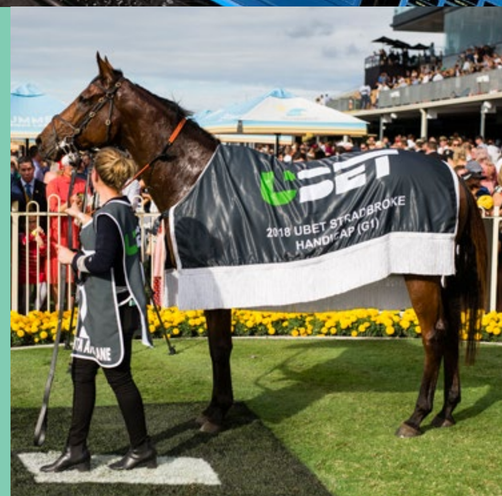
$2.8 billion(i) of taxes and racing industry funding in FY18

The largest financial contributor to the Australian racing industry

9,000+ venues, the biggest retail footprint in Australia

More than 5,000 employees


(i) Includes contribution from Tatts Group from 14 December 2017.

# OPERATIONS

## Australian Operations

Northern Territory

Western Australia

South Australia

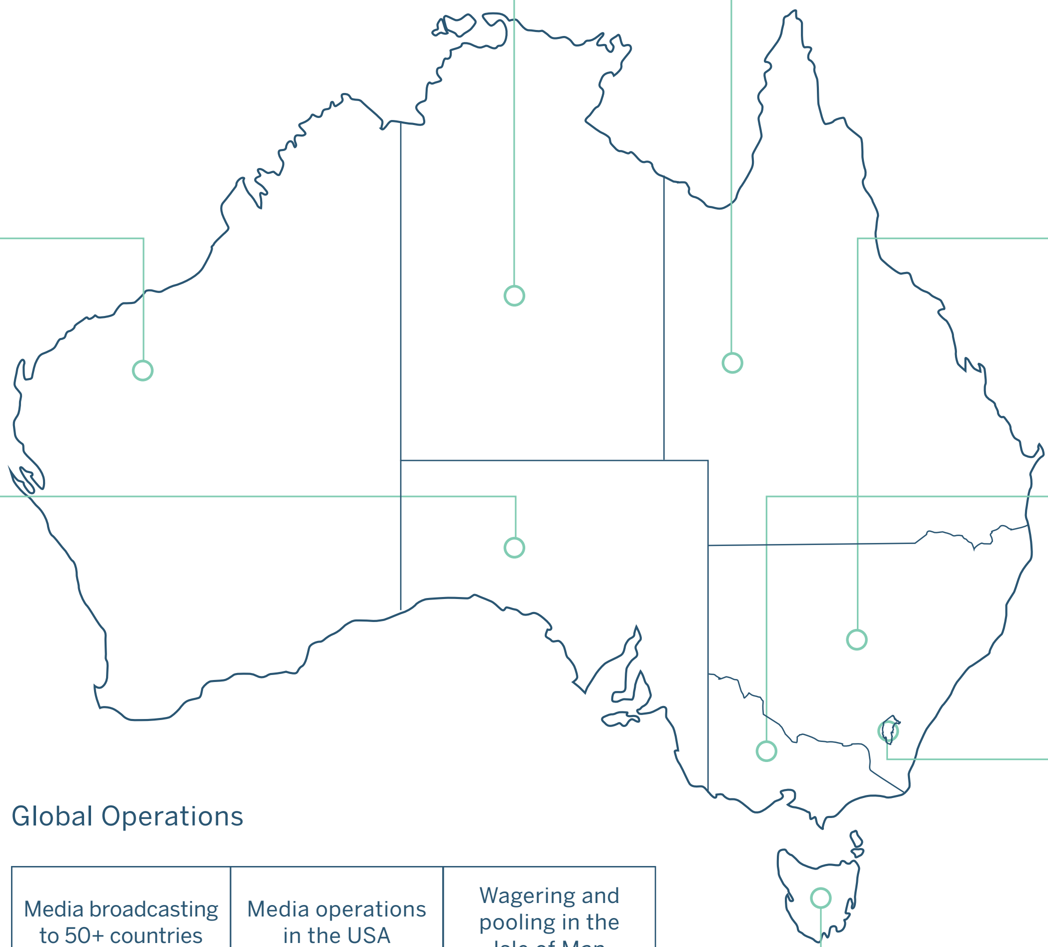
Queensland

New South Wales

Victoria

ACT

Tasmania



**LEGEND**

- Wagering
- Media
- Lottery
- Keno
- Gaming Services

## Global Operations

| Media broadcasting to 50+ countries | Media operations in the USA | Wagering and pooling in the Isle of Man |
|---|---|---|

# FY18 OVERVIEW

| HIGHLIGHTS | KEY POINTS |
|---|---|
| Combination with Tatts Group completed and integration on track | › EBITDA synergies and business improvements are on track<br>– Delivered $8 million in FY18<br>– Decisions taken underpin $50 million in FY19<br>– Target remains at least $130 million in FY21 |
| Exited loss-making businesses | › Sun Bets exit announced July 2018<br>› Luxbet closure December 2017 |
| A more sustainable regulatory environment | › Federal legislation passed banning synthetic lottery products<br>› Wagering point of consumption tax regimes announced<br>› New advertising restrictions and stronger consumer protections introduced |
| Capital management | › Refinanced $1.8 billion bridge loan into long-dated maturities in US market<br>› Full year dividends totalled 21.0 cents per share fully franked, including final dividend of 10.0 cents per share fully franked |
| Well positioned for growth | › Positive 2H18 performance, driven by Wagering and Media, and Lotteries and Keno businesses<br>› Accelerated digitalisation across the company<br>› New products launched<br>› Licences renewed |

## FY19 PRIORITIES

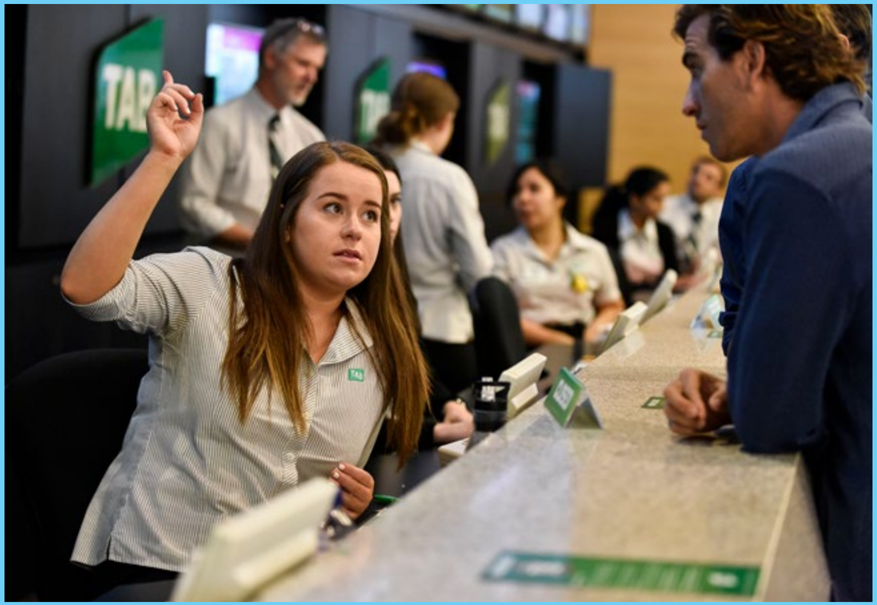
› Deliver the expected benefits from the combination with Tatts

› Continue to execute on growth opportunities across all businesses

  – Enhance digital capability and improve consistency of customer digital experience
  – Deepen integration of digital technology into retail network
  – Deploy new products across all markets for all businesses
  – Strengthen customer relationship management capability by effectively integrating systems and customer data platforms

› Ensure the highest levels of regulatory compliance

› Maintain a disciplined approach to operating expenditure, capital investment and balance sheet management



# FY18 FINANCIAL PERFORMANCE

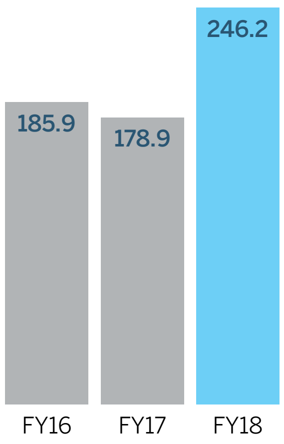
- Statutory results[(i)]
  - Revenues $3,828.7 million, up 71.4%
  - EBITDA[(v)] $529.4 million, up 69.5%
  - NPAT $28.7 million, up from $20.8 million loss
  - EPS[(iii)] 1.9 cents per share, up from 2.5 cents loss per share
  - Results impacted by significant expense items after tax[(iv)] of $217.5 million from Tatts combination, Sun Bets exit and Luxbet closure

- Results before significant items[(i)(ii)]
  - Revenues $3,828.7 million, up 71.7%
  - EBITDA[(v)] $736.4 million, up 46.1%
  - NPAT $246.2 million, up 37.6%
  - EPS[(iii)] 16.6 cents per share, down 22.4%

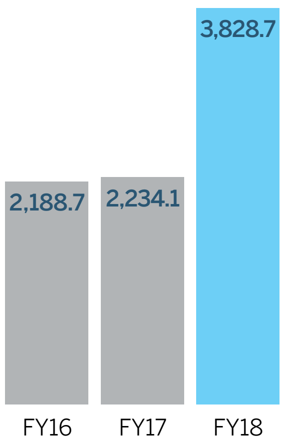
- Final dividend of 10.0 cents per share fully franked, taking the full year ordinary dividends to 21.0 cents per share fully franked

(i) Results include Tatts Group from 14 December 2017.
(ii) Tabcorp results before significant items include the Sun Bets operating result in FY18 (treated as a significant item in FY17).
(iii) Earnings per share (EPS) calculated using weighted average shares for the period.
(iv) Significant items after tax in FY18 totalled $217.5 million, which comprised Tatts Group combination costs of $114.6 million, Sun Bets exit costs of $90.5 million, and Luxbet closure costs of $12.4 million.
(v) Earnings before interest, taxation, depreciation and amortisation (EBITDA) is non-IFRS financial information.

**NPAT before significant items(i)(ii)(iii)**
$m




**Revenue(i)**
$m




| Group results(i)(ii) for the year ended 30 June | FY18 $m | FY17 $m | Change % |
|---|---|---|---|
| Revenue | 3,828.7 | 2,234.1 | 71.4 |
| Taxes, levies, commissions and fees | (2,331.2) | (1,235.5) | 88.7 |
| Operating expenses | (968.1) | (686.2) | 41.1 |
| Depreciation and amortisation | (248.6) | (183.3) | 35.6 |
| Impairment | (39.4) | (27.5) | 43.3 |
| EBIT | 241.4 | 101.6 | >100 |
| NPAT | 28.7 | (20.8) | >100 |
| NPAT before significant items(iii) | 246.2 | 178.9 | 37.6 |

## REVIEW OF RESULTS

The financial results of the Group for the financial year ended 30 June 2018 relate to the Group's operations, which comprise its four businesses of Wagering and Media, Lotteries and Keno, Gaming Services and Sun Bets.

Reported net profit after tax (NPAT) of the Group was $28.7 million. This year's result was impacted by significant items after tax of $217.5 million. This compared to a statutory net loss after tax of $20.8 million for the prior financial year.

The significant items after tax which impacted this year's result related to Tatts Group combination costs of $114.6 million, Sun Bets exit costs of $90.5 million, and Luxbet closure costs of $12.4 million.

Basic EPS for the financial year was 1.9 cents per share, compared to negative 2.5 cents per share in the previous year.

Before significant items, NPAT was $246.2 million, 37.6% above the previous year, and EPS was 16.6 cents per share, 22.4% below the prior year.

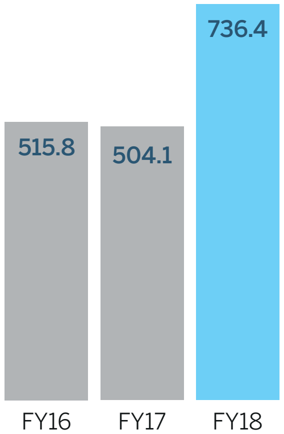
Statutory revenue was 71.4% above the previous financial year, at $3,828.7 million. Shareholders' funds as at the end of the financial year totalled $7,238.6 million, compared to $1,483.4 million at the end of the previous financial year.

The 2018 financial year was a company-defining year for Tabcorp. The combination with Tatts has created a world-class, diversified gambling entertainment group with an attractive portfolio of market-leading brands across wagering, media, lotteries, Keno and gaming services. The integration of the two businesses is on track, with initial business improvements and cost initiatives implemented. We have taken decisions to underpin $50 million of EBITDA synergies and business improvements in FY19 and are on target to deliver at least $130 million in FY21. We are focused on delivering the substantial value the combination is expected to create for shareholders, customers, the racing industry and venue partners.

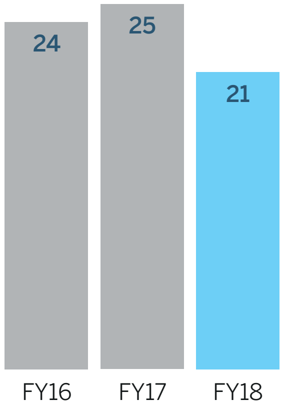
During the year we accelerated digitalisation across the company, launched new products and implemented new licences. The group delivered a positive second half performance and we are well positioned for profitable growth and sustainable returns to shareholders.

(i) Results include Tatts Group from 14 December 2017.
(ii) Tabcorp results before significant items include the Sun Bets operating result in FY18 (treated as a significant item in FY17).
(iii) Significant items after tax in FY18 totalled $217.5 million, which comprised Tatts Group combination costs of $114.6 million, Sun Bets exit costs of $90.5 million, and Luxbet closure costs of $12.4 million.

EBITDA before significant items[(i)(ii)(iii)]
$m




Dividends per share
Cents per share (fully franked)




## DIVIDENDS

A final dividend of 10.0 cents per share fully franked has been announced. The final dividend will be payable on 14 September 2018 to shareholders registered at 16 August 2018. The ex-dividend date is 15 August 2018.

The interim and final dividends payable in respect of the full year totalled 21.0 cents per share fully franked.

Reflecting the phasing of integration benefits, the FY19 dividend target is 100% of NPAT before significant items, amortisation of the Victorian Wagering and Betting Licence, and purchase price accounting.

Tabcorp's Dividend Reinvestment Plan (DRP) will operate in respect of the 2018 final dividend. The DRP operated in respect of the 2018 interim dividend, but did not operate in respect of the 2017 final dividend as it was suspended in accordance with the Merger Implementation Deed between Tabcorp and Tatts Group Limited.

The table below shows the dividends paid, declared or recommended by the Company since the end of the previous financial year.

Further information regarding dividends may be found in note A3 to the Financial Report.

| Description | Amount per share fully franked | Record date | Payment date | Total |
|---|---|---|---|---|
| 2018 final dividend | 10.0 cents | 16 August 2018 | 14 September 2018 | $201.3m |
| 2018 interim dividend | 11.0 cents | 14 February 2018 | 13 March 2018 | $221.2m |
| 2017 final dividend | 12.5 cents | 14 August 2017 | 18 September 2017 | $104.4m |

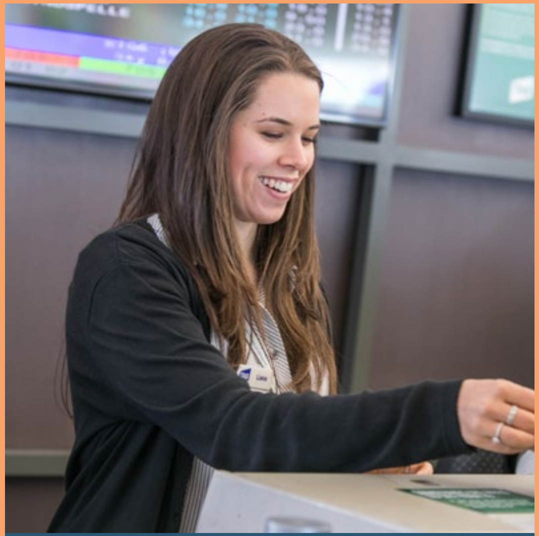
(i) Results include Tatts Group from 14 December 2017.
(ii) Tabcorp results before significant items include the Sun Bets operating result in FY18 (treated as a significant item in FY17).
(iii) Earnings before interest, taxation, depreciation and amortisation (EBITDA) is non-IFRS financial information.

## VALUE FOR OUR STAKEHOLDERS

Tabcorp is the largest financial contributor to the racing industry and is a substantial contributor to public funding for governments and communities. Through our industry arrangements, licences and taxation, our business returned the following in FY18 (including Tatts Group contributions from 14 December 2017):

- Returns to the racing industry of $916.8 million.
- State and territory gambling taxes and GST of $1,166.4 million.
- Income taxes paid and payable of $84.8 million.
- Commissions to our venue partners of $593.4 million.

Tabcorp also provided $1.9 million of voluntary community support.



**$2.8 billion**

of taxes and industry funding generated by Tabcorp's businesses in FY18.

# CHAIRMAN'S MESSAGE

**Paula Dwyer**
Chairman

I am pleased to report that the 2018 financial year was a successful year for Tabcorp.

During the year Tabcorp completed the combination with Tatts; refinanced borrowings of $1.8 billion at a competitive rate with long-dated maturities; led several initiatives to improve the gambling regulatory environment; resolved longstanding stakeholder issues and strengthened industry relationships; closed the loss-making Luxbet business and reached an agreement to exit the unsuccessful UK wagering and gaming business Sun Bets.

## COMBINATION WITH TATTS

On 22 December 2017, Tabcorp officially combined with Tatts following a lengthy and challenging process which formally commenced on 19 October 2016 and notably was implemented on the original transaction terms.

The combination with Tatts has brought together two highly complementary businesses which combined, are better positioned to compete, innovate and invest in a rapidly evolving gambling environment. Tabcorp is now a world-class, diversified gambling entertainment group, with a national footprint, more than three million registered customers and over 170,000 shareholders.

Work on integrating Tatts into Tabcorp is well advanced, and while this is a complex process that will take until the end of FY20 to complete, it will deliver substantial value for shareholders. We are on target to unlock at least $130 million per annum of EBITDA benefits from synergies and business improvements in FY21, the first full year after integration. At the same time, the management team is focused on delivering the substantial benefits expected to flow to our customers, the racing industry and venue partners.

Tabcorp now operates a set of market-leading brands across three businesses – Wagering and Media, Lotteries and Keno, and Gaming Services under a series of long-dated government-issued licences and authorisations.

A benefit of the extended transaction timetable was the opportunity afforded to prepare detailed integration plans. Since the transaction completed, a new Executive Leadership Team has been established, led by Managing Director and Chief Executive Officer David Attenborough. The team has been drawn from the talent within both organisations and has come together with clear plans and priorities for each business. Pleasingly, integration is on track with preliminary benefits already realised in the FY18 results.

## REFINANCING

The successful US$1.4 billion note issuance in the US private placement market announced in March 2018, raised a total of A$1.8 billion and was used to fully repay the A$1.8 billion bridge finance facility put in place in connection with the Tatts combination. This significant transaction extended Tabcorp's debt maturity profile and de-risks and secures the balance sheet for the long term.

## POSITIVE LEGAL AND REGULATORY OUTCOMES

Tabcorp has welcomed recent Federal and State Government reforms which aim to create a better regulated and more sustainable gambling industry.

These reforms include the prohibition of synthetic lotteries and Keno products, the introduction of point of consumption taxes on wagering and advertising restrictions. In addition, the Federal Government has introduced enhanced consumer protection initiatives such as the prohibition on offering of credit by wagering operators and restrictions on online in-play betting.

These initiatives demonstrate the commitment of Governments and Regulators to a well-regulated gambling sector. Enforcement of regulation is a significant part of this and Tabcorp welcomes the opportunity to play our part in an efficiently regulated and transparent market, characterised by integrity at all levels.

During the year Tabcorp concluded a number of legacy regulatory compliance and stakeholder dispute matters, including the successful enforcement of our retail exclusivity arrangements in NSW and the arbitration of the Sky media fees charged to the racing bodies in Victoria.

## WORKING WITH OUR STAKEHOLDERS

Tabcorp's operations underpin the sustainability of our racing industry partners and support the customer offer for newsagents and licensed venues. In FY18, Tabcorp's operations (including Tatts Group contributions from 14 December 2017) returned $916.8 million to the Australian racing industry and $593.4 million in commissions to our venue partners. In addition, $1,166.4 million in taxes and GST were returned to State and Territory Governments through our licences and authorisations. These significant returns are reflective of a model which ensures the proceeds of our gambling operations support the communities in which we operate.

We remain committed across the business to maintaining strong relationships with our key stakeholders.

## LUXBET, ODYSSEY AND SUN BETS

During the year Tabcorp decommissioned the loss-making Luxbet business and as part of the process for securing Australian Competition Tribunal authorisation for the combination with Tatts, divested Odyssey Gaming Services.

The UK online wagering and gaming business Sun Bets was operated under an agreement with News UK since 2016. Its trading performance has been consistently disappointing and below expectations since its establishment and on completion of a strategic review announced at the end of 1H18, we executed an agreement in July 2018 to exit the Sun Bets business. The Company has evaluated the performance of Sun Bets since its inception and the lessons from this unsuccessful venture have been embedded into our strategic planning processes.

## DIVIDEND

Tabcorp announced a final dividend of 10.0 cents per share, fully franked, bringing the full year dividends to 21.0 cents per share fully franked. Reflecting the phasing of integration benefits, the FY19 dividend target is 100% of NPAT before significant items, amortisation of the Victorian Wagering and Betting Licence, and purchase price accounting.

## BOARD CHANGES

In January 2018, the Board reviewed the operation and membership of Board Committees and separated the Audit, Risk and Compliance Committee to establish an Audit Committee and Risk and Compliance Committee. At the same time the focus of the Remuneration Committee was expanded and to reflect this was renamed the People and Remuneration Committee.

Tabcorp welcomed Harry Boon to its Board of Directors in December 2017. Harry led Tatts as Chairman since 2006 and brings to Tabcorp his significant non executive director experience and deep insight into the Tatts business. Harry has agreed to serve on each of the Audit, Risk and Compliance, and People and Remuneration Committees.

As previously advised, Jane Hemstritch retired from the Board at the 2017 Annual General Meeting and again I would like to acknowledge Jane for her contribution to Tabcorp over many years.

At the 2018 Annual General Meeting to be held on 17 October 2018, Elmer Funke Kupper will retire from the Board of Tabcorp. On behalf of all at Tabcorp I extend our good wishes to Elmer and thank him for his significant contribution to the Company.

## CONCLUSION

In conclusion, I would like to thank our customers and stakeholders for their support in FY18.

I would also like to acknowledge and thank all our employees and my Director colleagues across the Tabcorp and Tatts communities for their substantial efforts over the last 12 months to bring the combination of our businesses to life.

Tabcorp has entered FY19 with a clear plan to successfully progress the integration of Tatts and to deliver the expected synergies and business improvements. We will continue to execute on customer-led growth opportunities across our businesses while remaining committed to the highest levels of regulatory compliance.

Tabcorp had a successful year in FY18 and is now well positioned to deliver sustainable shareholder returns into the future.

Thank you for your continued support of Tabcorp.

**Paula J Dwyer**
Chairman

# MANAGING DIRECTOR'S MESSAGE

**David Attenborough**

Managing Director and Chief Executive Officer

The 2018 financial year was company-defining for Tabcorp. The combination with Tatts Group has brought together two highly complementary organisations creating a leading, diversified portfolio of gambling entertainment businesses.

Since completing the transaction in December 2017, we have prioritised the integration of the two businesses. We have made good progress, including establishing new leadership teams across the Group and setting the foundations for a strong and aligned organisational culture. Initial business improvements and synergies were delivered at the back end of 2H18 and we are on track to achieve our target of at least $130 million of annualised EBITDA benefits in FY21.

During the year we conducted strategic reviews of Luxbet and Sun Bets and made decisions to exit these loss-making businesses.

We also implemented a number of strategic initiatives to drive growth in our three businesses. These included accelerating digitalisation across the company, launching new products and implementing the NSW gaming Centralised Monitoring System and new Victorian Public Lottery Licence.

Tabcorp is well positioned to deliver not only substantial financial benefits but also a winning offer for customers.

## GROUP FINANCIAL PERFORMANCE

The statutory results for FY18 include a full year's contribution from Tabcorp and trading from Tatts Group from 14 December 2017 to 30 June 2018.

The Group reported NPAT of $28.7 million, which was impacted by a number of significant expense items totalling $217.5 million after tax. The significant items related to costs associated with the Tatts combination and the exits of Sun Bets and Luxbet.

NPAT before significant items was $246.2 million (up 37.6%). Before significant items, Group revenues were $3,828.7 million (up 71.7%) and EBITDA was $736.4 million (up 46.1%) reflecting underlying performance and Tatts Group contributions from 14 December 2017.

## BUSINESSES IN REVIEW

The results for each of our three businesses reflect the completion of the combination with Tatts Group in December 2017 and the significant work associated with integration.

The combined Wagering and Media business significantly improved its earnings in 2H18 supported by improved variable contribution and expense management. The business delivered FY18 statutory revenues of $2,186.1 million and EBITDA of $396.9 million.

Our investment in the digital customer experience supported strong TAB digital turnover growth of 16.3%. New products, such as TAB Multiplier, also helped drive digital growth as did the enhanced performance of the TAB app, which substantially improved its customer rating metrics.

A successful Soccer World Cup campaign helped grow active account customer numbers across TAB and UBET to almost 720,000.

The stronger performance of TAB relative to UBET highlights the opportunity to improve the UBET business across its digital and retail channels, products and yield management. We plan to start rolling the TAB brand out into the UBET states post the Spring Racing Carnival this financial year.

The combined Lotteries and Keno business delivered strong earnings, with FY18 statutory revenues of $1,390.7 million and EBITDA of $255.6 million.

Sales in the Lottery and Keno retail channels grew in FY18, however the results were primarily driven by strong digital sales growth coupled with expense management. Lotteries has over 2.9 million registered digital customers and digital accounted for 17.7% of all lottery sales. Keno has over 58,000 digital customers and digital accounted for 3.8% of all Keno sales.

In April 2018, we launched an updated Powerball game. Powerball now promises bigger jackpots and more overall winners, which we know from our customer insights data drives stronger engagement. Keno Mega Millions was also launched in Queensland in FY18 with approval in Victoria expected in FY19.

Our combined Gaming Services business conducts gaming machine monitoring operations in NSW, Queensland and the Northern Territory, and venue services nationwide. The business delivered FY18 statutory revenues of $249.7 million and EBITDA of $121.8 million.

Gaming Services is a business with increased scale and reach across the gaming industry.

During the year, the Victorian Government announced new gaming machine arrangements post-2022, providing certainty to hotels and clubs. As well as attracting new sign-ups, Tabcorp Gaming Solutions is seeking to transition existing Victorian venue customers to longer term contracts beyond 2022. These extensions will support the sustainability of the business, albeit at lower margins.

FY18 was a highly competitive year in wagering and lotteries as competing operators aggressively sought to acquire customers ahead of regulatory change. A number of reforms have now been introduced which aim to create a more sustainable gambling industry. Tabcorp regards these changes as positive for the sector. We are well placed in this improved environment.

## OUR PEOPLE AND OUR PARTNERS

I would like to thank our teams of people across Australia and other parts of the world who have worked tirelessly to deliver for customers of Tabcorp and Tatts in a year of substantial change.

We want to continue to make Tabcorp a great place to work. Our focus is on creating an aligned, high-performing culture that delivers great outcomes for customers, shareholders and our people. We also remain committed to building an inclusive workplace and recently finalised our new Inclusion and Diversity Policy.

I'm pleased to report that Tabcorp was recognised for the third successive year as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency. This reflects the initiatives we've implemented to support our commitment to gender equality such as flexible working arrangements, diversity targets and our annual gender pay gap analysis, which found there was no pay gap in like-for-like roles across the combined Group.

I would also like to thank our many partners across the racing industry and venue network for their continued support. It is our goal to maintain partnerships where we win together through shared interests and deep collaboration.

## FUTURE PRIORITIES

Continuing to successfully integrate Tabcorp and Tatts and deliver the transaction's benefits is a priority in the year ahead.

We will also execute on growth initiatives across each of our three businesses by continuing to invest in the powerful mix of our retail and digital channels, as well as product initiatives.

We will also continue to embed the highest standards of regulatory compliance across the Group and maintain a disciplined approach to operating expenditure, capital investment and balance sheet management.

Thank you for your support of Tabcorp.

**David R H Attenborough**
Managing Director and Chief Executive Officer

# WAGERING AND MEDIA BUSINESS

## OPERATIONS

- Totalisator (or pari-mutuel) and fixed odds betting offered on racing, sporting and other events.
- Network of TAB and UBET agencies, hotels and clubs, and on-course operations in Victoria, NSW, Queensland, South Australia, Tasmania, Northern Territory and the ACT.
- Wagering channels include retail, internet, mobile devices and phone.
- Trackside, a computer simulated racing product, operating in Victoria, NSW and the ACT, and licensed in other Australian and overseas jurisdictions.
- International wagering and pooling through Premier Gateway International (PGI) joint venture on the Isle of Man (50% interest).
- Three Sky Racing television channels broadcasting thoroughbred, harness and greyhound racing and other sports to audiences in TAB outlets, hotels, clubs, other licensed venues, and in-home to pay TV subscribers.
- Sky Sports Radio network in NSW and the ACT, RadioTAB network in Queensland, South Australia, Northern Territory and Tasmania, and advertising and sponsorship arrangements with Radio Sport National.
- Broadcasting Australian racing throughout Australia and distributing Australian and international racing to other countries, and importing overseas racing to Australia.

## LICENCES/APPROVALS

- Victorian Wagering and Betting Licence expires in August 2024, and may be extended by the State of Victoria for a further two year period.
- NSW Wagering Licence expires in March 2097, with retail exclusivity period to expire in June 2033.
- Queensland Race Wagering Licence and Sports Wagering Licence expire in June 2098.
- South Australian Major Betting Operations Licence expires in June 2100, with retail exclusivity period to expire in December 2032.
- Tasmanian Gaming Licence expires in March 2062.
- Northern Territory Totalisator Licence and Sports Bookmaker Licence expire in October 2035.
- ACT Totalisator Licence expires in October 2064.
- ACT Sports Bookmaking Licence expires in October 2029, with further rolling extensions to October 2064.
- ACT Approval to Conduct Trackside expires in October 2064.

| Wagering and Media results(i) for the year ended 30 June | FY18 $m | FY17 $m | Change % |
|---|---|---|---|
| Revenue | 2,186.1 | 1,873.0 | 16.7 |
| Taxes, levies, commissions and fees | (1,308.6) | (1,122.2) | 16.6 |
| Operating expenses | (480.6) | (400.8) | 19.9 |
| EBITDA | 396.9 | 350.0 | 13.4 |
| Depreciation and amortisation | (135.2) | (122.0) | 10.9 |
| EBIT | 261.7 | 228.0 | 14.8 |

(i) Results include the Tatts UBET Wagering business from 14 December 2017.

## FY18 HIGHLIGHTS

- Improved earnings in 2H18 supported by improved variable contribution and expense management.
- Next phase of digitalisation with new products Multiplier (TAB) and Tappy (UBET) launched, and commercialisation of digital vision, including licensing Sky Racing vision.
- Closure of Luxbet, the Northern Territory based online and phone bookmaking business.
- Successful Soccer World Cup campaign.

## REVIEW OF RESULTS

Statutory revenue for the Wagering and Media business was $2,186.1 million, up 16.7% and EBIT was $261.7 million, up 14.8% primarily as a result of contributions from the Tatts Group from 14 December 2017.

The business experienced second half earnings momentum supported by improved variable contribution and expense management following the closure of Luxbet and some initial business improvements and synergies delivered.

TAB revenue growth in the year was 2.5%. The TAB performance relative to UBET highlights business improvement opportunities across UBET's digital and retail channels, products and yield management.

TAB's key drivers performed well. Investment in the digital customer exeperience supported strong digital turnover of $5,071.8 million, up 16.3%, off a larger base, offsetting a decline in retail turnover ($6,033.3 million, down 3.3%). Fixed odds products drove revenue growth (racing $680.3 million, up 12.7%; sport $244.0 million, up 14.4%), more than offsetting the decline in tote revenue ($1,037.5 million, down 5.2%).

Tabcorp achieved successful results for the Soccer World Cup. This was supported by an integrated campaign across retail and digital, with 2H18 total business revenues of $17.0 million across the TAB and UBET brands.

The World Cup helped boost TAB and UBET active account customer numbers to almost 720,000.

| Revenue |
|---|
| $2,186.1m |
| Up \| 16.7% |

| EBIT |
|---|
| $261.7m |
| Up \| 14.8% |

# LOTTERIES AND KENO BUSINESS

## OPERATIONS

- The Lott is Australia's leading lottery business with operations in all states and territories of Australia, except Western Australia.
- Our leading game brands include Set for Life, Powerball, Oz Lotto, TattsLotto, Saturday Lotto, Gold Lotto, X Lotto, Monday & Wednesday Lotto, Lucky Lotteries, The Pools, Lotto Strike, Super 66, Keno and Instant Scratch-Its.
- Our lotteries products can be purchased in approximately 4,000 retail outlets, online at theLott.com and via our mobile app.
- Keno is a random number game that is played every three minutes with the chance for customers to win instant prizes and multi-million dollar life-changing jackpots.
- Keno is distributed to over 3,600 venues across clubs, hotels and TABs in Victoria, Queensland, South Australia and ACT, and in clubs and hotels in NSW.
- Keno jackpot pooling across Victoria, NSW, Queensland and ACT.

## LICENCES/APPROVALS

- Victorian Public Lottery Licence expires in June 2028.
- Queensland Licensed Lottery Operator Agreement expires in July 2072.
- NSW Operator Licence and various product licences expire in April 2050.
- Tasmanian Lottery Licence expires in June 2020.
- Northern Territory Lottery Agreement expires in June 2032.
- ACT Lottery Licence granted in perpetuity.
- Victorian Keno Licence expires in April 2022.
- NSW Keno Licence expires in April 2050.
- In NSW Tabcorp operates Keno under a management agreement with ClubKENO Holdings Pty Ltd.
- Queensland Keno Licence expires in June 2047.
- Keno operates under an agreement with the Lotteries Commission of South Australia which runs until December 2052.
- ACT Approval to Conduct Keno expires in October 2064.

## FY18 HIGHLIGHTS

- Powerball game change launched in April 2018, increasing prize frequency and opportunity for bigger jackpots.
- Keno Mega Millions launched in Queensland in March 2018, pooling with NSW.
- Lotteries new digital point of sale displays installed in more than 1,000 outlets.
- New Victorian Public Lottery Licence commenced 1 July 2018.

| Lotteries and Keno results[(i)] for the year ended 30 June | FY18 $m | FY17 $m | Change % |
|---|---|---|---|
| Revenue | 1,390.7 | 212.7 | >100 |
| Taxes, levies, commissions and fees | (998.1) | (90.8) | >100 |
| Operating expenses | (137.0) | (49.9) | >100 |
| EBITDA | 255.6 | 72.0 | >100 |
| Depreciation and amortisation | (55.9) | (22.5) | >100 |
| EBIT | 199.7 | 49.5 | >100 |

(i) Results include the Tatts Lotteries business from 14 December 2017.

## REVIEW OF RESULTS

Statutory revenue for the Lotteries and Keno business was $1,390.7 million, up >100% and EBIT was $199.7 million, up >100% resulting from contributions from the Tatts Group from 14 December 2017.

Strong business unit earnings growth driven by variable contribution margin expansion due to digital growth, cost control and initial business improvements and synergy benefits.

Lotteries sales growth experienced in the retail network and digital. Lotteries has more than 2.9 million registered online lottery players. A Powerball game change was launched in April 2018 creating bigger jackpots and more overall winners, in line with consumer demand.

Keno revenue growth skewed to 2H18 given less favourable jackpot sequence in 1H18 versus the prior comparative period.

During the year Keno launched Mega Millions in Queensland and accelerated its digital expansion. Digital accounted for 3.8% of Keno sales, with 58,000 digital account holders.



| Revenue | EBIT |
|---|---|
| $1,390.7m | $199.7m |
| Up \| >100% | Up \| >100% |

# GAMING SERVICES BUSINESS

## OPERATIONS

- The Tatts MAX business operates across NSW, Queensland, and Northern Territory providing electronic gaming machine (EGM) monitoring and value-add services to venues such as reporting, loyalty systems management, linked jackpots, cashless pre-commitment and ticket in ticket out (TITO) services.
- Tabcorp Gaming Solutions (TGS) operates across Victoria and NSW. TGS provides a mix of gaming machine expertise, specialised services, strategic advice and financing to licensed gaming venues, with the aim of optimising gaming and total venue performance.
- The eBet business provides gaming and promotional management systems and related services in NSW, Victoria, Queensland, Tasmania and the ACT.
- The MAXtech business provides a mix of services including logistics, installation, relocation, repair and maintenance of EGMs, lottery and wagering terminals and other transaction devices across Australia.
- The TGS business has approximately 10,360 EGMs under contract.
- TGS has 7,800 EGMs under contract in Victoria, of which 87% are contracted to 2022 and 11% beyond 2022.

## LICENCES/APPROVALS

- NSW Centralised Monitoring System Licence expires in November 2032.
- NSW Inter-Club Linked Gaming Systems Licence and Inter-Hotel Linked Gaming Systems Licence expire in October 2019.
- NSW Gaming Machine Dealer's and Seller's Licences.
- Queensland Monitoring Operator's Licence expires in August 2027 and Service Contractor Licence.
- Victorian listings on the Roll of Manufacturers, Suppliers and Testers.
- South Australian Gaming Machine Dealer's Licence (voluntarily suspended) and Gaming Machine Service Licence.
- ACT Supplier Certificates.
- Northern Territory Monitoring Provider's Licence, listing on the Roll of Approved Gaming Equipment Suppliers, Gaming Machine Service Contractors Licence and other approvals.
- Tasmanian listings on the Roll of Recognised Manufacturers, Suppliers and Testers of Gaming Equipment.

| Gaming Services results[i] for the year ended 30 June | FY18 $m | FY17 $m | Change % |
|---|---|---|---|
| Revenue | 249.7 | 143.9 | 73.5 |
| Taxes, levies, commissions and fees | (14.4) | (10.3) | 39.8 |
| Operating expenses | (113.5) | (51.5) | >100 |
| EBITDA | 121.8 | 82.1 | 48.4 |
| Depreciation and amortisation | (56.2) | (34.2) | 64.3 |
| EBIT | 65.6 | 47.9 | 37.1 |

(i) Results include the Tatts MAX and MAXtech business from 14 December 2017.

## FY18 HIGHLIGHTS

- The new MAX NSW Centralised Monitoring System Licence which commenced on 1 December 2017 provides a platform for future venue services opportunities.
- New Victorian gaming arrangements now provide industry certainty to 2032 (previously 2022).
- The Odyssey business which provided EGM monitoring in Queensland was divested in December 2017.

## REVIEW OF RESULTS

Statutory revenue for the Gaming Services business was $249.7 million, up 73.5% and EBIT was $65.6 million, up 37.1% with contributions from the Tatts Group from 14 December 2017.

During the year, the Victorian Government announced new gaming machine arrangements post-2022, providing certainty to hotels and clubs. As well as attracting new sign-ups, Tabcorp Gaming Solutions is seeking to transition existing Victorian venue customers to longer term contracts beyond 2022. These extensions will support the sustainability of the business, albeit at lower margins.

An operational highlight for the year was MAX's successful roll-out of the Centralised Monitoring System for gaming machines in NSW, which creates a platform for future venue services opportunities.

Revenue

**$249.7m**

Up | 73.5%

EBIT

**$65.6m**

Up | 37.1%

# SUN BETS BUSINESS

## OPERATIONS

- Sun Bets provided wagering and gaming services to UK and Ireland residents via internet, mobile devices and phone.

## LICENCES/APPROVALS

- Sun Bets operated under a UK Remote Operating Licence with no expiry, and an Irish Remote Bookmaker's Licence which was to expire in June 2019.

## REVIEW OF RESULTS

Sun Bets recorded statutory revenue of $7.4 million and an EBIT loss of $38.2 million for FY18. Sun Bets' trading has been disappointing and material improvement was not expected. As previously announced, Tabcorp executed an agreement with News UK to exit the Sun Bets business. Sun Bets ceased trading in July 2018.

Revenue

$7.4m

EBIT

$38.2m

Loss

| Sun Bets results[i] for the year ended 30 June | FY18 $m |
|---|---|
| Revenue | 7.4 |
| Taxes, levies, commissions and fees | (18.6) |
| Operating expenses | (25.7) |
| EBITDA | (36.9) |
| Depreciation and amortisation | (1.3) |
| EBIT | (38.2) |

(i) Sun Bets was treated as a significant item in FY17.

## CORPORATE RESPONSIBILITY FRAMEWORK AND STRATEGY

The year ended 30 June 2018 was the first full year of operating under our corporate responsibility framework and strategy following its establishment during the previous financial year. The strategy supports Tabcorp's vision to be the world's most respected gambling-led entertainment company and builds upon the progress and outcomes achieved by Tabcorp over many years.

The strategy was developed to generate value for our shareholders, employees, industry partners, community and other stakeholders over the short, mid, and longer term and helps us to guide our corporate responsibility efforts in the areas that matter to Tabcorp and our stakeholders. It also plays an important role in securing and enhancing Tabcorp's social licence to operate.

A summary of key developments and achievements under the strategy during the year is set out in this section of the Annual Report and includes six months' contribution from the Tatts business following the Combination. During the year, the corporate responsibility practices of the Tabcorp and Tatts businesses were combined and now operate under this framework and strategy. By combining the best elements from both organisations, we will continue to evolve and strengthen our corporate responsibility practices and activities.

Our corporate responsibility framework and strategy is based on the five pillars below.

Tabcorp publishes annually a Corporate Responsibility Review on the Tabcorp website which sets out Tabcorp's key corporate responsibility activities and progress against each of these pillars during the relevant year.

**The five pillars of Tabcorp's corporate responsibility framework**

| Community | Workplace | Governance | Responsible Entertainment | Environment |
|---|---|---|---|---|
| Corporate community investment, employee and community engagement, and support for improving social impacts. | Leading workplace practices to foster fairness, safety and wellbeing, diversity, inclusiveness, opportunity, performance and growth. | Stakeholder engagement, Board and executive performance, policies, transparency, measurement and reporting. | Responsible gambling and advertising practices, and supporting the racing industry in enhancing animal welfare. | A good foundation to improve performance and awareness for delivering positive environmental outcomes. |

## OUR CONTRIBUTIONS TO THE COMMUNITY

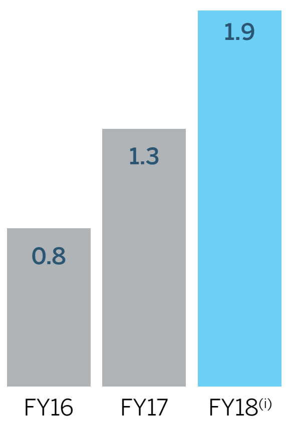
Tabcorp and its team members are proud to support our industry and charity partners, and provide significant contributions to the local communities in which we live, work and play. We have established key partnerships with charitable organisations, such as Prostate Cancer Foundation Australia, OzHarvest, Conservation Volunteers Australia and Starlight Children's Foundation, and industry based not-for-profits such as the National Jockeys Trust. We manage a number of programs and events that allow us to engage with industry partners and communities to help improve the communities around us.

We also have the Tabcorp Charitable Games team which focusses on fundraising activities for the not-for-profit sector. Initially established by Tatts, the Charitable Games team provides expertise and supplies technology solutions and innovative products that support charitable organisations in their fundraising endeavours. Tabcorp provides access to technology and marketing resources to support the activities of the 50-50 Foundation and the delivery of the 50-50 Charity Raffle and Play For Purpose charity lottery.

During the year, the value of our voluntary contributions totalled approximately $1.9 million. This was a substantial increase from last year (FY17: approximately $1.3 million) and includes six months' contribution from the Tatts businesses following the Combination. This voluntary support is in the form of cash donations, in-kind support, management and employee time, and leveraged support. The major developments during the year are outlined on the following pages.

These voluntary contributions are in addition to the $2.8 billion in taxes, community contributions and industry funding that our businesses generated in FY18 through our industry arrangements, licences and taxation. One such example is the $500,000 contribution paid annually by our Golden Casket lotteries business to the Mater Foundation healthcare group in Queensland. Also, as the largest funder of the Australian racing industry and with the largest retail footprint of any Australian company, our businesses support thousands of industry jobs and communities across the country.

**Total voluntary community contributions**
$m




(i) Results include Tatts Group from 14 December 2017.

## 50-50 FOUNDATION

Tabcorp has a partnership with and provides support to the 50-50 Foundation, which is a registered Australian charity that fundraises for charitable causes. Since establishment in 2012 with the support of Tatts and now Tabcorp, the 50-50 Foundation has operated more than 300 charity raffles and lotteries and raised significant funds for over 100 Australian charities. The Foundation is governed by a pro-bono board and currently operates two products (50-50 Charity Raffle and Play For Purpose) that are powered by Tabcorp technology.

The 50-50 Charity Raffle gives sports fans the chance to play for large cash prizes whilst supporting local charities. The 50-50 Foundation works with sporting clubs and charity partners to host fundraising raffles at large sporting events. The 50-50 Charity Raffle now has over 25 sporting partners across the AFL, NRL, Super Rugby, Big Bash, racing and A-League. In FY18, Tabcorp team members and community volunteers conducted 144 charity raffles across Queensland, New South Wales and South Australia raising over $370,000 for independent Australian charities.

| | |
|---|---|
| 50-50 FOUNDATION | 5050foundation.net.au |
| 50-50 CHARITY RAFFLE | 5050charityraffle.com.au |
| PLAY FOR PURPOSE | playforpurpose.com.au |

Play For Purpose was launched with the support of Tatts in November 2017, and is the first charity lottery of its kind in Australia. Play For Purpose enables participants to play for amazing prizes while supporting their favourite cause. More than 90 charities and sporting foundations across the country are on the platform. People can purchase a ticket online and a minimum of $15 from every $25 ticket sold goes directly to their chosen charity, and participants go into the draw for a chance to win $1 million worth of prizes. There are over 11,000 prizes to be won, giving people a 1 in 19 chance to win a prize while also supporting their chosen Australian charity. Play for Purpose is an innovative solution that rewards both supporters and charities. Play For Purpose utilises technology to provide a cost effective and transparent fundraising offer for Australian community organisations. The first Play For Purpose lottery game is scheduled to be drawn on 27 September 2018.

## TEAL PANTS

Teal Pants is the harness racing industry initiative that supports the Women's Cancer Foundation. The initiative sees female harness drivers across the country wear teal coloured pants to raise funds and awareness for the Foundation, which is dedicated to funding research and development of an ovarian cancer vaccine. Teal Pants operates in February and March in conjunction with Ovarian Cancer Awareness Month. This year we combined our Tabcorp and Tatts support and made donations to the Foundation for each time a female driver won a race in all Australian states and territories where we operate our TAB and UBET retail networks. Our TAB and UBET businesses donated a total of $37,650 to support the Foundation this year. Our donations were matched by the respective harness racing body.

## NATIONAL JOCKEYS TRUST

FY18 was the third year of Tabcorp's major partnership with the National Jockeys Trust. Our partnership helps the Trust to support injured jockeys and families of fallen riders. This year we donated $40,000 to the Trust and were the major sponsor of the National Jockeys Trust race day at Caulfield in July 2017, and the TAB National Jockeys Trust T20 cricket match in January. The charity cricket match is the biggest annual fundraising event for the Trust, and through the support of our team members, industry partners, sporting and racing ambassadors, and the public, the event raised a record $114,000. UBET is also a partner of the National Jockeys Trust, and in FY18 UBET launched an inaugural radio appeal which raised $40,000 for the Trust.

## PROSTATE CANCER FOUNDATION AUSTRALIA

In FY17, UBET entered into a partnership with Prostate Cancer Foundation Australia (PCFA) and in FY18 we were pleased to extend this partnership to include TAB. Through the national footprint of our TAB and UBET wagering businesses, Tabcorp will be able to increase support and awareness of PCFA and men's health issues. In June 2018, we donated $100,000 to the PCFA as part of the UBET Stradbroke Handicap race day at Doomben Racecourse in Brisbane. Tabcorp also supports fundraising activities for PCFA in our wagering retail venues, and provides customer and staff awareness for the "Get Checked" campaign for Prostate Cancer Awareness month in September.

## STARLIGHT CHILDREN'S FOUNDATION

The Lott has been one of the Starlight Children's Foundation's national charity partners since 2015. Fundraising activities and awareness campaigns on behalf of the Starlight Children's Foundation are conducted across our approximately 4,000 lottery retail outlets and digital channels. Tabcorp donated a total of $110,500 in the second half of FY18, and through our engagement with our generous retail partners and customers, we hope to raise more than $150,000 for the charity this year. Funds raised will help brighten the hospital experience for more than 2,500 seriously ill children and their families.

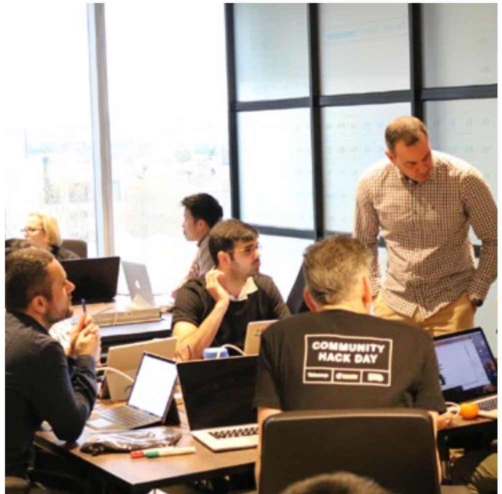
## COMMUNITY HACK DAYS

During FY18, Tabcorp's Technology team developed and launched community hack days to encourage team members with technology-based skills to create solutions for our charity partners.

The hack days enabled teams to collaborate, contribute their skills and use their annual volunteer leave day to help charities overcome technology problems or create new technology solutions. A hack day was undertaken in September 2017 in Melbourne to help Conservation Volunteers Australia, and another hack day was completed in October 2017 in Sydney for OzHarvest.

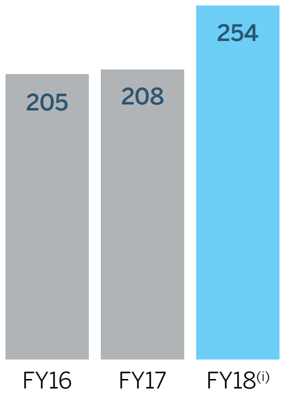
## TABCARE

Tabcorp's community and employee engagement program is called 'Tabcare'. Through the program, Tabcorp encourages team members to donate their time and raise funds for their chosen local community charities or either of Tabcorp's major community partners: OzHarvest or Conservation Volunteers Australia. Team members can fundraise for any charitable organisation of their choice, with Tabcorp matching funds raised up to $10,000 per charity. Tabcorp also provides one annual volunteer leave day which enables team members to contribute their time to help a community group. Some of the main fundraising activities supported by Tabcare in FY18 included the OzHarvest CEO Cook Off, World's Greatest Shave, Movember, Steve Waugh Foundation and the Baker Heart & Diabetes Institute.





**Employee volunteering**
Number of volunteer leave days used




(i) Results include Tatts Group from 14 December 2017.

WGEA Employer of Choice for Gender Equality

## INCLUSION AND DIVERSITY

Tabcorp is committed to fostering an inclusive culture that reflects a diverse workplace, where team members openly share their unique perspectives, challenge the status quo and contribute their experience to achieve the best possible business outcome. Our focus on inclusion and diversity not only benefits employees but Tabcorp too, as research shows that diverse organisations outperform those that aren't.

Tabcorp recently refreshed its Inclusion and Diversity Policy. It articulates our commitment to creating a culture of inclusion, where our team members collaborate, everyone is treated with respect, and where everyone experiences a genuine sense of belonging.

A new Board diversity target was introduced, to have at least 40% female Non Executive Directors by the end of FY23. We have also set a new management diversity target of at least 40% of females in senior leadership positions by the end of FY21.

We regularly review and benchmark ourselves against relevant indicators to ensure we maintain our focus on inclusion and diversity, and to check that we are making progress. One such review was our annual gender pay gap analysis, which for the first time included the combined Tabcorp-Tatts Group. The review showed that across the combined Group there is no identified gender pay gap in like-for-like roles. We acknowledge there are some small pockets of the organisation where we have pay differences resulting from highly specialist capability and experience.

Also, Tabcorp was recognised for the third consecutive year as an Employer of Choice for Gender Equality. Awarded by the Federal Government's Workplace Gender Equality Agency (WGEA), the citation recognises our achievements in working towards a diverse workplace. Tabcorp is again the only gambling company and one of only 120 Australian organisations to receive this citation.

We have come a long way since we launched Tabcorp's Diversity Council in 2012 (now called the Inclusion and Diversity Committee), an executive management committee to lead inclusion and diversity throughout the organisation. Over this period we have developed and enhanced many initiatives, including:

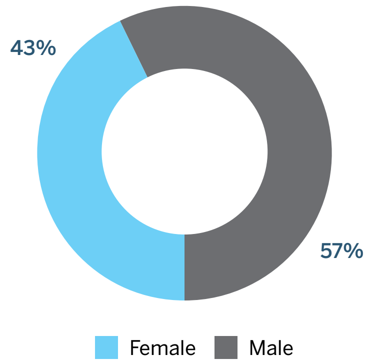
- 13 weeks' paid parental leave for primary carers and market-leading paid secondary carer's leave of six weeks;
- a Women's Mentoring Program, which more than 150 women have participated in. In 2018, twenty-nine women and ten mentors completed the joint Tabcorp-Racing Victoria Women's Mentoring Program;
- fully flexible work practices; and
- a commitment to increasing the representation of women in our senior leadership group, which has seen us surpass previous gender diversity targets and resulted in lifting the percentage of women in senior leadership roles from 25% to 36%.

**DIVERSITY TARGETS:**

**40% FEMALE NON EXECUTIVE DIRECTORS BY THE END OF FY23**

**40% OF FEMALES IN SENIOR LEADERSHIP ROLES BY THE END OF FY21**

**Total employee population**
At 30June 2018




36% females in senior leadership positions as at 30 June 2018

**Tabcorp's Inclusion and Diversity Policy and our annual report under the Workplace Gender Equality Act are available from the Corporate Governance section of Tabcorp's website.**

## DEVELOPING OUR PEOPLE

Investing in the development of our people is essential to making Tabcorp a great place to work. We strongly believe developing the skills and capability of employees improves individual and collective performance and has a direct impact on business outcomes. We also know that investing in the growth and development of our people correlates strongly with increased employee engagement and is a great way to inspire, motivate and retain our talent.

Tabcorp empowers its people to take the reins of their development. Our people are provided with the tools, resources and support to grow their careers. Our Learn and Grow enterprise learning and development system and framework provides opportunities for employees and their leaders to work together to develop skills and gain new experiences to grow capability in support of organisational goals and employees' career aspirations.

All Tabcorp permanent and fixed term employees also have access to Lynda.com – the world's largest online learning repository. Lynda is a global best practice learning and development platform which delivers content taught by industry experts and complements our other learning initiatives. Lynda.com offers thousands of video courses and other content, removing physical barriers to continuous learning and enabling employees to self-serve and fast track their individual development goals. In addition, employees undertake a range of general and targeted classroom style courses including Effective Business Writing, High Performance Conversations, Mastering Expertship and Presenting with Impact.

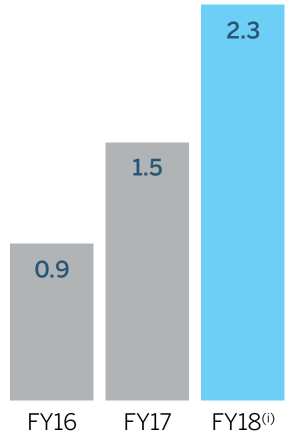
Tabcorp also held the third annual Tabcorp Sky Racing Academy in June 2018. This is a five-day program which brought together 23 emerging media professionals and presenters from our Sky Racing business and industry partners around Australia and New Zealand. It was a unique opportunity for them to learn from experienced broadcasters and develop their capability and careers.

## HEALTH, SAFETY AND WELLBEING

Tabcorp is committed to providing a safe environment for employees and visitors, and actively promotes health, safety and wellbeing in the workplace. Our safety data indicates that we continue to manage workplace safety well at Tabcorp. Although there was a reported increase in lost time injuries in FY18, this was a consequence of six months' contribution from Tatts. The underlying trend for Tabcorp (excluding Tatts) showed a reduction in FY18, with a lost time injury frequency rate of 0.9 which according to benchmarks is below industry norms.

During the year Tabcorp supported various employee awareness programs including Safety Week, Men's Health Week, Prostate Cancer Awareness Week, Harmony Day, Jobs at Home Day, RU OK Day and National Carers Week. Through regular employee engagement channels we are able to promote safety, wellness, flexible working, stress management, mindfulness, resilience, and nutrition. We hold annual employee expos at our main offices to also promote awareness of these and other benefits available to employees. Our people may also participate in mental health and first aid training, and are offered preventative influenza injections.

**Workplace safety**
Number of lost time injuries per million hours worked




(i) Results include Tatts Group from 14 December 2017.

## FRAMEWORK

Tabcorp's corporate governance framework is summarised in the diagram opposite. The framework has evolved to meet the changing needs of the combined Group resulting from the Combination, and continues to evolve to reflect contemporary market-leading practice.

## BOARD COMMITTEE RESTRUCTURE

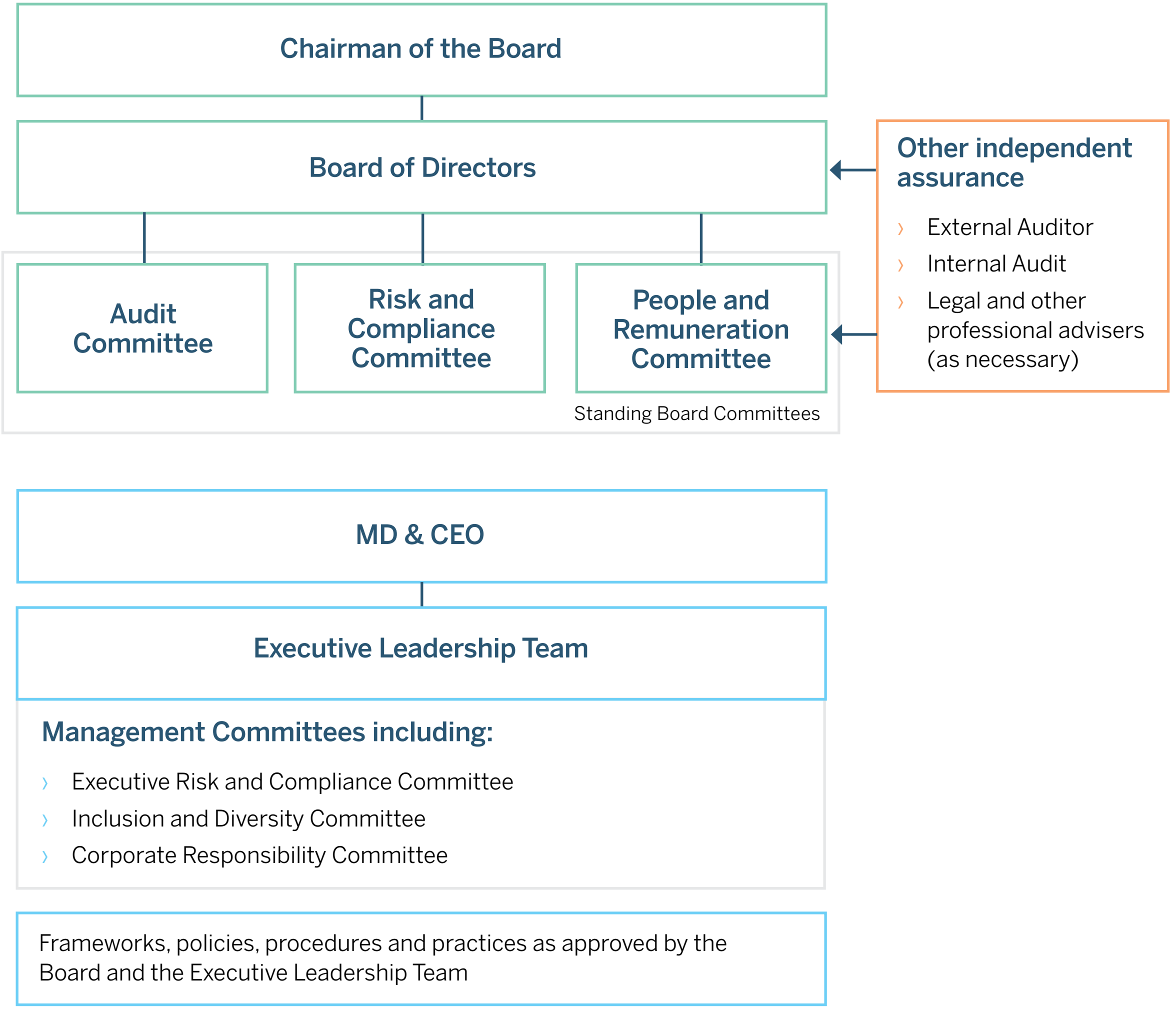
Having regard to the increased regulatory complexity, larger size and broader focus of the Group following the Combination, the Board restructured its standing Board Committees to ensure appropriate focus on the key business issues relevant to the combined Group. This committee structure was effective from 1 January 2018.

## REPORTING

Tabcorp's Corporate Responsibility Review 2017 was the first year that Tabcorp referenced the GRI Standards. A copy of the Review is available on the Company's website under the Sustainability section.

During FY18, Tabcorp lodged annual submissions for the Dow Jones Sustainability Index, FTSE4Good, CDP, ISS and Trucost to assess our environmental, social and governance practices, which are used by investors and stakeholders as a guide to identifying companies with leading practices in these areas.

Tabcorp's Corporate Governance Statement 2018, Appendix 4G, and key policies and governance documents are available at **tabcorp.com.au**



## PROMOTING RESPONSIBLE GAMBLING

In October 2017, Tabcorp again participated in the Responsible Gambling Awareness Weeks (RGAW) in Victoria, NSW and the Northern Territory, and the Gambling Harm Awareness Week (GHAW) in the ACT. Our support of these events aims to educate the community and raise awareness of responsible gambling.

We continue to update our systems, procedures, processes and operating model and have implemented a range of enhancements to support responsible gambling. We have improved our predictive analytics risk surveillance system that uses artificial intelligence to monitor wagering behaviour for potential problem gambling activity. We also added weekly deposit limits for new wagering customers using our iOS app, and enhanced our responsible gambling online information resources. A new Responsible Marketing and Advertising Standards and Review Process was implemented in our TAB business, and the Keno Standards were also updated. We further enhanced customer monitoring and supervision measures at on-course TAB locations across Victoria, New South Wales and ACT. This includes a focus on asking any customers who look under 25 years of age for identification.


## GREYHOUND ADOPTION

Our Sky Racing business was the major sponsor of the inaugural Greyhound Adoption Program (GAP) National Adoption Day, held in April 2018. The nation-wide campaign was aimed at improving awareness of greyhounds as pets and the importance of re-homing retired racing greyhounds, and saw 212 greyhounds adopted.

## RECOGNITION

In September 2017, Tabcorp once again received a score of 100% for promoting responsible gambling in the annual assessment for the Dow Jones Sustainability Index. This represented the eleventh consecutive year that Tabcorp had received this recognition, and acknowledges our long standing leadership position in this area.

Also during the year, the Tatts Lotteries business received Level 4 Responsible Gambling Accreditation from the World Lottery Association (WLA). This certification recognises the Tatts Lotteries business as a leader in responsible gambling as assessed by the Responsible Gaming Independent Assessment Panel against the internationally recognised WLA Responsible Gaming Framework and WLA Responsible Gaming Principles.

## REDUCING OUR ENVIRONMENTAL IMPACT

Tabcorp has for many years focused on reducing its impact on the environment, and we continue to promote employee awareness to recycle, reuse and reduce.

One of the areas of focus has been the reduction in the amount of paper we consume. Although this amount increased in FY18 to 4.732 million A4 equivalent pages including six months' contribution from Tatts, there was a continuing trend by Tabcorp (excluding Tatts) to reduce paper consumption.

We also track our electricity, gas and fleet vehicle fuel consumptions and the resulting greenhouse gas emissions which will be reported in our annual Corporate Responsibility Review.

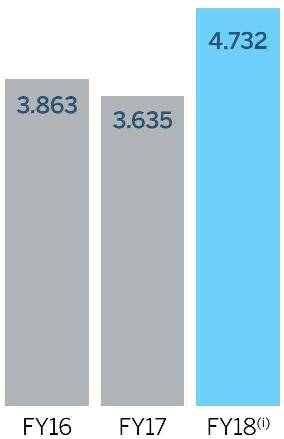
The relocation of Tabcorp's Melbourne office to the new Collins Square premises from August 2017 further reduced our environmental footprint. The premises at Collins Square has a minimum 5 Star Green rating.

## HELPING THE ENVIRONMENT

Tabcorp has a long standing association with Conservation Volunteers Australia and supports team members to participate in environmental protection and wildlife conservation activities. In September, Wagering Technology team members in Victoria used their annual volunteer leave day to participate in the Conservation Volunteers Australia's Eastern Barred Bandicoot recovery project on Threatened Species Day. Team members also participated in the annual Conservation Volunteers Australia Tree Planting Challenge to celebrate World Environment Day in June, which resulted in almost 2,000 native seedlings planted along the banks of the Yarra River.

Once again Tabcorp participated in Earth Hour, an annual event of the World Wide Fund for Nature to promote global environmental awareness. Tabcorp supported the initiative and awareness of climate change by encouraging team members to switch off lights, computer monitors and other non-essential devices at work and at home.

**Paper consumption**
Million A4 equivalent pages




(i) Results include Tatts Group from 14 December 2017.

# BOARD OF DIRECTORS

**Paula Dwyer**

Chairman and Non Executive Director from June 2011[(i)(ii)]

Paula Dwyer is Chairman of Healthscope Limited, and a Director of Australia and New Zealand Banking Group Limited and Lion Pty Ltd. She is also a Member of the Kirin Holdings International Advisory Board and a Member of the Takeovers Panel.

Ms Dwyer was formerly a Director of Leighton Holdings Limited, Suncorp Group Limited, Foster's Group Limited and David Jones Limited, and is a former member of the ASIC External Advisory Panel and the Victorian Casino and Gaming Authority and of the Victorian Gaming Commission.

Ms Dwyer had an executive career in finance holding senior positions in investment management, investment banking and chartered accounting with Ord Minnett (now JP Morgan) and PricewaterhouseCoopers.

Ms Dwyer is Chairman of the Victorian Joint Venture Management Committee. She is also a member of the Tabcorp Audit Committee, Tabcorp Risk and Compliance Committee and Tabcorp People and Remuneration Committee.

Ms Dwyer holds a Bachelor of Commerce. She is a Fellow of the Chartered Accountants Australia and New Zealand, Fellow of AICD, and is a Senior Fellow of the Financial Services Institute of Australasia.

**David Attenborough**

Managing Director and Chief Executive Officer from June 2011

David Attenborough joined Tabcorp in April 2010 as Managing Director – Wagering. He became Managing Director and Chief Executive Officer when Tabcorp's demerger of its former casinos business was completed in June 2011. He is also a Director of the Australasian Gaming Council.

Mr Attenborough was previously the Chief Executive Officer (South Africa) of Phumelela Gaming and Leisure Limited, the leading wagering operator in South Africa. His previous experience also includes the development of casino, bookmaking and gaming opportunities for British bookmaking company Ladbrokes (formerly part of the Hilton Group Plc).

Mr Attenborough holds a Bachelor of Science (Honours) and a Master of Business Administration, and is a Member of AICD.

He was appointed as the Managing Director and Chief Executive Officer following the Tabcorp-Tatts combination

**Bruce Akhurst**

Non Executive Director from July 2017

Bruce Akhurst is the Executive Chairman of Adstream Holdings Pty Ltd and is a Director of private investment company Paul Ramsay Holdings Pty Ltd. He is also Chairman of the Peter MacCallum Cancer Foundation, and a Director of the State Library of Victoria, and a Council Member of RMIT University.

Mr Akhurst was the Chief Executive Officer of Sensis Pty Ltd from 2005 to 2012 and a Director and Chairman of FOXTEL. Mr Akhurst also spent seven years as Group Managing Director and Group General Counsel at Telstra Corporation Limited, and prior to that he was a Partner at Mallesons Stephen Jaques.

Mr Akhurst is Chairman of the Tabcorp Risk and Compliance Committee and a member of the Tabcorp Audit Committee.

Mr Akhurst holds a Bachelor of Economics (Honours) and a Bachelor of Laws, and is a Fellow of AICD.

**Harry Boon**

Non Executive Director from December 2017

Harry Boon joined the Tabcorp Board in December 2017 following the implementation of the combination between Tabcorp and Tatts Group Limited (Tatts). He was previously the Chairman of Tatts, and served as a Non Executive Director of Tatts from May 2005.

Mr Boon is currently the Chairman of Asaleo Care Limited and is a former Director of Toll Holdings Limited from 2006 to 2015.

Mr Boon was previously Chief Executive Officer and Managing Director of ASX listed company Ansell Limited until he retired in 2004, a position which capped a career spanning some 28 years with the Ansell Group. Mr Boon has held senior positions in Australia, Europe, the US and Canada, and has broad-based experience in global marketing and sales, manufacturing, and product development.

Mr Boon is a member of the Tabcorp Audit Committee, Tabcorp Risk and Compliance Committee and Tabcorp People and Remuneration Committee.

Mr Boon holds a Bachelor of Laws (Honours) and a Bachelor of Commerce.

**Elmer Funke Kupper**

Non Executive Director from June 2012 (on leave of absence)

Prior to the demerger, Elmer Funke Kupper was Tabcorp's Managing Director and Chief Executive Officer from September 2007 to June 2011, and previously he was Tabcorp's Chief Executive Australian Business from February 2006.

Mr Funke Kupper was Managing Director and Chief Executive Officer of ASX Limited from October 2011 to March 2016. His career includes several senior executive positions with Australia and New Zealand Banking Group Limited, including Group Head of Risk Management, Group Managing Director Asia Pacific and Managing Director Personal Banking and Wealth Management. Previously he was a senior management consultant with McKinsey & Company and AT Kearney.

Mr Funke Kupper holds a Bachelor of Business Administration and a Master of Business Administration, and is a Member of AICD.

## Steven Gregg

Non Executive Director
from July 2012

Steven Gregg is Chairman of Caltex Australia Limited and a Director of Challenger Limited and thoroughbred bloodstock company William Inglis & Son Limited. He is also a Trustee of the Australian Museum Trust and Chairman of Unisson Disability Limited.

He is the former Chairman of Goodman Fielder Limited and former Chairman of Austock Group Limited, and he was a Member of the Grant Samuel non-executive Advisory Board.

Mr Gregg had an executive career in investment banking and management consulting, including as Global Head of Investment Banking and CEO at ABN Amro Bank, and Partner and Senior Adviser to McKinsey & Company.

Mr Gregg is a member of the Tabcorp Audit Committee and Tabcorp People and Remuneration Committee.

Mr Gregg holds a Bachelor of Commerce.

## Vickki McFadden

Non Executive Director
from July 2017

Vickki McFadden is Chairman of GPT Group, a Director of Newcrest Mining Limited and Myer Family Investments Pty Ltd, and President of the Takeovers Panel. She is also a Member of Chief Executive Women and a Member of the Advisory Board and Executive Committee of the UNSW Business School.

Ms McFadden was Chairman of Eftpos Payments Australia Limited and Skilled Group Limited, and was previously a Non Executive Director of Leighton Holdings Limited. Prior to this, she was Managing Director, Investment Banking at Merrill Lynch (Australia) Pty Ltd.

Ms McFadden is Chairman of the Tabcorp Audit Committee and a member of the Tabcorp Risk and Compliance Committee.

Ms McFadden holds a Bachelor of Commerce and a Bachelor of Laws, and is a Member of AICD.

## Justin Milne

Non Executive Director
from August 2011

Justin Milne is Chairman of MYOB Group Limited, Chairman of NetComm Wireless Limited and Chairman of Australian Broadcasting Corporation. He is also a Director of NBN Co Limited, Members Equity Bank Limited and SMS Management and Technology Limited.

Mr Milne was formerly Chairman of pieNETWORKS Limited, a Director of Basketball Australia Limited and Chief Executive Officer of OzEmail and the Microsoft Network.

Mr Milne had an executive career in telecommunications, marketing and media. From 2002 to 2010 he was Group Managing Director of Telstra's broadband and media businesses, and headed up Telstra's BigPond New Media businesses in China.

Mr Milne is a member of the Tabcorp Risk and Compliance Committee.

Mr Milne holds a Bachelor of Arts, and is a Fellow of AICD.

## Zygmunt Switkowski AO

Non Executive Director
from June 2011(i)(iii)

Zygmunt Switkowski is Chairman of Suncorp Group Limited and Chairman of NBN Co Limited. He is also a Director of Healthscope Limited, and Chancellor of RMIT University.

Dr Switkowski is a former Director of Oil Search Limited, former Chairman of the Australian Nuclear Science and Technology Organisation, and former Chairman of Opera Australia.

Dr Switkowski was the Chief Executive Officer and Managing Director of Telstra Corporation Limited from 1999 to 2005, and is a former Chief Executive Officer of Optus Communications.

Dr Switkowski is Chairman of the Tabcorp People and Remuneration Committee.

Dr Switkowski holds a Bachelor of Science (Honours), and a PhD (Nuclear Physics). He is a Fellow of AICD, Australian Academy of Technological Sciences and Engineering, and Australian Academy of Science.

(i) The demerger of the Group's former casinos business, which occurred in June 2011, resulted in Tabcorp being a substantially different company. Therefore the Company's view is that Directors' tenure was reset at that time.

(ii) Prior to the demerger was a Non Executive Director from August 2005.

(iii) Prior to the demerger was a Non Executive Director from October 2006.

# EXECUTIVE LEADERSHIP TEAM

### David Attenborough

Managing Director and
Chief Executive Officer

David joined Tabcorp in April 2010 as Managing Director – Wagering. He became Managing Director and Chief Executive Officer when Tabcorp's demerger of its former casinos business was completed in June 2011.

He has an extensive background in totalisator and fixed odds betting, racing and broadcasting. He was previously the Chief Executive Officer (South Africa) of Phumelela Gaming and Leisure Limited, the leading wagering operator in South Africa. His previous experience also includes the development of casino, bookmaking and gaming opportunities for British bookmaking company Ladbrokes (formerly part of the Hilton Group Plc).

David is a Director of the Australasian Gaming Council.

David holds a Bachelor of Science (Honours) and a Masters of Business Administration, and he is a Member of AICD.

### Merryl Dooley

Chief People Officer

Merryl commenced with Tabcorp in October 1990 and has held numerous positions across a range of discipline areas including human resources, training and development, communications and sales.

She became Executive General Manager – Human Resources in June 2011 following the implementation of the Tabcorp demerger, and then Executive General Manager - People, Culture & Communications in March 2016, prior to becoming Chief People Officer in December 2017 following the Tabcorp-Tatts combination.

Merryl holds a Masters of Business Administration (Executive) and a Bachelor of Arts, and has attended the Senior Executive Program at the London Business School. She is a Member of AICD.

### Sean Hughes

Group General Counsel

Sean joined Tabcorp in July 2017. As Group General Counsel he leads Tabcorp's Legal and Regulatory function.

Prior to joining Tabcorp, he was Chief Risk and Legal Officer at UniSuper. He has also held executive leadership roles with the Financial Markets Authority in New Zealand (as Chief Executive Officer), Australian Securities and Investments Commission, National Australia Bank Limited and Australia and New Zealand Banking Group Limited.

Sean holds a Bachelor of Laws (Honours), a Bachelor of Arts and a Master of Law (First). He is a Graduate Member of AICD.

### Damien Johnston

Chief Financial Officer

Damien joined Tabcorp in September 2003. He was Tabcorp's Deputy Chief Financial Officer, being responsible for Tabcorp's Corporate Finance function including Treasury and Investor Relations, and became Chief Financial Officer upon implementation of the Tabcorp demerger in June 2011.

He previously had a 21 year career with BHP Billiton with key finance roles in both Australia and Asia. These included both operational finance and corporate roles.

Damien holds a Bachelor of Commerce and is a Fellow of CPA Australia.

### Clinton Lollback

Chief Risk Officer

Clinton joined Tabcorp in January 2016 in this newly created role to lead Tabcorp's risk and compliance functions.

Prior to joining Tabcorp, he was the Head of Operational Risk at Macquarie Group, a role he established and led for 10 years.

Clinton has extensive risk management experience in the banking and finance industry, including roles with Westpac, JP Morgan, and Coopers & Lybrand.

Clinton holds a Bachelor of Business and is a Member of the Institute of Chartered Accountants.

### Frank Makryllos

Managing Director – Gaming Services

Frank was Chief Operating Officer – Gaming at Tatts Group from early 2013 until commencing with Tabcorp following the Tabcorp-Tatts combination in December 2017. Frank is responsible for leading Tabcorp's Gaming Services business which includes the brands MAX, TGS and eBET.

Frank was previously Chief Executive Officer of Intralot Australia, and was the Chief Executive of Tatts Pokies.

Frank holds a Masters of Business Administration and has completed several courses through the Harvard and London Business Schools.

### Mandy Ross

Chief Information Officer

Mandy commenced with Tabcorp in December 2017 following the combination of Tabcorp and Tatts. At Tatts, she was Chief Information Officer from December 2014, and Head of Technology Transformation and Process Improvement from 2013.

Mandy was previously Chief Technology Officer of start-up Literary Planet and Chief Information Officer of online travel organisation the Wotif Group.

Mandy holds a Masters of Business Administration and Bachelor of Information Technology (Honours).

### Adam Rytenskild

Managing Director – Wagering and Media

Adam joined Tabcorp in 2000. He has held numerous senior management positions, including expanding Wagering's Retail and Digital businesses through periods of increasing competition and significant change. In 2013 Adam established Tabcorp's Gaming Services business and led the turnaround of Tabcorp's Keno business.

In August 2017 Adam was appointed Chief Operating Officer – Wagering and Media and in December 2017 became Managing Director – Wagering and Media.

Adam has extensive experience leading complex multi-channel, multi-jurisdiction businesses with multiple partners and stakeholders. His career includes nine years with Mobil Oil prior to joining Tabcorp.

He holds a Masters of Business Administration, has attended the Senior Executive Program at London Business School and the Executive Breakthrough Program with Egon Zehnder. He is a Member of AICD.

### Ben Simons

Chief Strategy Officer

Ben commenced with Tabcorp in July 2017 in the position of Chief Strategy Officer. He has oversight of corporate strategy and branding, business development, and the Office of the CEO, which includes corporate communications and government, investor and stakeholder relations.

He was previously with Telstra where he was most recently Director of Telstra Air, Australia's largest wifi hotspot network, and Director of Retail Product Strategy. Prior to Telstra, he was Principal of management consulting firm Bain and Company.

Ben holds a Masters in Business Administration, a Bachelor of Economics, a Bachelor of Laws, and a Graduate Diploma in Applied Finance from the Securities Institute of Australia.

### Sue van der Merwe

Managing Director – Lotteries and Keno

Sue was Chief Operating Officer – Lotteries at Tatts Group and became Tabcorp's Managing Director – Lotteries and Keno following the combination of Tabcorp and Tatts in December 2017.

Sue has extensive experience in the lottery industry commencing her career in marketing lotto games in 1990 and progressing through various management roles at Tatts.

Sue holds a Bachelor of Social Science, Marketing and Economics.

# DIRECTORS' REPORT

## CONTENTS

The Directors of Tabcorp Holdings Limited (the Company) submit their report for the consolidated entity comprising the Company and its subsidiaries (the Group) and the Group's interests in joint arrangements and associates in respect of the financial year ended 30 June 2018.

## 1. PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year comprised the provision of gambling and entertainment services. The Group's principal activities remain unchanged from the previous financial year, except as disclosed elsewhere in this report.

## 2. OPERATING AND FINANCIAL REVIEW OF THE GROUP

The financial results of the Group for the financial year ended 30 June 2018 comprise its four businesses of Wagering and Media, Lotteries and Keno, Gaming Services and Sun Bets. The activities and financial performance of the Group and each of its operating businesses for the financial year are set out on pages 1 to 20.

## 3. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following events, which may be considered to be significant changes in the state of affairs of the Group, have occurred since the commencement of the financial year on 1 July 2017.

### 3.1 Tabcorp-Tatts combination

The combination with the Tatts Group was implemented in December 2017, at which time Tatts Group Limited became a wholly owned subsidiary of the Company. The combination brought together two highly complementary businesses and creates a world-class, diversified gambling entertainment group. Integration is progressing well with a dedicated project team comprising internal and external specialists resourced to execute on integration plans which are overseen by an integration steering committee and the Board.

### 3.2 Divestment of Odyssey Gaming Services business

In December 2017, the Group completed the sale of its Odyssey Gaming Services business (Odyssey) to Australian National Hotels Pty Limited, a subsidiary of Federal Group. Tabcorp agreed to divest Odyssey as part of the process for securing authorisation for the Tabcorp-Tatts combination from the Australian Competition Tribunal. Odyssey provided electronic gaming machine monitoring services and repair and maintenance services in Queensland, and was part of the Group's Gaming Services business.

### 3.3 Closure of Luxbet business

Following the completion of a strategic review, the Group closed its Luxbet business in December 2017. Luxbet held a Northern Territory licence and provided racing, sport and novelty product bookmaking services by phone, internet and mobile devices.

### 3.4 Other significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group that occurred during the financial year other than as set out in this Directors' Report.

## 4. SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On 19 July 2018, the Group announced that it had completed discussions with News UK and executed an agreement to exit the Sun Bets business, the UK and Ireland online wagering and gaming business operated since 2016. Sun Bets has now ceased trading and Tabcorp will make a payment to News UK of £39.5 million (approximately A$71 million) to exit the agreement.

No other matters or circumstances have arisen since the end of the financial year, which are not otherwise dealt with in this report or in the Financial Report, that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years. Refer also to note A6 to the Financial Report.

## 5. BUSINESS STRATEGIES

The Group is one of Australia's leading gambling entertainment companies and seeks to deliver sustainable superior returns to its shareholders through the delivery of financial, operational and leadership excellence. To achieve these outcomes, the Group continues to focus on a number of key priorities, which are set out on page 5 and discussed on pages 10 to 13. The priorities and strategies of the Group's operating businesses are set out on pages 14 to 20.

## 6. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Each year the Board undertakes a formal strategic planning process to provide guidance to management about the Group's strategic direction. The Group plans to continue with its business strategies, as set out in this report and referenced above. The execution of these strategies is expected to result in improved financial performance over the coming financial years.

The achievement of the expected results in future financial years is dependent on a range of factors, and may be adversely affected by any number of events, and are subject to, among other things, the material business risks described in section 7.

The Directors have excluded from this report any further information on the likely developments in the operations of the Group and the expected results of those operations in future financial years, as the Directors have reasonable grounds to believe that to include such information will be likely to result in unreasonable prejudice to the Group.

## 7. MATERIAL BUSINESS RISKS

The Group has a structured and proactive approach to understanding and managing risk. The key focus of the risk management approach is to ensure alignment of strategy, processes, people, technology and knowledge, and evaluate and manage the uncertainties and opportunities faced by the Group. An overview of the Group's risk management processes and internal control framework is disclosed in the Company's Corporate Governance Statement available on Tabcorp's website.

Material business risks that could adversely affect the achievement of the financial prospects of the Group in future financial years are summarised below. These risks should not be taken to be a complete or exhaustive list of the risks and uncertainties that might potentially affect the Group. Many of the risks are outside the control of the Group. There can be no guarantee that the Group will achieve its stated objectives, that it will meet trading performance or financial results guidance that it may provide to the market, or that any forward looking statements contained in this report will be realised or otherwise eventuate.

### 7.1 Licences and other approvals

The conduct of wagering, lotteries, Keno and the provision of gaming services are regulated by laws, licences, permits and other approvals from relevant state and territory governments. Any material non-compliance by the Group with the relevant regulations or licence terms may result in financial penalties, disciplinary action or the suspension or loss of certain licences, permits or approvals, which may have an adverse impact on the financial performance of the Group or result in the loss of an operating unit and corresponding revenues from that operating unit.

In addition, the failure by a member of the Group to have any existing licence or authorisation renewed (or renewed on terms that are less favourable to the Group), may result in a loss of revenue and profit for the Group, which may adversely affect the Group's financial performance and financial position.

To mitigate these risks, the Group has a structured approach to managing compliance across its businesses, which is overseen by the Chief Risk Officer and the Board Risk and Compliance Committee. The Group also operates a diverse portfolio of businesses spread across a number of jurisdictions, business segments and customer categories which reduces the reliance on any one specific business or jurisdiction. In addition, the Group maintains long term gambling licences, and seeks new licences and to extend existing licences where possible.

### 7.2 Changes to the regulatory environment

The activities of the Group are conducted in a highly regulated environment. The gambling activities that members of the Group conduct, and will conduct, and the level of competition they face, and will face, will depend to a significant extent on:

› the licences, permits and other approvals granted to the Group and to third parties; and

› government policy and the manner in which relevant governments exercise their broad powers in relation to the conduct of relevant businesses.

Changes in legislation, regulation, taxation or government policy (or Court decisions concerning the constitutionality or interpretation of the same) may have an adverse impact on the Group's operational and financial performance.

As a leader in the Australian gambling industry, the Group takes a proactive approach to engaging with relevant regulators and governments, and from time to time lodges submissions in respect of changes to the regulatory and licensing environments and industry which may impact the Group and its stakeholders. In addition, the Group regularly reviews its operating business model and strategies to take account of changes to the regulatory and licensing environments to mitigate adverse consequences of these changes.

### 7.3 Racing and sports products

The Group's wagering and media businesses are reliant on racing industries and sporting bodies across Australia, and internationally, providing a program of events for the purposes of wagering, and obtaining and maintaining the necessary broadcast rights for race meetings and sporting events. A significant decline in the quality or number of horses, greyhounds, or sporting contests or the number of sporting and racing events, or the occurrence of an event which adversely impacts on the racing industry or sporting events, or which otherwise disrupts the scheduled racing or sporting program (such as adverse weather conditions, an outbreak of equine influenza or other animal sickness pandemics), would have a significant adverse effect on wagering and media revenue and may have an adverse effect on the operational and financial performance of the Group.

The Group engages and works closely with racing bodies and industry stakeholders to optimise racing schedules and broadcasts to provide the best racing product available to customers and mitigate the potential for adverse impacts which may result from a decline in racing product. In addition, the Group has business continuity plans to help manage and respond to significant events which may impact upon the supply of racing product.

### 7.4 Race field fees, sports products fees and taxes

Each state and territory of Australia has implemented race fields arrangements, under which each state or territory (or its racing industry) charges wagering operators product fees for use of that industry's race fields information. Consequently, the Group is required to pay product fees to the relevant racing controlling body. Similar arrangements exist in relation to sports, and the Group is also required to pay product fees to the relevant sports controlling bodies. There is the potential that fees will increase, or new fees will be introduced, and such fees may have an adverse effect on the operational and financial performance of the Group.

The Group has mitigation strategies to partly mitigate such impacts, including that members of the Group currently have contracts that the Group considers will allow them to offset some of the fees or obtain damages under contract. Members of the Group may in the future disagree with various racing industry bodies regarding the application of certain aspects of the race fields regimes or contracts that govern product fees. Such disagreements may lead to litigation or other dispute resolution processes, including negotiated settlement.

Taxes and levies relating to the wagering, lotteries and gaming segments of the gambling industry are currently determined by relevant governments. A material increase in the taxes and levies payable by the Group in respect of its wagering, lotteries or gaming businesses may reduce margins and have an adverse impact on the financial performance of the Group.

With effect from 1 July 2017 and 1 October 2018, respectively, the South Australian and Queensland Governments have introduced a 15% point of consumption tax applicable to wagering revenue on bets derived from customers in those states (Point of Consumption Tax). Other governments have also announced the introduction of a Point of Consumption Tax effective from 1 January 2019 at various rates: Victoria (8%); NSW (10%); Western Australia (15%) and the ACT (15%). It is possible that the introduction of Point of Consumption Taxes could adversely affect the financial performance of the Group.

Tabcorp has engaged with a number of Australian state and territory governments regarding the introduction of Point of Consumption Taxes. Tabcorp supports a uniform approach to taxation where all wagering and betting operators can compete effectively.

### 7.5 Racing Queensland arrangements

In 2017, Tabcorp and Racing Queensland Limited (RQL) entered into a commercial arrangement in relation to the combination with the Tatts Group, under which the parties made various commitments in favour of each other, including that RQL consent to the Scheme of Arrangement. From a financial perspective, among other items, Tabcorp guaranteed a minimum amount of fees that RQL will receive under its deed with UBET QLD in each calendar year from 2018 to 2020. Tabcorp currently expects that it will be required to make a payment to RQL in relation to the 2018 calendar year which is not material to the Group and, while necessarily uncertain, depending on the performance of the business in future or the occurrence of unexpected circumstances, further payments may need to be made that may be material.

## 7.6 Competition

In a broad sense, gambling activities compete with other consumer products for consumers' discretionary expenditure and, in particular, with other forms of leisure and entertainment including cinema, restaurants, sporting events, the internet and pay television.

If the Group does not adequately respond to the competition for consumers' discretionary expenditure, including competing gambling offerings, there may be an adverse effect on the operational and financial performance of the Group.

The Group's wagering businesses currently compete with domestic bookmakers, and other interstate wagering operators who accept bets over the telephone or internet (such as corporate bookmakers based in the Northern Territory and betting exchanges). The internet and new forms of distribution have allowed new competitors to enter the Group's traditional markets without those competitors being licensed in those jurisdictions. Further, Court decisions, a relaxation of relevant advertising laws (or the way in which they have been administered) and the increasing application of competition policy have allowed other wagering operators to gain greater freedom to compete nationally. Competition from the interstate and international operators may extend to the Group's retail wagering network.

The emergence of synthetic lottery operators, such as Lottoland (a corporate bookmaker licensed in the Northern Territory), has seen competition extend to the Group's lotteries and Keno businesses. Despite recent and proposed changes to Northern Territory and Federal legislation, there is a risk that competition from operators such as Lottoland may extend to the Group's lotteries and Keno retail networks. Similarly, if a national sports lottery, or similar product, were introduced, there is a risk that this could have a negative impact on the Group's lotteries sales and have an adverse effect on the operational and financial performance of the Group's lotteries and Keno businesses.

To mitigate the risks of competition, the Group operates a diverse portfolio of businesses with operations spanning multiple jurisdictions and market segments, which reduces the reliance on any single business and customer category. In addition, the Group adopts a range of strategies to further mitigate this risk, including leveraging its exclusive retail network, enhancing its customer service and relationship management, introducing new products, and driving digital innovation and excellence across its multi-channel network.

## 7.7 Reliance on infrastructure and third party commercial arrangements

The Group is reliant on key infrastructure for the operation of its businesses, including the satellites through which Sky Channel broadcasts. A significant malfunction or interruption to key business infrastructure may have an adverse impact on the financial performance of the Group. The Group manages such risks through business continuity plans, which are designed to mitigate potential adverse impacts should they arise.

The Group is also reliant on a number of third party commercial arrangements for the operation of its businesses.

Failure of, significant interruption to, or reduction in the quality of third party products and services upon which the Group relies for a sustained period of time may result in the Group being unable to provide certain services during that period or providing a less attractive service, which may have an adverse impact on the operating and/or financial performance of the Group.

### 7.8 Compliance risks

Any failure by members of the Group to meet compliance requirements, standards, values and systems (including, for example, in relation to privacy laws, anti-bribery and corruption laws, and anti-money laundering/counter terrorism financing programs and laws) at operational levels may increase exposure to a compliance failure, potentially leading to the suspension or loss of applicable gambling licences, other civil or criminal penalties and brand damage and loss of future licence or business opportunities. The Group has a structured approach to managing compliance across its businesses, which is overseen by the Chief Risk Officer and the Board Risk and Compliance Committee.

### 7.9 Industry and economic conditions

Given the performance of the Group depends to a large extent on the level of discretionary consumer spending, there is a risk that adverse changes to general economic or industry conditions (for example, softer gambling trends) may adversely affect the financial performance of the Group.

### 7.10 Computer systems and technology security risks

The Group's businesses rely on the successful operation of technology infrastructure. A prolonged failure of the computer systems and/or related infrastructure or technology security failure, such as a cyber-attack, could impact upon the Group's technology systems and equipment, result in the loss or exposure of information assets, or personal customer data could be wrongfully appropriated, lost or disclosed, which may potentially adversely impact the reputation, operations or financial performance of the Group.

Significant resources are allocated to managing the Group's information technology portfolio, including specialist resources dedicated to information security and responding to cyber risks. The Group's information security management systems that are in scope are certified against the ISO 27001 standard and all remainder systems are complaint to the standard. The Group continues to evolve and strengthen its practices to effectively manage technology security risks.

### 7.11 Combination with Tatts Group

There are risks associated with the integration of the Tabcorp and Tatts businesses. These risks include that the Group's integration or strategy implementation may take longer than expected or that the extraction of potential synergies or realisation of business improvements does not occur or may incur additional costs, which may impact the Group's financial performance. Tabcorp continues to mitigate these risks through careful planning and execution and the involvement of internal staff and external experts and consultants, as required. The Group has undertaken a detailed review of the structure, operations, systems and activities of both the Tabcorp and Tatts businesses, and is well advanced with implementing changes to integrate the two businesses. An organisational review has been completed and changes have been implemented to bring together the best management and employee talent from each of Tatts and Tabcorp.

Tabcorp is in the process of conducting an operational and functional review of the Tatts business. There is a risk that Tabcorp may discover potential instances of non-compliance although none have been discovered to date. Tabcorp is mitigating the risk of non-compliance by implementing a detailed integration project plan with key actions to proactively identify and (where needed) update processes to ensure effective and efficient controls are in place. Tabcorp has identified opportunities to improve the Tatts Anti-Money Laundering/Counter-Terrorism Financing (AML/CTF) program, systems and controls. Tabcorp is also continuing to enhance the Tabcorp AML/CTF program and is planning to combine the two programs during 2020 as part of integration.

### 7.12 Sun Bets

Tabcorp entered into a remote sports betting and white label agreement in December 2015 with News Group Newspapers Limited (News UK), with operations commencing in August 2016 under the brand Sun Bets. Following a strategic review of the operating performance of Sun Bets announced during FY18, Tabcorp entered into negotiations with News UK, with a view to terminating the agreement before December 2019. On 19 July 2018, Tabcorp announced that it had executed an exit agreement with News UK. As a result, Sun Bets has ceased trading. Tabcorp could be exposed to future claims by customers, employees, regulators or other third parties in relation to the operation of the business prior to July 2018. Tabcorp has sought to manage this risk contractually though appropriate allocation of future potential risks between itself and News UK.

## 8. DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report (except as otherwise stated) are set out on pages 30 and 31 and below.

Jane Hemstritch retired as a Non Executive Director of the Company at the conclusion of the Company's Annual General Meeting on 27 October 2017. She served as a Director of the Company from June 2011 when the demerger of the Group's former casinos business occurred, and prior to demerger was a Director from November 2008. At the time of her retirement, she was a Director of Telstra Corporation Limited and Lend Lease Group, and was a non-executive member of the Herbert Smith Freehills Global Council, Chairman of Victorian Opera Company Limited, and a Member of Chief Executive Women and the Council of the National Library of Australia. Mrs Hemstritch was formerly a Director of Santos Limited and the Commonwealth Bank of Australia. She was also Managing Director – Asia Pacific for Accenture Limited where she was a member of Accenture's global executive leadership team and managed its business portfolio in Asia Pacific spanning twelve countries. Mrs Hemstritch was Chairman of the Tabcorp Audit, Risk and Compliance Committee and a member of the Tabcorp Nomination Committee. Mrs Hemstritch holds a Bachelor of Science (First Class Honours). She is a Fellow of the Chartered Accountants Australia and New Zealand, Fellow of the Institute of Chartered Accountants in England and Wales, and Fellow of the AICD.

## 9. DIRECTORSHIPS OF OTHER LISTED COMPANIES

The following table shows, for each person who served as a Director during the financial year and up to the date of this report (unless otherwise stated), all directorships of companies that were listed on the ASX or other financial markets operating in Australia, other than Tabcorp, since 1 July 2015, and the period for which each directorship has been held.

| Name | Listed entity | Period directorship held |
|---|---|---|
| **Current Directors** | | |
| Paula Dwyer | Australia and New Zealand Banking Group Limited<br>Healthscope Limited(i) | April 2012 to present<br>June 2014 to present |
| David Attenborough | Nil | |
| Bruce Akhurst | Nil | |
| Harry Boon | Asaleo Care Limited<br>Tatts Group Limited | May 2014 to present<br>May 2005 to December 2017 |
| Elmer Funke Kupper | ASX Limited | October 2011 to March 2016 |
| Steven Gregg | Caltex Australia Limited<br>Challenger Limited | October 2015 to present<br>October 2012 to present |
| Vickki McFadden | GPT Group<br>Newcrest Mining Limited<br>Skilled Group Limited | March 2018 to present<br>October 2016 to present<br>September 2005 to October 2015 |
| Justin Milne | MYOB Group Limited<br>NetComm Wireless Limited<br>SMS Management and Technology Limited | March 2015 to present<br>March 2012 to present<br>August 2014 to present |
| Zygmunt Switkowski | Healthscope Limited(i)<br>Oil Search Limited<br>Suncorp Group Limited(ii) | April 2016 to present<br>November 2010 to December 2016<br>September 2005 to present |
| **Former Director** | | |
| Jane Hemstritch(iii) | Commonwealth Bank of Australia<br>Lend Lease Group<br>Santos Limited<br>Telstra Corporation Limited | October 2006 to March 2016<br>From September 2011<br>February 2010 to May 2016<br>From August 2016 |

(i) Relisted on ASX in July 2014.
(ii) Includes the period as a Director of Suncorp-Metway Limited prior to the corporate restructure of the Suncorp Group.
(iii) Retired as a Director of Tabcorp on 27 October 2017. The directorships disclosed above were applicable at that time.

## 10. DIRECTORS' INTERESTS IN TABCORP SECURITIES

At the date of this report, the Directors had the following relevant interests in the securities of the Company, as notified to the ASX in accordance with section 205G(1) of the Corporations Act 2001:

| | Number of securities | |
|---|---|---|
| **Name** | **Ordinary shares** | **Performance Rights** |
| **Current Directors** | | |
| Paula Dwyer | 150,000 | - |
| David Attenborough | 1,364,435 | 1,558,977 |
| Bruce Akhurst | 80,000 | - |
| Harry Boon | 70,000 | - |
| Elmer Funke Kupper | 64,166 | - |
| Steven Gregg | 35,000 | - |
| Vickki McFadden | 50,000 | - |
| Justin Milne | 31,208 | - |
| Zygmunt Switkowski | 91,949 | - |
| **Former Director** | | |
| Jane Hemstritch[(i)] | 31,962 | - |

(i) Retired as a Director of Tabcorp on 27 October 2017. The interests disclosed above were applicable at that time.

## 11. DIRECTORS' INTERESTS IN CONTRACTS

Some Directors of the Company, or related entities of the Directors, conduct transactions with entities within the Group that occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those with which it is reasonable to expect the entity would have adopted if dealing with the Director or Director-related entity on normal commercial terms and conditions.

The Board assesses the independence of Directors and, among other things, takes into account any related party dealings referable to a Director which are material and require disclosure under accounting standards, and whether any Director is, or is associated with, a supplier, professional adviser, consultant to or customer of the Group which is material. No such circumstances arose during the financial year. For more information refer to the Corporate Governance Statement available on Tabcorp's website.

## 12. BOARD AND COMMITTEE MEETING ATTENDANCE

During the financial year ended 30 June 2018, the Company held 12 meetings of the Board of Directors, of which ten were standard scheduled Board meetings and two Board meetings were held to discuss special business. Special Board meetings were often called at short notice to address significant emerging issues, such as the combination with Tatts. The Board Committee structure and membership were revised following the Tabcorp-Tatts combination, with changes effective from 1 January 2018. The attendance of the Directors at meetings of the Board and standing Board Committees during the year in review were:

| | | | | | Committees until 31 December 2017 | | | | | | Committees from 1 January 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Standard Board Meetings | | Special Board Meetings | | Audit, Risk and Compliance | | Nomination | | Remuneration | | Audit | | Risk and Compliance | | People and Remuneration | |
| **Name** | A | B | A | B | A | B | A | B | A | B | A | B | A | B | A | B |
| **Current Directors** | | | | | | | | | | | | | | | | |
| Paula Dwyer(i) | 10 | 10 | 2 | 2 | 3 | 3 | 1 | 1 | 4 | 4 | 2 | 2 | 1 | 2 | 2 | 2 |
| David Attenborough(ii) | 10 | 10 | 2 | 2 | 3 | 3 | 1 | 1 | 4 | 4 | 2 | 2 | 2 | 2 | 2 | 2 |
| Bruce Akhurst | 10 | 10 | 2 | 2 | 3 | 3 | 1 | 1 | - | - | 2 | 2 | 2 | 2 | - | - |
| Harry Boon(iii) | 4 | 5 | - | - | - | - | - | - | - | - | 1 | 2 | 1 | 2 | 1 | 2 |
| Elmer Funke Kupper(iv) | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Steven Gregg | 10 | 10 | 1 | 2 | 3 | 3 | 1 | 1 | 4 | 4 | 2 | 2 | - | - | 2 | 2 |
| Vickki McFadden | 10 | 10 | 2 | 2 | 3 | 3 | 1 | 1 | - | - | 2 | 2 | 2 | 2 | - | - |
| Justin Milne | 10 | 10 | 2 | 2 | 3 | 3 | 1 | 1 | - | - | - | - | 2 | 2 | - | - |
| Zygmunt Switkowski | 10 | 10 | 1 | 2 | 3 | 3 | 1 | 1 | 4 | 4 | - | - | - | - | 2 | 2 |
| **Former Director** | | | | | | | | | | | | | | | | |
| Jane Hemstritch(v) | 1 | 3 | - | 1 | 1 | 2 | 1 | 1 | - | - | - | - | - | - | - | - |

A – Number of meetings attended.

B – Maximum number of possible meetings available for attendance.

(i) Paula Dwyer also attended meetings of the Victorian Joint Venture Management Committee as Chairman of this Committee.

(ii) David Attenborough attends Board Committee meetings, but he is not a member of any Board Committee. Only Non-Executive Directors are members of Board Committees.

(iii) Harry Boon commenced as a Non-Executive Director on 22 December 2017.

(iv) Elmer Funke Kupper commenced a leave of absence from the Board on 21 March 2016, and has not attended any Board or Committee meetings during the financial year.

(v) Jane Hemstritch retired from the Board on 27 October 2017.

In addition to the meetings above, a number of Directors also participated in meetings of Board Sub-Committees established for special purposes during the year.

The terms of reference and details of the functions and memberships of the Committees of the Board are set out in the Company's Corporate Governance Statement available on Tabcorp's website.

## 13. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Directors and Officers of the Group are indemnified against liabilities pursuant to agreements with the Group. Tabcorp has entered into insurance contracts with third party insurance providers, and in accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid are confidential.

## 14. COMPANY SECRETARY

Chris Murphy commenced as Acting Company Secretary on 23 March 2018 and will formally commence as Company Secretary following receipt of the necessary regulatory and ministerial approvals. Prior to joining Tabcorp, he was Assistant Company Secretary of Transurban Group and previously held company secretariat and/or legal roles at Cleanaway Limited, Alstom Limited and Melbourne Stadiums Limited. Chris holds a Bachelor of Laws (Honours), Bachelor of Commerce, a Graduate Diploma of Applied Corporate Governance and a Graduate Certificate in Applied Finance and Investment, and he is an Associate Member of the Governance Institute of Australia.

Michael Scott was appointed as Company Secretary on 23 March 2018. He has been the deputy to the Company Secretary since joining the Group in September 2002. He holds a Graduate Diploma of Applied Corporate Governance and a Bachelor of Land Information (Cartography). Michael is a Fellow of the Governance Institute of Australia, Graduate Member of the AICD and Fellow of Leadership Victoria's Williamson Community Leadership Program.

Fiona Mead ceased as Company Secretary on 23 March 2018.

## 15. CORPORATE GOVERNANCE

Tabcorp's Board of Directors recognises the importance of having proper and effective corporate governance arrangements and maintaining high standards of corporate behaviour and accountability. Tabcorp's Corporate Governance Statement is available on the Tabcorp website (**www.tabcorp.com.au**) under the Corporate Governance section, and sets out the Group's compliance with the ASX Corporate Governance Principles and Recommendations (3rd Edition) during the financial year ended 30 June 2018.

## 16. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's environmental obligations are regulated under both state and federal laws. The Group has a record of complying with, and in most cases exceeding, its environmental performance obligations. During the financial year ended 30 June 2018, no environmental breaches have been notified to the Group by any government agency.

## 17. OTHER MATTERS

Tabcorp was notified in March 2016 that the Australian Federal Police (AFP) are investigating claims raised in media articles in relation to a payment concerning a Cambodian business opportunity. The Company explored a business opportunity in relation to the Cambodian sports betting market in 2009/2010. At that time, some Asian countries were considering deregulating sports betting. The Company chose not to pursue the opportunity. The Company is cooperating fully with the AFP. The AFP has not laid any charges in relation to this matter.

## 18. AUDITORS

The Group's external auditor is Ernst & Young. The Group's internal audit function is fully resourced by Tabcorp, with specialist independent external support where necessary. More information relating to the audit functions can be found in the Company's Corporate Governance Statement.

## 19. NON-STATUTORY AUDIT AND OTHER SERVICES

Ernst & Young, the external auditor to the Company and the Group, provided non-statutory audit services to the Company during the financial year ended 30 June 2018. The Directors are satisfied that the provision of non-statutory audit services during this period was compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-statutory audit service provided means that auditor independence was not compromised.

The Audit Committee regularly reviews the activities of the independent external auditor and reviews the auditor's performance on an annual basis. The Chairman of the Audit Committee must approve all non-statutory audit and other work to be undertaken by the auditor (if any). Further details relating to the Audit Committee and the engagement of auditors are available in the Company's Corporate Governance Statement available on the Tabcorp website.

Ernst & Young, acting as the Company's external auditor, received or are due to receive $723,000 in relation to the provision of non-statutory audit services to the Company. Amounts paid or payable by the Company for audit and non-statutory audit services are disclosed in note E6 to the Financial Report.

## 20. AUDITOR'S INDEPENDENCE DECLARATION

Shown opposite is a copy of the auditor's independence declaration provided under section 307C of the Corporations Act 2001 in relation to the audit for the financial year ended 30 June 2018. This auditor's independence declaration forms part of this Directors' Report.

## 21. ROUNDING OF AMOUNTS

Dollar amounts in the Financial Report and the Directors' Report have been rounded to the nearest hundred thousand unless specifically stated to be otherwise, in accordance with the Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

## 22. REMUNERATION REPORT

The Remuneration Report for the financial year ended 30 June 2018 forms part of this Directors' Report, and can be found on pages 47 to 76.

This Directors' Report has been signed in accordance with a resolution of Directors.

**Paula J Dwyer**
Chairman

Melbourne
8 August 2018

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**AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF TABCORP HOLDINGS LIMITED**

As lead auditor for the audit of Tabcorp Holdings Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Tabcorp Holdings Limited and the entities it controlled during the financial year.

Ernst & Young

David Shewring
Partner
8 August 2018

# REMUNERATION REPORT

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## LETTER FROM THE CHAIRMAN AND THE PEOPLE AND REMUNERATION COMMITTEE CHAIRMAN

Dear Shareholder,

On behalf of the Tabcorp Board of Directors, we present the 2018 Remuneration Report for which we will seek your approval at the Annual General Meeting to be held on 17 October 2018.

During the year ended 30 June 2018, two key outcomes helped shape judgements by the Board around executive remuneration – one positive and one negative.

The combination between Tabcorp and Tatts Group (Combination) has resulted in the creation of a world-class diversified gambling group with a national footprint and is expected to generate financial and strategic benefits of scale.

After a journey of some years, the Combination was completed in December 2017 notwithstanding the many complexities and obstacles along the way. It reflected the considerable efforts of management and the Board and especially the leadership of the MD & CEO.

The combination of two balance sheets and the creation of a near $10 billion entity by market capitalisation was expertly managed by our management team and the synergies expected from this transaction are emerging as planned.

The Combination was a company-transforming highlight.

In contrast, Sun Bets, our UK online wagering and gaming start-up business which we have operated since 2016 with News UK, did not meet our expectations. The performance of Sun Bets has been consistently below plans over the last two years and this adverse outcome has been reflected in executive remuneration in each year. Tabcorp has now exited that business.

In anticipation of the critical organisational and personnel decisions that were to be made following the Combination, the Board restructured its standing Committees, creating a People and Remuneration Committee with an expanded Charter and invited the former Chairman of the Tatts Group, Mr Harry Boon, to join the Board.

In making these important organisational and personnel decisions, the following principles were observed:

- best practice was identified within Tabcorp and Tatts Group and then adopted across the combined Group;
- key positions were filled by the most qualified executives;
- all employees were treated consistently with the Tabcorp values;
- the organisational structure was designed to promote clarity and accountability; and
- the anticipated Combination synergies had to be delivered.

The Board formally appointed Mr David Attenborough as the MD & CEO of the combined Group with a new employment contract.

The Board also approved the appointment of a new Executive Leadership Team. All new positions in the combined enterprise were benchmarked and pay levels set consistent with the level of responsibility of the individual roles. This meant an increase in remuneration levels for individual executives but a reduction in total cost for the leadership of the combined Group.

This was also the case for Board and Committee fees for the combined Group.

The longstanding Tabcorp remuneration framework was not changed for the year ended 30 June 2018 but determination of incentive outcomes required consideration of the Combination around mid-year and the intent to treat executives in both organisations equitably.

In setting incentives outcomes under the STI Plan for the year ended 30 June 2018, the Committee determined a reduced pool of 33% of target. This was mostly because many of the financial outcomes were adversely affected by significant, albeit one-off, charges such as the exit from Sun Bets, and fell short of the approved budget.

This is the second year in succession where the STI pool has been sharply reduced and is also likely to coincide with a zero vesting of long term incentives (for the first time since 2012).

Paradoxically, even as reduced incentives reflect a difficult period of transformation over the past three years, in the view of the Board the Company leadership has successfully positioned Tabcorp to perform strongly in the years ahead.

For the next financial year, enhancements to the STI plan and the introduction of a second metric in the LTI plan (which will be tied to delivery of the Combination synergies) have been approved by the Board. Details will be provided in Tabcorp's 2019 Remuneration Report.

**Paula J Dwyer**
Chairman

**Zygmunt E Switkowski**
People and Remuneration Committee Chairman

## 1. PURPOSE

This Remuneration Report details the remuneration policy and arrangements for the Key Management Personnel (KMP) of the Group, comprising Tabcorp and its subsidiaries for the financial year ended 30 June 2018. KMP are those persons having the authority and responsibility for planning, directing and controlling the activities of Tabcorp and the Group, and comprises the Directors of Tabcorp and certain members of the Executive Leadership Team. The Remuneration Report is presented in accordance with the requirements of the Corporations Act 2001 (Cth) (Act) and its regulations and has been audited as required by section 308(3C) of the Act.

## 2. KEY MANAGEMENT PERSONNEL

During the year ended 30 June 2018 there were changes to the Group's KMP following the Combination. Mr Harry Boon (previously Chairman of the Tatts Group Board) joined the Tabcorp Board as a Non Executive Director and Mr Frank Makryllos and Ms Sue van der Merwe (previously senior executives of Tatts Group) joined the combined Group as executive KMP of Tabcorp. Previous Tabcorp executive KMP were also appointed into executive KMP roles within the combined Group.

### Table 1: List of KMP for the year ended 30 June 2018

| Name | Position held | Period in position if less than full year |
|---|---|---|
| **Current Non Executive Directors** | | |
| Paula Dwyer | Chairman and Director (Non Executive) | |
| Bruce Akhurst(i) | Director (Non Executive) | From 18 July 2017 |
| Harry Boon | Director (Non Executive) | From 22 December 2017 |
| Elmer Funke Kupper(ii) | Director (Non Executive) | |
| Steven Gregg | Director (Non Executive) | |
| Vickki McFadden(i) | Director (Non Executive) | From 18 July 2017 |
| Justin Milne | Director (Non Executive) | |
| Zygmunt Switkowski | Director (Non Executive) | |
| **Former Non Executive Director** | | |
| Jane Hemstritch | Director (Non Executive) | Until 27 October 2017 |
| **Executive Director** | | |
| David Attenborough | Managing Director and Chief Executive Officer (MD & CEO) | |
| **Current executive KMP** | | |
| Damien Johnston | Chief Financial Officer | |
| Frank Makryllos | Managing Director Gaming Services | From 22 Dec 2017 |
| Adam Rytenskild | Chief Operating Officer Keno & Gaming | Until 22 Aug 2017 |
| | Chief Operating Officer Wagering and Media | 23 August 2017 to 21 December 2017 |
| | Managing Director Wagering and Media | From 22 Dec 2017 |
| Sue van der Merwe | Managing Director Lotteries and Keno | From 22 Dec 2017 |
| **Former executive KMP** | | |
| Craig Nugent | Chief Operating Officer Wagering and Media | Until 22 August 2017 |

(i) Commenced as a Director and KMP on 18 July 2017 following the receipt of all necessary regulatory approvals.

(ii) Mr Funke Kupper has been granted a leave of absence from the Board which was in effect for the full financial year ended 30 June 2018. Mr Funke Kupper does not receive any Tabcorp Board fees or other remuneration whilst on leave of absence.

Details of Director qualifications, experience and other responsibilities are set out on page 30, 31 and 41.

## 3. REMUNERATION HIGHLIGHTS FOR THE YEAR ENDED 30 JUNE 2018

### (a) The Combination

Following the Combination, Tabcorp became a significantly larger company, offering more diverse products across a broader national footprint in a more complex regulatory environment. Effective upon the Combination, the Board formally appointed a new combined Group Executive Leadership Team (including the MD & CEO). New remuneration levels were set for this appointed executive team (effective 22 December 2017), having regard to individual role responsibility and market benchmarks (set in line with the ASX 100 median but below the ASX 50 median). Certain Board Sub-Committees were also restructured to ensure focus on key business issues pertinent to the combined organisation and Non Executive Director fees were set in line with market benchmarks and responsibilities in a larger organisation.

### (b) Performance outcomes for the year ended 30 June 2018

- Successful completion of the Combination. Execution of the integration is well advanced with first wave of synergies savings delivered.
- Underperformance of the Sun Bets business has negatively affected Tabcorp's overall financial outcomes for the year. However, the exit of the Sun Bets business was negotiated and has ceased trading.

## (b) Performance outcomes for the year ended 30 June 2018 (continued)

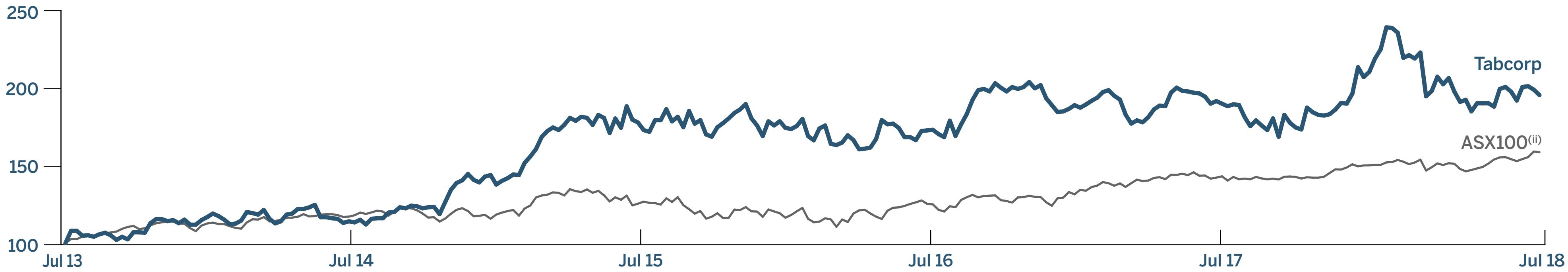
### Table 2: Five-year group financial performance and remuneration outcomes

| | FY14 | FY15 | FY16 | FY17 | FY18 |
|---|---|---|---|---|---|
| **Business performance** | | | | | |
| NPAT(i) – $m | 129.9 | 334.5(ii) | 169.7 | (20.8) | **28.7** |
| EPS (basic) – c | 17.2 | 42.4(ii) | 20.4 | (2.5) | **1.9** |
| Closing share price(iii) – $ | 3.36 | 4.55 | 4.57 | 4.37 | **4.46** |
| Dividends(iv) – CPS | 16.0 | 50.0 | 24.0 | 25.0 | **21.0** |
| **Overall Group STI pool** | 105% | 125% | 90% | 30% | **33%** |
| **MD & CEO Short Term Incentive award** | | | | | |
| % of target | 105% | 113% | 90% | 0% | **33%** |
| % of maximum | 42% | 45% | 36% | 0% | **17%** |
| **Average executive KMP (excluding the MD & CEO) Short Term Incentive award** | | | | | |
| % of target | 105% | 91% | 99% | 17% | **33%** |
| % of maximum | 42% | 36% | 40% | 8% | **17%** |
| **Long Term Incentive vesting (all executive KMP)** | | | | | |
| % of maximum | 0% | 88% | 100% | 100% | **80%(v)** |

(i) NPAT (Net Profit After Tax).
(ii) Includes $163.2m of income tax benefits relating to the Victorian wagering and gaming licences payment and the NSW Trackside payment and associated interest income. This was excluded from short term incentive awards in the relevant year.
(iii) Closing share price is as at 30 June of the respective financial year. Opening share price as at 1 July 2013 was $3.05.
(iv) Includes interim, final and special dividends. FY15 includes a special dividend of 30 cents per share declared in February 2015. CPS is defined as cents per share fully franked.
(v) 80% of the 2014 (FY15) Performance Rights under the LTI offer vested on 16 September 2017.

### Diagram 1: Tabcorp Total Shareholder Return(i)

Total Shareholder Return has been indexed to 100 as at 1 July 2013.
Source: Bloomberg financial data




(i) Excludes the value of franking credits.
(ii) "ASX 100" refers to the value of the S&P/ASX 100 Accumulation stock price index with dividends re-invested over time.

## (c) Remuneration outcomes for the year ended 30 June 2018

| | | |
|---|---|---|
| Remuneration saving of $5m when comparing the aggregate sum of the Executive Leadership Team's (excluding the MD & CEO) maximum remuneration opportunities in the combined Group to the aggregate sum of the Executive Leadership Team's (excluding the MD & CEO) maximum remuneration opportunities across Tabcorp and Tatts Group prior to the Combination. | Total annualised fee saving of $410,000 when comparing the aggregate sum of Non Executive Directors' fees set in the Combined organisation to the aggregate sum of fees set across Tabcorp and Tatts Group prior to the Combination. | Short Term Incentive awards for executive KMP were on average 33% of their target opportunities (17% of their maximum opportunities). |
| 80% of Long Term Incentive Performance Rights vested under the 2014 (FY15) LTI offer. | Remuneration levels were set for the new combined Group Executive Leadership Team, effective 22 December 2017. No further remuneration increases will apply for executive KMP in the next financial year, as part of the annual remuneration review process. | There will be no changes to target and maximum incentive opportunities in the next financial year. |

### Proposed changes from 1 July 2018

During the year ended 30 June 2018, the People and Remuneration Committee reviewed the Tabcorp and Tatts Group remuneration frameworks, the Group's short and long-term remuneration strategies, market practice and shareholder and proxy advisor feedback. Following this review, the Board approved a consolidated Group remuneration framework (effective from 1 July 2018) which is underpinned by the following principles:

| | |
|---|---|
| **Ensuring reward is linked to Group performance and shareholder value creation** | Reward is directly linked to the Group's performance (and achievement of the Corporate Plan objectives) and, ultimately, the creation of value for shareholders. |
| **Ensuring reward is linked to short and long-term sustained performance** | Performance assessment and reward spans across short, medium and long-term horizons ensuring risk mitigation, sustained long-term business performance and retention of key talent. |
| **Ensuring reward is linked to individual performance and behaviours in line with the Group culture** | Identifies and differentiates reward based on individual performance levels and behaviours (ensuring individual accountability and collective responsibility) linked to the overall culture of "doing the right thing". |
| **Market competitive and flexible** | Sufficiently market competitive to attract and retain key talent and flexible to ensure that Tabcorp can be competitive across all roles and industries. |
| **Linked to the achievement of strategic imperatives** | Overtly linked to key strategic business imperatives to ensure that they are a focus for all participants. |

Utilising these principles, the new framework encompasses:

- amendments to the STI plan which include introducing a weighting of 60% towards Group performance (including financial) and a 40% weighting towards individual performance targets for all STI participants and the removal of Divisional Multipliers (encouraging and recognising Combination integration effort as well as the achievement of Group strategic objectives); and
- introduction of a second three-year LTI measure (in addition to relative total shareholder return), being Combination Synergy (to be introduced from the next LTI offer). The Board considers Combination Synergy to be a relevant and strategically important measure for Tabcorp over the next few years. The People and Remuneration Committee will review this measure again next year with the intention of introducing a return-based LTI measure at the appropriate time.

The new remuneration framework and its operation will be disclosed in detail in Tabcorp's 2019 Remuneration Report.

There will also be no fixed remuneration increases applied to executive KMP and the MD & CEO in the next financial year, as part of the annual remuneration review process.

## 4. REMUNERATION GOVERNANCE

Following the Combination, a restructure of the Committees of the Board occurred (effective 1 January 2018) to ensure appropriate focus on key business issues pertinent to the combined organisation. The Remuneration Committee's role and responsibilities were broadened to include all people-related matters and the committee was renamed the People and Remuneration Committee.

The People and Remuneration Committee comprises four independent Non Executive Directors and assists the Board in fulfilling its responsibilities with respect to remuneration, as outlined below, by:

| | |
|---|---|
| **Establishing and reviewing Group remuneration policies and practices** | Establishing and reviewing competitive, reasonable and equitable remuneration policies and practices across the Group aligned to business strategy and performance. |
| **Establishing and overseeing an appropriate remuneration framework (including incentives)** | Reviewing and recommending an appropriate remuneration framework (including incentives) to the Board, that will drive the achievement of strategic imperatives. |
| **Reviewing Non Executive Director remuneration** | Annually reviewing and recommending to the Board appropriate remuneration arrangements for Non Executive Directors. |
| **Reviewing MD & CEO remuneration** | Reviewing and recommending to the Board appropriate remuneration arrangements for the MD & CEO, including incentive outcomes. |
| **Reviewing and approving executive remuneration levels and incentive outcomes** | Agreeing remuneration levels and incentive outcomes for executives. |
| **Ensuring remuneration is free from bias** | Ensuring no biases in remuneration through annual pay gap reviews and action planning. |

In exercising its responsibilities, the People and Remuneration Committee regularly assesses the appropriateness of the nature and amount of remuneration of Non Executive Directors and executive KMP. This is done by reference to role complexity, size of role and relevant market conditions and benchmarks to ensure fairness of reward and the retention of a high quality and high performing Board and executive team. To assist with this, the People and Remuneration Committee may receive independent advice on matters such as remuneration strategies, mix and structure, as appropriate. During the year ended 30 June 2018 and to the date of this report, no remuneration consultant provided a remuneration recommendation in respect of any KMP.

The People and Remuneration Committee is governed by its Charter, which is available on Tabcorp's website (**www.tabcorp.com.au**) under the Corporate Governance section.

## 5. NON EXECUTIVE DIRECTOR REMUNERATION

### (a) Remuneration strategy and framework

Tabcorp's Board and Board Committee fees are set considering the Non Executive Directors' skills, qualifications and experience and the responsibilities and workload imposed upon them. Fees are also set having regard to market benchmarks to ensure the Board is able to attract, motivate and retain top performing, highly skilled and qualified Non Executive Directors. In order to maintain independence and impartiality, Non Executive Directors are not eligible to receive any performance or incentive-related payments.

Board fees are not paid to the MD & CEO or to executives for directorships of any subsidiaries.

## (b) Fees for the year ended 30 June 2018 and annualised synergy benefits

Non Executive Directors receive a base Board fee and a fee for each Board Committee that they chair or are a member of. The Board Chairman receives a single fixed fee which is inclusive of services on all standing Board Committees. Superannuation contributions are paid in addition to all fees and Non Executive Directors are not eligible to receive any other retirement benefits.

Following the Combination, a restructure of the Committees of the Board occurred (effective 1 January 2018) to ensure appropriate focus on the key business issues pertinent to the combined organisation. The Audit, Risk and Compliance Committee was split into the Audit Committee and the Risk and Compliance Committee. As noted previously, the Remuneration Committee's remit was broadened to include all people-related matters and was renamed the People and Remuneration Committee. Furthermore, the Nomination Committee (of which each Non Executive Director was a member) was discontinued and all matters previously dealt with by the Nomination Committee are now overseen by the Board.

Following the Combination, new Non Executive Director fees were set (effective 1 January 2018). These new fees were set having regard to the size of the newly combined organisation, the increased complexity and regulatory responsibility imposed on Non Executive Directors, the restructure of the Board Committees and market benchmarks (to ensure fees continue to be fair and competitive). Table 3 details Non Executive Director fixed annual fees (excluding superannuation) prior to and following the Combination.

**Table 3: Non Executive Director fees (excluding superannuation)**

| Pre-Combination (1 July 2017 to 31 December 2017) | | Tatts Group $ per annum | Tabcorp $ per annum |
|---|---|---|---|
| Board | Chairman(i) | $431,050 | $430,000 |
| | Member | $168,950 | $150,000 |
| Audit, Risk & Compliance Committee(ii) | Chairman | $31,963 | $40,000 |
| | Member | $10,046 | $20,000 |
| Remuneration Committee(ii) | Chairman | $31,963 | $35,000 |
| | Member | $10,046 | $17,500 |
| Nomination Committee(ii) | Chairman | Not applicable | $7,500 |
| | Member | Not applicable | $7,500 |

| Post Combination (1 January 2018 to 30 June 2018) | | Tabcorp $ per annum |
|---|---|---|
| Board | Chairman(i) | $590,000 |
| | Member | $190,000 |
| Audit Committee(iii) | Chairman | $50,000 |
| | Member | $22,000 |
| Risk and Compliance Committee(iii) | Chairman | $45,000 |
| | Member | $20,000 |
| People and Remuneration Committee(iii) | Chairman | $45,000 |
| | Member | $20,000 |

(i) The fee paid to the Board Chairman is inclusive of services on all standing Board Committees.
(ii) Ceased to operate effective 31 December 2017.
(iii) Established effective 1 January 2018.

Certain Non Executive Directors received additional fees for membership of other Board Sub-Committees. During the year ended 30 June 2018, legal, compliance and due diligence Sub-Committees of the Board were in operation. Table 14 details fees paid to Non Executive Directors who were members of these Sub-Committees.

Observer fees, equivalent to the applicable Board and Committee fees (for attending Board and Committee meetings and induction whilst awaiting regulatory approval) were also provided to certain Non Executive Directors during the year ended 30 June 2018. Mr Akhurst and Ms McFadden each received observer fees up until 17 July 2017 whilst awaiting regulatory approvals (which were received on 18 July 2017).

The actual aggregate sum of fees paid to Non Executive Directors for the year ended 30 June 2017 across both Tatts Group and Tabcorp pre-Combination was approximately $3.3m. Estimated Non Executive Director fees payable on an annualised basis in the combined Group is estimated at $2.4m (inclusive of superannuation).

### (c) Non Executive Director aggregate fee limit

The current maximum aggregate amount of fees that can be paid to Non Executive Directors per year for their services (including superannuation contributions) is set at $2.5 million (Non Executive Director Aggregate Fee Limit), as approved by shareholders at the Annual General Meeting held on 25 October 2016.

In August 2016, Tabcorp announced the appointment of Mr Akhurst and Ms McFadden as Non Executive Directors (subject to regulatory approval). In July 2017, both Mr Akhurst and Ms McFadden received regulatory approvals and began receiving the standard Board fees. Following the Combination, Mr Boon was also appointed as a Tabcorp Non Executive Director (effective 22 December 2017). In addition, Mr Funke Kupper has been on leave of absence for the full financial year and has not received any Board fees. Considering this, the Board reviewed the Non Executive Director Aggregate Fee Limit in the context of the actual Non Executive Director fees paid for the year ended 30 June 2018 and the fees set for the year ending 30 June 2019. As a result of this review and to ensure that the Board is structured optimally to deliver on its obligations, a proposal to increase the Non Executive Director Aggregate Fee Limit by $0.5m to $3.0m will be presented to shareholders for approval at the 2018 Tabcorp Annual General Meeting. More detail will be provided in the 2018 Notice of Annual General Meeting.

Non Executive Directors are entitled to be reimbursed for all business-related expenses, including travel, which may be incurred as part of their duties as Non Executive Directors. Section 8 provides more detail regarding Non Executive Director fees and other remuneration in respect of the year ended 30 June 2018.

### (d) Non Executive Directors' shareholdings guidelines

In accordance with the Tabcorp Directors' Shareholdings Policy, Non Executive Directors are encouraged to acquire and hold a minimum shareholding in Tabcorp approximately equivalent to one times the annual Non Executive Director base fee. The Chairman of the Board is encouraged to hold the equivalent of two times the annual Non Executive Director base fee in Tabcorp shares. A copy of the Tabcorp Directors' Shareholdings Policy is available on Tabcorp's website (**www.tabcorp.com.au**) under the Corporate Governance section.

## 6. EXECUTIVE KMP REMUNERATION

### (a) Remuneration strategy and framework

Tabcorp's executive remuneration strategy is to ensure that reward is directly and appropriately linked to Group performance and long-term shareholder value creation and to align the interests of executive KMP to shareholder interests through equity. All components of the executive KMP's remuneration package are performance-linked with a material portion being at-risk as well as in the form of equity. Tabcorp's remuneration strategy is also to ensure that the Group attracts, retains and motivates a highly qualified and experienced executive team with the necessary skills and competence to lead the Group in achieving its strategic and financial objectives. To this end, the People and Remuneration Committee regularly reviews the Group's remuneration structures and levels, and benchmarks Tabcorp's remuneration packages against comparable companies to ensure that they are aligned to the Group's strategy whilst being competitive. Diagram 2 details Tabcorp's executive remuneration philosophy, principles and framework.

**Diagram 2: Remuneration philosophy, principles and framework**

| | | | | |
|---|---|---|---|---|
| **Remuneration philosophy** | Attract, motivate and retain high calibre individuals across the organisation through a market-competitive, performance-linked and shareholder aligned remuneration framework | | | |
| **Remuneration principles** | **Create long term shareholder value**<br>Reward for the creation of long term shareholder value. | **Drive Group and individual performance**<br>Appropriately recognise and reward superior performance. | **Ensure market competitiveness**<br>Ensure remuneration structures and levels are market competitive. | **Reward the right behaviours**<br>Operate a remuneration framework that fosters the Group's Ways of Working. |

| | | | |
|---|---|---|---|
| **Executive KMP remuneration framework** | **Fixed remuneration**<br>Set in recognition of the responsibilities of the role.<br>**Cash** | + **Short Term Incentive (STI)**<br>Applies to employees at a level where they can influence business unit and Group performance.<br>**Cash + Restricted Shares** | + **Long Term Incentive (LTI)**<br>Applies to the most senior employees who can directly influence Group performance and shareholder value creation.<br>**Performance Rights** |
| **Performance requirements** | **Individual**<br>Adjustments annually to take into consideration individual performance levels which are aligned to business objectives. | **Group and individual**<br>Dependent on the achievement of financial, strategic, customer, operational and people targets which are aligned to the long term Corporate Plan. | **Group**<br>Directly linked to Group measures which create shareholder value. |
| **Timeframe** | **1 year** | **1 year performance**<br>**2 years restriction** | **3 years** |

## (b) Combined Group remuneration levels and remuneration mixes

### MD & CEO

On Combination, the previous Tabcorp and Tatts Group MD & CEO roles were combined into a single MD & CEO role, with greater responsibility in a more diverse and geographically broader business operating in a more complex regulatory environment. Mr Attenborough (the previous Tabcorp MD & CEO) was formally appointed to the Tabcorp Group MD & CEO role with a new remuneration package. In determining his new combined Group remuneration package, the Board considered the responsibilities of the new role as well as market benchmarks. Table 4 details the pre-Combination Tabcorp and Tatts Group MD & CEO remuneration packages and the new combined Group MD & CEO remuneration package.

**Table 4: MD & CEO remuneration packages**

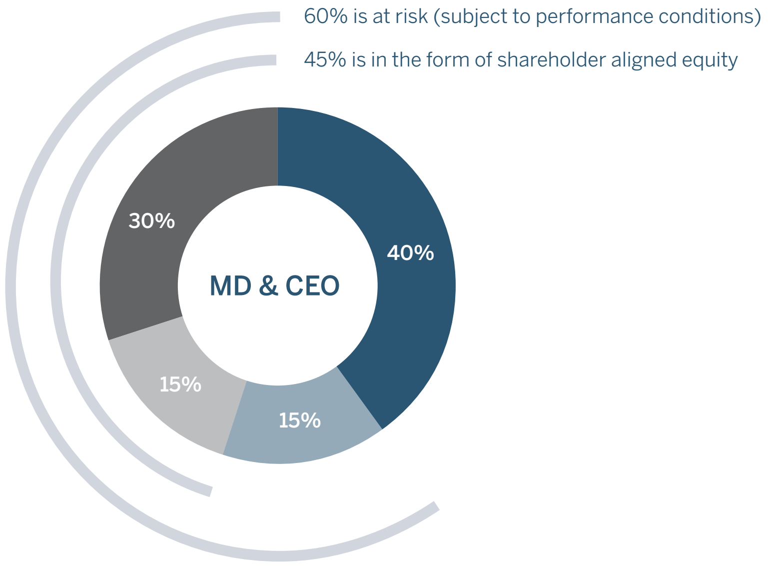
| Remuneration component | Tatts Group MD & CEO (maximum) $ per annum as at 21 December 2017 | Tabcorp MD & CEO (target)(i)(ii) $ per annum as at 21 December 2017 | Total $ per annum | Combined Group MD & CEO (target)(i)(ii) $ per annum as at 22 December 2017 |
|---|---|---|---|---|
| Fixed remuneration | 2,050,000 | 1,250,000 | 3,300,000 | **2,000,000** |
| Short Term Incentive | 2,050,000 | 1,250,000 | 3,300,000 | **1,500,000** |
| Long Term Incentive | - | 1,250,000 | 1,250,000 | **1,500,000** |
| Total Remuneration | 4,100,000 | 3,750,000 | 7,850,000 | **5,000,000** |

(i) The target STI value represents the value that may be earned if target performance levels are achieved. The MD & CEO has the potential to earn two times this value if stretch performance targets are met.

(ii) The target LTI value represents the current face value of the LTI opportunity where target performance levels are achieved. The MD & CEO has the opportunity to earn two times this value if stretch performance (outperformance) levels are achieved.

The MD & CEO's remuneration mix (at target) is depicted in Diagram 3.

**Diagram 3: MD & CEO remuneration mix (at target)**




**Fixed remuneration**
Set at a level that is commensurate with the incumbent's skills, experience and responsibilities and is market competitive.

**Target STI – cash**
Dependent on the achievement of Group and individual performance targets over the financial year.

**Target STI – Restricted Shares**
Dependent on the achievement of Group and individual performance targets over the financial year. Shares are restricted for 2 years and subject to service-based condition.

**Target LTI – Performance Rights**
Dependent on the achievement of long term sustained shareholder value creation.

* At maximum variable remuneration levels, the reward mix changes to 25% (fixed remuneration), 18.75% (Target STI – cash), 18.75% (Target STI – Restricted Shares) and 37.5% (Target LTI – Performance Rights).

### Executive KMP (excluding the MD & CEO)

When formally appointing the new Executive Leadership Team into the combined Group and setting their remuneration levels, the Board considered the complexity, size and scope of the combined Group and each business unit. The Board also considered market benchmarks. The Board set new remuneration levels at below the median of the ASX 50 companies and in line with the median of the ASX 100 companies. Table 5 details the new executive KMP remuneration packages.

**Table 5: Executive KMP (excluding the MD & CEO) remuneration as at 30 June 2018**

| Executive KMP | Fixed Remuneration $ per annum | STI (target opportunity)(ii) $ per annum | LTI (target opportunity)(ii) $ per annum | Total remuneration (target opportunity)(ii) $ per annum | % at risk |
|---|---|---|---|---|---|
| Damien Johnston | 900,000 | 450,000 | 450,000 | 1,800,000 | 50% |
| Frank Makryllos(i) | 700,000 | 350,000 | 350,000 | 1,400,000 | 50% |
| Adam Rytenskild | 900,000 | 450,000 | 450,000 | 1,800,000 | 50% |
| Sue van der Merwe(i) | 700,000 | 350,000 | 350,000 | 1,400,000 | 50% |

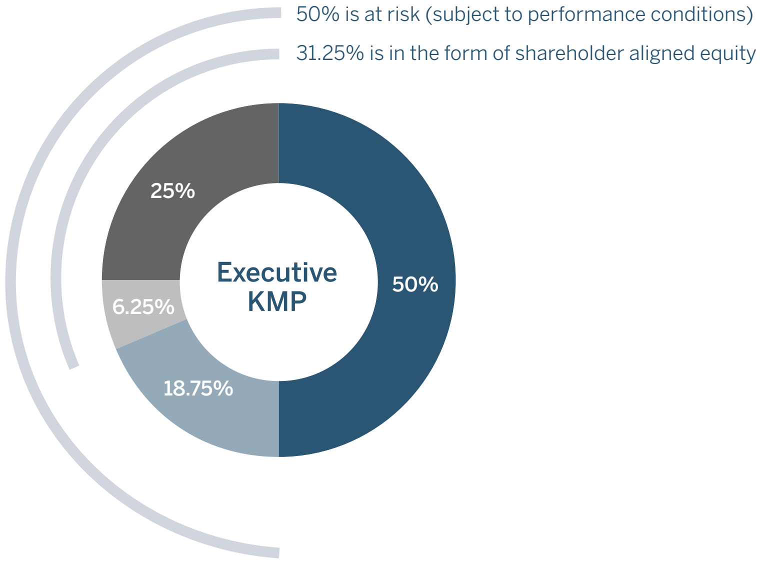
(i) Ms van der Merwe and Mr Makryllos were appointed as executive KMP on 22 December 2017 following the Combination.

(ii) The target STI and LTI values represent the amount that could be earned where target performance levels have been met. The Executive Leadership Team has the ability to earn two times these values where stretch (outperformance) levels have been achieved.

Based on the Executive Leadership Team's (excluding the MD & CEO) at maximum STI and LTI opportunity levels, the aggregate sum of the combined Group Executive Leadership Team remuneration packages represents a saving of $5m (when compared to pre-Combination remuneration across Tabcorp and Tatts Group).

The executive KMP (excluding the MD & CEO) remuneration mix (at target) is depicted in Diagram 4.

**Diagram 4: Executive KMP remuneration mix (at target)**




**Fixed remuneration**
Set at a level that is commensurate with the incumbent's skills, experience and responsibilities and is market competitive.

**Target STI – cash**
Dependent on the achievement of Group and individual performance targets over the financial year.

**Target STI – Restricted Shares**
Dependent on the achievement of Group and individual performance targets over the financial year. Shares are restricted for 2 years and subject to service-based condition.

**Target LTI – Performance Rights**
Dependent on the achievement of long term sustained shareholder value creation.

* At maximum variable remuneration levels, the reward mix changes to 33% (fixed remuneration), 16.5% (Target STI – cash), 16.5% (Target STI – Restricted Shares) and 33% (Target LTI – Performance Rights).

## (c) Fixed remuneration

| | |
|---|---|
| **What is fixed remuneration?** | Cash salary, statutory superannuation contributions and other employee-elected salary sacrificed benefits (e.g. additional superannuation contributions). |
| **How is it set?** | Set with reference to the executive's knowledge, experience and skills, the magnitude of the responsibilities and complexities associated with the role and market benchmarks. |
| **How is it benchmarked?** | Following the Combination, Tabcorp became a significantly larger organisation. Tabcorp benchmarks fixed remuneration to the ASX 100 with a particular focus on the ASX 50. Tabcorp also benchmarks to organisations that it identifies as potential sources of executive talent and those operating in similarly complex regulated environments. |
| **How often is it benchmarked?** | Annually and upon appointment of an executive into a new role. This is done to ensure that fixed remuneration is fair, equitable and competitive. |
| **Where are fixed remuneration levels targeted?** | Market median. However, a lower or higher fixed remuneration level may be set depending on the complexity of the role and the executive's skill set and experience, performance levels and the Group's retention requirements (especially where the role is very specialised, in high demand or the executive is considered high potential). Fixed remuneration is always considered in the context of the total remuneration package to ensure that the entire remuneration package is fair and competitive. |

## (d) Short term incentive (STI)

| | |
|---|---|
| **Why operate an STI?** | To incentivise participants to achieve annual Group, business unit and individual performance targets (linked to the long-term strategic Corporate Plan). |
| **In what form is the STI awarded?** | STI is paid in cash (50% for the MD & CEO and 75% for other executive KMP) and Restricted Shares (50% for the MD & CEO and 25% for other executive KMP) which are restricted for two years and subject to service-based conditions. Participants have full entitlement to dividends and voting rights during the two-year restriction period. |
| **Why use Restricted Shares?** | Restricted Shares are used to retain key talent (they are, by default, forfeited on resignation), align executive KMP to shareholder interests (through the value of reward being subject to share price movements) and reduce organisation risk (through clawback provisions). |
| **How is the STI pool calculated?** | At the end of the financial year, a target STI pool (at a Group level) is calculated. At the same time, the People and Remuneration Committee assess the Group's NPAT before non-recurring items performance against pre-defined targets and determine the final actual Group STI pool (i.e. they adjust the target STI pool up or down depending on Group performance). The People and Remuneration Committee may consider other financial (e.g. balance sheet metrics) and non-financial (e.g. risk and compliance) performance outcomes in determining the actual STI pool for the financial year.<br><br>The Board considers NPAT before non-recurring items to be appropriate as it aligns to the Group's remuneration philosophy of creating shareholder value, it is directly linked to the Group's financial performance and is within management's scope of influence. |
| **Is there a cap on the size of the actual STI pool?** | The final actual STI pool can range from zero (where NPAT before non-recurring items performance has been below expectations) to 125% of the target STI pool (for exceptional NPAT before non-recurring items performance). Generally, where the Group has achieved its target financial performance an actual STI pool of 100% would be set. Where the actual STI pool is set at zero, no STI awards are provided for the year to any participants. |
| **What happens after the actual STI pool is set?** | Once the actual STI pool is set, business unit performance is assessed. Each business unit is provided with a portion of the actual STI pool depending on financial performance levels for the financial year. The business unit STI pool as a percentage of the target business unit STI pool is termed the Divisional Multiplier (DM). |

| | |
|---|---|
| **Is individual performance considered?** | Executive KMP have comprehensive performance scorecards which contain carefully defined targets spanning financial, strategic, customer, organisation and people dimensions. At the end of the financial year, the Board assesses the MD & CEO's performance against his scorecard and the People and Remuneration Committee and the MD & CEO assess individual executive KMP performance outcomes against their scorecards. Each executive KMP is provided with an Individual Performance Multiplier (IPM) depending on performance outcomes over the financial year. For more details regarding measures, see Table 6. |
| **Does the IPM have a maximum?** | The IPM can range from zero (for below expectations performance) to a maximum of two (for exceptional performance). Where the IPM is zero, the participant will not receive an STI award for the financial year. |
| **How is an individual's STI calculated?** | An individual's STI outcome is calculated as the DM multiplied by the IPM. STI awards are therefore linked to Group performance (through the size of the STI pool), business unit performance (through the DM) and individual performance (through the IPM). |
| **Are STI awards capped for executive KMP?** | STI awards are capped at two times the executive KMP's target opportunity. To receive the maximum STI award, Group, business unit and individual performance levels must be exceptional. As such, receiving a maximum STI award is rare and no executive KMP has received a maximum STI award in the last 5 years. |
| **What are the executive KMP target and maximum STI opportunities as at 30 June 2018?** | <table><tr><th></th><th>MD & CEO<br>(% of Fixed Remuneration)</th><th>Executive KMP (excluding the MD & CEO)<br>(% of Fixed Remuneration)</th></tr><tr><td>**Target**</td><td>75%<br>(37.5% Cash, 37.5% Restricted Shares)</td><td>50%<br>(37.5% Cash, 12.5% Restricted Shares)</td></tr><tr><td>**Maximum**</td><td>150%<br>(75% Cash, 75% Restricted Shares)</td><td>100%<br>(75% Cash, 25% Restricted Shares)</td></tr></table> |
| **What happens on a cessation of employment?** | All Restricted Shares will be forfeited immediately upon cessation of employment during the 2-year restriction period. Where the participant ceases employment for reasons outside of their control (e.g. death or disability), Restricted Shares would generally be released to the participant. However, the People and Remuneration Committee has discretion to keep Restricted Shares on foot (in full or on a pro rata basis). |
| **Can Restricted Shares be clawed back?** | Restricted Shares are subject to clawback if the Board considers this to be appropriate having regard to any information which has come to light after the delivery of the Restricted Shares to participants, including but not limited to misconduct or any material misstatement or omission in Tabcorp's prior financial statements. |
| **Accounting treatment** | The financial impact of the STI (excluding any Restricted Shares) is expensed in the relevant financial year and is reflected in the remuneration disclosures for executive KMP. Restricted Shares are expensed on a straight-line basis over the current and future two years. |
| **Will there be changes to the STI from 1 July 2018?** | Opportunities: There will be no changes to executive KMP STI opportunities for the next financial year.<br><br>Operation: Following a comprehensive review of the STI plan, the Board elected to make changes. From 1 July 2018, the STI Scorecard will be weighted 60% towards Group performance (including financial) and 40% towards individual performance. Divisional multipliers will also no longer apply. More detail regarding the changes will be presented in the 2019 Remuneration Report. |

| **STI key points** | Financial gateways ensure Group financial performance is required to generate any STI awards. | The balanced scorecard ensures a balanced assessment of performance (financial and clearly defined and measurable non-financial). | Delivered in cash and Restricted Shares (which includes forfeiture and clawback provisions). |
|---|---|---|---|

## (d) Short term incentive (STI) (continued)

### STI performance measures and outcomes for the year ended 30 June 2018

For the year ended 30 June 2018, STI measures and targets were derived from the Board approved long-term strategic Corporate Plan which comprised financial and non-financial objectives. These objectives were subsequently included in the balanced scorecards for the executive KMP. For clarity, metrics regarding the completion of the Combination are not included in the STI scorecard. Instead, the completion of the Combination was recognised through the Merger Completion Award detailed in section 6(f). A list of STI measures and a summary of key achievements is set out in Table 6.

**Table 6: STI measures and summary of achievements for the year ended 30 June 2018**

| Scorecard category | Key performance objective | Impact on incentives | Balanced scorecard measures and performance for the year ended 30 June 2018 |
|---|---|---|---|
| **Financial** | Deliver earnings growth<br>Manage capital efficiency<br>Manage costs | Negative | › The Group's reported revenues and NPAT results were below target, adversely impacted by significant items which related to the Combination, the exit of Sun Bets and Luxbet closure;<br>› Net operating expenditure was below budget, resulting in an operating expenditure to revenue ratio that was favourable to target; and<br>› Full year ordinary dividends were 21.0 cents per share fully franked, in line with policy. |
| **Strategic** | Drive successful 100 days-post integration and create platform for delivery of synergies and growth<br>Execute the domestic strategy<br>Execute the international strategy<br>Enhance reputation and leadership profile<br>Continue to deliver business growth and transformation | Positive | › The Combination was completed successfully with the integration of Tabcorp and Tatts Group well advanced. The first wave of cost and revenue synergies has been delivered;<br>› A successful refinancing of US$1.4bn in US private debt market on long tenures was completed;<br>› Strategic initiatives to drive growth in the core businesses including investments in the digital customer experience and digitalisation of the retail network were delivered. These included digital assets upgraded, digital commissions driving alignment with wagering venues and supporting digital growth, commercialisation of digital vision by licensing Sky Racing to CrownBet and continued roll-out of digital point of sale in lotteries retail network;<br>› New licences implemented (Victorian Lotteries Licence and Centralised Monitoring System for gaming machines in NSW);<br>› Reshaped the portfolio with the exit of Sun Bets and Luxbet following a strategic review; and<br>› Products delivered including the Powerball game change, new TAB Multiplier and Keno Mega Millions in Queensland. |

| Scorecard category | Key performance objective | Impact on incentives | Balanced scorecard measures and performance for the year ended 30 June 2018 |
| --- | --- | --- | --- |
| **Customers & Growth** | Execute on brand strategy<br>Deliver superior customer experience | Neutral | › TAB digital wagering turnover growth was 16.3%;<br>› Total TAB turnover growth was 2.5%, down 1.2% on target;<br>› Active TAB account customers grew by 10.1%, driven by 27% growth in new customer acquisitions and retention;<br>› 2.9 million registered lottery players;<br>› Digital share of total lottery sales grew to 17.7%; and<br>› During the year Keno accelerated digital expansion. Digital now accounts for 3.8% of Keno sales, with 58,000 plus account holders. |
| **Organisation** | Embed risk and compliance framework<br>Ensure adherence to framework (training, process and reporting)<br>No material risk or compliance breaches<br>Meet major event operational performance targets | Positive | › Embedding of the risk and compliance framework continued in line with the overall risk and compliance strategy with focus on ensuring consistency across the newly combined Group;<br>› Strong systems performance over key events, including the Spring Racing Carnival; and<br>› No material regulatory breaches occurred during the year. |
| **People & Leadership** | Health and Safety<br>Employee engagement<br>Diversity<br>People integration for the combined business | Positive | › Superior health and safety performance (combined Group LTIFR of 2.3);<br>› Senior leadership cohort for the combined Group selected and appointed;<br>› Gender pay gap analysis revealed no like-for-like gender pay gaps;<br>› WGEA citation as a workplace of choice for diversity received for the third year in a row; and<br>› Work has commenced to establish the culture and engagement baseline for the Group. |

Based on the performance levels achieved against STI measures for the year ended 30 June 2018, the actual STI pool was set at 33% of the target STI pool and STI awards were granted to executive KMP as detailed in Table 7.

## (d) Short term incentive (STI) (continued)

### Table 7: STI outcomes for executive KMP for the year ended 30 June 2018

| | | Actual STI Achieved | | | | | |
|---|---|---|---|---|---|---|---|
| Executive KMP | Financial year | Cash portion[i] $ | Deferred portion[ii] $ | Total[iii] $ | Actual STI achieved as a % of target STI | STI forgone as a % of target STI | Actual STI achieved as a % of maximum STI |
| David Attenborough | **2018** | **247,500** | **247,500** | **495,000** | **33%** | **67%** | **17%** |
| | 2017 | - | - | - | 0% | 100% | 0% |
| Damien Johnston | **2018** | **111,375** | **37,125** | **148,500** | **33%** | **67%** | **17%** |
| | 2017 | - | - | - | 0% | 100% | 0% |
| Frank Makryllos[iv] | **2018** | **45,330** | **15,110** | **60,440** | **33%** | **67%** | **17%** |
| Adam Rytenskild | **2018** | **111,375** | **37,125** | **148,500** | **33%** | **67%** | **17%** |
| | 2017 | 115,650 | 38,550 | 154,200 | 50% | 50% | 25% |
| Sue van der Merwe[iv] | **2018** | **45,330** | **15,110** | **60,440** | **33%** | **67%** | **17%** |

(i) The cash portion of the FY18 STI will be paid in August 2018. The portion of the STI delivered in cash is 50% for the MD & CEO and 75% for all other executive KMP.

(ii) The Restricted Shares pertaining to the STI for the year ended 30 June 2018 will be granted after the end of the year. The value of each Restricted Share is based on the market value of Tabcorp shares at the grant date. The portion of the STI deferred into Restricted Shares is 50% for the MD & CEO and 25% for all other executive KMP. Restricted Shares are subject to a two year service condition from the grant date.

(iii) This reflects the total value of the STI granted as at 30 June 2018. The minimum STI value possible is zero.

(iv) Mr Makryllos and Ms van der Merwe were appointed as executive KMP on 22 December 2017 following the Combination. Their STI represents the short term incentive paid to them in relation to their period as Tabcorp KMP. 'Actual STI achieved as a % of target STI', 'STI forgone as a % of target STI' and 'Actual STI achieved as a % of maximum STI' for these executive KMP are expressed as a percentage of a pro rata STI target.

## (e) Long term incentive (LTI)

| | | | |
|---|---|---|---|
| **Why operate an LTI?** | To drive long term business performance and shareholder value creation, align senior management to shareholder interests (through equity) and to retain high performing and skilled senior managers. | | |
| **What was the target and outperformance LTI opportunity at 30 June 2018?** | | **MD & CEO % of Fixed Remuneration** | **Executive KMP (excl. the MD & CEO) % of Fixed Remuneration** |
| | **Target** | 75% | 50% |
| | **Outperformance** | 150% | 100% |
| **How is LTI delivered?** | Participants in the LTI plan are allocated a maximum number of Performance Rights (based on the Outperformance Opportunity) at the beginning of the performance period. Each Performance Right provides the right to receive one Tabcorp share, subject to meeting performance conditions, at no cost to the participant. Performance Rights do not attract dividends or voting rights, and lapse if performance conditions are not met at the end of the performance period. | | |
| **On what basis are Performance Rights allocated?** | Based on a face value allocation methodology. To determine the number of Performance Rights allocated, the Outperformance Opportunity (see above) is divided by the five-day volume weighted average price of Tabcorp shares traded on the ASX up to but not including the grant date. | | |
| **How long is the performance period?** | Three years. | | |
| **What is the performance measure?** | For the year ended 30 June 2018, the performance measure was relative total shareholder return (relative TSR). Relative TSR measures the return received by shareholders (capital returns, dividends and share price movement) over a specific period relative to a peer group of companies. Tabcorp engages an independent external consultant to calculate relative TSR.<br><br>The Board considered relative TSR to be an appropriate performance measure as it aligns directly to shareholder value creation (in turn aligning to the Group's remuneration philosophy). | | |
| **Which companies were included in the relative TSR peer group?** | For the year ended 30 June 2018, the peer group used for assessing Tabcorp's relative TSR performance was the S&P/ASX 100 index excluding property trusts, infrastructure groups and mining companies (represented by the S&P Global Industry Classification Standards (GICS) of Metals & Mining, Oil and Gas, Transportation, Infrastructure, Utilities and Real Estate Investment Trusts). Tabcorp considers this to be an appropriate peer group as it contains organisations of smaller, equal and larger size operating in industries with similar profiles to that of Tabcorp. | | |

## (e) Long term incentive (LTI) (continued)

**What were the relative TSR performance hurdles?**

| Tabcorp's relative TSR ranking | Percentage of Performance Rights that will vest | Value of LTI reward |
|---|---|---|
| Below 50th percentile | 0% | Zero |
| At 50th percentile(i) | 50% | Target Opportunity (see Diagrams 3 and 4) |
| At or above the 75th percentile(i) | 100% | Outperformance Opportunity (see Diagrams 3 and 4) |

(i) Straight line vesting occurs between the 50th and 75th percentile performance levels (i.e. for every percentile increase above the 50th percentile, an extra 2% of the Performance Rights vest).

This testing schedule and vesting criteria are common practice adopted by ASX 100 companies and is consistent with Tabcorp's remuneration philosophy (refer to Diagram 2).

If Performance Rights vest, Tabcorp will issue or transfer ordinary shares to the participant, with full voting and dividend rights corresponding to the rights of all other holders of ordinary shares.

**Is there any retesting of performance?**

There is no retesting. Performance Rights that have not vested after testing will lapse.

**Accounting treatment**

Performance Rights issued under the LTI are expensed on a straight-line basis over a three-year period, commencing from the grant date. Under Accounting Standards, Tabcorp is required to recognise an expense irrespective of whether the Performance Right ultimately vests to the recipient. A reversal of the expense is only recognised in the event the Performance Rights lapse due to cessation of employment within the three-year period.

**What happens on a cessation of employment?**

All unvested Performance Rights will lapse immediately upon cessation of employment. However, where cessation of employment is as a result of an event beyond the control of the LTI participant (e.g. death, permanent disablement or other Board-determined appropriate reason), a pro rata number of Performance Rights (based on the portion of the performance period that has elapsed) will remain on foot and be subject to the original terms and conditions (including performance requirements) as if the participant has not ceased employment. The Board has discretion to lapse all of the Performance Rights or to allow partial or full vesting into Tabcorp shares.

**What happens in the event of a change in control of the Group?**

In the event of a takeover offer for the Company or any other transaction resulting in a change in control of the Group or a subsidiary company, the Board is required to determine, in its absolute discretion, the appropriate treatment regarding any unvested Performance Rights held by participants employed in the relevant company.

| | |
|---|---|
| **Can Performance Rights be clawed back?** | Performance Rights are subject to clawback if the Board considers this to be appropriate having regard to any information which has come to light after the grant of the Performance Rights to participants, including but not limited to misconduct or any material misstatement or omission in Tabcorp's prior financial statements. |
| **Are there changes to the LTI from 1 July 2018?** | In the year ended 30 June 2018, the People and Remuneration Committee reviewed the remuneration framework including the LTI. Taking into consideration the Group's strategy, the Combination, market practice and shareholder feedback, the Board approved changes to the LTI.<br><br>From 1 July 2018 and with effect from the next LTI offer (intended to be October 2018), Performance Rights will be subject to two performance measures (instead of one) as detailed below:<br>• **Relative TSR** (75% weighting) – the Board considers TSR to be a relevant LTI measure which aligns to the Group's remuneration philosophy of rewarding executives for the creation of shareholder value and is in line with market practice.<br>• **Combination Synergy** (25% weighting) – the Board considers the achievement of targeted synergies following the Combination to be critical to Tabcorp's strategy over the next few years. Incentivising the Executive Leadership Team to achieve these synergies is an important part of the remuneration strategy. More information regarding the use of this measure within the LTI will be presented in the 2019 Remuneration Report.<br><br>All measures will continue to be assessed over a three-year period. The Board will continue to assess the relevance of the LTI measures with the intention of introducing a return-based measure at an appropriate time.<br><br>As with previous practice, the LTI offer for the year ending 30 June 2019 for the MD & CEO will be presented to shareholders at the Tabcorp 2018 Annual General Meeting for approval. |

| | | | | | |
|---|---|---|---|---|---|
| **LTI key points** | LTI delivered in the form of Performance Rights (no dividends payable prior to vesting). | Performance Rights allocated based on a face value allocation methodology (i.e. share price). | Will only vest in full if top quartile shareholder returns are realised. | Subject to clawback provisions. | From 1 July 2018, new LTI offers will include two performance measures – relative TSR and Combination Synergy. |

## (e) Long term incentive (LTI) (continued)

### LTI awards granted for the year ended 30 June 2018

**Table 8: Performance Rights granted during the year ended 30 June 2018**

| Executive KMP | Grant date[i] | Number | Fair value per Performance Right $ | Fair value at grant date[ii] $ | Vesting date[iii] |
|---|---|---|---|---|---|
| **Executive Director** | | | | | |
| David Attenborough | 27 October 2017 | 573,394 | 2.37 | 1,358,944 | 15 September 2020 |
| **Current Executives** | | | | | |
| Damien Johnston | 27 October 2017 | 160,213 | 2.37 | 379,705 | 15 September 2020 |
| Frank Makryllos | - | - | - | - | - |
| Adam Rytenskild | 27 October 2017 | 206,422 | 2.37 | 489,220 | 15 September 2020 |
| Sue van der Merwe | - | - | - | - | - |
| **Former Executive** | | | | | |
| Craig Nugent | - | - | - | - | - |
| **Total** | | **940,029** | | **2,227,869** | |

(i) Vesting of the 2017 LTI allocation of Performance Rights is subject to a three-year relative TSR hurdle. The value of these Performance Rights is amortised over the next three years.
(ii) Represents the maximum value of the grants to each executive KMP for accounting purposes. The minimum possible total value of the grant is nil. For details of the valuation of the Performance Rights, including models and assumptions used, refer to note E1 of the Tabcorp Financial Report.
(iii) The 2017 LTI allocation of Performance Rights includes a three-year performance period being 15 September 2017 to 15 September 2020. The exercise price per Performance Right is nil.

### LTI awards tested in the year ended 30 June 2018

In the year ended 30 June 2018, there was one test date on 16 September 2017 for the 2014 LTI allocation of Performance Rights. The three-year TSR result placed Tabcorp at the 65th percentile of the peer group, and accordingly 80 percent of the Performance Rights vested. The remaining 20 percent of the Performance Rights lapsed.

### Table 9: Performance Rights vested and lapsed and shares issued during the year ended 30 June 2018

| KMP | Number of Performance Rights vested | Value of Performance Rights exercised[(i)] $ | Number of Performance Rights lapsed[(ii)] | Number of shares issued | Amount paid per share $ |
|---|---|---|---|---|---|
| **Executive Director** | | | | | |
| David Attenborough | 415,300 | 1,819,014 | 103,825 | 415,300 | Nil |
| **Current Executives** | | | | | |
| Damien Johnston | 153,659 | 673,026 | 38,415 | 153,659 | Nil |
| Frank Makryllos | - | - | - | - | - |
| Adam Rytenskild | 78,828 | 345,267 | 19,708 | 78,828 | Nil |
| Sue van der Merwe | - | - | - | - | - |
| **Former Executive** | | | | | |
| Craig Nugent | - | - | - | - | - |
| **Total** | **647,787** | **2,837,307** | **161,948** | **647,787** | |

(i) Represents the value of Performance Rights exercised during the year. The value is calculated based on the market value of Tabcorp shares at the date of exercise.

(ii) Performance Rights that lapsed were granted on 28 October 2014 under the 2014 (FY15) LTI offer.

During the year ended 30 June 2018 (following the Combination), the People and Remuneration Committee considered whether any adjustments to LTI offers currently on foot would be necessary to ensure management were not advantaged or disadvantaged as a result of the Combination and the potential impact on these offers. After careful consideration and analysis, the People and Remuneration Committee determined not to make any adjustments to LTI Offers or calculations as a result of the Combination.

## (f) Merger Completion Awards

The Combination has been a significant milestone for Tabcorp and it is anticipated that it will deliver material benefits for shareholders. Achieving the Combination has been a strategically complex process conducted over an extended period. A significant number of employees across the Group were involved in preparing for the Combination, legal negotiations, negotiations with regulators and in finalising the transaction. In recognition of this challenging and strategically significant accomplishment, the Board elected to provide select employees (including the MD & CEO and the pre-Combination Tabcorp executive KMP) with Merger Completion Awards. These awards were provided in January 2018 and, in line with the Group's remuneration philosophy and principles, was provided to the MD & CEO and the pre-Combination Tabcorp executive KMP in the form of cash and Restricted Shares (restricted for two years and subject to service conditions). For the MD & CEO, 50% was delivered in cash and 50% was deferred into Restricted Shares. For the other relevant Tabcorp executive KMP, 75% was delivered in cash and 25% was deferred into Restricted Shares. Table 10 details the Merger Completion Awards delivered to relevant executive KMP.

### Table 10: Merger Completion Awards

| | Actual Merger Completion Awards | | | Merger Completion Awards as a percentage of Fixed Remuneration (as at 30 June 2018) |
|---|---|---|---|---|
| Executive KMP | Cash portion $ | Restricted portion[(i)] $ | Total $ | |
| David Attenborough | 315,069 | 315,069 | 630,137 | **31.5%** |
| Damien Johnston | 132,052 | 44,017 | 176,069 | **19.6%** |
| Adam Rytenskild | 170,138 | 56,712 | 226,850 | **25.2%** |

(i) The deferred component was delivered in the form of Restricted Shares which are subject to a two-year service condition from the grant date. The value of each Restricted Share is based on the market value of Tabcorp shares at the grant date. This reflects the total face value of the Restricted Shares at grant. The minimum possible value is nil.

## (g) Actual remuneration received by executive KMP

The table below provides a non-statutory voluntary disclosure of the total executive KMP remuneration received during the year ended 30 June 2018. Some of the figures in the table have not been prepared in accordance with the Australian Accounting Standards. These disclosures are different to those in Table 13 (which provides a breakdown of the executive KMP remuneration in accordance with statutory requirements and the Australian Accounting Standards).

We believe this information will help shareholders understand the cash and other benefits actually received by executive KMP from the various components of their remuneration during the year ended 30 June 2018.

**Table 11: Actual value of remuneration received by executive KMP during the year ended 30 June 2018**

| Executive KMP | Salary and fees(i) $ | STI cash bonus(ii) $ | Merger Completion Award (cash)(iii) $ | Superannuation $ | Value of STI Restricted Shares that became unrestricted(iv) $ | Value of LTI vested(v) $ | Total $ |
|---|---|---|---|---|---|---|---|
| David Attenborough | 1,623,687 | - | 315,069 | 19,170 | 345,458 | 1,819,014 | 4,122,398 |
| Damien Johnston | 781,731 | - | 132,052 | 20,049 | 74,509 | 673,026 | 1,681,367 |
| Frank Makryllos(vi) | 356,130 | - | - | 10,024 | - | - | 366,154 |
| Adam Rytenskild | 839,934 | 115,650 | 170,138 | 20,049 | 42,712 | 345,267 | 1,533,750 |
| Sue van der Merwe(vi) | 337,762 | - | - | 28,392 | - | - | 366,154 |
| **Total** | **3,939,244** | **115,650** | **617,259** | **97,684** | **462,679** | **2,837,307** | **8,069,823** |

(i) Comprises salary and salary sacrificed benefits (including salary sacrificed superannuation and motor vehicle novated leases where applicable).

(ii) Cash bonus reflects the portion of the FY17 STI which was paid in August 2017.

(iii) Merger Completion Award (cash) reflects the portion of the Merger Completion Award that was paid to executive KMP in cash, being 50% for the MD & CEO and 75% for other executive KMP (see section 6(f) for more details). The remaining portion of the Merger Completion Award was provided as Restricted Shares, subject to a two-year service condition.

(iv) Value of the deferred component of the FY15 STI (provided in the form of Restricted Shares) which were released during the year ended 30 June 2018, and calculated based on the market value of Tabcorp shares at the date the restrictions ceased to apply (being 17 August 2017).

(v) Value of shares issued during the year ended 30 June 2018 on the vesting of the FY15 LTI Performance Rights, and calculated based on the market value of Tabcorp shares at the date of vesting (being 16 September 2017).

(vi) Commenced employment and as KMP on 22 December 2017, following the Combination. Remuneration values represent the period as a Tabcorp KMP.

## (h) Policy prohibiting hedging

Participants in the Group's incentive plans (STI and LTI) are restricted from hedging the value of Restricted Shares and unvested Performance Rights, and must not enter into a derivative arrangement in respect of the equity instruments granted under these plans. Breaches of the restriction will result in equity instruments being forfeited.

These prohibitions are included in Tabcorp's Securities Trading Policy, available on Tabcorp's website (**www.tabcorp.com.au**) under the Corporate Governance section and in the terms and conditions of the incentive plans.

Equity instruments granted under the incentive plans can only be registered in the name of the participant, are identified as non tradable on the share register, and cannot be traded or transferred to another party until vested or until any trading restriction period has expired (where applicable).

### (i) Executives' Shareholdings Policy

The Executives' Shareholdings Policy (applicable to all executive KMP including the MD & CEO) aims to ensure that there is an adequate level of alignment between executives, the Group and shareholders, through equity ownership. Under the Policy, the MD & CEO is required to hold the equivalent of a minimum of two times his annual Fixed Remuneration in Tabcorp shares. Other executive KMP are required to hold the equivalent of a minimum of one times their annual Fixed Remuneration in Tabcorp shares. The minimum shareholding must be achieved within five years from the executive KMP's appointment, or by 14 December 2022 (whichever is later). Refer to section 8(d) for details of KMP shareholdings.

A copy of the Tabcorp Executives' Shareholdings Policy is available on Tabcorp's website (**www.tabcorp.com.au**) under the Corporate Governance section.

## 7. EXECUTIVE KMP EMPLOYMENT CONTRACTS

**Table 12: Executive KMP contracts and notice periods**

| | | | Minimum notice period (months) | |
|---|---|---|---|---|
| **Name** | **Position** | **Contract duration** | **Executive** | **Tabcorp** |
| David Attenborough | Managing Director and Chief Executive Officer | Open ended | 6 | 12 |
| Damien Johnston | Chief Financial Officer | Open ended | 6 | 9 |
| Frank Makryllos | Managing Director Gaming Services | Open ended | 6 | 9 |
| Adam Rytenskild | Managing Director Wagering and Media | Open ended | 6 | 9 |
| Sue van der Merwe | Managing Director Lotteries and Keno | Open ended | 6 | 9 |

On cessation of employment, STI and LTI awards lapse or vest in accordance with the relevant plan rules. Refer to sections 6(d) and 6(e) for further details.

# 8. STATUTORY REMUNERATION DISCLOSURES

## (a) KMP statutory remuneration tables

### Table 13: Executive KMP remuneration for the year ended 30 June 2018

| | | Short term | | | Long term | Post employment | Charge for share based allocations[iii] | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| KMP | Financial year | Salary & fees[i] $ | Cash bonus[ii] $ | Merger Completion Award (cash) $ | Accrued leave benefits $ | Super-annuation $ | Restricted Shares $ | Merger Completion Award (Restricted Shares) $ | Performance Rights $ | Total $ | Performance related[iv] % |
| **Executive Director** | | | | | | | | | | | |
| David Attenborough | **2018** | **1,623,687** | **247,500** | **315,069** | **175,004** | **19,170** | **252,297** | **126,027** | **1,269,983** | **4,028,737** | **55%** |
| | 2017 | 1,205,384 | - | - | 79,812 | 19,616 | 305,376 | - | 1,235,714 | 2,845,902 | 54% |
| **Current Executives** | | | | | | | | | | | |
| Damien Johnston | **2018** | **781,731** | **111,375** | **132,052** | **105,096** | **20,049** | **39,015** | **17,607** | **367,428** | **1,574,353** | **42%** |
| | 2017 | 662,980 | - | - | 54,004 | 19,616 | 57,693 | - | 379,928 | 1,174,221 | 37% |
| Frank Makryllos[v] | **2018** | **356,130** | **45,330** | - | **14,533** | **10,024** | **4,901** | - | - | **430,918** | **12%** |
| Adam Rytenskild | **2018** | **839,934** | **111,375** | **170,138** | **140,769** | **20,049** | **58,655** | **22,686** | **342,307** | **1,705,913** | **41%** |
| | 2017 | 594,384 | 115,650 | - | 37,511 | 19,616 | 65,014 | - | 263,671 | 1,095,846 | 41% |
| Sue van der Merwe[v] | **2018** | **337,762** | **45,330** | - | **7,558** | **28,392** | **4,901** | - | - | **423,943** | **12%** |
| **Former Executive** | | | | | | | | | | | |
| Craig Nugent[vi] | **2018** | **96,391** | - | - | **9,596** | **2,833** | **5,312** | - | **47,292** | **161,424** | **33%** |
| | 2017 | 681,429 | - | - | 14,528 | 19,616 | 52,700 | - | 320,525 | 1,088,798 | 34% |
| **Total** | **2018** | **4,035,635** | **560,910** | **617,259** | **452,556** | **100,517** | **365,081** | **166,320** | **2,027,010** | **8,325,288** | |
| | 2017 | 3,144,177 | 115,650 | - | 185,855 | 78,464 | 480,783 | - | 2,199,838 | 6,204,767 | |

(i) Comprises salary and salary sacrificed benefits (including salary sacrificed superannuation and motor vehicle novated leases where applicable).

(ii) Cash bonus reflects the cash portion of the STI achieved in the relevant financial year, being 50% for the MD & CEO and 75% for other executive KMP. The remaining portion of the STI, being 50% for the MD & CEO and 25% for other executive KMP, is deferred into Restricted Shares and is reflected in the Restricted Shares column in accordance with Accounting Standards.

(iii) Represents the fair value of share based payments expensed by Tabcorp. Includes the restricted portion of the Merger Completion Award that was expensed by Tabcorp during the current year.

(iv) Represents the sum of cash bonus (from STI and Merger Completion Awards), Restricted Shares (from STI and Merger Completion Awards) and LTI Performance Rights as a percentage of total remuneration, excluding termination payments.

(v) Commenced employment as a KMP on 22 December 2017.

(vi) Ceased as a KMP on 22 August 2017.

## (a) KMP statutory remuneration tables (continued)

### Table 14: Non Executive Director remuneration for the year ended 30 June 2018

| KMP | Financial year | Short term<br>Fees<br>$ | Post employment<br>Superannuation<br>$ | Total<br>$ |
|---|---|---|---|---|
| **Current Non Executive Directors** | | | | |
| Paula Dwyer(i) | **2018** | **510,000** | **48,450** | **558,450** |
| | 2017 | 429,167 | 40,771 | 469,938 |
| Bruce Akhurst(ii) | **2018** | **226,000** | **21,470** | **247,470** |
| | 2017 | 158,125 | 15,022 | 173,147 |
| Harry Boon(iii) | **2018** | **130,643** | **12,411** | **143,054** |
| Elmer Funke Kupper(iv) | **2018** | **-** | **-** | **-** |
| | 2017 | - | - | - |
| Steven Gregg(v) | **2018** | **248,500** | **23,608** | **272,108** |
| | 2017 | 249,792 | 23,730 | 273,522 |
| Vickki McFadden(vi) | **2018** | **231,458** | **21,989** | **253,447** |
| | 2017 | 152,292 | 14,468 | 166,760 |
| Justin Milne(vii) | **2018** | **202,500** | **19,238** | **221,738** |
| | 2017 | 193,750 | 18,406 | 212,156 |
| Zygmunt Switkowski | **2018** | **223,750** | **21,256** | **245,006** |
| | 2017 | 210,833 | 20,029 | 230,862 |
| **Former Non Executive Director** | | | | |
| Jane Hemstritch(viii) | **2018** | **68,333** | **6,492** | **74,825** |
| | 2017 | 214,166 | 20,346 | 234,512 |
| **Total** | **2018** | **1,841,184** | **174,914** | **2,016,098** |
| | 2017 | 1,608,125 | 152,772 | 1,760,897 |

(i) In addition Ms Dwyer received a fee of $35,000 (plus superannuation at 9.5%) for undertaking the role of Chairman of the Victorian Joint Venture Management Committee throughout the year. This fee was borne by the Victorian Joint Venture, which is jointly controlled by Tabcorp.

(ii) Appointed as an Observer on 1 September 2016, and commenced as a Director and KMP on 18 July 2017 following the receipt of all necessary regulatory approvals. Total remuneration in the prior year reflects observer fees. Includes additional fees of $8,750 (plus superannuation at 9.5%) received during the year for membership of other Board Sub-Committees.

(iii) Commenced as a Director and KMP on 22 December 2017, following the implementation of the Combination.

(iv) Mr Funke Kupper does not receive Tabcorp Board fees whilst on leave of absence.

(v) Includes additional fees of $35,000 (plus superannuation at 9.5%) received during the year for membership of other Board Sub-Committees.

(vi) Appointed as an Observer on 1 September 2016, and commenced as a Director and KMP on 18 July 2017 following the receipt of all necessary regulatory approvals. Total remuneration in the prior year reflects observer fees. Includes additional fees of $9,375 (plus superannuation at 9.5%) received during the year for membership of other Board Sub-Committees.

(vii) Includes additional fees of $8,750 (plus superannuation at 9.5%) received during the year for membership of other Board Sub-Committees.

(viii) Ceased as a Director and KMP on 27 October 2017. Fees for the year ended 30 June 2018 reflect the period as KMP up until employment ceased. Includes additional fees of $2,500 (plus superannuation at 9.5%) received during the year for membership of other Board Sub-Committees.

## (b) Movements in Performance Rights held by executive KMP

### Table 15: KMP interests in Performance Rights for the year ended 30 June 2018 (number)

| KMP | Balance at start of year | Balance at KMP commencement[(i)] | Granted as remuneration | Vested | Lapsed | Balance at KMP cessation[(ii)] | Balance at end of year[(iii)] |
|---|---|---|---|---|---|---|---|
| **Executive Director** | | | | | | | |
| David Attenborough | 1,504,708 | n/a | 573,394 | (415,300) | (103,825) | n/a | 1,558,977 |
| **Current Executives** | | | | | | | |
| Damien Johnston | 477,201 | n/a | 160,213 | (153,659) | (38,415) | n/a | 445,340 |
| Frank Makryllos | n/a | - | - | - | - | n/a | - |
| Adam Rytenskild | 341,364 | n/a | 206,422 | (78,828) | (19,708) | n/a | 449,250 |
| Sue van der Merwe | n/a | - | - | - | - | n/a | - |
| **Former Executive** | | | | | | | |
| Craig Nugent | 415,338 | n/a | - | - | - | 415,338 | n/a |
| **Total** | **2,738,611** | **-** | **940,029** | **(647,787)** | **(161,948)** | **415,338** | **2,453,567** |

(i) Reflects Performance Rights held at 22 December 2017 for Mr Makryllos and Ms van der Merwe.
(ii) Reflects Performance Rights held at 22 August 2017 for Mr Nugent.
(iii) The number of Performance Rights vested and exercisable at year end was nil.

## (c) Summary of Performance Rights as at 30 June 2018

### Table 16: Current LTI Performance Rights allocations on foot

| Grant year | Grant date | Allocation to | Test and expiry date |
|---|---|---|---|
| 2015 | 29 October 2015 | MD & CEO, senior management | 22 September 2018 |
| 2016 | 25 October 2016 | MD & CEO, senior management | 14 September 2019 |
| 2017 | 27 October 2017 | MD & CEO, senior management | 15 September 2020 |

## (d) KMP shareholdings

**Table 17: KMP interests in shares of Tabcorp (number of shares) for the year ended 30 June 2018**

The following table sets out the number of shares held by KMP and their related parties, directly, indirectly or beneficially, during the year ended 30 June 2018.

| KMP | Balance at start of year | Balance at KMP commencement (i) | Granted as remuneration (ii) | On vesting of Performance Rights | Net change other (iii) | Balance at KMP cessation (iv) | Balance at end of year |
|---|---|---|---|---|---|---|---|
| **Non Executive Directors** | | | | | | | |
| Paula Dwyer | 100,000 | n/a | - | - | 50,000 | n/a | 150,000 |
| Bruce Akhurst | n/a | 39,108 | - | - | 40,892 | n/a | 80,000 |
| Harry Boon | n/a | 70,000 | - | - | - | n/a | 70,000 |
| Elmer Funke Kupper | 64,166 | n/a | - | - | - | n/a | 64,166 |
| Steven Gregg | 15,000 | n/a | - | - | 20,000 | n/a | 35,000 |
| Vickki McFadden | n/a | 30,000 | - | - | 20,000 | n/a | 50,000 |
| Justin Milne | 31,208 | n/a | - | - | - | n/a | 31,208 |
| Zygmunt Switkowski | 91,949 | n/a | - | - | - | n/a | 91,949 |
| **Former Non Executive Director** | | | | | | | |
| Jane Hemstritch | 31,962 | n/a | - | - | - | 31,962 | n/a |
| **Executive Director** | | | | | | | |
| David Attenborough | 889,627 | n/a | 59,508 | 415,300 | - | n/a | 1,364,435 |
| **Current Executives** | | | | | | | |
| Damien Johnston | 360,214 | n/a | 8,313 | 153,659 | - | n/a | 522,186 |
| Frank Makryllos | n/a | 39,483 | - | - | - | n/a | 39,483 |
| Adam Rytenskild | 185,857 | n/a | 20,018 | 78,828 | - | n/a | 284,703 |
| Sue van der Merwe | n/a | 76,343 | - | - | - | n/a | 76,343 |
| **Former Executive** | | | | | | | |
| Craig Nugent | 164,911 | n/a | - | - | - | 164,911 | n/a |
| **Total** | **1,934,894** | **254,934** | **87,839** | **647,787** | **130,892** | **196,873** | **2,859,473** |

(i) Reflects shareholding as at 18 July 2017 for Bruce Akhurst and Vickki McFadden, and as at 22 December 2017 for Harry Boon, Frank Makryllos and Sue van der Merwe.
(ii) Includes Restricted Shares issued during the year ended 30 June 2018 as the deferred component of the FY17 STI and the Merger Completion Award.
(iii) Includes voluntary on-market transactions.
(iv) Reflects shareholding as at 27 October 2017 for Jane Hemstritch and 22 August 2017 for Craig Nugent.

## (e) Transactions and loans with KMP

No KMP (including their related parties) have entered into material commercial relationships or transactions with the Company or a subsidiary during the year ended 30 June 2018 other than as disclosed in this Remuneration Report. All KMP related party relationships are at arm's length and on normal commercial terms and none of the KMP were, or are, involved in any procurement or other decision-making regarding organisations with which they have an association.

No KMP (including their related parties) has entered into a loan made, guaranteed or secured, directly or indirectly, by the Company or a subsidiary during the reporting period.

# FINANCIAL REPORT

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# INCOME STATEMENT

For the year ended 30 June 2018

| | Note | 2018 $m | 2017 $m |
|---|---|---|---|
| Revenue | | **3,828.7** | 2,234.1 |
| Other income | A4 | **2.1** | (24.1) |
| Commissions and fees | | **(1,254.7)** | (921.4) |
| Government taxes and levies | | **(1,076.5)** | (314.1) |
| Employment costs | | **(354.5)** | (224.0) |
| Depreciation and amortisation | | **(248.6)** | (183.3) |
| Impairment | A4 | **(39.4)** | (27.5) |
| Communications and technology costs | | **(108.6)** | (86.3) |
| Advertising and promotions | | **(127.0)** | (73.3) |
| Property costs | | **(77.0)** | (54.7) |
| Other expenses | | **(254.5)** | (196.3) |
| Transaction costs – combination with Tatts Group | D4 | **(48.6)** | (27.5) |
| **Profit before income tax expense and net finance costs** | | **241.4** | 101.6 |
| Finance income | | **2.0** | 1.6 |
| Finance costs | A4 | **(129.9)** | (78.3) |
| **Profit before income tax expense** | | **113.5** | 24.9 |
| Income tax expense | A5 | **(84.8)** | (45.7) |
| **Net profit/(loss) after tax** | | **28.7** | (20.8) |
| **Other comprehensive income** | | | |
| **Items that may be reclassified to profit or loss** | | | |
| Change in fair value of cash flow hedges taken to equity | | **(46.4)** | 10.3 |
| Exchange differences on translation of foreign operations | | **(1.0)** | (2.0) |
| Income tax relating to these items | | **13.7** | (3.1) |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial gains on retirement benefit obligation | | **1.1** | 1.4 |
| Income tax relating to these items | | **(0.1)** | (0.4) |
| **Other comprehensive income for the year, net of income tax** | | **(32.7)** | 6.2 |
| **Total comprehensive income for the year** | | **(4.0)** | (14.6) |

| **Earnings per share:** | | 2018 cents | 2017 cents |
|---|---|---|---|
| Basic earnings per share | A2 | **1.9** | (2.5) |
| Diluted earnings per share | A2 | **1.9** | (2.5) |

| **Dividends per share:** | | | |
|---|---|---|---|
| Declared and paid during the year | A3 | **23.5** | 24.5 |
| Determined in respect of the year | A3 | **21.0** | 25.0 |

The accompanying notes form an integral part of this income statement.

# BALANCE SHEET
As at 30 June 2018

| | Note | 2018 $m | 2017 $m |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | C5 | **368.2** | 114.3 |
| Receivables | C6 | **98.1** | 54.5 |
| Prepayments | | **44.9** | 22.8 |
| Current tax assets | | **21.1** | 5.4 |
| Derivative financial instruments | B4 | **49.6** | 296.2 |
| Assets held for sale | D5 | **-** | 13.1 |
| Other | | **85.8** | 50.3 |
| **Total current assets** | | **667.7** | 556.6 |
| **Non current assets** | | | |
| Receivables | C6 | **7.0** | 12.5 |
| Investment in an associate | D6 | **22.7** | - |
| Available for sale financial assets | B3 | **20.8** | - |
| Licences | C1 | **2,361.1** | 637.5 |
| Other intangible assets | C2 | **9,142.0** | 2,058.1 |
| Property, plant and equipment | C4 | **488.2** | 339.4 |
| Prepayments | | **29.9** | 33.0 |
| Held to maturity investments | B3 | **55.0** | - |
| Derivative financial instruments | B4 | **123.0** | 80.3 |
| Other | | **23.4** | 23.5 |
| **Total non current assets** | | **12,273.1** | 3,184.3 |
| **TOTAL ASSETS** | | **12,940.8** | 3,740.9 |
| **Current liabilities** | | | |
| Payables | C7 | **1,019.9** | 361.8 |
| Interest bearing liabilities | B2 | **132.9** | 974.3 |
| Provisions | C8 | **92.4** | 36.4 |
| Derivative financial instruments | B4 | **48.1** | 32.4 |
| Liabilities directly associated with assets held for sale | D5 | **-** | 2.6 |
| Other | | **67.3** | 8.9 |
| **Total current liabilities** | | **1,360.6** | 1,416.4 |
| **Non current liabilities** | | | |
| Payables | C7 | **261.8** | - |
| Interest bearing liabilities | B2 | **3,371.8** | 684.0 |
| Deferred tax liabilities | A5 | **596.1** | 60.5 |
| Provisions | C8 | **78.9** | 63.0 |
| Derivative financial instruments | B4 | **21.8** | 30.6 |
| Other | | **11.2** | 3.0 |
| **Total non current liabilities** | | **4,341.6** | 841.1 |
| **TOTAL LIABILITIES** | | **5,702.2** | 2,257.5 |
| **NET ASSETS** | | **7,238.6** | 1,483.4 |
| **Equity** | | | |
| Issued capital | | **8,529.1** | 2,444.5 |
| Accumulated losses | | **(566.2)** | (270.3) |
| Reserves | | **(724.3)** | (690.8) |
| **TOTAL EQUITY** | | **7,238.6** | 1,483.4 |

The accompanying notes form an integral part of this balance sheet.

# CASH FLOW STATEMENT For the year ended 30 June 2018

| | Note | 2018 $m | 2017 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash receipts in the course of operations | | **4,058.8** | 2,270.5 |
| Payments to suppliers, service providers and employees | | **(2,417.0)** | (1,685.3) |
| Payment of government levies, betting taxes and GST | | **(923.3)** | (226.1) |
| Finance income received | | **1.4** | 1.6 |
| Finance costs paid | | **(150.0)** | (76.7) |
| Income tax paid | | **(122.4)** | (61.5) |
| **Net cash flows from operating activities** | C5 | **447.5** | 222.5 |
| **Cash flows from investing activities** | | | |
| Payments relating to cash-settled equity swap | | **(325.1)** | (331.4) |
| Proceeds relating to cash-settled equity swap | | **625.3** | 13.9 |
| Payment for business acquisition, net of cash acquired | D4 | **(193.4)** | (113.2) |
| Net proceeds from business divestment | | **13.2** | - |
| Payment for property, plant and equipment and intangibles | | **(291.7)** | (197.4) |
| Proceeds from sale of property, plant and equipment and intangibles | | **1.0** | 1.9 |
| Loan repayments received from customers | | **5.4** | 1.8 |
| **Net cash flows used in investing activities** | | **(165.3)** | (624.4) |
| **Cash flows from financing activities** | | | |
| Net cash flows from revolving bank facilities | | **35.0** | 584.9 |
| Proceeds from borrowings | | **5,350.0** | - |
| Repayment of borrowings | | **(4,873.8)** | - |
| Settlement of dividends payable by business acquired | | **(235.0)** | - |
| Dividends paid | | **(313.8)** | (194.5) |
| Payment of transaction costs for share issue | | **(1.7)** | - |
| Payments for on-market share purchase | | **(4.8)** | - |
| **Net cash flows from/(used in) financing activities** | | **(44.1)** | 390.4 |
| Net increase/(decrease) in cash held | | **238.1** | (11.5) |
| Effects of exchange rate changes on cash | | **0.3** | (0.2) |
| Cash at beginning of year | | **114.3** | 126.0 |
| **Cash at end of year** | C5 | **352.7** | 114.3 |

The accompanying notes form an integral part of this cash flow statement.

# STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2018

| | | Issued capital | | | Reserves | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of ordinary shares m | Ordinary shares $m | Treasury shares $m | Accumulated losses $m | Hedging $m | Demerger $m | Other $m | Total equity $m |
| **2018** | | | | | | | | |
| **Balance at beginning of year** | **835.3** | **2,445.1** | **(0.6)** | **(270.3)** | **(24.2)** | **(669.9)** | **3.3** | **1,483.4** |
| Profit for the year | - | - | - | **28.7** | - | - | - | **28.7** |
| Other comprehensive income | - | - | - | **1.0** | **(32.7)** | - | **(1.0)** | **(32.7)** |
| **Total comprehensive income** | - | - | - | **29.7** | **(32.7)** | - | **(1.0)** | **(4.0)** |
| Dividends paid | - | - | - | **(325.6)** | - | - | - | **(325.6)** |
| Dividend reinvestment plan | **2.5** | **11.7** | - | - | - | - | - | **11.7** |
| Transfers | - | **3.0** | - | - | - | - | **(3.0)** | - |
| Restricted shares issued | - | - | **(0.2)** | - | - | - | - | **(0.2)** |
| Share based payments expense | - | - | **0.7** | - | - | - | **3.2** | **3.9** |
| Consideration for business combination | **1,175.2** | **6,075.7** | - | - | - | - | - | **6,075.7** |
| Transaction costs on business combination | - | **(1.7)** | - | - | - | - | - | **(1.7)** |
| Net outlay to purchase shares | - | **(4.6)** | - | - | - | - | - | **(4.6)** |
| **Balance at end of year** | **2,013.0** | **8,529.2** | **(0.1)** | **(566.2)** | **(56.9)** | **(669.9)** | **2.5** | **7,238.6** |
| | | **Total issued capital 8,529.1** | | | **Total reserves (724.3)** | | | |
| **2017** | | | | | | | | |
| **Balance at beginning of year** | 831.5 | 2,431.2 | (0.6) | (46.3) | (31.4) | (669.9) | 5.1 | 1,688.1 |
| Loss for the year | - | - | - | (20.8) | - | - | - | (20.8) |
| Other comprehensive income | - | - | - | 1.0 | 7.2 | - | (2.0) | 6.2 |
| **Total comprehensive income** | - | - | - | (19.8) | 7.2 | - | (2.0) | (14.6) |
| Dividends paid | - | - | - | (204.2) | - | - | - | (204.2) |
| Dividend reinvestment plan | 1.9 | 9.7 | - | - | - | - | - | 9.7 |
| Transfers | - | 2.8 | - | - | - | - | (2.8) | - |
| Restricted shares issued | 0.3 | 1.4 | (1.4) | - | - | - | - | - |
| Performance Rights exercised | 1.6 | - | - | - | - | - | - | - |
| Share based payments expense | - | - | 1.4 | - | - | - | 3.0 | 4.4 |
| **Balance at end of year** | 835.3 | 2,445.1 | (0.6) | (270.3) | (24.2) | (669.9) | 3.3 | 1,483.4 |
| | | Total issued capital 2,444.5 | | | Total reserves (690.8) | | | |

**Issued capital**

Ordinary shares are issued and fully paid. They carry one vote per share and hold rights to dividends. Issued capital is recognised at the fair value of the consideration received. When issued capital is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total issued capital. Any transaction costs directly attributable to the issue of ordinary shares are recognised directly in equity, net of tax, as a reduction of the share proceeds received.

Treasury shares represent the unvested portion of Restricted Shares issued to executives as an incentive, on appointment or for retention, which is recognised as a reduction in issued capital. The amount which has been credited to the employee equity benefit reserve is transferred to issued capital to the extent the relevant Performance Rights vest or have been treated as vested.

**Nature of reserves**

Hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges.

Demerger reserve arose on the demerger of The Star Entertainment Group (previously the Echo Entertainment Group) in 2011. It represents the difference between the fair value of The Star Entertainment Group shares (being the distribution liability arising on demerger), the amount allocated as a capital reduction and any transfers to retained earnings.

Other reserves contain the employee equity benefit reserve and the foreign currency translation reserve.

The accompanying notes form an integral part of this statement of changes in equity.

## ABOUT THIS REPORT

Tabcorp Holdings Limited (the Company) is a company limited by shares which are traded on the Australian Securities Exchange. The Company is incorporated and domiciled in Australia, and is a for-profit entity. The Financial Report of the Company for the year ended 30 June 2018 comprises the Company and its subsidiaries (the Group) and the Group's interest in joint arrangements and associates.

The Financial Report was authorised for issue by the Board of Directors on 8 August 2018.

The Financial Report is a general purpose financial report which:

- has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards as issued by the Australian Accounting Standards Board and other mandatory financial reporting requirements in Australia;
- complies with International Financial Reporting Standards as issued by the International Accounting Standards Board;
- is presented in Australian dollars with dollar amounts rounded to the nearest hundred thousand unless specifically stated to be otherwise, in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191; and
- is prepared on the historical cost basis, except for derivative financial instruments and available for sale financial assets that have been measured at fair value.

The accounting policies have been applied consistently throughout the Group for the purposes of this Financial Report.

Note disclosures have been grouped into five sections. The notes within each section detail the accounting policies applied, together with any key judgements and estimates used. The purpose of this format is to provide users with a clear understanding of the key drivers of the Group's financial performance and financial position.



### Significant accounting estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of these assets and liabilities recognised in the financial statements are described in the following notes:

A5 – Income tax
B3 – Financial assets
B4 – Derivative financial instruments
C1 – Licences
C2 – Other intangible assets
C3 – Impairment testing
C8 – Provisions
D4 – Business combinations
E4 – Contingencies

# SECTION A – GROUP PERFORMANCE

## A1 Segment information

Operating segments reflect the business level at which financial information is provided to the Managing Director and Chief Executive Officer (Chief Operating Decision Maker), for decision making regarding resource allocation and performance assessment. The measure of segment profit used excludes significant items not considered integral to the ongoing performance of the segment. Intersegment pricing is determined on commercial terms and conditions.

The Group has four operating segments at year end. Sun Bets was identified as an operating segment during the current year as it is no longer in an establishment phase. In the Group's 31 December 2017 half year financial report, Tatts Group had been identified as a single segment due to the proximity of the acquisition to the period end and the Group's operating segments have since been reassessed.

**Tabcorp Group**

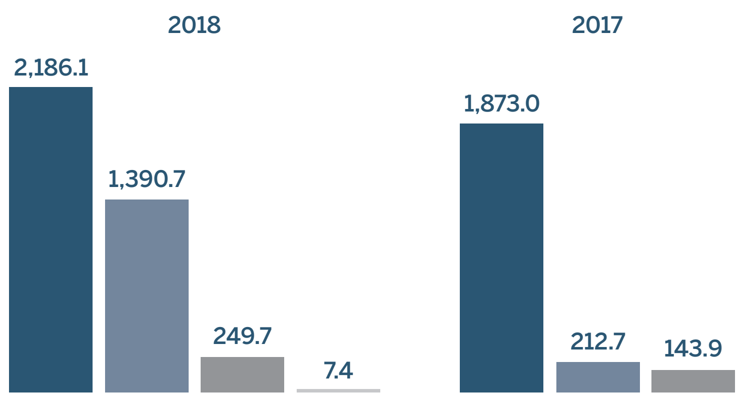
**Wagering and Media**
Provision of totalisator and fixed odds betting and retail wagering networks, and global racing media business

**Lotteries and Keno**
Operation of lotteries and Keno pursuant to licences and approvals in certain Australian states and territories

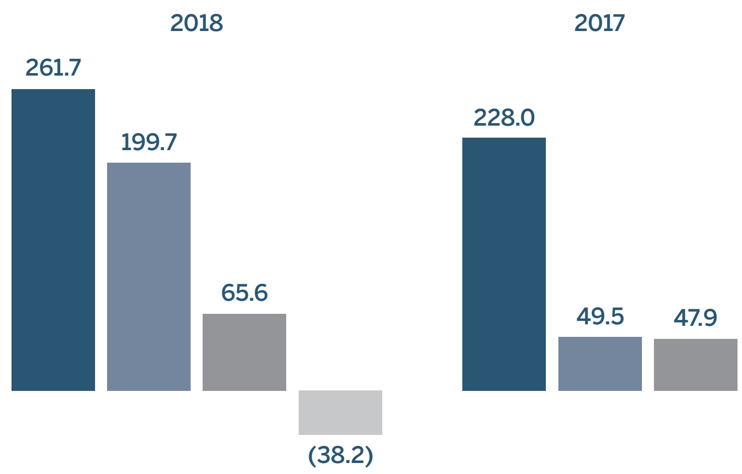
**Gaming Services**
Gaming machine monitoring operations in New South Wales, Queensland and the Northern Territory and venue services nationwide

**Sun Bets**
Provision of online wagering, sports bookmaking and casino products in the United Kingdom and Ireland

**Segment revenue** $m




**Segment profit before interest and tax** $m




Wagering and Media | Lotteries and Keno | Gaming Services | Sun Bets

## A1 Segment information (continued)

| | Wagering and Media $m | Lotteries and Keno $m | Gaming Services $m | Sun Bets $m | Total $m |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Revenue – external customers | **2,186.1** | **1,389.8** | **244.5** | **7.4** | **3,827.8** |
| Revenue – intersegment | **-** | **0.9** | **5.2** | **-** | **6.1** |
| Segment revenue | **2,186.1** | **1,390.7** | **249.7** | **7.4** | **3,833.9** |
| Segment profit/(loss) before interest and tax | **261.7** | **199.7** | **65.6** | **(38.2)** | **488.8** |
| Depreciation and amortisation | **135.2** | **55.9** | **56.2** | **1.3** | **248.6** |
| Capital expenditure(i) | **93.7** | **17.4** | **67.8** | **10.7** | **189.6** |
| **2017** | | | | | |
| Segment revenue – external customers | 1,873.0 | 212.7 | 143.9 | - | 2,229.6 |
| Segment profit before interest and tax | 228.0 | 49.5 | 47.9 | - | 325.4 |
| Depreciation and amortisation | 122.0 | 22.5 | 34.2 | - | 178.7 |
| Capital expenditure(i) | 125.3 | 22.6 | 63.1 | - | 211.0 |

(i) Capital expenditure excludes the acquisition of licences and assets acquired via business combinations (refer note D4).

| | Revenue | | Profit | | Depreciation & amortisation | |
|---|---|---|---|---|---|---|
| | 2018 $m | 2017 $m | 2018 $m | 2017 $m | 2018 $m | 2017 $m |
| **Reconciliation of segment revenue, profit, depreciation and amortisation** | | | | | | |
| Segment total (per above) | **3,833.9** | 2,229.6 | **488.8** | 325.4 | **248.6** | 178.7 |
| Intersegment revenue elimination | **(6.1)** | - | **-** | - | **-** | - |
| Unallocated items: | | | | | | |
| – finance income | **-** | - | **2.0** | 1.6 | **-** | - |
| – finance costs(i) | **-** | - | **(129.9)** | (78.3) | **-** | - |
| – significant items: | | | | | | |
| – net gain/(loss) on cash-settled equity swap | **-** | - | **6.6** | (23.9) | **-** | - |
| – Sun Bets onerous contract expense and impairment (refer note A4) and related costs | **-** | - | **(92.7)** | (27.5) | **-** | - |
| – settlement and other costs relating to the AUSTRAC civil proceedings and AFP Cambodia investigation | **-** | - | **-** | (71.7) | **-** | - |
| – costs relating to combination with Tatts Group(ii) | **-** | - | **(143.3)** | (31.4) | **-** | - |
| – establishment and start-up of Sun Bets | **-** | 4.5 | **-** | (50.7) | **-** | 4.6 |
| – other(iii) | **-** | - | **(17.0)** | (18.6) | **-** | - |
| – other | **0.9** | - | **(1.0)** | - | **-** | - |
| Total per income statement | **3,828.7** | 2,234.1 | **113.5** | 24.9 | **248.6** | 183.3 |

(i) Includes financing costs relating to the combination with Tatts Group and the cash-settled equity swap of $9.3 million (2017: $8.2 million).
(ii) Includes transaction costs per note D4 of $48.6 million (2017: $27.5 million), implementation costs of $62.9 million (2017: $3.9 million), impairments of $17.6 million and surplus lease space provision of $14.2 million.
(iii) Significant items – other comprises: costs relating to Luxbet closure of $17.0 million.
Significant items – other in the prior year comprised: costs relating to the Intecq acquisition of $5.9 million and the Melbourne premises relocation of $12.7 million.

**Revenue** is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

**Wagering revenue** is recognised as the residual value after deducting the return to customers from wagering turnover. Fixed odds betting revenue is recognised as the net win or loss on an event. The amounts bet on an event are recognised as a liability until the outcome of the event is determined, at which time the revenue is brought to account. Open betting positions are carried at fair value and gains and losses arising on these positions are recognised in revenue.

The Group operates loyalty programmes enabling customers to accumulate award credits for wagering spend. A portion of the spend, equal to the fair value of the award credits earned, is treated as deferred revenue. Revenue from the award credits is recognised when the award is redeemed or expires.

**Media revenue** includes subscription income and advertising revenue, and is recognised once the service has been rendered. Subscriptions received relating to future periods are treated as deferred revenue.

**Lotteries revenue** is recognised as the gross subscriptions received for lotteries less prizes payable when the official draw for each game is completed. Subscriptions received during the year for games which will be drawn in the next financial period, are deferred and recognised as revenue in the next financial period. Revenue from lottery card subscriptions is recognised over the life of the subscription. Management fees recognised in relation to the Master Agent Agreement associated with the operation of SA Lotteries are recognised in sales revenue.

**Keno revenue** is recognised as the residual value after deducting the return to customers from Keno turnover.

**Gaming services revenue** is recognised once the service has been rendered or the goods have been delivered to the buyer.

## A2 Earnings per share

| | 2018 $m | 2017 $m |
|---|---|---|
| Earnings used in calculation of earnings per share (EPS) | **28.7** | (20.8) |

| | 2018 Number (m) | 2017 Number (m) |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic EPS | **1,480.0** | 834.7 |
| Effect of dilution from Performance Rights(i) | **3.2** | - |
| Weighted average number of ordinary shares used in calculating diluted EPS(ii) | **1,483.2** | 834.7 |

(i) In the prior year the dilutive impact of Performance Rights has not been taken into consideration as they were antidilutive and would result in the dilutive loss per share being less than the basic loss per share.

(ii) Impacted by the issue of shares as consideration for business combination in December 2017. The number of ordinary shares on issue at 30 June 2018 was 2,013.0 million

**Basic EPS** is calculated as net profit after tax divided by the weighted average number of ordinary shares outstanding during the year.

**Diluted EPS** is calculated on the same basis as basic EPS except that it reflects the impact of any potential commitments the Group has to issue shares in the future, for example shares to be issued upon vesting of Performance Rights.

## A3 Dividends

| | 2018 cents per share | 2017 cents per share | 2018 $m | 2017 $m |
|---|---|---|---|---|
| **Fully franked dividends declared and paid during the year:** | | | | |
| Prior year final dividend | **12.5** | 12.0 | **104.4** | 99.8 |
| Interim dividend | **11.0** | 12.5 | **221.2** | 104.4 |
| | **23.5** | 24.5 | **325.6** | 204.2 |
| **Fully franked dividends determined in respect of the year:** | | | | |
| Interim dividend | **11.0** | 12.5 | **221.2** | 104.4 |
| Final dividend | **10.0** | 12.5 | **201.3** | 104.4 |
| | **21.0** | 25.0 | **422.5** | 208.8 |
| **Fully franked dividends declared after balance date to be recognised in subsequent year:** | | | | |
| Final dividend | **10.0** | 12.5 | **201.3** | 104.4 |
| Franking credits available at the 30% company tax rate after allowing for tax payable or receivable | | | **73.9** | 103.7 |

## A4 Revenue and expenses

| | 2018 $m | 2017 $m |
|---|---|---|
| **(a) Revenue includes:** | | |
| Interest revenue | **3.8** | 1.1 |
| **(b) Other income** | | |
| Net gain/(loss) on cash-settled equity swap | **6.6** | (23.9) |
| Net loss on disposal of non current assets | **(1.3)** | (1.7) |
| Net loss on disposal of subsidiaries | **(9.3)** | - |
| Fair value gains on financial assets at fair value through profit or loss | **5.3** | - |
| Other | **0.8** | 1.5 |
| | **2.1** | (24.1) |
| **(c) Employment costs include:** | | |
| Defined contribution plan expense | **24.8** | 16.7 |
| **(d) Operating lease rentals** | | |
| Minimum lease payments | **52.0** | 39.0 |
| **(e) Finance costs** | | |
| Interest costs | **112.7** | 70.3 |
| Other | **17.2** | 8.0 |
| | **129.9** | 78.3 |
| **(f) Impairment**(i) | | |
| Leasehold improvements | **2.3** | 0.2 |
| Plant and equipment | **9.2** | 4.5 |
| Other intangible assets – software | **23.8** | 22.8 |
| Other intangible assets – other | **4.1** | - |
| | **39.4** | 27.5 |
| **(g) Other expenses include:** | | |
| Onerous contract expense(ii) | **82.5** | - |
| Settlement in relation to the AUSTRAC civil proceedings | **-** | 45.0 |
| | **82.5** | 45.0 |

(i) Includes the write down of the business assets relating to Luxbet closure (in the current year) and Sun Bets exit in July 2018 (in the current and prior year).
(ii) Comprises expense in relation to contractual obligations for Sun Bets.

**Interest revenue earned** from customers in the ordinary course of operations is disclosed within revenue.
**Contributions** to defined contribution plans are recognised in the income statement as they become payable.

**Operating lease rentals** are recognised in the income statement on a straight line basis over the lease term. Lease incentives received are recognised as a liability and are released to the income statement on a straight line basis over the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

**Finance income** is recognised using the effective interest rate method.

**Finance costs** are recognised as an expense when incurred.

## A5 Income tax

| (a) The major components of income tax expense are: | 2018 $m | 2017 $m |
|---|---|---|
| Current tax | **(101.5)** | (59.8) |
| Adjustments in respect of current income tax of previous years | **12.7** | 11.5 |
| Deferred tax | **4.0** | 2.6 |
| | **(84.8)** | (45.7) |

| | | |
|---|---|---|
| **Income tax reconciliation:** | | |
| Profit before income tax expense | **113.5** | 24.9 |
| | | |
| Income tax payable at the 30% company tax rate | **(34.0)** | (7.5) |
| Tax effect of adjustments in calculating taxable income: | | |
| – amortisation of licences | **(11.9)** | (11.7) |
| – non-deductible expenses | **(9.8)** | (23.7) |
| – unbooked deferred tax assets | **(23.0)** | (7.1) |
| – research and development claims | **2.7** | 8.0 |
| – other | **4.5** | 0.7 |
| Effect of differing international tax rates | **(13.3)** | (4.4) |
| Income tax expense | **(84.8)** | (45.7) |

## A5 Income tax (continued)

**(b) Deferred tax assets/(liabilities)**

| | Balance at 1 July 2016 $m | Recognised in income statement $m | Acquisitions via business combinations $m | Recognised directly in equity $m | Balance at 30 June 2017 $m | Recognised in income statement $m | Acquisitions via business combinations $m | Recognised directly in equity $m | Balance at 30 June 2018 $m |
|---|---|---|---|---|---|---|---|---|---|
| NSW Trackside concessions | 14.2 | (3.2) | - | - | 11.0 | **(3.2)** | **-** | **-** | **7.8** |
| Fair value of cash flow hedges | 13.5 | - | - | (3.1) | 10.4 | **-** | **(2.4)** | **13.7** | **21.7** |
| Property, plant and equipment | 16.5 | (0.8) | - | - | 15.7 | **(1.5)** | **2.7** | **-** | **16.9** |
| Provisions | 12.3 | 1.9 | 1.1 | - | 15.3 | **6.3** | **16.5** | **-** | **38.1** |
| Cash-settled equity swap | - | 7.1 | - | - | 7.1 | **(7.1)** | **-** | **-** | **-** |
| Accrued expenses | 8.6 | (2.4) | (0.1) | - | 6.1 | **0.9** | **1.3** | **-** | **8.3** |
| NSW retail exclusivity | 3.0 | (1.5) | - | - | 1.5 | **(1.5)** | **-** | **-** | **-** |
| Other | 4.2 | (5.1) | 1.2 | (0.4) | (0.1) | **1.7** | **14.1** | **(0.1)** | **15.6** |
| Licences | (99.5) | 1.4 | - | - | (98.1) | **9.0** | **(534.0)** | **-** | **(623.1)** |
| Other intangible assets | (8.5) | 7.6 | (1.0) | - | (1.9) | **2.8** | **(44.9)** | **-** | **(44.0)** |
| Unclaimed dividends | (4.8) | 0.3 | - | - | (4.5) | **0.1** | **(4.4)** | **-** | **(8.8)** |
| Research and development | (20.3) | (2.7) | - | - | (23.0) | **(3.5)** | **(2.1)** | **-** | **(28.6)** |
| **Net deferred tax assets/(liabilities)** | (60.8) | 2.6 | 1.2 | (3.5) | (60.5) | **4.0** | **(553.2)** | **13.6** | **(596.1)** |

A deferred tax asset in relation to tax losses arising in the UK of $30.8 million has not been recognised at 30 June 2018 (2017: $7.8 million). These losses are available for offsetting against future taxable profits in the UK.

**Income tax** comprises current and deferred income tax. Income tax is recognised in the income statement except when it relates to items recognised directly in equity, in which case it is recognised in equity.

**Current tax** is the expected tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous years.

**Deferred tax** is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for tax purposes. The temporary differences for goodwill and the initial recognition of an asset or liability in a transaction which is not a business combination and that affect neither accounting nor taxable profit at the time of the transaction are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities.

A **deferred tax asset** is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

## A6 Subsequent events

In July 2018, the Group announced it had executed an agreement with News UK to exit the Sun Bets business, which has now ceased trading. The exit payment has been reflected in the current year (refer to note A4).

Other than the events disclosed elsewhere in this report, no other matters or circumstances have arisen since the end of the financial year, that may significantly affect the Group's operations, the results of those operations or the state of affairs of the Group.

## SECTION B – CAPITAL AND RISK MANAGEMENT

### B1 Capital management

The Group's objectives when managing capital are to ensure the Group continues as a going concern while providing optimal returns to shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Group has a target of an investment grade credit rating. Gearing is managed primarily through the ratio of gross debt to earnings before interest, tax, depreciation, amortisation and impairment (EBITDA).

At 30 June the Group's gearing ratio was:

| | 2018 $m | 2017 $m |
|---|---|---|
| Gross debt (US private placement debt at the Australian dollar principal repayable under cross currency swaps) | **3,308.3** | 1,585.5 |
| EBITDA (before significant items) (i) | **954.0** | 504.1 |
| Gearing ratio | **3.5** | 3.1 |

(i) 2018 includes allowance for 12 months contribution from Tatts Group.

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## B2 Interest bearing liabilities

The Group borrows money from financial institutions and debt investors in the form of bank loans, foreign currency denominated notes and bonds.

The following table details the debt position of the Group at 30 June:

| Facility | Details | Facility limit $m | Maturity | 2018 $m | 2017 $m |
|---|---|---|---|---|---|
| Bank overdraft | Floating interest rate revolving bilateral overdraft facility. | 100.0 | Feb-19 | **15.5** | - |
| Bank loans – unsecured | Floating interest rate revolving facility. Subject to financial undertakings as to gearing and interest cover. | 633.3 | Dec-20 | **630.7** | - |
| | | 633.3 | Dec-21 | **257.8** | - |
| | | 633.4 | Dec-22 | **-** | - |
| | | 1,900.0 | | **888.5** | - |
| | | 575.0 | n/a | **-** | 574.8 |
| | | 250.0 | n/a | **-** | - |
| | | 400.0 | n/a | **-** | 399.5 |
| | | 150.0 | n/a | **-** | 9.8 |
| | | 400.0 | n/a | **-** | 388.8 |
| | | 1,775.0 | | **-** | 1,372.9 |
| US private placement | Fixed interest rate US dollar debt. At 30 June 2018 aggregate US dollar principal of $1,640.0 million (2017: $220.0 million). Cross currency swaps are in place for all US dollar debt. Under these swaps the aggregate Australian dollar amount payable at maturity is $2,008.5 million (2017: $210.5 million). | USD 87.0 | Apr-19 | **117.4** | 112.9 |
| | | USD 170.0 | Dec-20 | **236.1** | - |
| | | USD 133.0 | Apr-22 | **179.3** | 172.5 |
| | | USD 105.0 | Jun-26 | **141.1** | - |
| | | USD 450.0 | Jun-28 | **604.6** | - |
| | | USD 520.0 | Jun-30 | **698.7** | - |
| | | USD 175.0 | Jun-33 | **235.1** | - |
| | | AUD 97.3 | Jun-35 | **96.7** | - |
| | | AUD 97.3 | Jun-36 | **96.7** | - |
| | | | | **2,405.7** | 285.4 |
| Tatts Bonds | Floating rate interest 90 day BBSW +3.1% paid quarterly in arrears. | 192.0 | Jul-19 | **195.0** | - |
| | | | | **3,504.7** | 1,658.3 |
| Current | | | | **132.9** | 974.3 |
| Non current | | | | **3,371.8** | 684.0 |
| | | | | **3,504.7** | 1,658.3 |

### B2.1 Changes in liabilities arising from financing activities:

| | Balance at 1 July 2017 $m | Cash flows $m | Acquisitions via business combinations $m | Foreign exchange movement $m | Changes in fair values $m | Other $m | Balance at 30 June 2018 $m |
|---|---|---|---|---|---|---|---|
| **Interest bearing liabilities** | | | | | | | |
| Current | (974.3) | 845.8 | - | (4.4) | - | - | (132.9) |
| Non current | (684.0) | (1,357.0) | (1,272.1) | (69.1) | - | 10.4 | (3,371.8) |
| **Cross currency interest rate swaps** | | | | | | | |
| Current assets | 2.6 | - | 2.4 | - | 35.5 | - | 40.5 |
| Non current assets | 77.2 | - | 55.0 | - | (10.4) | - | 121.8 |
| Current liabilities | (2.1) | - | - | - | (7.4) | - | (9.5) |
| Non current liabilities | - | - | - | - | (0.4) | - | (0.4) |
| | (1,580.6) | (511.2) | (1,214.7) | (73.5) | 17.3 | 10.4 | (3,352.3) |

**Interest bearing liabilities** are recognised initially at fair value net of transaction costs, and subsequent to initial recognition are recognised at amortised cost which is calculated using the effective interest rate method. Foreign currency liabilities are carried at amortised cost and are translated at the exchange rates ruling at reporting date. Gains and losses are recognised in the income statement when the liabilities are derecognised in addition to the amortisation process.

## B3 Financial assets

| | 2018 $m | 2017 $m |
|---|---|---|
| **(a) Available for sale financial assets** | | |
| Unlisted investments – managed fund | 20.8 | - |
| **(b) Held to maturity investments** | | |
| Investment – term deposits | 55.0 | - |

**Available for sale financial assets** include equity investments and debt securities. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, available for sale financial assets are subsequently carried at fair value (refer to note B5). Changes in the fair value are recognised in other comprehensive income and accumulated in a reserve within equity.

**Held to maturity investments** are measured at amortised cost.

## B4 Derivative financial instruments

The Group holds the following derivative financial instruments, all at fair value based on level 2 observable inputs (refer to note B5):

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current assets** | | |
| Cross currency swaps | **40.5** | 2.6 |
| Cash-settled equity swap | **-** | 293.6 |
| Equity derivative | **9.1** | - |
| | **49.6** | 296.2 |
| **Non current assets** | | |
| Cross currency swaps | **121.8** | 77.2 |
| Interest rate swaps | **1.2** | 3.1 |
| | **123.0** | 80.3 |
| | **172.6** | 376.5 |
| **Current liabilities** | | |
| Interest rate swaps | **22.4** | 19.8 |
| Cross currency swaps | **9.5** | 2.1 |
| Open betting positions | **16.2** | 10.5 |
| | **48.1** | 32.4 |
| **Non current liabilities** | | |
| Cross currency swaps | **0.4** | - |
| Interest rate swaps | **21.4** | 30.6 |
| | **21.8** | 30.6 |
| | **69.9** | 63.0 |

**Derivative financial instruments** are recognised initially at cost, and subsequently are stated at fair value (refer to note B5). The method of recognising any remeasurement gain or loss depends on the nature of the item being hedged. For the purposes of hedge accounting, hedges are classified as either cash flow or fair value hedges.

**Cash flow hedges** are used to hedge the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction. Hedge effectiveness is measured by comparing the change in the fair value of the hedged item and the hedging instrument respectively each quarter. Any difference represents ineffectiveness. The effective portion of any gain or loss on the hedging instrument is recognised directly in equity, with any ineffective portion recognised in the income statement. For hedged items relating to financial assets or liabilities, amounts recognised in equity are reclassified into the income statement when the hedged transaction affects the income statement (i.e. when interest income or expense is recognised). When the hedged item is the cost of a non-financial asset or liability, the amounts recognised in equity are transferred into the initial cost or other carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the designation of the hedge relationship is revoked but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

**Fair value hedges** are used to hedge the variability of changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. Any gain or loss on the derivative is recognised directly in the income statement.

**Equity derivative** is a financial asset at fair value through profit or loss. Gains or losses arising from changes in the fair value (refer note B5) are recognised directly in the income statement within other income.

### B4.1 Interest rate swaps

These swaps are used to mitigate the risk of variability in cash flows due to movements in the reference interest rate of the designated debt.

The notional principal amounts and periods of expiry of these interest rate swap contracts are:

| | Notional principal | |
|---|---|---|
| | **2018 $m** | **2017 $m** |
| Less than one year | **258.5** | - |
| One to five years | **667.0** | 775.5 |
| More than five years | **722.1** | - |
| **Notional principal** | **1,647.6** | 775.5 |
| Fixed interest rate range p.a. | **1.9% – 7.3%** | 1.9% – 7.3% |
| Variable interest rate range p.a. | **1.9% – 2.1%** | 1.7% – 2.3% |

Net settlement receipts and payments are recognised as an adjustment to interest expense on an accruals basis over the term of the swaps, such that the overall interest expense on borrowings reflects the average cost of funds achieved by entering into the swap agreements.

### B4.2 Cross currency swaps

These swaps are used to reduce the exposure to the variability of movements in the forward USD exchange rate in relation to the USD private placement debt.

The principal amounts and periods of expiry of the cross currency swap contracts are:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Pay principal AUD m** | **Receive principal USD m** | **Pay principal AUD m** | **Receive principal USD m** |
| One to five years | **382.0** | **390.0** | 210.5 | 220.0 |
| More than five years | **1,626.5** | **1,250.0** | - | - |
| **Notional principal** | **2,008.5** | **1,640.0** | 210.5 | 220.0 |
| Fixed interest rate range p.a. | | **4.6% – 5.2%** | | 4.6% – 5.2% |
| Variable interest rate range p.a. | **4.2% – 5.6%** | | 5.3% – 6.1% | |

The terms and conditions in relation to the interest rate and maturity of the cross currency swaps are similar to the terms and conditions of the underlying hedged US private placement debt.

### B4.3 Cash-settled equity swap

During the prior year the Group entered into a cash-settled equity swap with an investment bank in respect of circa 147 million shares in Tatts Group representing approximately 10% of Tatts Group shares on issue. The swap had an average reference price of $4.34 per Tatts Group share and provided the Group with the entitlement to receive payments equivalent to any cash dividends paid by Tatts Group in respect of 147 million shares. The swap was unwound on 9 February 2018.

## B5 Fair value measurement

The fair value of financial assets and financial liabilities are estimated for recognition, measurement and disclosure purposes at each balance date. Various methods are available to estimate the fair value of a financial instrument, and comprise:

Level 1 – calculated using quoted prices in active markets.
Level 2 – estimated using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
Level 3 – estimated using inputs for the asset or liability that are not based on observable market data.

The carrying amount of financial assets or liabilities recognised in the financial statements are deemed to be the fair value unless stated below:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2018 $m | 2017 $m | 2018 $m | 2017 $m |
| **Financial assets** | | | | |
| Investment in an associate | **22.7** | - | **33.0** | - |
| | **22.7** | - | **33.0** | - |
| **Financial liabilities** | | | | |
| US private placement | **2,212.4** | 286.0 | **2,440.3** | 305.4 |
| Tatts Bonds | **195.6** | - | **196.2** | - |
| | **2,408.0** | 286.0 | **2,636.5** | 305.4 |

The fair value of the Group's financial instruments are estimated as follows:

*Investment in an associate*

Fair value is determined using quoted market price (level 1 in fair value hierarchy).

*US private placement*

Fair value is calculated using discounted future cash flow techniques, where estimated cash flows and estimated discount rates are based on market data at balance date, in combination with restatement to foreign exchange rates at balance date (level 2 in fair value hierarchy).

*Tatts Bonds*

Fair value is determined using independent market quotations (level 1 in fair value hierarchy).

*Cross currency and interest rate swaps*

Fair value is calculated using discounted future cash flow techniques, where estimated cash flows and estimated discount rates are based on market data at balance date (level 2 in fair value hierarchy).

*Cash-settled equity swap*

Fair value was calculated with reference to market data at initiation of the swap and at balance date (level 2 in fair value hierarchy), combined with the value of the collateral paid to the counterparty.

*Available for sale financial assets*

Fair value is reference to market prices prevailing at balance date (level 2 in fair value hierarchy).

*Equity derivative*

Fair value is calculated using the Black Scholes Discrete model (level 2 in fair value hierarchy).

There have been no significant transfers between level 1 and level 2 during the financial year ended 30 June 2018.

## B6 Financial instruments – risk management

The Group's principal financial instruments, other than derivatives, comprise cash, short term deposits, held to maturity investments, available for sale financial assets and interest bearing liabilities. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group also has various other financial assets and liabilities which arise directly from its operations.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities, principally interest rate swaps and cross currency swaps. The Group does not hold or issue derivative financial instruments for trading purposes.

The main risks arising from the Group's financial instruments are discussed in section B6.1 to B6.4.

### B6.1 Interest rate risk

The Group has a policy of controlling exposure to interest rate fluctuations by the use of fixed and variable rate debt and interest rate swaps or caps. It has entered into interest rate swap arrangements to hedge underlying debt obligations and allow floating rate borrowings to be swapped to fixed rate borrowings. Under these arrangements, the Group pays fixed interest rates and receive the bank bill swap rate (BBSW) calculated on the notional principal amount of the contracts.

At 30 June after taking into account the effect of interest rate swaps, approximately 83.1% (2017: 48.9%) of the Group's borrowings are at a fixed rate of interest.

The following assets and liabilities are exposed to floating interest rate risk:

| | 2018 $m | 2017 $m |
|---|---|---|
| Cash assets | **190.4** | 18.0 |
| Short term deposits | **111.0** | 80.8 |
| Held to maturity investments | **55.0** | - |
| | **356.4** | 98.8 |
| Overdraft – unsecured | **(15.5)** | - |
| Bank loans – unsecured | **(888.5)** | (1,372.9) |
| Tatts Bonds | **(195.0)** | - |
| Interest rate swaps – notional principal amounts | **(1,647.6)** | (775.5) |
| Cross currency swaps – notional principal amounts | **(2,008.5)** | (210.5) |
| Cash-settled equity swap – applicable notional amount (i) | **-** | (318.5) |
| | **(4,755.1)** | (2,677.4) |

(i) The cash-settled equity swap included an applicable notional amount with the swap counterparty that was exposed to fluctuations in BBSW.

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## B6 Financial instruments – risk management (continued)

### B6.1 Interest rate risk (continued)

*Sensitivity analysis – interest rates – AUD and USD*

The Group's sensitivity to reasonably possible changes in interest rates on the affected financial assets and financial liabilities in existence at year end is shown below. With all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

| | Post tax profit higher/(lower) | | Other comprehensive income higher/(lower) | |
|---|---|---|---|---|
| | **2018 $m** | **2017 $m** | **2018 $m** | **2017 $m** |
| **AUD** | | | | |
| + 1.00% (100 basis points) (2017: + 1.00%) | **(3.7)** | (4.7) | **135.2** | 18.0 |
| - 1.00% (100 basis points) (2017: - 1.00%) | **3.7** | 4.7 | **(163.7)** | (18.7) |
| **USD** | | | | |
| + 0.20% (20 basis points) (2017: + 0.20%) | **-** | - | **(70.7)** | (1.1) |
| - 0.20% (20 basis points) (2017: - 0.20%) | **-** | - | **40.0** | 1.1 |

The movements in profit are due to higher/lower interest costs from variable rate debt and investments. The movement in other comprehensive income is due to an increase/decrease in the fair value of financial instruments designated as cash flow hedges.

Significant assumptions used in the analysis include:

- reasonably possible movements were determined based on the Group's current credit rating and mix of debt, relationships with financial institutions and the level of debt that is expected to be renewed, as well as a review of the last two years' historical movements and economic forecasters' expectations;
- price sensitivity of derivatives is based on a reasonably possible movement of spot rates at balance date; and
- net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months.

### B6.2 Foreign currency risk

The Group's primary currency exposure is to US dollars as a result of issuing US private placement debt. In order to hedge this exposure, the Group has entered into cross currency swaps to fix the exchange rate on the USD debt until maturity. The Group agrees to pay a fixed USD amount in exchange for an agreed AUD amount with swap counterparties, and to re-exchange this again at maturity. These swaps are designated to hedge the principal and interest obligations of the US private placement debt.

*Sensitivity analysis foreign exchange*

The following analysis is based on the Group's foreign currency risk exposures in existence at balance date and demonstrates the Group's sensitivity to reasonably possible changes in the AUD/USD exchange rate. With all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

| | Post tax profit higher/(lower) | | Other comprehensive income higher/(lower) | |
|---|---|---|---|---|
| | **2018 $m** | **2017 $m** | **2018 $m** | **2017 $m** |
| AUD/USD + 10 cents (2017: + 10 cents) | **-** | - | **(22.3)** | (2.2) |
| AUD/USD - 10 cents (2017: - 10 cents) | **-** | - | **23.8** | 2.8 |

The movement in other comprehensive income is due to an increase/decrease in the fair value of financial instruments designated as cash flow hedges. Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- reasonably possible movements were determined based on a review of the last two years' historical movements and economic forecasters' expectations;
- movement of 10 cents was calculated by taking the USD spot rate as at balance date, moving this spot rate by 10 cents and then re-converting the USD into AUD with the 'new spot rate'. This methodology reflects the translation methodology undertaken by the Group;
- price sensitivity of derivatives is based on a reasonably possible movement of spot rates at balance dates; and
- net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months.

The translation of the results of the Group's foreign subsidiaries into the Group presentation currency has not been included in the above sensitivity analysis as it represents translation risk rather than transaction risk.

### B6.3 Credit risk

The Group's credit risk arises in relation to cash and cash equivalents, receivables, held to maturity investments, financial liabilities and liabilities under financial guarantees. Credit risk on financial assets which have been recognised on the balance sheet, is the carrying amount less any allowance for non recovery.

Credit risk is managed by:

- adherence to a strict cash management policy;
- use of a risk assessment process for customers requesting credit using credit checks, bank opinions and trade references;
- conducting all investment and financial instrument activity with approved counterparties with investment grade credit ratings; and
- reviewing compliance with counterparty exposure limits on a continuous basis, and spreading the aggregate value of transactions amongst the approved counterparties.

Credit risk associated with financial liabilities arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Group's maximum credit risk exposure in respect of derivative contracts is detailed in the liquidity risk table in note B6.4.

Credit risk includes liabilities under financial guarantees. For financial guarantee contract liabilities the fair value at initial recognition is determined using a probability weighted discounted cash flow approach. The fair value of financial guarantee contract liabilities has been assessed as nil (2017: nil), as the possibility of an outflow occurring is considered remote. Details of the financial guarantee contracts at balance date are outlined below:

*Deed of cross guarantee*

The Company has entered into a deed of cross guarantee as outlined in note D2.

*Guarantees and indemnities*

Entities in the Group are called upon to give in the ordinary course of business, guarantees and indemnities in respect of the performance of their contractual and financial obligations. The maximum amount of these guarantees and indemnities is $37.7 million (2017: $23.8 million).

## B6 Financial instruments – risk management (continued)

### B6.4 Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet its obligations to repay its financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and notes. To help reduce liquidity risk, the Group targets a minimum level of cash and cash equivalents to be maintained, and has sufficient undrawn funds available.

The Group's policy is that not more than 33% of debt facilities should mature in any financial year within the next four years. At 30 June 2018, 2% (2017: 62%) of debt facilities will mature in less than one year. At the prior balance date, a legally binding commitment letter was in place with a number of domestic and international banks which provided sufficient capacity for the refinancing of those bank loans which had maturity dates within one year. These loans were refinanced by new bank facilities following the combination with Tatts Group in the current financial year and the maturity of debt facilities reverted to within policy.

Due to the measures in place for managing liquidity and access to capital markets, this risk is not considered significant.

The contractual cash flows including principal and estimated interest payments of financial liabilities in existence at year end are as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| **Non-derivative financial instruments** | **< 1 year $m** | **1–5 years $m** | **> 5 years $m** | **< 1 year $m** | **1–5 years $m** | **> 5 years $m** |
| **Financial liabilities** | | | | | | |
| Payables | **1,019.9** | **-** | **-** | 361.8 | - | - |
| Bank loans – unsecured | **51.4** | **995.1** | **-** | 1,043.9 | 433.7 | - |
| US private placement | **200.9** | **713.3** | **2,475.8** | 14.2 | 249.3 | - |
| Tatts Bonds | **11.5** | **192.1** | **-** | - | - | - |
| Net inflow/(outflow) | **(1,283.7)** | **(1,900.5)** | **(2,475.8)** | (1,419.9) | (683.0) | - |
| **Derivative financial instruments** | | | | | | |
| **Financial assets** | | | | | | |
| Interest rate swaps – receive AUD floating | **31.4** | **88.0** | **70.4** | 13.6 | 34.4 | - |
| Cross currency swaps – receive USD fixed | **190.8** | **665.7** | **2,143.8** | 14.2 | 249.3 | - |
| Cash-settled equity swap | **-** | **-** | **-** | 289.6 | - | - |
| | **222.2** | **753.7** | **2,214.2** | 317.4 | 283.7 | - |
| **Financial liabilities** | | | | | | |
| Interest rate swaps – pay AUD fixed | **52.1** | **125.6** | **92.9** | 33.7 | 74.5 | - |
| Cross currency swaps – pay AUD floating | **184.7** | **655.4** | **2,152.3** | 11.5 | 241.4 | - |
| Open betting positions | **16.2** | **-** | **-** | 10.5 | - | - |
| | **253.0** | **781.0** | **2,245.2** | 55.7 | 315.9 | - |
| Net inflow/(outflow) | **(30.8)** | **(27.3)** | **(31.0)** | 261.7 | (32.2) | - |

For floating rate instruments, the amount disclosed is determined by reference to the interest rate at the last repricing date. For foreign currency receipts and payments, the amount disclosed is determined by reference to the USD/AUD rate at balance date.

## SECTION C – OPERATING ASSETS AND LIABILITIES

### C1 Licences

| | Wagering licences $m | Gaming machine monitoring licence $m | Keno licences $m | Lotteries licences $m | Total $m |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Carrying amount at beginning of year | **557.2** | **-** | **80.3** | **-** | **637.5** |
| Acquisition through business combination (refer note D4) | **202.2** | **200.3** | **-** | **1,397.6** | **1,800.1** |
| Amortisation | **(40.2)** | **(7.0)** | **(5.9)** | **(23.4)** | **(76.5)** |
| Carrying amount at end of year | **719.2** | **193.3** | **74.4** | **1,374.2** | **2,361.1** |
| Cost | **978.4** | **200.3** | **128.0** | **1,397.6** | **2,704.3** |
| Accumulated amortisation and impairment | **(259.2)** | **(7.0)** | **(53.6)** | **(23.4)** | **(343.2)** |
| | **719.2** | **193.3** | **74.4** | **1,374.2** | **2,361.1** |
| **2017** | | | | | |
| Carrying amount at beginning of year | 596.1 | - | 86.3 | - | 682.4 |
| Amortisation | (38.9) | - | (6.0) | - | (44.9) |
| Carrying amount at end of year | 557.2 | - | 80.3 | - | 637.5 |
| Cost | 776.2 | - | 128.0 | - | 904.2 |
| Accumulated amortisation and impairment | (219.0) | - | (47.7) | - | (266.7) |
| | 557.2 | - | 80.3 | - | 637.5 |
| Amortisation policy – straight line basis over useful life (years): | 12 – 93 | 15 | 10 – 34 | 10 – 55 | |
| Licence expiration date: | | | | | |
| – Victoria | 2024 | | 2022 | 2028[(ii)] | |
| – Queensland | 2098 | | 2047 | 2072 | |
| – New South Wales | 2097 | 2032 | 2050 | 2050 | |
| – Australian Capital Territory | 2064[(i)] | | | | |
| – Northern Territory | | | | 2032 | |
| – South Australia | 2100 | | | 2052 | |

(i) ACT sports bookmaking licence was granted for an initial term of 15 years with further rolling extensions to a total term of 50 years.
(ii) The new Victorian lottery licence commenced on 1 July 2018 upon expiry of the previous licence on 30 June 2018.

**Licences** that are acquired by the Group are stated at cost less accumulated amortisation.

## C2 Other intangible assets

| | Goodwill $m | NSW Trackside concessions $m | Customer related assets $m | Brand names $m | Media content and broadcast rights $m | Other $m | Software $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | | |
| Carrying amount at beginning of year | **1,512.6** | **138.7** | **9.6** | **110.0** | **30.6** | **44.2** | **212.4** | **2,058.1** |
| Additions: | | | | | | | | |
| – acquired | - | - | - | - | - | - | **25.3** | **25.3** |
| – internally developed | - | - | - | - | - | - | **88.9** | **88.9** |
| Acquisitions via business combinations | **6,743.4** | - | **149.5** | **108.1** | - | - | **82.5** | **7,083.5** |
| Amortisation | - | **(1.7)** | **(6.2)** | - | - | **(2.7)** | **(69.6)** | **(80.2)** |
| Impairment | **(0.8)** | - | **(3.3)** | - | - | - | **(23.8)** | **(27.9)** |
| Disposals | **(5.6)** | - | - | - | - | - | **(0.1)** | **(5.7)** |
| Carrying amount at end of year | **8,249.6** | **137.0** | **149.6** | **218.1** | **30.6** | **41.5** | **315.6** | **9,142.0** |
| Cost | **8,955.3** | **150.0** | **167.3** | **218.1** | **30.6** | **54.6** | **673.6** | **10,249.5** |
| Accumulated amortisation and impairment | **(705.7)** | **(13.0)** | **(17.7)** | - | - | **(13.1)** | **(358.0)** | **(1,107.5)** |
| | **8,249.6** | **137.0** | **149.6** | **218.1** | **30.6** | **41.5** | **315.6** | **9,142.0** |
| Includes capital works in progress of: | | | | | | | **61.1** | **61.1** |
| **2017** | | | | | | | | |
| Carrying amount at beginning of year | 1,431.8 | 140.5 | 4.1 | 110.0 | 30.6 | 43.6 | 184.7 | 1,945.3 |
| Additions: | | | | | | | | |
| – acquired | - | - | - | - | - | - | 30.3 | 30.3 |
| – internally developed | - | - | - | - | - | - | 64.5 | 64.5 |
| Acquisitions via business combinations | 80.8 | - | 8.2 | - | - | 4.5 | 9.5 | 103.0 |
| Amortisation | - | (1.8) | (1.0) | - | - | (2.6) | (53.5) | (58.9) |
| Impairment | - | - | - | - | - | - | (22.8) | (22.8) |
| Disposals | - | - | - | - | - | - | (0.2) | (0.2) |
| Transferred to assets held for sale | - | - | (1.7) | - | - | (1.3) | (0.1) | (3.1) |
| Carrying amount at end of year | 1,512.6 | 138.7 | 9.6 | 110.0 | 30.6 | 44.2 | 212.4 | 2,058.1 |
| Cost | 2,217.5 | 150.0 | 17.8 | 110.0 | 30.6 | 54.6 | 530.8 | 3,111.3 |
| Accumulated amortisation and impairment | (704.9) | (11.3) | (8.2) | - | - | (10.4) | (318.4) | (1,053.2) |
| | 1,512.6 | 138.7 | 9.6 | 110.0 | 30.6 | 44.2 | 212.4 | 2,058.1 |
| Includes capital works in progress of: | | | | | | | 38.8 | 38.8 |
| Amortisation policy – straight line basis over useful life (years): | | 87 | 5 – 20 | Indefinite | Indefinite | 12 – 20 | 2 – 10 | |
| Expiration date: | | 2097 | | | | | | |
| – New South Wales retail exclusivity | | | | | | 2033 | | |

**Goodwill** arising in a business combination represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired and liabilities assumed. All business combinations are accounted for by applying the acquisition method. Any contingent consideration is recognised at fair value at the acquisition date. Negative goodwill arising on an acquisition is recognised directly in the income statement. Goodwill is not amortised, and is stated at cost less any accumulated impairment losses. Any impairment losses recognised against goodwill cannot be reversed.

**Brand names, media content and broadcast rights** with indefinite useful lives are not amortised as the Board of Directors believe that the life of these intangibles to the Group will not materially diminish over time, and the residual value at the end of that life would be such that the amortisation charge, if any, would not be material.

**Other intangible assets** that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. The cost of internally developed software includes the cost of materials, direct labour and an appropriate proportion of overheads.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

## C3 Impairment testing

Goodwill and indefinite life intangible assets are tested for impairment annually, or whenever there is an indicator of impairment.

| Carrying amount of goodwill and other intangible assets with indefinite useful lives allocated to each cash generating unit (CGU) or segment: | 2018 $m | 2017 $m |
|---|---|---|
| **Goodwill** | | |
| Wagering and Media | **2,638.7** | 1,277.8 |
| Lotteries and Keno | **5,304.4** | 154.0 |
| Gaming Services | **306.5** | 80.8 |
| | **8,249.6** | 1,512.6 |
| **Other intangible assets with indefinite useful lives** | | |
| NSW Wagering | **98.8** | 98.8 |
| Sky Racing | **30.8** | 30.8 |
| Sky Sports Radio | **6.5** | 6.5 |
| ACTTAB | **4.5** | 4.5 |
| Lotteries | **108.1** | - |
| | **248.7** | 140.6 |

## C3 Impairment testing (continued)

The recoverable amount of each CGU is determined based on fair value less costs of disposal, calculated using discounted cash flows. The cash flow forecasts are principally based upon management approved business plans for a four year period and extrapolated using growth rates ranging from 2.0% to 3.5% (2017: 2.0% to 2.5%). These cash flows are then discounted using a relevant long term post tax discount rate, ranging between 7.5% and 8.4% (2017: 9.2% and 9.7%). This is considered to be level 3 in the fair value hierarchy, based on non market observable inputs (refer to note B5 for explanation of the valuation hierarchy).

Key assumptions on which management has based its cash flow projections:

- State tax regimes, including point of consumption tax, and the regulatory environment in which the Group currently operates remain largely unchanged, other than announced.
- Exclusive retail wagering licences held are assumed to be retained. The wagering business competes with bookmakers and other interstate and international wagering operators who accept bets over the phone and the internet. There is a possibility that competition from the interstate and international operators may extend further to the Group's retail wagering network in the future.
- Race fields arrangements implemented in each State and Territory of Australia remain largely unchanged.
- Growth rates used to extrapolate cash flows are either in line with or do not exceed the long term average growth rate for the industry in which the CGU operates.
- Discount rates applied are based on the post tax weighted average cost of capital applicable to the relevant CGU.
- Terminal growth rate used is in line with the forecast long term underlying growth rate in Consumer Price Index.

The key estimates and assumptions used to determine the fair value less costs of disposal of a CGU are based on management's current expectations after considering past experience and external information, and are considered to be reasonably achievable. However, significant changes in any of these key estimates and assumptions may result in a CGU's carrying value exceeding its recoverable value requiring an impairment charge to be recognised at a future date.

At each balance date, in addition to goodwill and intangible assets with indefinite useful lives, all non-current assets are reviewed for impairment if events or changes in circumstances indicate they may be impaired. When an indicator of impairment exists, the Group makes a formal assessment of recoverable amount. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless the asset's recoverable value cannot be estimated as it does not generate cash inflows that are largely independent of those from other assets or groups of assets. In this case, the recoverable amount is determined for the CGU, being assets grouped at the lowest levels for which there are separately identifiable cash flows.

Goodwill and intangible assets with indefinite useful lives (brand names, broadcast rights and media content) acquired through business combinations have been allocated to each CGU or group of CGUs expected to benefit from the business combination's synergies for impairment testing.

## C4 Property, plant and equipment

| | Freehold land $m | Buildings $m | Leasehold improvements $m | Plant and equipment $m | Total $m |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Carrying amount at beginning of year | **5.3** | **12.1** | **57.7** | **264.3** | **339.4** |
| Additions | **-** | **1.0** | **17.2** | **57.2** | **75.4** |
| Acquisitions via business combinations | **55.4** | **18.7** | **26.9** | **80.7** | **181.7** |
| Disposals | **-** | **-** | **(1.3)** | **(3.6)** | **(4.9)** |
| Depreciation | **-** | **(2.2)** | **(14.9)** | **(74.8)** | **(91.9)** |
| Impairment | **-** | **-** | **(2.3)** | **(9.2)** | **(11.5)** |
| Carrying amount at end of year | **60.7** | **29.6** | **83.3** | **314.6** | **488.2** |
| Cost | **60.7** | **42.8** | **140.8** | **816.4** | **1,060.7** |
| Accumulated depreciation and impairment | **-** | **(13.2)** | **(57.5)** | **(501.8)** | **(572.5)** |
| | **60.7** | **29.6** | **83.3** | **314.6** | **488.2** |
| Includes capital works in progress of: | | **0.2** | **0.5** | **24.6** | **25.3** |
| **2017** | | | | | |
| Carrying amount at beginning of year | 5.3 | 13.4 | 37.2 | 255.8 | 311.7 |
| Additions | - | 0.4 | 28.7 | 87.1 | 116.2 |
| Acquisitions via business combinations | - | - | 1.5 | 2.6 | 4.1 |
| Disposals | - | - | (0.7) | (2.7) | (3.4) |
| Depreciation | - | (1.7) | (8.6) | (69.2) | (79.5) |
| Impairment | - | - | (0.2) | (4.5) | (4.7) |
| Transferred to assets held for sale | - | - | (0.2) | (4.8) | (5.0) |
| Carrying amount at end of year | 5.3 | 12.1 | 57.7 | 264.3 | 339.4 |
| Cost | 5.3 | 26.9 | 106.1 | 727.9 | 866.2 |
| Accumulated depreciation and impairment | - | (14.8) | (48.4) | (463.6) | (526.8) |
| | 5.3 | 12.1 | 57.7 | 264.3 | 339.4 |
| Includes capital works in progress of: | | 0.3 | 31.5 | 15.9 | 47.7 |
| Depreciation policy – straight line basis over useful life (years): | | 7 – 40 | 7 – 13 | 3 – 10 | |

**Property, plant and equipment** are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. For operating leases where the lease incentive is in the form of a fitout contribution by the landlord, an asset is recognised and amortised on a straight line basis over the lease term.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed annually and adjusted prospectively, if appropriate.

## C5 Notes to the cash flow statement

| (a) Cash and cash equivalents comprise: | 2018 $m | 2017 $m |
|---|---|---|
| Cash on hand and in banks | **257.2** | 33.5 |
| Short term deposits | **111.0** | 80.8 |
| | **368.2** | 114.3 |
| Bank overdrafts | **(15.5)** | - |
| | **352.7** | 114.3 |

For the purpose of the cash flow statement, cash comprises cash and short term deposits with an original maturity of three months or less, and bank overdrafts (refer to note B2).

### Significant restrictions

The Group operates under various state based licences which have regulatory requirements in place that restrict the Group's use of certain cash balances. The carrying amount of these cash balances included within the consolidated financial statements is $263.7 million (2017: $26.9 million).

| (b) Reconciliation of net profit/(loss) after tax to net cash flows from operating activities | 2018 $m | 2017 $m |
|---|---|---|
| **Net profit/(loss) after tax** | **28.7** | (20.8) |
| **Add items classified as investing/financing activities:** | | |
| – net loss on disposal of non current assets | **1.3** | 1.7 |
| – net (gain)/loss on cash-settled equity swap | **(6.6)** | 23.9 |
| – net loss on sale of business | **9.3** | - |
| **Add non cash income and expense items:** | | |
| – depreciation and amortisation | **248.6** | 183.3 |
| – impairment | **39.4** | 27.5 |
| – share based payments expense | **3.9** | 4.4 |
| – other | **8.3** | 7.2 |
| Net cash provided by operating activities before changes in assets and liabilities | **332.9** | 227.2 |
| **Changes in assets and liabilities:** | | |
| (Increase)/decrease in: | | |
| – debtors | **(4.7)** | (4.7) |
| – current tax assets | **(37.0)** | (5.4) |
| – other assets | **(1.6)** | (42.9) |
| (Decrease)/increase in: | | |
| – payables | **148.6** | 23.3 |
| – provisions | **19.1** | 44.4 |
| – deferred tax liabilities | **(3.3)** | (5.3) |
| – current tax liabilities | **-** | (9.2) |
| – other liabilities | **(6.5)** | (4.9) |
| Net cash flows from operating activities | **447.5** | 222.5 |

## C6 Receivables

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current** | | |
| Trade debtors | **58.5** | 35.6 |
| Allowance for doubtful debts | **(3.0)** | (1.7) |
| | **55.5** | 33.9 |
| Sundry debtors | **41.5** | 18.9 |
| Other | **1.1** | 1.7 |
| | **98.1** | 54.5 |
| **Non current** | | |
| Trade debtors | **3.0** | 3.8 |
| Other | **4.0** | 8.7 |
| | **7.0** | 12.5 |
| **Ageing analysis of trade debtors** | | |
| Not past due, 0 – 30 days | **45.5** | 30.7 |
| Past due, not impaired, > 30 days | **13.0** | 7.0 |
| Past due, impaired, > 30 days | **3.0** | 1.7 |
| | **61.5** | 39.4 |

Other balances within receivables are not past due and are expected to be received when due.

**Trade debtors** are recognised and carried at original invoice amount less an allowance for any uncollectible amount.

**Other receivables** reflect fixed term loans and generate fixed or variable interest for the Group, and are initially recognised at amortised cost. The carrying amount may be affected by changes in the credit risk of counterparties.

An allowance for doubtful debts or impairment is made when there is objective evidence that collection of the full amount is no longer probable. Factors considered when determining if an impairment exists include ageing and timing of expected receipts, management's experienced judgement and facts in the individual situation. Bad debts are written off when identified.

## C7 Payables

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current** | | |
| Payables | **1,019.9** | 361.8 |
| **Non current** | | |
| Payables | **261.8** | - |

Non current payables include prizes payable to the lottery major prize winners and instalments payable for the Queensland wagering licence.

**Non current payables** are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

## C8 Provisions

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current** | | |
| Employee benefits | **60.9** | 27.3 |
| Premises | **9.8** | 8.5 |
| Restructuring costs | **14.2** | 0.6 |
| Other | **7.5** | - |
| | **92.4** | 36.4 |
| **Non current** | | |
| Employee benefits | **7.0** | 4.1 |
| Premises | **65.9** | 58.9 |
| Other | **6.0** | - |
| | **78.9** | 63.0 |

Movement in provisions other than employee benefits during the year are set out below:

| | Premises $m | Restructuring costs $m | Other $m |
|---|---|---|---|
| Carrying amount at beginning of year | 67.4 | 0.6 | - |
| Provisions via business combinations | 2.8 | - | 7.0 |
| Provisions made during year | 15.4 | 14.2 | 7.2 |
| Provisions used during year | (9.9) | (0.6) | (0.7) |
| Carrying amount at end of year | 75.7 | 14.2 | 13.5 |

**Premises provisions comprise:**

- lease rental and lease incentives amortised on a straight-line basis over the term of the lease;
- make good provisions for leasehold properties requiring remedial work at the end of the lease arrangement; and
- surplus lease space provisions.

**Restructuring costs** relate to cost saving restructures and initiatives following the combination with Tatts Group.

A **provision** is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recorded as a finance cost.

**Employee benefits (short term)** are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided and the obligation can be estimated reliably.

**Employee benefits (long term)** – the Group's net obligation is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is discounted to determine its present value. Remeasurements are recognised in the income statement in the period in which they arise. This excludes pension plans.

# SECTION D – GROUP STRUCTURE

## D1 Subsidiaries

The ultimate parent entity within the Group is Tabcorp Holdings Limited.

The consolidated financial statements incorporate the assets, liabilities and results of Tabcorp Holdings Limited and the following controlled entities, that were held in both current and prior period unless otherwise stated:

### 100% owned Australian subsidiaries in a deed of cross guarantee with Tabcorp Holdings Limited (refer to note D2)

| | | |
|---|---|---|
| Tabcorp Assets Pty Ltd | Tabcorp Wagering Assets (Vic) Pty Ltd | Tasradio Pty Ltd [(i)(ii)] |
| Tabcorp Participant Pty Ltd | Tabcorp Wagering Participant (Vic) Pty Ltd | Maxgaming Holdings Pty Ltd [(i)(ii)] |
| Luxbet Pty Ltd | Tab Limited | Maxgaming NSW Pty Ltd [(i)(ii)] |
| Tabcorp Wagering Holdings Pty Ltd | Tabcorp Services Pty Ltd | Maxgaming Qld Pty Ltd [(i)(ii)] |
| Tabcorp ACT Pty Ltd | Tabcorp Finance Pty Ltd [(vi)] | Reaftin Pty Ltd [(i)(ii)] |
| Tabcorp Gaming Holdings Pty Ltd | Sky Channel Pty Ltd | Bytecraft Systems Pty Ltd [(i)(ii)] |
| Keno (Qld) Pty Ltd | 2KY Broadcasters Pty Ltd | Bytecraft Systems (NSW) Pty Ltd [(i)(ii)] |
| TAHAL Pty Ltd [(i)] | Tabcorp Training Pty Ltd | Tattersall's Holdings Pty Ltd [(i)(ii)] |
| Keno (NSW) Pty Ltd [(i)] | Tabcorp International Pty Ltd | Tattersall's Sweeps Pty Ltd [(i)(ii)] |
| Tabcorp Gaming Solutions (NSW) Pty Ltd [(i)] | Tabcorp International No.4 Pty Ltd | George Adams Pty Ltd [(i)(ii)] |
| Tabcorp Gaming Solutions Pty Ltd | Tatts Group Limited [(i)(ii)] | Tatts NT Lotteries Pty Ltd [(i)(ii)] |
| Intecq Limited [(i)] | Ubet Qld Limited [(i)(ii)] | New South Wales Lotteries Corporation Pty Limited [(i)(ii)] |
| eBET Gaming Systems Pty Limited [(i)] | Ubet NT Pty Ltd [(i)(ii)] | Golden Casket Lottery Corporation Limited [(i)(ii)] |
| Tabcorp Investments No.5 Pty Ltd [(i)] | Ubet Radio Pty Ltd [(i)(ii)] | Tatts Lotteries SA Pty Ltd [(i)(ii)] |
| Tabcorp Investments No.6 Pty Ltd [(i)] | Ubet SA Pty Ltd [(i)(ii)] | TattsTech Pty Ltd [(i)(ii)] |
| Tabcorp Wagering (Vic) Pty Ltd | Ubet Tas Pty Ltd [(i)(ii)] | 50-50 Software Pty Ltd [(i)(ii)] |

### 100% owned Australian subsidiaries

| | | |
|---|---|---|
| Tabcorp Manager Pty Ltd | Tabcorp Gaming Solutions (ACT) Pty Ltd | Clubline Systems Pty Limited |
| Tabcorp Wagering Manager (Vic) Pty Ltd | Club Gaming Systems (Holdings) Pty Ltd | eBET Services Pty Limited |
| Tabcorp Investments Pty Ltd | OneTab Australia Pty Ltd | eBET Systems Pty Limited |
| Tabcorp Investments No.2 Pty Ltd | OneTab Holdings Pty Ltd | Industry Data Online Pty Ltd |
| Tabcorp Investments No.9 Pty Ltd | Showboat Australia Pty Ltd | Inov8 Mobile Pty Limited |
| Tabcorp Investments No.10 Pty Ltd | Sky Australia International Racing Pty Ltd | Maxi Gaming Pty Limited |
| Tabcorp International No.5 Pty Ltd | Sky Channel Marketing Pty Ltd | Bounty Pty Limited [(iv)] |
| Tabcorp International No.6 Pty Ltd | COPL Pty Ltd | Bounty Systems Pty Limited [(iv)] |
| Tabcorp Investments No. 11 Pty Ltd [(v)] | Advento Pty Ltd | Odyssey Gaming Limited [(iv)] |
| Tabcorp Gaming Solutions (Qld) Pty Ltd | Tabcorp Employee Share Administration Pty Ltd | Odyssey Gaming Services Limited [(iv)] |

### 100% owned Australian subsidiaries (continued)

| | | |
|---|---|---|
| Ubet Enterprises Pty Ltd(ii) | Tatts Online Pty Ltd(ii) | Tattersall's Australia Pty Ltd(ii) |
| TAB Queensland Pty Ltd(ii) | Tattersall's Gaming Pty Ltd(ii) | Wintech Investments Pty Ltd(ii) |
| Agility Interactive Pty Ltd(ii) | Tattersall's Club Keno Pty Ltd(ii) | Tattersall's Gaming Systems (NSW) Pty Ltd(ii) |
| Maxgaming Vic Pty Ltd(ii) | tatts.com Pty Ltd(ii) | Thelott Enterprises Pty Ltd(ii) |
| EGM Tech Pty Ltd(ii) | Tatts Employment Co (NSW) Pty Ltd(ii) | Tatts Employment Share Plan Pty Ltd(ii) |

### 50% owned Australian joint venture entities

Gaming Solutions Pty Limited(iii)

### International subsidiaries

| Name | Country of incorporation | % equity interest |
|---|---|---|
| Tabcorp Canada Limited | Canada | 100 |
| Luxbet Europe Limited | Isle of Man | 100 |
| Luxbet Europe Services Limited | Isle of Man | 100 |
| Premier Gateway International Limited | Isle of Man | 50 |
| Premier Gateway Services Limited | Isle of Man | 50 |
| Tabcorp Europe Holdings Limited | Isle of Man | 100 |
| Tabcorp Europe Limited | Isle of Man | 100 |
| Bytecraft Systems (NZ) Limited(ii) | New Zealand | 100 |
| Tattersall's Investments (South Africa) (Pty) Limited(ii) | South Africa | 100 |
| Tabcorp UK Limited | United Kingdom | 100 |
| Talarius Holdings Limited(ii) | United Kingdom | 100 |
| Sky Racing World Holdco, LLC | United States of America | 100 |
| Sky Racing World, LLC | United States of America | 100 |
| Tabusa, LLC | United States of America | 100 |

(i) Companies were added to the deed of cross guarantee with Tabcorp Holdings Limited during the current year.
(ii) Companies were acquired by the Group during the current year.
(iii) Principal activity is the marketing of ticket based technologies for gaming machines. The entity had not yet commenced operations at 30 June 2018.
(iv) Companies divested during the current year.
(v) Companies incorporated during the current year.
(vi) Company changed its name from Tabcorp Investments No. 4 Pty Ltd during the current year.

## D1 Subsidiaries (continued)

**Subsidiaries** are entities controlled by the Company. The Group controls an entity if and only if the Group has:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity; and
- the ability to use its power over the entity to affect its returns.

The financial statements of subsidiaries are included in the consolidated financial report from the date control commences until the date control ceases.

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of the exchange prevailing at balance date, and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

**Elimination** of intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are undertaken in preparing the consolidated financial statements.

All **investments** are initially recognised at cost, being the fair value of the consideration given, and if acquired prior to 1 July 2009 included acquisition charges associated with the investment. Subsequently investments are carried at cost less any impairment losses.

A **joint arrangement** is an arrangement over which the Group has joint control with other parties and is bound by a contractual arrangement. A joint arrangement is classified as either a joint operation or a joint venture depending upon the rights and obligations of the parties to the arrangement.

- A **joint operation** is where the parties have rights to the assets and obligations for the liabilities, relating to the arrangement. The Group recognises in relation to its interest in a joint operation its assets, including its share of assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue including its share of revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.
- A **joint venture** is where the parties have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since acquisition date.

## D2 Deed of cross guarantee

The parties to the deed of cross guarantee, as identified in note D1, each guarantee the debts of the others. By entering into the deed, the subsidiaries are relieved from the requirements of preparation, audit and lodgement of a financial report and a Directors' report under ASIC Corporations (Wholly-owned Companies) Instrument 2016/785. Together with Tabcorp Holdings Limited, the entities represent a 'Closed Group' for the purposes of the Instrument.

The consolidated income statement and balance sheet of all entities included in the Closed Group are set out below.

| | 2018 $m | 2017 $m |
|---|---|---|
| **Income statement** | | |
| Revenue | **3,705.7** | 2,037.2 |
| Expenses | **(3,394.8)** | (1,941.8) |
| **Profit before income tax expense and net finance costs** | **310.9** | 95.4 |
| | | |
| Finance income | **1.9** | 1.5 |
| Finance costs | **(129.9)** | (78.3) |
| **Profit before income tax expense** | **182.9** | 18.6 |
| Income tax expense | **(74.1)** | (34.0) |
| **Net profit/(loss) after tax** | **108.8** | (15.4) |
| | | |
| **Other comprehensive income** | | |
| Change in fair value of cash flow hedges taken to equity that may be reclassified to profit or loss | **(46.4)** | 10.3 |
| Income tax on items that may be reclassified to profit or loss | **13.7** | (3.1) |
| Items that will not be reclassified to profit or loss | **0.4** | 1.4 |
| Income tax on items that will not be reclassified to profit or loss | **(0.1)** | (0.4) |
| **Other comprehensive income for the year, net of income tax** | **(32.4)** | 8.2 |
| **Total comprehensive income for the year** | **76.4** | (7.2) |
| | | |
| **Net profit/(loss) after tax** | **108.8** | (15.4) |
| Accumulated losses at beginning of year | **(188.7)** | (170.7) |
| Retained earnings/(accumulated losses) of entities added to deed of cross guarantee | **(100.7)** | 200.6 |
| Other comprehensive income | **0.3** | 1.0 |
| Dividends paid | **(325.6)** | (204.2) |
| **Accumulated losses at end of year** | **(505.9)** | (188.7) |

## D2 Deed of cross guarantee (continued)

| | 2018 $m | 2017 $m |
|---|---|---|
| **Balance sheet** | | |
| Cash and cash equivalents | **350.4** | 95.3 |
| Receivables | **95.6** | 34.7 |
| Prepayments | **42.8** | 21.5 |
| Current tax assets | **21.0** | 6.1 |
| Derivative financial instruments | **40.6** | 296.2 |
| Other | **81.7** | 38.4 |
| **Total current assets** | **632.1** | 492.2 |
| Receivables | **7.0** | 4.5 |
| Investment in controlled entities | **101.3** | 376.3 |
| Available for sale financial assets | **20.8** | - |
| Licences | **2,361.1** | 593.4 |
| Other intangible assets | **9,047.9** | 1,905.4 |
| Property, plant and equipment | **488.2** | 278.4 |
| Prepayments | **29.9** | 33.0 |
| Held to maturity investments | **55.0** | - |
| Derivative financial instruments | **123.0** | 80.3 |
| Other | **14.0** | 9.1 |
| **Total non current assets** | **12,248.2** | 3,280.4 |
| **TOTAL ASSETS** | **12,880.3** | 3,772.6 |
| Payables | **916.3** | 328.6 |
| Interest bearing liabilities | **132.9** | 974.3 |
| Provisions | **89.2** | 34.3 |
| Derivative financial instruments | **47.7** | 32.4 |
| Other | **66.9** | 3.7 |
| **Total current liabilities** | **1,253.0** | 1,373.3 |
| Payables | **261.4** | - |
| Interest bearing liabilities | **3,371.8** | 684.0 |
| Deferred tax liabilities | **589.4** | 54.1 |
| Provisions | **78.9** | 60.9 |
| Derivative financial instruments | **21.8** | 30.6 |
| Other | **2.0** | 2.2 |
| **Total non current liabilities** | **4,325.3** | 831.8 |
| **TOTAL LIABILITIES** | **5,578.3** | 2,205.1 |
| **NET ASSETS** | **7,302.0** | 1,567.5 |
| Issued capital | **8,529.1** | 2,444.5 |
| Accumulated losses | **(505.9)** | (188.7) |
| Reserves | **(721.2)** | (688.3) |
| **TOTAL EQUITY** | **7,302.0** | 1,567.5 |

## D3 Parent entity disclosures

| | Tabcorp Holdings 2018 $m | 2017 $m |
|---|---|---|
| **Result of the parent entity** | | |
| Profit for the year | **146.8** | 141.6 |
| Other comprehensive income | **0.3** | 1.0 |
| Total comprehensive income for the year | **147.1** | 142.6 |
| | | |
| **Financial position of the parent entity** | | |
| Current assets | **25.6** | 47.8 |
| Total assets | **8,147.5** | 2,248.6 |
| Current liabilities | **19.6** | 24.8 |
| Total liabilities | **30.7** | 38.1 |
| | | |
| **Total equity of the parent entity comprising of:** | | |
| Issued capital | **8,529.1** | 2,444.5 |
| Retained earnings | **251.8** | 430.3 |
| Demerger reserve | **(669.9)** | (669.9) |
| Other reserves | **5.8** | 5.6 |
| Total equity | **8,116.8** | 2,210.5 |

### Contingent liabilities

Refer to note E4.

### Capital expenditure

The parent entity did not have any capital expenditure commitments for the acquisition of property, plant and equipment contracted but not provided for at 30 June 2018 or 30 June 2017.

### Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a deed of cross guarantee with the effect that the Company guarantees debts in respect of its subsidiaries. Further details of the deed of cross guarantee and the subsidiaries subject to the deed, are set out in note D2.

### Tax consolidation

Tabcorp Holdings Limited (the Head Company) and its 100% owned Australian tax resident subsidiaries have formed an income tax consolidation group, and are therefore taxed as a single entity. Members of the tax consolidation group entered into a tax sharing arrangement that provides for the allocation of income tax liabilities between the entities should the Head Company default on its tax payment obligations. At balance date, the possibility of default is remote.

Members of the tax consolidation group have entered into a tax funding agreement which requires each member of the tax consolidation group to make a tax equivalent payment to or from the Head Company, based on the current tax liability or current tax asset of the member. These amounts are recognised as either an increase or decrease in the subsidiaries' intercompany accounts with the Head Company. Deferred taxes are recognised separately by each member of the tax consolidation group.

## D4 Business combinations

### D4.1 Acquisition of Tatts Group Limited

In December 2017, the Group purchased 100% of the ordinary shares of Tatts Group Limited (Tatts Group), through a scheme of arrangement between Tatts Group and its members. Tatts Group is a leading Australian lottery, wagering and gaming company with a diversified network of retail and direct channels across Australia. The acquisition creates a leading, diversified portfolio of gambling entertainment businesses.

*(a) Identifiable assets acquired and liabilities assumed*

The fair values of the identifiable assets and liabilities of Tatts Group as at the date of the acquisition were:

| | $m |
|---|---|
| Cash and cash equivalents | 195.9 |
| Receivables | 37.0 |
| Prepayments | 27.4 |
| Derivative financial instruments | 73.6 |
| Other assets | 58.9 |
| Investment in an associate | 22.8 |
| Available for sale financial assets | 20.5 |
| Held to maturity investments | 55.0 |
| Property, plant and equipment | 181.7 |
| Licences | 1,800.1 |
| Other intangible assets | 340.1 |
| Payables | (897.9) |
| Interest bearing liabilities | (1,272.1) |
| Current tax liabilities | (21.3) |
| Deferred tax liabilities | (553.2) |
| Provisions – dividends | (235.0) |
| Provisions – other | (45.5) |
| Other liabilities | (66.4) |
| **Net identifiable assets acquired** | **(278.4)** |
| Goodwill arising on acquisition(i) | 6,743.4 |
| **Purchase consideration transferred** | **6,465.0** |

(i) Goodwill recognised is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Tatts Group with those of the Group. The goodwill is not deductible for tax purposes.

At the acquisition date, the fair value and gross contractual amounts due from trade debtors was $21.6 million. This amount was fully expected to be collectible at the acquisition date.

*(b) Purchase consideration*

Consideration for the acquisition was 0.8 new shares of the Company and $0.425 cash per Tatts Group share less the amount of any Tatts Group special dividend paid per share. Tatts Group shareholders received a special dividend of $0.16 per share, reducing the cash consideration payable by the Company from $0.425 to $0.265 per Tatts Group share. The Company issued 1,175 million shares at a fair value based on the listed share price of the Company at acquisition of $5.17 per share as part of the purchase consideration.

| | **$m** |
|---|---|
| Cash | 389.3 |
| Shares issued | 6,075.7 |
| **Total purchase consideration** | 6,465.0 |

| | |
|---|---|
| The cash outflow on acquisition was: | |
| – Net cash acquired | 195.9 |
| – Cash paid | (389.3) |
| Net cash outflow | (193.4) |

*(c) Acquisition costs*

Transaction costs of $48.6 million have been expensed and are disclosed as 'Transaction costs – combination with Tatts Group' in the income statement and comprise:

| | **2018 $m** | **2017 $m** |
|---|---|---|
| Consultancy and legal costs | **31.2** | 27.5 |
| Debt related costs | **17.1** | - |
| Other expenses | **0.3** | - |
| **Total transaction costs** | **48.6** | 27.5 |

Costs attributable to the issuance of shares of $1.7 million have been charged directly to equity as a reduction in issued capital.

*(d) Revenue and profit contribution*

Since the date of acquisition, Tatts Group has contributed $1,560.0 million revenue and $120.2 million profit after income tax expense.

If the acquisition had taken place at the beginning of the period, the Tabcorp Group's revenue and profit after income tax expense would have been $5,117.2 million and $149.2 million respectively. The profit excludes transaction costs, gain on the cash-settled equity swap, and the impact of the Odyssey Gaming Services business divested during the year.

## D4 Business combinations (continued)

### D4.2 Acquisition of Intecq Limited in the prior year

In December 2016 the Group purchased 100% of the ordinary shares of Intecq Limited (Intecq), a leading Australian gaming systems company, providing integrated gaming technology solutions, gaming management systems and monitoring services to gaming venues and other businesses. The acquisition complemented the Group's existing Gaming Services business, providing increased scale and diversification of earnings.

*(a) Identifiable assets acquired and liabilities assumed*

The fair values of the identifiable assets and liabilities of Intecq as at the date of the acquisition were:

| | $m |
|---|---|
| Cash and cash equivalents | 14.5 |
| Receivables | 13.3 |
| Prepayments | 0.3 |
| Other assets | 10.2 |
| Property, plant and equipment | 4.1 |
| Other intangible assets | 22.2 |
| Deferred tax assets | (1.2) |
| Payables | (7.3) |
| Current tax liabilities | (1.8) |
| Provisions | (2.5) |
| Other liabilities | (4.9) |
| **Net identifiable assets acquired** | 46.9 |
| Goodwill arising on acquisition(i) | 80.8 |
| **Purchase consideration transferred (cash)** | 127.7 |

(i) Goodwill recognised is primarily attributable to the expected synergies and other benefits from combining the assets and activities of Intecq with those of the Group. The goodwill is not deductible for tax purposes.

At the acquisition date, the fair value of trade debtors was $13.3 million. The gross contractual amounts due from trade debtors was $13.9 million, of which $0.6 million was expected to be uncollectible at the acquisition date.

*(b) Purchase consideration*

The cash outflow on acquisition was:

| | |
|---|---|
| – Net cash acquired | 14.5 |
| – Cash paid | (127.7) |
| Net cash outflow | (113.2) |

*(c) Acquisition costs*

Transaction costs of $4.7 million have been expensed and are included in other expenses in the income statement in the prior year.

*(d) Revenue and profit contribution*

In the prior year, the Group's profit before income tax expense includes revenue of $28.3 million and a profit of $6.3 million contributed by Intecq since the date of acquisition. If the acquisition had taken place at the beginning of the prior year, the Group's revenue and profit before income tax expense in the prior year would have been $2,256.3 million and $8.6 million respectively.

## D5 Disposal group held for sale

In December 2017, the Group completed the sale of its Odyssey Gaming Services business (by way of the sale of 100% of the shares of Odyssey Gaming Limited), which was classified as held for sale at 30 June 2017.

**Assets classified as held for sale** (and all assets and liabilities in a disposal group) are recognised at the lower of carrying amount and fair value less costs to sell. Gains and losses on subsequent re-measurement are included in the income statement. No depreciation or amortisation is charged on these assets while they are classified as held for sale.

## D6 Investment in an associate

| | 2018 $m | 2017 $m |
|---|---|---|
| Investment in Jumbo Interactive Ltd | 22.7 | - |

The Group owns 6,609,686 fully paid ordinary shares acquired through the combination with Tatts Group in the current period.

The above associate was incorporated in Australia. The Group does not have representation on the Board of Directors, although it does have the option to have representation. The Group does not participate in the significant financial and operating decisions but has arrangements in place with the associate which are material to its operational financial performance. The Group has therefore determined that it has significant influence over this entity. At balance date, the Group also owned options over a further 3,474,492 ordinary shares at a strike price of $2.37 which had a maturity date of 13 July 2018 (refer note B4). Subsequent to year end the options were exercised, and the Group disposed of 2.85 million shares with a profit before tax impact of $0.8 million.

An **associate** is an entity over which the Group has significant influence but not control or joint control. Significant influence is the power to participate in the financial and operating decisions of the investee. Investments in associates are accounted for using the equity method.

# SECTION E – OTHER DISCLOSURES

## E1 Employee share plans

The Company operates share plans which provide equity instruments to senior executives and management as a component of their remuneration.

### Long Term Performance Plan (LTPP)

The LTPP is available at the most senior executive levels. Under the LTPP employees may become entitled to Performance Rights in the Company. The fair value of Performance Rights is measured at grant date and is recognised as an employee expense (with a corresponding increase in equity) over three years irrespective of whether the Performance Rights vest to the holder. A reversal of the expense is only recognised in the event the instruments lapse due to cessation of employment within the three year period. The fair value of the Performance Rights is determined by an external valuer and takes into account the terms and conditions upon which they were granted. The dilutive effect, if any, of outstanding Performance Rights is reflected in the computation of diluted earnings per share.

### Short Term Performance Plan (STPP)

For senior management it is mandatory to defer 25% (50% for the Managing Director and Chief Executive Officer) of their STPP into Restricted Shares, which are subject to a two year service condition. The cost of the Restricted Shares is based on the market price at grant date and is recognised over the vesting period.

The maximum number of shares that can be outstanding at any time under these plans is limited to 5% of the Company's issued capital.

The share based payments expense in respect of the equity instruments granted is recognised in the income statement for the period.

Further explanation of the share plans is disclosed in the Remuneration Report.

### Performance Rights (number)

Details of and movements in Performance Rights granted under the LTPP that existed during the current or previous year are:

| Grant date | Expiry date | Balance at start of year | Movement during the year Granted | Forfeited | Vested | Balance at end of year |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| 28 October 2014 | 16 September 2017 | **1,315,072** | - | **(263,017)** | **(1,052,055)** | - |
| 29 October 2015 | 22 September 2018 | **1,239,782** | - | **(103,706)** | - | **1,136,076** |
| 25 October 2016 | 14 September 2019 | **1,324,354** | - | **(188,592)** | - | **1,135,762** |
| 27 October 2017 | 15 September 2020 | - | **1,566,071** | **(105,829)** | - | **1,460,242** |
| | | **3,879,208** | **1,566,071** | **(661,144)** | **(1,052,055)** | **3,732,080** |
| **2017** | | | | | | |
| 2 October 2013 | 18 September 2016 | 994,499 | - | - | (994,499) | - |
| 31 October 2013 | 18 September 2016 | 590,062 | - | - | (590,062) | - |
| 28 October 2014 | 16 September 2017 | 1,315,072 | - | - | - | 1,315,072 |
| 29 October 2015 | 22 September 2018 | 1,239,782 | - | - | - | 1,239,782 |
| 25 October 2016 | 14 September 2019 | - | 1,375,381 | (51,027) | - | 1,324,354 |
| | | 4,139,415 | 1,375,381 | (51,027) | (1,584,561) | 3,879,208 |

No Performance Rights were exercisable at the end of the current or previous year.

## Fair value of equity instruments

Performance Rights have been independently valued at the date of grant using a modified form of Monte-Carlo simulation-based model.

The weighted average fair value of Performance Rights granted during the year was $2.37 (2017: $2.51).

The assumptions underlying the Performance Rights valuations are:

| Grant date | Expiry date | Share price at date of grant $ | Expected volatility in share price[(i)] % | Expected dividend yield[(ii)] % | Risk free interest rate[(iii)] % | Value per Performance Right $ |
|---|---|---|---|---|---|---|
| 2 October 2013 | 18 September 2016 | 3.27 | 22.00 | 5.50 | 2.92 | 1.73 |
| 31 October 2013 | 18 September 2016 | 3.60 | 22.00 | 5.50 | 3.00 | 2.07 |
| 28 October 2014 | 16 September 2017 | 4.03 | 22.00 | 5.00 | 2.52 | 2.42 |
| 29 October 2015 | 22 September 2018 | 4.73 | 25.00 | 5.00 | 1.80 | 2.47 |
| 25 October 2016 | 14 September 2019 | 4.91 | 22.00 | 5.00 | 1.78 | 2.51 |
| 27 October 2017 | 15 September 2020 | 4.45 | 22.00 | 5.50 | 2.04 | 2.37 |

(i) Reflects the assumption that the historical volatility is indicative of future trends.

(ii) Reflects the assumption that the current payout ratio will continue with no anticipated increases.

(iii) Represents the zero coupon interest rate derived from government bond market interest rates on the valuation date and vary according to each maturity date.

## E2 Pensions and other post employment benefit plans

The Group has two defined benefit superannuation plans (closed to new entrants), the New South Wales Lotteries Corporation Pty Limited defined benefit plan ('Tatts Group plan') and the Tabcorp Superannuation Plan ('Tabcorp Group plan'), which provide benefits based on salary and length of service. The plans are governed by the employment laws of Australia and the Group contributes to the plans at rates based on actuarial advice.

| | Fair value of plan assets $m | Present value of defined benefit obligation $m | Net defined benefit plan assets/ (liabilities) $m |
|---|---|---|---|
| **Reconciliation of the net defined benefit asset/(liability) recognised in the balance sheet** [i] | | | |
| Tatts Group plan | | | |
| – Balance at 30 June 2017 | - | - | - |
| – Acquisitions via business combinations | **15.7** | **(25.6)** | **(9.9)** |
| – Actuarial gains/(losses) | **-** | **0.5** | **0.5** |
| – Benefits paid | **(0.5)** | **0.5** | **-** |
| – Other | **0.8** | **(0.6)** | **0.2** |
| – Balance at 30 June 2018 | **16.0** | **(25.2)** | **(9.2)** |
| | | | |
| Tabcorp Group plan | | | |
| – Balance at 30 June 2016 | 13.7 | (12.9) | 0.8 |
| – Actuarial gains/(losses) | - | 0.3 | 0.3 |
| – Actual return on plan assets excluding interest income | 1.1 | - | 1.1 |
| – Benefits paid | (0.4) | - | (0.4) |
| – Other | 0.5 | (0.1) | 0.4 |
| – Balance at 30 June 2017 | **14.9** | **(12.7)** | **2.2** |
| | | | |
| – Actuarial gains/(losses) | **-** | **(0.2)** | **(0.2)** |
| – Actual return on plan assets excluding interest income | **0.6** | **-** | **0.6** |
| – Benefits paid | **(1.2)** | **-** | **(1.2)** |
| – Other | **0.6** | **0.6** | **1.2** |
| – Balance at 30 June 2018 | **14.9** | **(12.3)** | **2.6** |

(i) Net defined benefit plan assets and net defined benefit plan liabilities are recognised on the balance sheet in other non current assets and other non current liabilities respectively.

| **Amounts recognised in other comprehensive income** | 2018 $ | 2017 $ |
|---|---|---|
| Tatts Group plan | **0.6** | - |
| Tabcorp Group plan | **0.5** | 1.4 |
| | **1.1** | 1.4 |

**Fair value of plan assets**

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

| | Tatts Group plan | | Tabcorp Group plan | |
|---|---|---|---|---|
| | **2018 %** | 2017 % | **2018 %** | 2017 % |
| Cash | **10.5** | - | **5.0** | 5.0 |
| Fixed interest | **8.6** | - | **17.0** | 17.0 |
| Australian equities | **22.2** | - | **28.0** | 30.0 |
| International equities | **26.1** | - | **25.0** | 25.0 |
| Property | **8.9** | - | **6.0** | 7.0 |
| Alternatives | **23.7** | - | **19.0** | 16.0 |
| | **100.0** | - | **100.0** | 100.0 |

The Trustees are responsible for the governance and administration of the funds, the management and investment of the fund assets and compliance with other applicable regulations.

The defined benefit fund assets are invested with independent fund managers and have a diversified asset mix. The funds have no significant concentration of investment risk or liquidity risk.

The Group's total defined benefit obligation is not materially sensitive to changes in assumptions.

**Defined benefit plans** are recognised in the balance sheet as the difference between the present value of the estimated future benefits that will be payable to plan members and the fair value of the plan's assets. An annual adjustment is made to recognise all movements in the carrying amount of the plan in the income statement, except for the portion of the movement that is attributable to actuarial gains and losses, which are recognised directly in equity. Actuarial gains and losses represent the difference between previous actuarial assumptions of future outcomes and the actual outcome, in addition to the effect of changes in actuarial assumptions.

## E3 Commitments

| | 2018 $m | 2017 $m |
|---|---|---|
| (a) Capital expenditure commitments | | |
| Property, plant and equipment | **4.8** | 6.6 |
| Software | **3.3** | 1.1 |
| | **8.1** | 7.7 |
| (b) Operating lease commitments | | |
| Contracted but not provided for and payable: | | |
| Not later than one year | **62.1** | 41.0 |
| Later than one year but not later than five years | **143.9** | 94.2 |
| Later than five years | **146.2** | 69.2 |
| | **352.2** | 204.4 |
| Sublease payments expected to be received under non-cancellable subleases | **5.6** | 6.1 |

The Group leases property under operating leases expiring from 1 to 15 years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or are subject to market rate review. For leases relating to the Victorian wagering operations, 50% of the cost is recoverable from VicRacing Pty Ltd.

## E4 Contingencies

Details of contingencies where the probability of future payments is not considered remote are set out below as well as details of contingencies, which although considered remote, the Directors consider should be disclosed as they are not disclosed elsewhere in the notes to the financial statements.

### Contingent liabilities

*(a) Charge*

A controlled entity, Tabcorp Wagering Participant (Vic) Pty Ltd, which is a participant in the joint venture outlined in note E5(a), has entered into a deed of cross charge with its joint venture partner to cover the non payment of a called sum in the event of the joint venture incurring a loss. The charge is over undistributed and future earnings of the joint venture to the level of the unpaid call.

*(b) Legal challenges*

There are outstanding legal actions between controlled entities and third parties at 30 June 2018. It is expected that any liabilities arising from such legal action would not have a material adverse effect on the Group's financial position.

## E5 Related party disclosures

### (a) Transactions with joint arrangements

The Group conducts an unincorporated joint venture with VicRacing Pty Ltd in Victoria (the joint venture). The principal activity of the joint venture is the organisation, conduct, promotion and development of wagering and betting in Victoria. The Group receives 50% of the revenue and expenses of the joint venture, which is accounted for as a joint operation.

The Group charges the joint venture for the provision of employee, management and asset services. On consolidation, 50% of the charges eliminate (being the Group's interest in the joint venture). Charges for the remaining 50% of $85.5 million were received by the Group in 2018 (2017: $79.9 million).

### (b) Director and executive disclosures

*(i) Compensation of Key Management Personnel (KMP)*

| | 2018<br>$ | 2017<br>$ |
|---|---|---|
| Short term | **7,054,988** | 4,867,952 |
| Other long term | **452,556** | 185,855 |
| Post employment | **275,431** | 231,236 |
| Share based payments | **2,558,411** | 2,680,621 |
| | **10,341,386** | 7,965,664 |

## E6 Auditor's remuneration

| | 2018<br>$000 | 2017<br>$000 |
|---|---|---|
| Amounts received or due and receivable by Ernst and Young for: | | |
| – audit and review of the Financial Report of the Group and subsidiaries | **1,883** | 1,260 |
| – regulatory audit and other assurance services in relation to the Group | **723** | 844 |
| | **2,606** | 2,104 |

## E7 Other accounting policies

### (a) Statement of compliance

#### *(i) Changes in accounting policy and disclosures*

A number of new and amended accounting standards became mandatorily applicable for the Group for the first time in the current financial year. The adoption of these new and amended standards had no impact on the financial position or performance of the Group, or the disclosures included in this Financial Report.

#### *(ii) New Australian Accounting Standards or International Financial Reporting Standards issued but not yet effective*

The following new and amended accounting standards and interpretations have been recently issued by the Australian Accounting Standards Board but not yet effective, are considered relevant to the Group. They are available for early adoption but have not been applied by the Group in this Financial Report:

*AASB 9 Financial Instruments* is applicable to the Group from 1 July 2018. It includes revised guidance on classification and measurement of financial instruments and new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

The Group have undertaken an assessment of the potential impact of this standard and no material impacts have been identified.

*AASB 15 Revenue from Contracts with Customer*s is applicable to the Group from 1 July 2018. It establishes a framework for determining whether, how much and when the revenue is recognised. The core principle is that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price.

Based on impact assessments undertaken, the Group's financial performance is not expected to be materially impacted by the new standard.

*AASB 16 Leases* is applicable to the Group from 1 July 2019. It introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Depreciation of the asset and interest on the liability will be recognised.

This standard will materially impact the Group's financial position at transition and in future years, as the Group's operating leases (primarily in relation to office and agency leases) are recognised on balance sheet. At the present time the standard is not expected to materially impact the Group's financial performance. Rental expense currently recognised in the statement of financial performance will be replaced with depreciation and interest.

Initial assessment activities have been undertaken on the Group's current leases, however the impact of the standard will depend on the leases in place on transition. Detailed review of contracts, financial reporting impacts and system requirements will continue.

### (b) Goods and services tax

Revenues, expenses, assets and liabilities are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable;
- wagering and certain Keno revenues, due to the GST being offset against government taxes; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (c) Foreign currency translation and balances

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at balance date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement with the exception of differences on foreign currency borrowings that are in an effective hedge relationship. These are taken directly to equity until the liability is extinguished at which time they are recognised in the income statement. Refer to note B4 for further detail.

Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

# DIRECTORS' DECLARATION

In the opinion of the Directors of Tabcorp Holdings Limited:

(a) the financial statements and notes of the Group are in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
- (ii) complying with Accounting Standards and Corporations Regulations 2001;

(b) the financial statements and notes also comply with International Financial Reporting Standards; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to the Directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note D2 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of Directors.

**Paula J Dwyer**
Chairman

**David R H Attenborough**
Managing Director and Chief Executive Officer

Melbourne
8 August 2018

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# INDEPENDENT AUDITOR'S REPORT

To the members of Tabcorp Holdings Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Tabcorp Holdings Limited (the company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the Directors' Declaration.

In our opinion:

the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated financial position of the Group at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act* 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional* Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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### Tatts combination transaction

| Why significant | How the matter was addressed in the audit |
|---|---|
| In December 2017 the acquisition of Tatts Group Limited by Tabcorp Holdings Limited was completed.<br>Due to the significance of the combination and the magnitude of the goodwill and other fair value adjustments arising from the acquisition, finalisation of the accounting for the business combination was considered a key audit matter.<br>There was judgement in determining the fair value of net assets acquired, the allocation of purchased goodwill, and the acquisition date for accounting purposes.<br>Accounting for the acquisition of Tatts Group Limited is disclosed in D4 to the financial report. | We assessed the purchase price accounting for the acquisition under Australian Accounting Standards.<br>In doing so, we:<br>► Evaluated the completeness of the assets and liabilities recognised in the acquisition accounting;<br>► Assessed the Group's purchase price allocation in relation to the acquisition, including relevant information that was obtained from valuation experts in relation to the identification and valuation of identifiable assets acquired and liabilities assumed<br>► In conjunction with our valuation specialists we considered the work performed by the Group's expert as follows:<br>▸ Assessed the competence, capability and objectivity of the valuation expert<br>▸ Assessed the appropriateness of the valuation methodologies utilised by the expert in the valuation of identifiable assets acquired<br>▸ Considered the assumptions used in the models against historical performance and industry benchmarks<br>▸ Subjected the key assumptions to sensitivity analysis; and<br>▸ Evaluated the useful lives associated with the acquired tangible assets including assessment of management's estimation and whether it is consistent with Group policy and/or relevant accounting standards<br>► Considered the allocation of goodwill to the combined group segments;<br>► Agreed key terms to underlying evidence including contracts and the Scheme booklet;<br>► Assessed the treatment of the acquisition costs and agreed these costs to supporting evidence; and<br>► Considered the adequacy of the disclosures included in the financial report |

### Impairment Assessment of licence intangibles, other intangibles and goodwill

| Why significant | How the matter was addressed in the audit |
|---|---|
| The Group has licence intangibles of $2,361 million, other intangibles of $892 million and goodwill of $8,250 million, which have increased significantly due to the acquisition of Tatts Group Limited.<br>An impairment assessment is performed on an annual basis or when there is a trigger to assess whether the carrying value of these assets and the related non-current assets exceed the recoverable amount.<br>Our focus was considering whether or not an impairment charge relating to these assets was required. This involved assessing the judgements inherent in the cash flow forecast and testing key assumptions supporting the impairment model such as forecast business growth rates, discount rates, licence tenure and terminal value assumptions. Refer to Note C3 – Impairment testing. | ► We evaluated the Group's future cash flow forecasts supporting the impairment assessments for goodwill, licence intangibles, other intangibles and property, plant and equipment.<br>► We evaluated the appropriateness of the key assumptions in the forecasts. We performed sensitivity analysis around the key assumptions to ascertain the extent of change in those assumptions that would either individually or collectively result in an impairment charge.<br>► We assessed the discount rates applied by comparing them to the cost of capital for the Group.<br>► We involved our valuation specialists to assess whether the methodology applied is in accordance with Australian Accounting Standards and evaluated key assumptions including licence end dates and terminal values, long term growth rates, discount rates, capital expenditure assumptions and working capital requirements applied in the impairment model.<br>► We performed market capitalisation and earnings multiples cross checks in comparison with other comparable businesses to corroborate the impairment testing models.<br>► We assessed the adequacy of the disclosures included in note C3 - Impairment testing. |

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### Reliance on automated processes and controls related to revenue

| Why significant | How the matter was addressed in the audit |
|---|---|
| The Group's financial reporting processes are heavily reliant on IT systems with automated processes and controls over the capturing, valuing and recording of Wagering and Lotteries transactions, fees and charges. Given the significance of these processes and controls to the accounting records and financial reporting process, the understanding and testing of these IT systems, and the related processes and controls was a key audit matter. | With the involvement of our IT specialists we assessed the effectiveness of the control environment and transaction processing controls relevant to the recording of revenue transactions. |

### Interest bearing liabilities

| Why significant | How the matter was addressed in the audit |
|---|---|
| The Group has interest bearing liabilities of $3,505 million at 30 June 2018. During the year the Group repaid debt of $4,874 million and refinanced its bridging debt Syndicated facility with an issuance of $1.8 billion of US Private Placement notes.<br>The Group maintains a portfolio of facilities with varying counterparties, currencies and terms. This portfolio influences the Group's gearing, liquidity, solvency, covenant obligations and financing cost profile.<br>In relation to this portfolio, the Group incurred $130 million in financing and interest costs during the year.<br>Refer to Note B2 to the financial report for a description of the accounting policy treatment for these liabilities and information of the Group's interest bearing liabilities. | Our audit procedures included the following:<br>► We assessed the effectiveness of controls over the recording and reporting of drawdowns and repayments, the valuation of interest bearing liabilities and the monitoring of compliance.<br>► We reviewed the new US Private Placement debt agreement, and agreed the drawdown and resulting extinguishment of the original bridging debt Syndicated facility to supporting documentation.<br>► We confirmed details of a sample of interest bearing liabilities as at 30 June 2018 with external counterparties.<br>► We recalculated the calculation of interest expense recognised in the income statement, and ensured debt issuance costs expensed on extinguishment of the Syndicated facility were appropriately calculated.<br>► We assessed the maturity profile and compliance with debt covenants of the Group's interest bearing liabilities to test the appropriate classification of the interest bearing liabilities as current or non-current.<br>► We assessed the disclosure in B2 on the Company's available debt facilities. |

### Significant items

| Why significant | How the matter was addressed in the audit |
|---|---|
| The financial report includes certain items that are disclosed as significant items. These were considered a key audit matter given the individual judgements inherent in calculating such items, and the appropriateness of their disclosure as significant items.<br>Significant items are presented in Note A1 – Segment Information and comprise costs associated with costs incurred during the combination with Tatts Group and on the related cash settled equity swap, Luxbet closure costs, Odyssey divestment, as well as Sun Bets exit costs. | ► For Transaction and Implementation costs, and the cash settled equity swap, we agreed a sample to supporting documentation and cash payments and cash receipts where relevant.<br>► For Sun Bets exit costs, we assessed the calculation of the recoverable amount of contract-specific assets, and evaluated the underlying assumptions to contractual terms and forecast cashflows.<br>► For Luxbet closure costs, we assessed the calculation of impairment of assets and evaluated the recognition of wind down and onerous contract provisions.<br>► For expenses related to the Odyssey divestment, we considered the Share Sale agreement, and assessed the calculation of the loss on sale including the allocation of goodwill.<br>► We considered the presentation of the significant items in the financial report. |

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## Information Other than the Financial Statements and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information included in the Tabcorp Holdings Limited Annual Report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Directors' Responsibilities for the Financial Report

The Directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Tabcorp Holdings Limited for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The Directors are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

David Shewring
Partner
Melbourne
8 August 2018

# FIVE YEAR REVIEW

| Financial performance | Unit | FY18 | FY17 | FY16 | FY15 | FY14 |
|---|---|---|---|---|---|---|
| Total revenue | $m | 3,828.7 | 2,234.1 | 2,188.7 | 2,155.5 | 2,039.8 |
| EBITDA(i) | $m | 490.0 | 284.9 | 479.6 | 508.1 | 459.4 |
| Profit before interest and tax | $m | 241.4 | 101.6 | 301.0 | 334.6 | 295.0 |
| Profit/(loss) after income tax attributable to members of parent entity(ii) | $m | 28.7 | (20.8) | 169.7 | 334.5 | 129.9 |
| Dividend(iii) | $m | 422.5 | 208.8 | 199.6 | 389.2 | 121.3 |
| **Financial position and cash flow** | | | | | | |
| Total assets | $m | 12,940.8 | 3,740.9 | 3,302.8 | 3,384.0 | 3,105.1 |
| Total liabilities | $m | 5,702.2 | 2,257.5 | 1,614.7 | 1,693.9 | 1,623.7 |
| Shareholders' funds/total equity | $m | 7,238.6 | 1,483.4 | 1,688.1 | 1,690.1 | 1,481.4 |
| Net cash flows from operating activities | $m | 447.5 | 222.5 | 401.1 | 399.7 | 387.4 |
| Capital expenditure – payments | $m | 291.7 | 197.4 | 183.1 | 131.6 | 198.4 |
| Cash at end of year | $m | 352.7 | 114.3 | 126.0 | 160.0 | 126.8 |
| **Shareholder value** | | | | | | |
| Earnings per share | cents | 1.9 | (2.5) | 20.4 | 42.4 | 17.2 |
| Dividends per share(iii) | cents | 21.0 | 25.0 | 24.0 | 50.0 | 16.0 |
| Operating cash flow per share(iv) | cents | 10.5 | 3.0 | 26.2 | 34.0 | 25.0 |
| Net assets per share | $ | 4.89 | 1.78 | 2.03 | 2.14 | 1.96 |
| Return on shareholders' funds | % | 0.6 | (1.3) | 10.0 | 21.3 | 8.9 |
| Total shareholder return(v) | % | 7.5 | 0.6 | 5.5 | 50.3 | 15.6 |
| Share price close | $ | 4.46 | 4.37 | 4.57 | 4.55 | 3.36 |
| Market capitalisation | $m | 8,977.9 | 3,650.1 | 3,799.8 | 3,773.8 | 2,563.5 |
| **Segment revenue(vi)** | | | | | | |
| Wagering and Media | $m | 2,186.1 | 1,873.0 | 1,873.0 | 1,856.9 | 1,737.8 |
| Lotteries and Keno(vii) | $m | 1,390.7 | 212.7 | 208.5 | 199.0 | 203.9 |
| Gaming Services | $m | 249.7 | 143.9 | 107.2 | 99.6 | 98.1 |
| Sun Bets(viii) | $m | 7.4 | - | - | - | - |
| **Employee** | | | | | | |
| Safety(ix) | LTIFR | 2.3 | 1.5 | 0.9 | 1.0 | 1.5 |
| Females in senior management positions | % | 36 | 39 | 37 | 33 | 35 |
| **Stakeholder benefits** | | | | | | |
| Returns to racing industry | $m | 916.8 | 813.0 | 786.9 | 773.2 | 735.0 |
| State and territory gambling taxes and GST | $m | 1,166.4 | 406.3 | 428.2 | 459.2 | 438.9 |
| Income tax expense/(benefit)(ii) | $m | 84.8 | 45.7 | 61.4 | (75.7) | 66.7 |

(i) FY18 includes impairment of $39.4 million. FY17 includes impairment of $27.5 million.

(ii) FY15 includes $163.2 million as a result of receiving income tax benefits relating to the Victorian Wagering and Gaming Licences payment and the NSW Trackside payment ($160.4 million) and associated interest income.

(iii) Dividends attributable to the year, but which may be payable after the end of the period. FY15 includes a special dividend of 30.0 cents per share.

(iv) Net operating cash flow per the cash flow statement does not include payments for property plant and equipment and intangibles, whereas these items are included in the calculation for the operating cash flow per share ratio.

(v) Total shareholder return (TSR) is calculated from 1 July to 30 June. The share price used for calculating TSR is the volume weighted average share price used in the Tabcorp Dividend Reinvestment Plan (DRP). Where no DRP was in operation, the closing share price on the dividend payment date is used.

(vi) Revenue includes both external and internal revenue.

(vii) Prior to FY18, this was the Keno segment.

(viii) Sun Bets was identified as an operating segment during FY18 as it was no longer in an establishment phase.

(ix) The lost time injury frequency rate (LTIFR) is the number of lost time injuries per million hours worked.

## Ordinary Shares

Tabcorp has on issue 2,012,972,676 fully paid ordinary shares which are listed on the Australian Securities Exchange (ASX) under the code TAH. The issued capital has increased since 30 June 2017 due to ordinary shares issued in conjunction with the acquisition of Tatts Group Limited and pursuant to Tabcorp's Dividend Reinvestment Plan. There currently isn't a share buy-back in operation in respect of the Company's ordinary shares.

## Shareholding restrictions

The Company's Constitution, together with an agreement entered into with the State of Queensland, contain restrictions prohibiting an individual from having a voting power of more than 10% in the Company. The Company may refuse to register any transfer of shares which would contravene these shareholding restrictions or require divestiture of the shares that cause an individual to exceed the shareholding restrictions.

## Voting rights

Ordinary shares issued by Tabcorp carry one vote per ordinary share. Tabcorp Performance Rights do not carry any rights to vote at general meetings of the Company's shareholders. Failure to comply with certain provisions of the Victorian Gambling Regulation Act 2003 or Tabcorp's Constitution, including the shareholder restrictions discussed above, may result in suspension of voting rights.

## Substantial shareholders

The following is a summary of the substantial shareholders at 30 June 2018 pursuant to notices lodged with the ASX in accordance with section 671B of the Corporations Act 2001:

| Name | Date of interest | Number of ordinary shares(i) | % of issued capital(ii) |
|---|---|---|---|
| Perpetual Limited(iii) | 2 June 2017 | 76,753,683 | 9.19 |
| AustralianSuper Pty Ltd | 9 February 2018 | 131,834,848 | 6.56 |
| BlackRock Group | 19 December 2018 | 116,082,764 | 5.77 |
| The Vanguard Group, Inc | 29 December 2018 | 106,462,742 | 5.295 |

(i) As disclosed in the last notice lodged with the ASX by the substantial shareholder.

(ii) The percentage set out in the notice lodged with the ASX is based on the total issued share capital of Tabcorp at the date of interest.

(iii) The most recent substantial shareholder notice was lodged prior to the Tabcorp-Tatts combination and the resulting increase in Tabcorp's issued capital.

## Twenty largest registered holders of ordinary shares

| Investor name | Number of ordinary shares | % of issued capital |
|---|---|---|
| HSBC Custody Nominees (Australia) Limited | 470,618,737 | 23.38 |
| J P Morgan Nominees Australia Limited | 413,489,230 | 20.54 |
| Citicorp Nominees Pty Limited | 149,400,476 | 7.42 |
| National Nominees Limited | 127,366,542 | 6.33 |
| BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 50,810,670 | 2.52 |
| BNP Paribas Noms Pty Ltd <DRP> | 50,571,309 | 2.51 |
| UBS Nominees Pty Ltd | 36,002,060 | 1.79 |
| Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 15,080,634 | 0.75 |
| Argo Investments Limited | 10,586,538 | 0.53 |
| HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C> | 9,723,924 | 0.48 |
| Robin Edward Davey <Est Alexander Hubbard A/C> | 7,654,934 | 0.38 |
| Navigator Australia Ltd <SMA Antares Inv DV Build A/C> | 7,078,237 | 0.35 |
| IOOF Investment Management Limited <IPS Super A/C> | 7,050,504 | 0.35 |
| Solid Earth Pty Ltd | 6,015,467 | 0.30 |
| AMP Life Limited | 5,741,976 | 0.29 |
| Wentworth Investments Pty Ltd | 5,311,910 | 0.26 |
| UBS Nominees Pty Ltd | 3,912,427 | 0.19 |
| Avanteos Investments Limited <Encircle IMA A/C> | 3,792,297 | 0.19 |
| WBK Pty Ltd | 3,461,872 | 0.17 |
| Tassyd Pty Limited <Estate Thomas Lyons A/C> | 3,432,000 | 0.17 |
| **Total of top 20 registered holders** | **1,387,101,744** | **68.91** |

## Distribution of securities held

| | Ordinary shares(i) | | Performance Rights(ii) | |
|---|---|---|---|---|
| Number of securities held | Number of holders | Number of securities | Number of holders | Number of securities |
| 1 – 1,000 | 82,106 | 27,058,635 | - | - |
| 1,001 – 5,000 | 70,282 | 164,426,287 | - | - |
| 5,001 – 10,000 | 11,646 | 82,777,991 | - | - |
| 10,001 – 100,000 | 8,308 | 179,557,833 | 8 | 416,212 |
| 100,001 and over | 393 | 1,559,151,930 | 8 | 3,315,868 |
| **Total** | **172,735** | **2,012,972,676** | **16** | **3,732,080** |

(i) Ordinary shares includes Restricted Shares and Deferred Shares offered to employees under the Company's incentive arrangements.

(ii) Performance Rights were issued pursuant to the Company's long term incentive arrangements. Refer to the Remuneration Report on pages 47 to 76 for more information about the Company's incentive arrangements.

## Marketable parcel

There were 15,723 shareholders holding less than a marketable parcel of ordinary shares ($500 or more, equivalent to 113 ordinary shares) based on a market price of $4.46 at the close of trading on 30 June 2018.

# MAJOR ANNOUNCEMENTS

Tabcorp's major announcements since the previous annual report were as follows. For a full list refer to **asx.com.au**.

**2018**

| | |
|---|---|
| 8 August | Annual Report and full year results – statutory net profit after tax of $28.7 million |
| 19 July | Tabcorp to exit Sun Bets |
| 19 June | Tabcorp advised of new racing product fees for Victoria and Western Australia |
| 8 June | Tabcorp concludes strategic review of Sun Bets |
| 23 March | Tabcorp announced a new US$1.4 billion issue of long-term notes to investors in the US private placement market |
| 16 February | Tabcorp extends wagering retail exclusivity in South Australia to 2032 (subject to regulatory approval) |
| 9 February | Tabcorp unwinds cash-settled equity swap following implementation of the Tabcorp-Tatts combination |
| 8 February | Half year results — statutory net profit after tax of $24.6 million |

**2017**

| | |
|---|---|
| 22 December | Scheme of Arrangement implemented in relation to the Tabcorp-Tatts combination |
| 22 December | Harry Boon appointed as a Non Executive Director |
| 22 December | Tabcorp enters into new employment contract with its Managing Director & CEO, David Attenborough |
| 21 December | Tabcorp announces Executive Leadership Team appointments |
| 13 December | Supreme Court of Victoria approves the Scheme of Arrangement in relation to the Tabcorp-Tatts combination |
| 12 December | Tabcorp completes divestment of Odyssey Gaming Services |
| 1 December | Australian Competition and Consumer Commission announces it does not intend to challenge the Australian Competition Tribunal's authorisation in relation to the Tabcorp-Tatts combination |
| 30 November | Tabcorp enters into agreements with CrownBet including supply of digital racing vision |
| 17 November | Australian Competition Tribunal authorises proposed Tabcorp-Tatts combination |
| 27 October | Annual General Meeting addresses and presentations by the Chairman and Managing Director |
| 27 October | Tabcorp provides update on 1Q18 trading performance |
| 22 September | Gambling regulatory authority approvals obtained for proposed Tabcorp-Tatts combination |
| 23 August | Tabcorp announces changes to Wagering and Media leadership |

# ONLINE SHAREHOLDER SERVICES

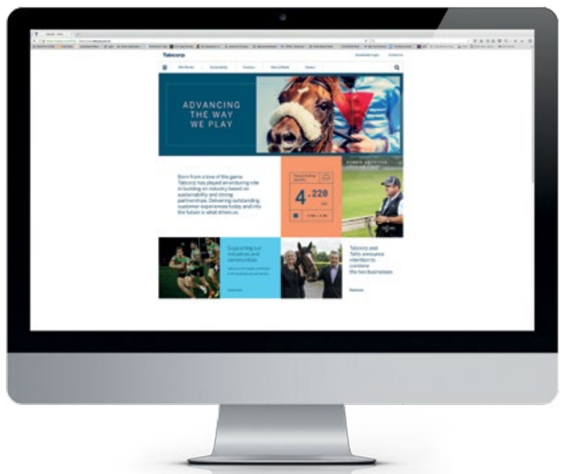
## Use the internet to easily manage your shareholding

Shareholders can use the online share registry facility available on the Company's website **www.tabcorp.com.au**, or on the share registry's website **www.linkmarketservices.com.au** to conduct standard shareholding enquiries and transactions, including:

- Download dividend statements
- Update registered address
- Check current and previous shareholding balances
- Appoint a proxy to vote at the Annual General Meeting
- Lodge or update banking details
- Participate in the Dividend Reinvestment Plan
- Notify Tax File Number/Australian Business Number

## Electronic communications

Shareholders can elect to receive all their communications electronically, including dividend statements, Annual Report, Notice of Meeting and proxy form. This enables shareholders to receive their communications promptly and securely, and helps minimise the costs of printing and mailing. In addition, by electing to receive communications electronically, shareholders can support Tabcorp with its objective to reduce its impact on the environment. Shareholders can update their communication preferences by using the online share registry facility or by contacting the share registry.




Visit www.tabcorp.com.au

# COMPANY DIRECTORY

## Registered office

Tabcorp Holdings Limited
Level 21, Tower 2
727 Collins Street
Melbourne VIC 3008
Australia
Telephone 03 9246 6010
Facsimile 03 9246 6684
Email enquiries@tabcorp.com.au

## Website

www.tabcorp.com.au

## New South Wales office

Level 31
680 George Street
Sydney NSW 2000
Telephone 02 9218 1000

## Sky Racing/Sky Sports Radio

79 Frenchs Forest Road
Frenchs Forest NSW 2086
Telephone 02 9451 0888

## Queensland offices

Level 16
15 Adelaide Street
Brisbane QLD 4000
Telephone 07 3243 4100

87 Ipswich Road
Woolloongabba QLD 4102
Telephone 07 3435 4500

## Share Registry

Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia
Telephone 1300 665 661
Telephone 02 8280 7418
Facsimile 02 9287 0303
Facsimile 02 9287 0309 (proxy forms only)
Email tabcorp@linkmarketservices.com.au
Website www.linkmarketservices.com.au

# KEY DATES

## 2018

| | |
|---|---|
| Annual General Meeting (Brisbane) | 17 October |

## 2019*

| | |
|---|---|
| Half year results announcement | 7 February |
| Ex-dividend for interim dividend | 12 February |
| Record date for interim dividend | 13 February |
| Interim dividend payment | 13 March |
| End of financial year | 30 June |
| Full year results announcement | 8 August |
| Ex-dividend for final dividend | 15 August |
| Record date for final dividend | 16 August |
| Final dividend payment | 13 September |
| Annual General Meeting (Melbourne) | 16 October |

* These are proposed dates.
See the Company's website for updates (if any).

## Corporate information

The Company is a company limited by shares that is incorporated and domiciled in Australia.

## Stock exchange listing

The Company's ordinary shares are quoted on the Australian Securities Exchange (ASX) under the code 'TAH'.

## Copyright

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## Investment warning

Past performance of shares is not necessarily a guide to future performance. The value of investments and any income from them is not guaranteed and can fall as well as rise. Tabcorp recommends investors seek independent professional advice before making investment decisions.

## Privacy

Tabcorp respects the privacy of its stakeholders. Tabcorp's Privacy Policy is available on the Company's website at **www.tabcorp.com.au.**

## Currency

References to currency are in Australian dollars unless otherwise stated.

WWW.TABCORP.COM.AU

8 August 2018

Australian Securities Exchange
Companies Announcements Platform
20 Bridge Street
Sydney NSW 2000

**TABCORP FULL YEAR RESULTS PRESENTATION**

Attached is the presentation regarding Tabcorp Holdings Limited's (Tabcorp's) results for the financial year ended 30 June 2018 to be presented by David Attenborough, Managing Director and Chief Executive Officer.

This presentation will be webcast on Tabcorp's website at **www.tabcorp.com.au** from 10.00am (Melbourne time) today.

The information contained in this announcement should be read in conjunction with today's announcements of Tabcorp's results for the financial year ended 30 June 2018.

Yours faithfully

**Chris Murphy**
Acting Company Secretary

# TABCORP HOLDINGS LIMITED

# 2017/18 FULL YEAR RESULTS PRESENTATION

8 AUGUST 2018

ABN 66 063 780 709

Tabcorp

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# FY18 OVERVIEW – A COMPANY-DEFINING YEAR

| Highlights | Key points |
|---|---|
| **Combination with Tatts Group completed and integration on track** | • EBITDA synergies and business improvements are on track<br>○ Delivered $8m in FY18<br>○ Decisions taken underpin $50m in FY19<br>○ Target remains at least $130m in FY21 |
| **Exited loss-making businesses** | • Sun Bets exit announced July 2018<br>• Luxbet closure December 2017 |
| **A more sustainable regulatory environment** | • Federal legislation passed banning synthetic lottery products<br>• Wagering point of consumption tax regimes announced<br>• New advertising restrictions and stronger consumer protections |
| **Capital management** | • Refinanced $1.8bn bridge loan into long-dated maturities in US market<br>• Full year dividend of 21.0 cps, including final dividend of 10.0 cps |
| **Well positioned for growth** | • Positive 2H18 performance, driven by Wagering & Media and Lotteries & Keno<br>• Accelerated digitalisation across the company<br>• New products launched<br>• Licences renewed |



Tabcorp

# FY18 RESULTS

- Statutory results[1]
  - Revenues $3,828.7m, up 71.4%
  - EBITDA $529.4m, up 69.5%
  - NPAT $28.7m, up from $20.8m loss in pcp
  - EPS[2] 1.9 cents per share, up from 2.5 cents loss per share in pcp
  - Results impacted by significant items expense after tax of $217.5m from Tatts combination, Sun Bets exit and Luxbet closure
- Results before significant items[1,3]
  - Revenues $3,828.7m, up 71.7%
  - EBITDA $736.4m, up 46.1%
  - NPAT $246.2m, up 37.6%
  - EPS[2] 16.6 cents per share, down 22.4%
- Final dividend 10.0 cents per share, fully franked, taking the full year ordinary dividend to 21.0 cents per share, fully franked
- Group pro-forma[4] results before significant items
  - Revenues $5,109.3m, up 2.5%
  - EBITDA $989.2m, up 2.8%
  - EBIT $695.6m, up 2.0%

Notes:
1. Results include Tatts Group from 14 December 2017
2. EPS calculated using weighted average shares for the period
3. Tabcorp results before significant items include the Sun Bets operating result in FY18 (treated as a significant item in FY17)
4. Pro-forma results include various adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group for the year, including 12 months of Tatts results in FY18 and FY17, and excluding Sun Bets in FY18; refer to slide 12 for further details



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# GROUP RESULTS[1,2]

| $m | FY18 | FY17 | Change on pcp |
|---|---|---|---|
| Revenues | 3,828.7 | 2,229.6 | 71.7% |
| Variable contribution | 1,489.9 | 1,006.3 | 48.1% |
| Operating expenses | (753.5) | (502.2) | 50.1% |
| **EBITDA before significant items** | **736.4** | **504.1** | 46.1% |
| D&A | (248.6) | (178.7) | 39.2% |
| **EBIT before significant items** | **487.8** | **325.4** | 49.9% |
| Interest | (118.6) | (68.3) | 73.6% |
| Tax expense | (123.0) | (78.2) | 57.4% |
| **NPAT before significant items** | **246.2** | **178.9** | 37.6% |
| Significant items (after tax)[3] | (217.5) | (199.7) | 8.9% |
| **Statutory NPAT** | **28.7** | **(20.8)** | >100.0% |

Notes:
1. Results include Tatts Group from 14 December 2017
2. Sun Bets was treated as a significant item in FY17
3. Significant items expense (after tax) of $217.5m comprise Tatts Group combination $114.6m, Sun Bets exit $90.5m, and Luxbet closure $12.4m

Tabcorp

# BUSINESS RESULTS[1,2]

| FY18 ($m) | Wagering & Media[1a] | Change on pcp | Lotteries & Keno[1b] | Change on pcp | Gaming Services[1c] | Change on pcp | Sun Bets[2] | Change on pcp | Group[3] | Change on pcp |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 2,186.1 | 16.7% | 1,390.7 | >100.0% | 249.7 | 73.5% | 7.4 | n/a | 3,828.7 | 71.7% |
| Variable contribution | 877.5 | 16.9% | 392.6 | >100.0% | 235.3 | 76.0% | (11.2) | n/a | 1,489.9 | 48.1% |
| Operating expenses | (480.6) | 19.9% | (137.0) | >100.0% | (113.5) | >100.0% | (25.7) | n/a | (753.5) | 50.1% |
| **EBITDA** | **396.9** | 13.4% | **255.6** | >100.0% | **121.8** | 48.4% | **(36.9)** | n/a | **736.4** | 46.1% |
| D&A | (135.2) | 10.9% | (55.9) | >100.0% | (56.2) | 64.3% | (1.3) | n/a | (248.6) | 39.2% |
| **EBIT** | **261.7** | 14.8% | **199.7** | >100.0% | **65.6** | 37.1% | **(38.2)** | n/a | **487.8** | 49.9% |
| Opex / Revenue (%) | 22.0% | 0.6% | 9.8% | (3.7%) | 45.5% | 9.6% | - | n/a | 19.7% | (2.8%) |
| EBIT / Revenue (%) | 12.0% | (0.2%) | 14.4% | (8.9%) | 26.3% | (7.0%) | - | n/a | 12.7% | (1.9%) |
| Capex | 93.7 | 13.2% | 17.4 | (3.3%) | 67.8 | 17.1% | 10.7 | n/a | 189.6 | (10.1%) |

Notes:

1. The Group's operating segments include the Tatts Group from 14 December 2017:
   a. Wagering & Media includes the Tatts UBET Wagering business
   b. Lotteries & Keno includes the Tatts Lotteries business
   c. Gaming Services includes the Tatts Max and MAXtech businesses
2. Sun Bets was treated as a significant item in FY17
3. Business results do not aggregate to Group total due to intercompany eliminations and unallocated items



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# INTEGRATION ON TRACK

### Corporate

- Board and senior leadership changes implemented
- New management structures implemented across group
- Corporate functions consolidated
- Back office integration in progress
- Procurement contract re-negotiations underway
- Corporate systems consolidation on-track
- Property rationalisation commenced

### Wagering & Media

- Fixed odds trading system integration commenced in 2H18 with further changes in 1H19 to drive improved risk management and productivity
- UBET Fixed Odds and Tote markets expansion underway including introduction of higher-yielding products
- UBET brand change to TAB across retail and digital commencing end 1H19, with platform enhancements including vision, form, and flexi-betting
- UBET customer migration to TAB platform 2H20 facilitating Trackside and harmonisation of tote products

### Technology

- Core technology functional consolidation occurring across FY19/FY20, including removal of duplication and the re-negotiation of commercial contracts including insourcing where appropriate
- Data centre consolidation 2H20
- Wagering host systems consolidation 2H20

### Lotteries & Keno

- Keno SA brand alignment and game enhancements planned FY20
- Combined marketing team

### Gaming Services

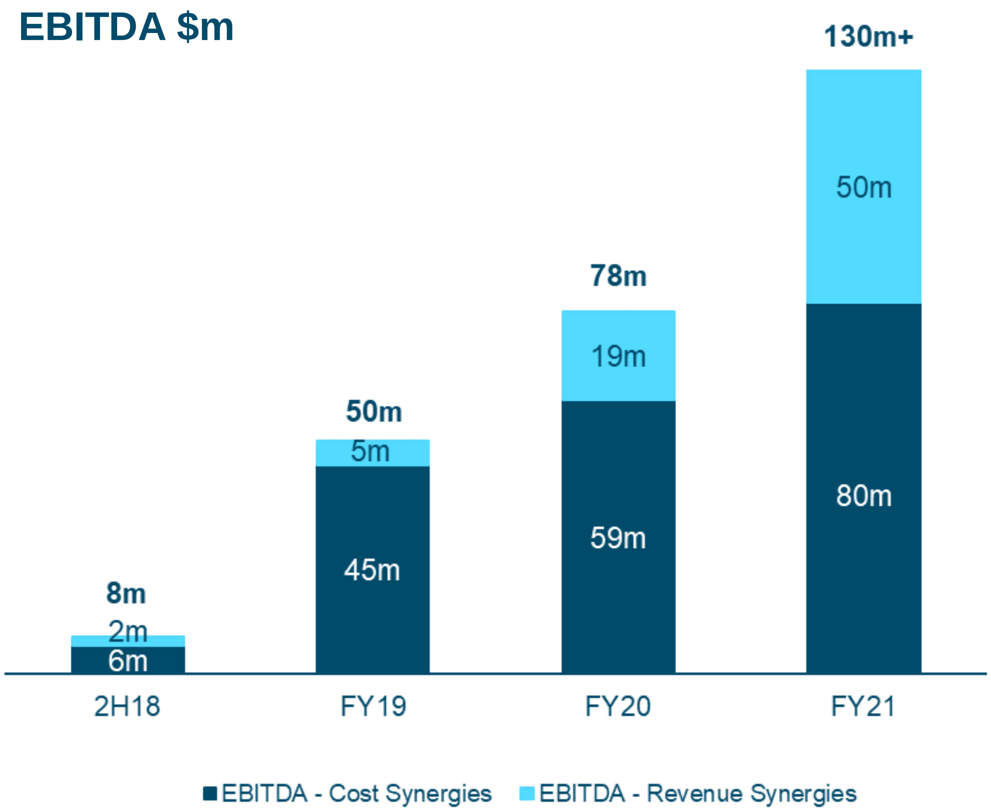
- Dandenong call centre consolidated in 2H18
- Combined sales team
- Co-location of field services underway



Tabcorp

# SYNERGIES & BUSINESS IMPROVEMENTS

Decisions taken to underpin $50m of EBITDA synergies and business improvements in FY19




- Integration planning completed and execution commenced in a systematic and considered manner to limit disruption to core businesses
- On track to deliver $50m of EBITDA synergies and business improvements in FY19, with $8m delivered in FY18
- Target remains at least $130m of EBITDA synergies in FY21
- Revenue synergy estimates include the cost of rolling out TAB venue arrangements to UBET states, including the payment of digital commissions

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# GROUP RESULTS – RECONCILIATION TO PRO-FORMA

| FY18 ($m) | Reported | Adjustments: Tatts Pre-merger | Adjustments: Sun Bets | Adjustments: Odyssey Divestment | Adjustments: PPA[1] | Adjustments: Elims | Pro-forma |
|---|---|---|---|---|---|---|---|
| Revenues | 3,828.7 | 1,304.4 | (7.4) | (7.9) | - | (8.5) | 5,109.3 |
| Variable contribution | 1,489.9 | 416.3 | 11.2 | (5.5) | - | (7.5) | 1,904.4 |
| Operating expenses | (753.5) | (199.3) | 25.7 | 4.4 | - | 7.5 | (915.2) |
| **EBITDA before significant items** | **736.4** | **217.0** | **36.9** | **(1.1)** | **-** | **-** | **989.2** |
| D&A | (248.6) | (35.6) | 1.3 | 0.9 | (11.6) | - | (293.6) |
| **EBIT before significant items** | **487.8** | **181.4** | **38.2** | **(0.2)** | **(11.6)** | **-** | **695.6** |

- Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year
- Adjustments to FY18 reported results to arrive at pro-forma results
  - Tatts earnings included from 1 July 2017 to 13 December 2017 (pre-merger period) with eliminations recognised
  - Sun Bets earnings excluded given exit in July 2018
  - Odyssey earnings excluded given divestment as part of the merger process
  - Full year impact of purchase price allocation (PPA)[1]

Notes:
1. Purchase price allocation (PPA) refers to the impact of acquisition accounting completed in 2H18, and the resulting additional D&A for the group from the net uplift of assets. The reported results include 6 months of PPA D&A. The pro-forma results have been adjusted to include a full year of PPA D&A



Tabcorp

# GROUP RESULTS (PRO-FORMA)

| $m | 1H18 | Change on pcp | 2H18 | Change on pcp | FY18 | Change on pcp[1] |
|---|---|---|---|---|---|---|
| Revenues | 2,660.6 | 2.9% | 2,448.7 | 2.0% | 5,109.3 | 2.5% |
| Variable contribution | 982.7 | 1.1% | 921.7 | 3.3% | 1,904.4 | 2.1% |
| Operating expenses | (474.0) | 3.3% | (441.2) | (0.5%) | (915.2) | 1.4% |
| **EBITDA before significant items** | **508.7** | (0.9%) | **480.5** | 7.0% | **989.2** | 2.8% |
| D&A | (145.1) | 4.2% | (148.5) | 5.4% | (293.6) | 4.8% |
| **EBIT before significant items** | **363.6** | (2.8%) | **332.0** | 7.8% | **695.6** | 2.0% |

- Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year
- 1H18 pro-forma results (and pcp) have been adjusted to exclude Sun Bets, incorporate the impact of purchase price accounting and some minor adjustments made to present Tatts' financial results under Tabcorp's accounting policies
- Positive 2H18 performance, the first 6 months post-merger
    - Accelerated digital growth supported variable contribution margin expansion
    - Initial delivery of synergies supported favourable opex performance in 2H18

Notes:
1. Pro-forma results in FY17, including a reconciliation to the pro-forma results in the Tatts Scheme Booklet, are set out on slide 34 of the Appendices

Tabcorp

# BUSINESS RESULTS (PRO-FORMA[1])

| FY18 ($m) | Wagering & Media | Change on pcp | Lotteries & Keno | Change on pcp | Gaming Services | Change on pcp | Group[2] | Change on pcp[3] |
|---|---|---|---|---|---|---|---|---|
| Revenues | 2,461.8 | 0.6% | 2,332.3 | 4.7% | 315.0 | (0.1%) | 5,109.3 | 2.5% |
| Variable contribution | 993.8 | 0.6% | 607.8 | 6.0% | 301.1 | (0.8%) | 1,904.4 | 2.1% |
| Operating expenses | (542.0) | 1.1% | (212.9) | (1.5%) | (149.1) | (2.0%) | (915.2) | 1.4% |
| **EBITDA** | **451.8** | 0.1% | **394.9** | 10.5% | **152.0** | 0.5% | **989.2** | 2.8% |
| D&A | (144.8) | 4.1% | (84.4) | 2.6% | (65.1) | 10.3% | (293.6) | 4.8% |
| **EBIT** | **307.0** | (1.7%) | **310.5** | 12.9% | **86.9** | (5.8%) | **695.6** | 2.0% |
| Opex / Revenue (%) | 22.0% | 0.1% | 9.1% | (0.6%) | 47.3% | (0.9%) | 17.9% | (0.2%) |
| EBIT / Revenue (%) | 12.5% | (0.3%) | 13.3% | 1.0% | 27.6% | (1.7%) | 13.6% | (0.1%) |

Notes:
1. Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year; see slide 12 for details
2. Business results do not aggregate to Group total due to intercompany eliminations and unallocated items. Unallocated items include lease costs of $9.4m for new Brisbane office (FY17: nil)
3. Pro-forma results in FY17, including a reconciliation to the pro-forma results in the Tatts Scheme Booklet, are set out on slide 34 of the Appendices



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Tabcorp

# WAGERING & MEDIA (PRO-FORMA[1])

| $m | 1H18 | Change on pcp | 2H18 | Change on pcp | FY18 | Change on pcp |
|---|---|---|---|---|---|---|
| Wagering Revenue | 1,222.6 | 0.6% | 1,072.0 | 0.6% | 2,294.6 | 0.6% |
| Media Revenue | 82.2 | 1.1% | 85.0 | 1.4% | 167.2 | 1.2% |
| **Revenues** | **1,304.8** | 0.6% | **1,157.0** | 0.7% | **2,461.8** | 0.6% |
| Variable Contribution | 518.3 | (1.6%) | 475.5 | 3.2% | 993.8 | 0.6% |
| Operating Expenses | (278.9) | 4.2% | (263.1) | (2.0%) | (542.0) | 1.1% |
| **EBITDA** | **239.4** | (7.6%) | **212.4** | 10.4% | **451.8** | 0.1% |
| **EBIT** | **166.4** | (12.5%) | **140.6** | 15.1% | **307.0** | (1.7%) |


- Pro-forma revenue growth of 0.6% vs the pcp
  - TAB growth of 2.5%
  - UBET decline of 0.7%
- Double digit earnings growth in 2H18
  - VC margin expansion, cycling rollout of digital commissions and higher racing industry payments
  - Improved opex performance following Luxbet closure and some early synergy benefits
- Next phase of digitalisation
  - New products Multiplier (TAB), Tappy (UBET)
  - Commercialisation of digital vision, including licensing Sky Racing vision
- Luxbet closure December 2017
  - FY18 EBIT loss of $7.9m (FY17 -$13.0m)

Notes:
1. Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year; see slide 12 for details



Tabcorp

# WAGERING KPIs (PRO-FORMA[1])

| | Combined | | TAB | | UBET | |
|---|---|---|---|---|---|---|
| | FY18 | Change on pcp | FY18 | Change on pcp | FY18 | Change on pcp |
| **Turnover by distribution ($m)[2]** | | | | | | |
| Retail | 8,019.4 | (3.9%) | 6,033.3 | (3.3%) | 1,986.1 | (5.5%) |
| Digital | 6,323.3 | 15.6% | 5,071.8 | 16.3% | 1,251.5 | 12.9% |
| Call Centre | 528.3 | (20.3%) | 366.6 | (23.6%) | 161.7 | (11.4%) |
| Other[3] | 1,398.1 | (5.4%) | 1,007.7 | (4.1%) | 390.4 | (8.4%) |
| **Total** | **16,269.1** | 2.0% | **12,479.4** | 2.9% | **3,789.7** | (0.8%) |
| **Revenue by product ($m)[2]** | | | | | | |
| Totalisator | 1,300.3 | (5.5%) | 1,037.5 | (5.2%) | 262.8 | (6.5%) |
| Fixed Odds | 913.7 | 10.8% | 680.3 | 12.7% | 233.3 | 5.6% |
| **Total Racing** | **2,214.0** | **0.6%** | **1,717.8** | **1.1%** | **496.1** | **(1.2%)** |
| Sports | 277.9 | 14.0% | 244.0 | 14.4% | 33.9 | 11.6% |
| Trackside | 76.6 | (6.0%) | 76.6 | (6.0%) | - | - |
| **Total** | **2,568.5** | 1.7% | **2,038.5** | 2.3% | **530.0** | (0.5%) |
| **Other KPIs** | | | | | | |
| FO Racing yield | 14.6% | (0.1%) | 15.0% | (0.2%) | 13.6% | 0.2% |
| FO Sports yield | 13.4% | 0.8% | 14.2% | 1.2% | 9.6% | (0.4%) |
| Active Customers[4] | 719,200 | 8.0% | 525,000 | 10.5% | 194,200 | 1.6% |
| % Digital from mobile | 67.9% | 4.2% | 71.2% | 3.3% | 55.1% | 8.0% |
| % Retail from SST | 53.0% | 3.3% | 69.1% | 2.9% | 5.9% | 5.4% |

- Strong digital and fixed odds performance in TAB
  - Digital turnover growth of 16.3% (FY17: 13.9%)
  - Fixed odds revenue growth of 13.1% (FY17: 15.0%)
- TAB active customers up 10.5% to 525K, supported by Soccer World Cup campaign and venue sign-ups
- UBET revenue growth turned positive in 2H18 up 1.2% (1H18: -1.9%)
- TAB performance relative to UBET highlights business improvement opportunity across
  - Channel and product
  - Yield management

Notes:
1. Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year; see slide 12 for details
2. Combined and TAB turnover and revenue includes Victorian Racing Industry interest
3. Other turnover includes Oncourse, Premium Customers and PGI
4. Active Customers are measured on a rolling 12 month basis



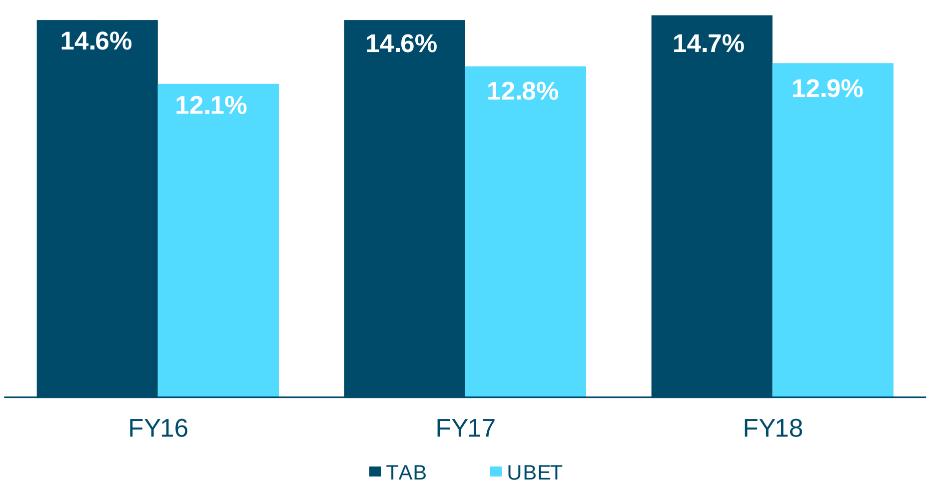
Tabcorp

# FIXED ODDS WAGERING (PRO-FORMA[1])

**Fixed Odds Turnover and Revenue Growth**

| Change on pcp % | FY16 | | FY17 | | FY18 | |
|---|---|---|---|---|---|---|
| | TAB | UBET | TAB | UBET | TAB | UBET |
| **Turnover** | 16.7% | 24.0% | 14.7% | (0.7%) | 11.8% | 5.7% |
| **Revenue** | 9.9% | 6.9% | 15.0% | 5.8% | 13.1% | 6.3% |

**Fixed Odds Yield**




- UBET fixed odds yield growth is a key business improvement initiative
- Combined TAB/UBET fixed odds book strengthens risk management and revenue opportunities
- Tabcorp has commenced deploying its systems and processes into UBET
  - Risk management racing technology
  - Common TAB/UBET pricing
  - Expansion of racing/sports markets
  - Customer segmentation
- UBET fixed odds revenue growth improved in 2H18 to 9.6% (1H18: 3.5%)

Notes:
1. Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year; see slide 12 for details

# LOTTERIES & KENO (PRO-FORMA[1])

| $m | 1H18 | Change on pcp | 2H18 | Change on pcp | FY18 | Change on pcp |
|---|---|---|---|---|---|---|
| Lotteries Revenue | 1,080.9 | 6.2% | 1,031.3 | 3.6% | 2,112.2 | 4.9% |
| Keno Revenue | 112.2 | 0.1% | 107.9 | 7.2% | 220.1 | 3.5% |
| **Revenues** | **1,193.1** | 5.6% | **1,139.2** | 3.9% | **2,332.3** | 4.7% |
| Variable Contribution | 308.7 | 5.6% | 299.1 | 6.3% | 607.8 | 6.0% |
| Operating Expenses | (109.0) | 1.5% | (103.9) | (4.4%) | (212.9) | (1.5%) |
| **EBITDA** | **199.7** | 8.0% | **195.2** | 13.1% | **394.9** | 10.5% |
| **EBIT** | **157.5** | 9.6% | **153.0** | 16.5% | **310.5** | 12.9% |


- Pro-forma revenues up 4.7% vs. the pcp
  - Lotteries benefited from a favourable jackpot sequence vs the pcp, particularly in 1H18
  - Keno revenue growth skewed to 2H18 given less favourable jackpot sequence in 1H18 vs the pcp
- Strong EBITDA growth driven by VC margin expansion due to digital growth, cost control, and early synergy benefits
- Powerball game change launched April 2018, increasing prize frequency and opportunity for bigger jackpots
- Keno Mega Millions launched in Qld in March 2018, pooling with NSW

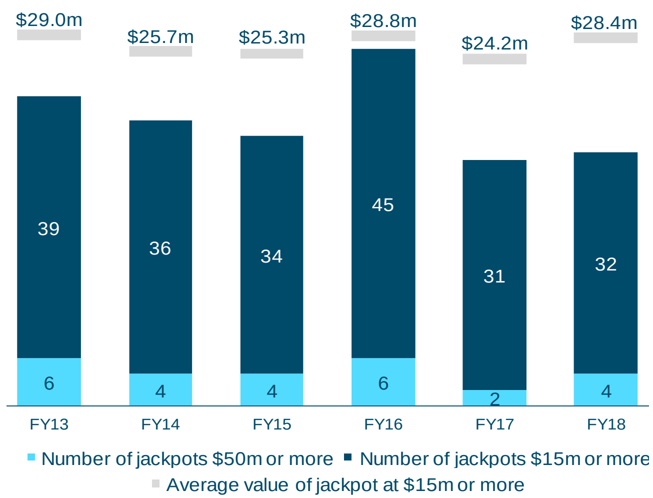
Notes:
1. Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year; see slide 12 for details



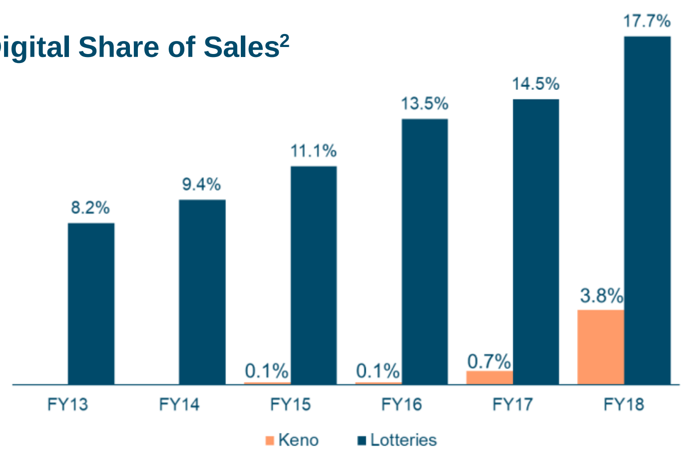
Tabcorp

# LOTTERIES & KENO KPIs (PRO-FORMA[1])

## Jackpot performance




## Digital Share of Sales[2]




## Lotteries

- Sales growth in retail network
  - New digital POS displays installed in more than 1,000 outlets
- Strong digital performance
  - Digital sales up 27.8%
  - 2.9m registered players
- New Victorian lotteries licence commenced 1 July 2018

## Keno

- Digital share of Keno sales 3.8%, up from 0.7% in the pcp
- 58,000 digital account holders, >50% under 35 years old
- Keno Mega Millions expected to launch in Victoria in FY19

Notes:
1. Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year; see slide 12 for details
2. Excludes South Australia. If South Australia included, lotteries digital share of sales was 16.8% in FY18 vs 13.7% in FY17



Tabcorp

# GAMING SERVICES (PRO-FORMA[1])

| $m | 1H18 | Change on pcp | 2H18 | Change on pcp | FY18 | Change on pcp |
|---|---|---|---|---|---|---|
| Revenues | 162.3 | 1.7% | 152.7 | (2.1%) | 315.0 | (0.1%) |
| Variable Contribution | 154.9 | 1.1% | 146.2 | (2.7%) | 301.1 | (0.8%) |
| Operating Expenses | (74.7) | (8.9%) | (74.4) | 6.0% | (149.1) | (2.0%) |
| **EBITDA** | **80.2** | 12.7% | **71.8** | (10.2%) | **152.0** | 0.5% |
| **EBIT** | **50.1** | 19.8% | **36.8** | (27.0%) | **86.9** | (5.8%) |


- Max / MAXtech
  - 2H18 impacted by lower project work vs. pcp
  - New NSW monitoring licence which commenced Dec-17 resulted in an increase in D&A of $7.5m for 7 months
- TGS
  - New Vic gaming arrangements now provide industry certainty to 2032 (previously 2022)
  - TGS is seeking to transition existing Vic customers to longer term contracts beyond 2022 (at lower margins) and attract new sign-ups across Vic and NSW
  - 2H18 impacted by decline in Vic contracted EGMs. Current contracted EGMs are 7,800 (FY17: 8,700) of which 87% are contracted to 2022, and 11% are contracted beyond 2022
  - NSW contracted EGMs 1,960 (FY17: 1,960)
- eBET
  - Performance adversely impacted by uncertainty associated with the merger, competitive pressures, and the divestment of Odyssey

Notes:
1. Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year; see slide 12 for details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# SUN BETS

| $m | FY18 | FY17[1] | Change on pcp |
|---|---|---|---|
| Turnover | 333.0 | 203.6 | 63.6% |
| Revenues | 7.4 | 4.6 | 60.1% |
| Variable Contribution | (11.2) | (14.6) | (23.4%) |
| Operating Expenses | (25.7) | (31.5) | (18.5%) |
| **EBITDA** | **(36.9)** | **(46.2)** | 20.1% |
| **EBIT** | **(38.2)** | **(78.3)** | 51.1% |

- Sun Bets ceased trading in July 2018
- Tabcorp will make a payment to News UK of £39.5m (approximately A$71m) to exit the agreement
- Significant items expense of $90.5m (after-tax) in respect of Sun Bets recorded in FY18 (FY17: $68.3m) which includes the exit fee payable to News UK and asset impairments
- FY19 closure costs expected to be up to $10m

Note:
1. Sun Bets results for FY17 were reported as a significant item as the business was in the establishment phase, FY17 has been restated to show a like-for-like comparison

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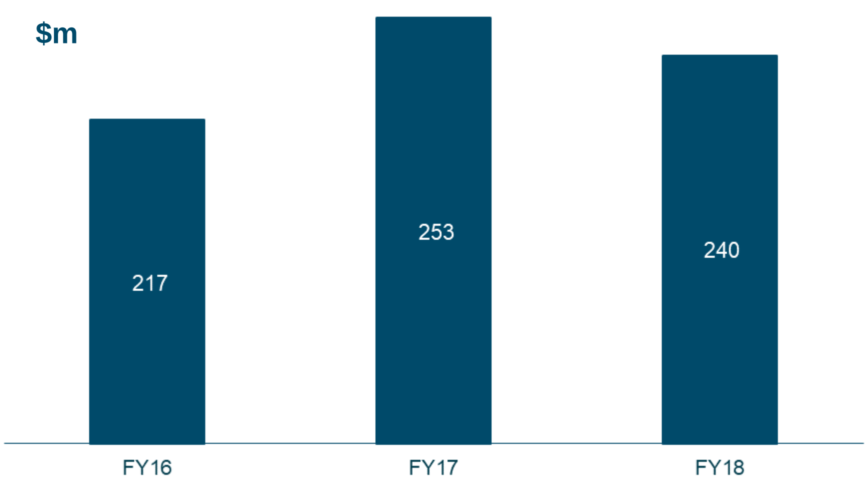
# CAPITAL EXPENDITURE (PRO-FORMA[1])

## BAU Capex




## Non-BAU projects across FY19 and FY20

- Integration capex expected to be $70m
  - Systems consolidation
  - Retail enhancements
- Data centre relocation $38m
  - Consolidate legacy data centres into new location in Brisbane
  - Cost is $31m less than the planned combined spend by Tabcorp and Tatts standalone prior to merger of $69m
- Ann St Brisbane office fit out $34m
  - Fit out of 7 floors
- Proceeds from planned divestment of Brisbane properties in FY19 expected to offset the cost of Ann St fit out

Notes:
1. Pro-forma results include adjustments to Tabcorp's reported results to permit investors to examine the financial performance of the combined group as if the Tatts combination had been in place for the full year; see slide 12 for details

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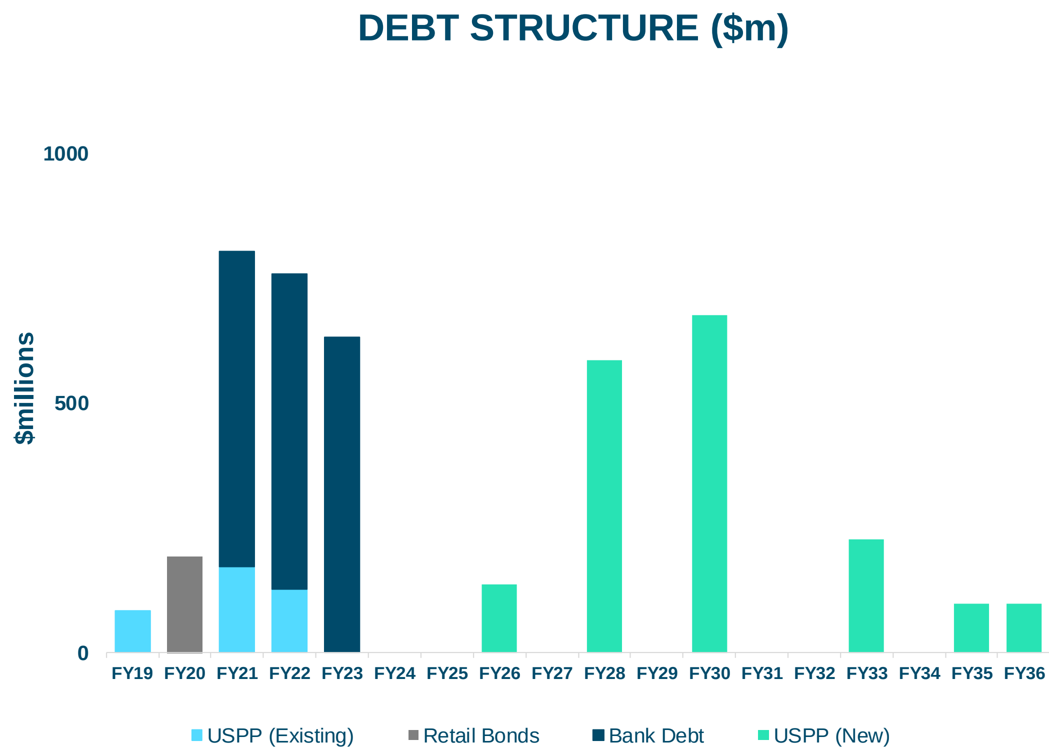
# CAPITAL MANAGEMENT




Notes:

1. Gross debt includes USPP debt at the A$ principal repayment under cross currency swaps, plus an additional $71m payable to News UK for the Sun Bets exit
2. FY18 pro-forma EBITDA as set out on slide 12

- Headroom available under bank facilities of $1.0bn at 30 June 2018
- Refinanced $1.8bn bridge loan into long-dated maturities in US market
- Tabcorp and Tatts existing USPP notes kept on foot following successful amendment processes
- Victorian lotteries licence $120m paid June 2018
- Gross Debt[1]/EBITDA[2] ratio of 3.4x at 30 June 2018; target range of 3.0-3.5x
- Tabcorp intends to maintain an investment grade credit rating
- Full year dividend of 21.0 cps with a final dividend of 10.0 cps. Reflecting the phasing of integration benefits, FY19 dividend target of 100% of NPAT before significant items, amortisation of the Victorian wagering and betting licence and PPA
- The Dividend Reinvestment Plan will operate for the final dividend

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# AN EVOLVING REGULATORY LANDSCAPE

## Regulatory reform has created a better regulated and more sustainable gambling industry

| | |
|---|---|
| **1 Synthetic lotteries ban** | • Synthetic lotteries are products where customers bet on the outcome of a lottery rather than buying a ticket and directly participating in the draw.<br>• Online betting on the outcome of a lottery or Keno draw will be prohibited following amendments to the *Interactive Gambling Act* passed by the Federal Senate in June 2018. There is a six-month adjustment period. |
| **2 Point of consumption taxes** | • Wagering point of consumption (POC) taxes are levied based on the location of the customer.<br>• Introduced in SA in July 2017. Queensland's POCT regime commences 1 October 2018. NSW, Victoria, the ACT and WA have announced a POCT on wagering revenues from 1 January 2019.<br>• Tabcorp is working with governments and racing industries to ensure the significant fees and taxes already paid under its state wagering licences are recognised, in line with the principles announced. |
| **3 Consumer protections** | • Amendments to Australia's gambling legislation have been introduced or proposed to improve consumer protection.<br>• These include prohibitions on wagering operators offering online in-play betting, credit and certain forms of inducements. |
| **4 Advertising restrictions** | • From March 2018, new restrictions prohibited gambling advertising during live television, radio and online sports broadcasts between 5:00am and 8:30pm. Live broadcasts of racing events and the advertising of lotteries are exempt.<br>• The prohibition of wagering advertising on roads, public transport and associated infrastructure in Victoria has also been announced. |



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# CONCLUSION

**FY18 – A company-defining year**

- Tatts combination completed and integration on track
- Exited loss-making Luxbet and Sun Bets businesses
- Key regulatory reforms progressed creating fairer playing field

**FY19 – Key priorities**

- Deliver expected benefits from the combination with Tatts
- Continue to execute on growth opportunities across all businesses
  - Enhance digital capability and improve consistency of customer digital experience
  - Deepen integration of digital technology into retail network
  - Deploy new products across all markets for all businesses
  - Strengthen CRM capability by effectively integrating systems and customer data platforms
- Ensure the highest levels of regulatory compliance
- Maintain disciplined approach to operating expenditure, capital investment and balance sheet management

WAGERING & MEDIA



LOTTERIES & KENO

GAMING SERVICES

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# APPENDICES

1. Significant items
2. FY17 Pro-forma Reconciliation to Scheme Booklet
3. Wagering: TAB & UBET KPIs
4. Balance sheet
5. Cash Flow

# 1. SIGNIFICANT ITEMS (AFTER-TAX)

| FY18 | $m |
|---|---|
| Combination with Tatts Group | |
| Transaction costs[1] | 62.1 |
| Implementation costs | 30.0 |
| Non-cash write-offs / impairments | 12.5 |
| Surplus lease space provision | 10.0 |
| | **114.6** |
| Sun Bets exit | 90.5 |
| Luxbet closure | 12.4 |
| **Total Significant Items (after tax)** | **217.5** |

- Sun Bets significant item includes the exit fee payable to News UK of approximately $71m
- Luxbet closure includes $11.2m of asset write-offs

Notes:
1. Transaction costs includes an amount of $2.2m in respect of an agreement with Racing Queensland Limited (RQL). In 2017, Tabcorp and RQL entered into a commercial arrangement in relation to the combination with the Tatts Group, under which the parties made various commitments, including that RQL consent to the Scheme of Arrangement. Tabcorp guaranteed a minimum amount of fees that RQL will receive under its deed with UBET QLD in each calendar year from 2018 to 2020. Tabcorp currently expects that it will be required to make a payment to RQL in relation to the 2018 calendar year which is not material to the Group and, while necessarily uncertain, depending on the performance of the business in future or the occurrence of unexpected circumstances, further payments may need to be made that may be material

# 2. FY17 PRO-FORMA RECONCILIATION TO SCHEME BOOKLET

| FY17 ($m) | Scheme Booklet[1] | Adjustments: Sun Bets | Adjustments: PPA | Adjustments: Accounting Policy Alignment | Pro-forma |
|---|---|---|---|---|---|
| Revenues | 4,992.0 | (4.0) | - | (1.3) | 4,986.7 |
| Variable contribution | 1,859.0 | 15.0 | - | (9.4) | 1,864.6 |
| Operating expenses | (944.0) | 31.0 | - | 10.6 | (902.4) |
| **EBITDA before significant items** | **915.0** | **46.0** | **-** | **1.2** | **962.2** |
| D&A | (261.6) | 5.0 | (23.4) | (0.2) | (280.2) |
| **EBIT before significant items** | **653.4** | **51.0** | **(23.4)** | **1.0** | **682.0** |

Notes:
1. See the Tatts Scheme Booklet published 8 September 2017



Tabcorp

# 3. WAGERING: TAB & UBET KPIs

| TAB | 1H18 | Change on pcp | 2H18 | Change on pcp | FY18 | Change on pcp |
|---|---|---|---|---|---|---|
| **Turnover by distribution ($m)** | | | | | | |
| Retail | 3,192.6 | (3.3%) | 2,840.7 | (3.3%) | 6,033.3 | (3.3%) |
| Digital | 2,555.0 | 16.5% | 2,516.7 | 16.1% | 5,071.8 | 16.3% |
| Call Centre | 194.7 | (21.2%) | 171.9 | (26.2%) | 366.6 | (23.6%) |
| Other | 558.8 | (1.2%) | 448.9 | (7.6%) | 1,007.7 | (4.1%) |
| **Total** | **6,501.1** | 3.1% | **5,978.2** | 2.7% | **12,479.4** | 2.9% |
| **Revenue by product ($m)** | | | | | | |
| Totalisator | 561.4 | (5.5%) | 476.1 | (4.8%) | 1,037.5 | (5.2%) |
| Fixed Odds | 361.6 | 16.2% | 318.7 | 8.9% | 680.3 | 12.7% |
| **Total TAB Racing** | **923.1** | **2.0%** | **794.8** | **0.2%** | **1,717.8** | **1.1%** |
| TAB Sports | 119.0 | 9.9% | 125.0 | 19.0% | 244.0 | 14.4% |
| Trackside | 39.9 | (9.6%) | 36.7 | (1.8%) | 76.6 | (6.0%) |
| **Total** | **1,082.1** | 2.3% | **956.5** | 2.3% | **2,038.5** | 2.3% |
| **Other KPIs** | | | | | | |
| FO Racing yield | 15.3% | (0.3%) | 14.6% | (0.2%) | 15.0% | (0.2%) |
| FO Sports yield | 15.1% | 1.4% | 13.4% | 1.0% | 14.2% | 1.2% |
| TAB Active Customers | 499,500 | 7.2% | 525,000 | 10.5% | 525,000 | 10.5% |
| % Digital from mobile | 71.1% | 3.9% | 71.3% | 2.7% | 71.2% | 3.3% |
| % Retail from SST | 67.8% | 3.0% | 70.6% | 2.8% | 69.1% | 2.9% |

| UBET | 1H18 | Change on pcp | 2H18 | Change on pcp | FY18 | Change on pcp |
|---|---|---|---|---|---|---|
| **Turnover by distribution ($m)** | | | | | | |
| Retail | 1,061.4 | (5.5%) | 924.7 | (5.5%) | 1,986.1 | (5.5%) |
| Digital | 655.5 | 13.8% | 595.9 | 11.9% | 1,251.5 | 12.9% |
| Call Centre | 86.2 | (11.6%) | 75.4 | (11.2%) | 161.7 | (11.4%) |
| Other | 205.2 | (11.3%) | 185.2 | (4.8%) | 390.4 | (8.4%) |
| **Total** | **2,008.4** | (1.0%) | **1,781.3** | (0.5%) | **3,789.7** | (0.8%) |
| **Revenue by product ($m)** | | | | | | |
| Totalisator | 142.8 | (6.7%) | 120.0 | (6.4%) | 262.8 | (6.5%) |
| Fixed Odds | 123.7 | 3.2% | 109.6 | 8.4% | 233.3 | 5.6% |
| **Total UBET Racing** | **266.5** | **(2.3%)** | **229.6** | **0.1%** | **496.1** | **(1.2%)** |
| UBET Sports | 16.8 | 5.7% | 17.0 | 18.2% | 33.9 | 11.6% |
| **Total** | **283.4** | **(1.9%)** | **246.6** | **1.2%** | **530.0** | **(0.5%)** |
| **Other KPIs** | | | | | | |
| FO Racing yield | 13.5% | (0.4%) | 13.7% | 0.9% | 13.6% | 0.2% |
| FO Sports yield | 10.1% | (0.8%) | 9.2% | (0.1%) | 9.6% | (0.4%) |
| UBET Active Customers | 187,600 | (13.8%) | 194,200 | 1.6% | 194,200 | 1.6% |
| % Digital from mobile | 53.9% | 8.0% | 56.3% | 7.9% | 55.1% | 8.0% |
| % Retail from SST | 3.3% | 2.9% | 8.7% | 8.0% | 5.9% | 5.4% |



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# 4. BALANCE SHEET

| $m | Jun 18 | Jun 17 | Change on pcp |
|---|---|---|---|
| Total current assets | 667.7 | 556.6 | 20.0% |
| Licences | 2,361.1 | 637.5 | >100.0% |
| Other intangible assets | 9,142.0 | 2,058.1 | >100.0% |
| Property, plant and equipment | 488.2 | 339.4 | 43.8% |
| Other non current assets | 281.8 | 149.3 | 88.7% |
| **Total assets** | **12,940.8** | **3,740.9** | >100.0% |
| Total liabilities | 5,702.2 | 2,257.5 | >100.0% |
| **Shareholders' funds** | **7,238.6** | **1,483.4** | >100.0% |
| Net debt (reported) | 3,135.8 | 1,554.0 | >100.0% |
| Net debt (economic)[1] | 3,161.5 | 1,468.5 | >100.0% |
| Shares on issue (m) | 2,012.7 | 835.3 | >100.0% |
| **Ratios** | | | |
| Gross debt[2] / EBITDA[3] (x) | 3.4 | 3.1 | |
| EBIT[4] / Net interest (x) | 4.1 | 4.7 | |

Notes:

1. Net debt (economic) includes USPP debt at the A$ principal repayment under cross currency swaps, and excludes lotteries prize fund cash of $242m
2. Gross debt includes USPP debt at the A$ principal repayment under cross currency swaps, plus an additional $71m payable to News UK for the Sun Bets exit
3. FY18 pro-forma EBITDA as set out on slide 12
4. EBIT is calculated on a full year reported basis



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# 5. CASH FLOW

| $m | FY18 | FY17 | Change on pcp |
|---|---|---|---|
| Net operating cash flows | 718.5 | 359.1 | >100% |
| Net interest paid | (148.6) | (75.1) | 97.9% |
| Income tax paid | (122.4) | (61.5) | 99.0% |
| Payments for PP&E and intangibles | (291.7) | (197.4) | 47.8% |
| **Sub-total** | **155.8** | **25.1** | >100% |
| Ordinary dividends paid | (313.8) | (194.5) | 61.3% |
| Proceeds/payment for cash-settled equity swap | 300.2 | (317.5) | (>100%) |
| Payment for business acquisition, including net debt acquired | (1,451.8) | (113.2) | >100% |
| Proceeds from business divestment, net of cash divested | 13.2 | - | (>100%) |
| Settlement of dividends payable by business acquired | (235.0) | - | >100% |
| Other | (0.1) | 3.7 | (>100%) |
| **Net cash flow** | **(1,531.5)** | **(596.4)** | >100% |
| **Net debt at beginning of period** | **1,544.0** | **954.4** | 61.8% |
| Non cash movements | 60.3 | (6.8) | (>100%) |
| **Net debt at end of period** | **3,135.8** | **1,544.0** | >100% |

- FY18 net operating cash flows include cash outflows of $10.1m relating to significant items (FY17 cash outflows of $159.8m relating to significant items)

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