

Tatts Group Limited - 2014 Annual General Meeting Chairman's and Managing Director/CEO's Address

Attached are copies of the Chairman's and Managing Director/Chief Executive Officer's addresses to be presented at Tatts Group Limited's Annual General Meeting, commencing at 2.00pm (Brisbane time), Wednesday 29 October, 2014.

A copy of the presentation which accompanies these addresses will follow.

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TATTS GROUP LIMITED
ABN 19 108 686 040
ANNUAL GENERAL MEETING
29 OCTOBER 2014

CHAIRMAN'S ADDRESS

Good afternoon Ladies and Gentlemen,

My name is Harry Boon, and I am the Chairman of your Company, Tatts Group Limited. On behalf of my fellow Directors, I am pleased to welcome you to the 2014 Annual General Meeting here in our home city of Brisbane at the iconic Brisbane City Hall.

This meeting is also being audio cast live, so a warm welcome to everyone listening online and a reminder that all the presentations being given today are available on our corporate website, tattsgroup.com.

As it is past the appointed time and a quorum is present, I now declare this meeting of members of Tatts Group Limited open. Before we proceed, I ask that you please turn off or silence your mobile phones and also remind you that the use of recording equipment is prohibited at this AGM. Thank you.

The Notice of Meeting and the Annual Report were sent to shareholders and the ASX on 25 September 2014 and I will take the Notice as being read.

I would like to start by introducing the members of the Board and some of the Executive Managers of Tatts Group. Starting from your left of the stage are:

- Mr Kevin Seymour
- Ms Lyndsey Cattermole
- Dr David Watson
- Mr Julien Playoust

On the right of the stage are:

- Mr Brian Jamieson
- CEO and Managing Director, Mr Robbie Cooke
- General Counsel and Company Secretary, Ms Anne Tucker
- Chief Financial Officer, Mr Neale O'Connell

In addition to our CFO and our General Counsel seated here, we are also joined today by a number of other senior executives of Tatts Group, who will be available to chat with shareholders after the meeting. I ask each executive to stand briefly when I introduce them:

- Firstly, Bill Thorburn, now Group Executive International Lotteries focusing on offshore lottery opportunities for the Group;
- Next is Sue van Der Merwe, who succeeded Bill as Chief Operating Officer of our Australian Lotteries business a few months ago after many years as Bill's second in command;
- Frank Makryllos, Chief Operating Officer of our Gaming business;

- Francis Catterall, Executive General Manager of Strategy;
- Dan Crane, our Chief Online Officer;
- Steve Lawrie, our Chief Information Officer;
- Ashleigh Loughnan, our Executive General Manager of People, Property and Procurement ;
- And Maree Patane, our Chief Internal Auditor;
- Unfortunately, Barrie Fletton, the Chief Operating Officer of our Wagering business is travelling today so could not attend the AGM.

Also present today is Mr Anton Linschoten representing our external auditors PricewaterhouseCoopers.

The 2014 financial year was a landmark year for Tatts with **two defining successes** that have the potential to fundamentally secure the Group for the future.

The first defining event was that, after tremendous focus and attention given by management and the Board, we were successful in securing a long term renewal of the Group's core wagering franchise in Queensland.

This success came after lengthy and complicated three-way negotiation between Tatts, the State and Racing Queensland, and culminated in Tatts locking in **long-term and exclusive licences** for our Queensland sports and race wagering operation. Importantly, this process delivered more competitive commercial terms, thereby positioning Tatts to fight-back against out-of-state competitors who were previously leveraging the more favourable tax regimes in their home jurisdictions to attract Queensland punters.

Most significantly, the new arrangements involve a true partnership approach between Racing Queensland, the Government and Tatts which establishes a sustainable model that recognises the needs of all participants. From this platform, we can drive a prosperous future for racing in Queensland. Our CEO, Robbie Cooke, will provide you with more detail on what the new deal means for the Group shortly, and I hasten to say that Robbie deserves full credit for his unstinting efforts to bring this partnership to fruition.

The second defining event, occurring almost simultaneously with the conclusion of the Queensland negotiations, was our win in the Victorian Supreme Court of compensation following expiry of our Victorian Gaming Operator's Licence. A Judge of the Victorian Supreme Court found in Tatts' favour awarding compensation and interest totalling some \$540 million.

Although payment of this amount has been received from the State of Victoria, it will not be recognised as income in our accounts until the available appeal process is exhausted. At present, the funds are being used to reduce debt and, if the judgement withstands the State's appeal, the Board will look at appropriate capital management alternatives in the best interests of shareholders.

Turning now to our ongoing business operations, I can report that the underlying performance remained strong during the year as evidenced by the healthy 7.8% lift in profit before tax of the continuing operations. We generated some \$327 million in pre-tax profits compared with \$303 million in Financial Year 2013. Pre-tax profit provides the clearest indication of our year-on-year performance, as the after-tax comparison was distorted by:

- an illogical \$42.6 million charge for a health benefit levy imposed by the Victorian Treasurer, for the final 46 days of our pokies business in Victoria. This charge

exceeded the \$29 million in EBITDA generated by the Pokies business in those final 46 days, and we are currently seeking Special Leave to appeal to the High Court to dispute this charge; and

- the once-off reduction in tax of \$16.2 million in Financial Year 2013 arising from the 2007 Golden Casket transaction. Absent this once-off boost to after tax profit in Financial Year 2013, our like for like NPAT on continuing operations growth would have been an impressive 7.3%.

Robbie Cooke, our CEO will provide more detail on the performance of each of our operating divisions when he addresses the meeting.

Consistent with our business philosophy, we continued our long and proud tradition of contributing to the communities in which we operate as well as to the racing industry. The Group injected \$179 million into the racing industry in the form of fees for product and race fields information. In addition, we contributed \$1.15 billion to state governments, including \$409 million to the state of Victoria, \$322 million to New South Wales, and no less than \$279 million to the state of Queensland.

Also in Queensland, we continued our financial support of the Royal Children's Hospital Foundation, the Mater Children's Hospital and rural children's health services, with a contribution of \$1.5 million in the year, taking our total contribution to these important children's health services to \$10.5 million over the past 7 years.

In New South Wales we were the celebration sponsor for the Sydney Opera House's 40th anniversary. Our NSW Lotteries business made a major financial contribution supporting the Opera House's renewal. This was a pleasing symmetry, as the iconic Sydney Opera House was originally constructed from the proceeds of lottery draws.

On behalf of the Directors, I want to recognise and commend the entire team at Tatts for the strong results delivered in the past year. We are fortunate to have a highly skilled group of exceptionally engaged and motivated individuals who are passionate about our business. I well know the enormous effort that has been put in by everyone involved, and I take this opportunity to thank the entire Tatts team for their outstanding efforts. We are of course, looking for a repeat effort for a standout 2015!

Our vision is to be the world's best gambling group and we recently launched our new corporate identity under the banner of "moments that thrill". This vision sees Tatts:

- owning world leading brands, innovation and technology;
- being loved by our customers, our business partners and the community; and
- powered by amazing people, products and workplaces.

We have a continuing focus on diversity at all levels in our organisation. We recognise the benefits that flow from a diverse team and we embrace the unique contribution this brings. We have established targets to increase the representation of women in our ranks, have reviewed our processes to ensure there are no inherent biases in decision making, and are making flexible workplace arrangements available wherever appropriate. This remains a continuing area of development for the Group.

During the year, we announced Bob Bentley's retirement from the Board. Bob had been a member of the Tatts Board (and UNiTAB before that) since July 1999. We thank Bob for his contribution to our business over the 15 years he served and wish him well in his retirement.

We also had the pleasure of welcoming Dr David Watson to the Board's ranks. David has an outstanding CV and he stands for election at today's meeting.

Consistent with prior years, your Board has maintained strong returns to shareholders with a high dividend pay-out ratio. The payment of a final dividend of 5.5 cents takes the total dividend paid in respect of Financial Year 2014 to 13.5 cents, representing 96% pay-out of our statutory profits. We have continued the dividend reinvestment plan this year, again offering shareholders a 1.5% discount.

Total shareholder return for Financial Year 2014 was 11.8%, and it was pleasing to see that the market reacted positively to our late June announcement of the new wagering framework, bringing the total shareholder return for the 12 months to the end of July 2014 to a very healthy 19.5%.

The Notice of Meeting sent to all shareholders included an invitation to send questions in advance of the meeting. I thank those who used the opportunity to ask questions.

Several questions were received regarding why the dividend of 13.5 cents per share was lower than the dividends paid in prior periods. As mentioned earlier, the illogical \$42.6 million charge for a health benefit levy imposed by the Victorian Treasurer, for the final 46 days of our pokies business in Victoria significantly reduced our statutory profits, and hence the final dividend was also reduced. Your Board remains committed to a high dividend payout ratio as evidenced by the 96% pay-out ratio of our statutory profit in Financial Year 2014. We believe that all the legacy pokies charges are behind us.

Questions were also received as to why we do not merge or sell our wagering operations to Tabcorp, our largest competitor in the Australian market. In response, I would highlight that Tatts operates a range of products in lotteries, wagering and gaming which provides us with scale, technology platforms and many thousands of customers. As Robbie will highlight in his address, we are at the start of a very exciting journey in growing the Tatts wagering business for the benefit of all shareholders.

This leads me to the other prominent question from shareholders, which concerned the remuneration paid to executives and Directors. The Company's overriding objectives in executive remuneration is to ensure there is an appropriate and transparent alignment between employees and shareholders as well as being market competitive. Our total return to shareholders continues to outperform the ASX 200. Even with this outperformance, our total executive remuneration ranks as one of the lowest in its peer group in the ASX 200 and has been favourably commented upon by a number of independent Proxy Advisers who review Tatts Annual Report. In fact, every independent proxy adviser who covers tatts has recommended that shareholders vote ***in favour of the Remuneration Report***. Julien Playoust, Chair of our Remuneration and Human Resources Committee, will go into more detail on remuneration later today.

Ladies and Gentlemen, thank you for your patience during my report to you today, and it is now my pleasure to hand over to Robbie Cooke, who will provide you with his report as Managing Director and CEO.

Managing Director/CEO Address

Thanks Harry and good afternoon ladies and gentlemen.

It is a pleasure to be here this afternoon and to be able to give you an overview of our FY14 results.

I will also take the opportunity today to walk you through some of the operational achievements our team has delivered in the reporting year, together with a preview of some of the initiatives we have coming.

RESULTS OVERVIEW

The major challenge in the year was backing up against the stellar result delivered 12 months ago. That result was fuelled by an extraordinary run of jackpots that peaked with the record \$112 million Oz Lotto draw on Melbourne Cup day 2012.

Against that backdrop, and acknowledging the extraneous items Harry mentioned earlier that distort a comparison with last year's NPAT, I am pleased to report a strong underlying business performance for the year. As Harry mentioned our profit before tax on a continuing operations basis delivered a 7.8% uplift year-on-year.

Our underlying performance was driven by 4 key factors:

- Firstly the record earnings generated by our lotteries division.
- Secondly the excellent online traction in both our wagering and lotteries operations.
- Thirdly strong cost control in appropriate areas balanced with an appetite to invest where revenue opportunities were identified.
- Finally excellent outcomes in managing the reduction in our funding costs.

Looking at the key individual line items at a Group level:

- Total revenues for the Group were down 2.8% - with both our lotteries and wagering business experiencing softer revenue outcomes in the reporting period.
- Product fees were down 2.3% in line with the revenue performance seen in our wagering business.
- Importantly general expenses held steady - being marginally up 0.3%, reflecting strong cost control and the absence of any significant restructuring charges. This being all the more impressive considering a full 12 months of SA Lotteries in the operating mix.
- Depreciation and amortisation held relatively steady year-on-year - down marginally 0.2%.
- Finance costs have dropped 15.8% despite the lift in borrowings for the purchase of the SA Lotteries management rights in the prior year.
- Looking in more detail at our three operational units and turning firstly to lotteries.

LOTTERIES

We have an impressive lotteries franchise:

- It covers all of Australia other than Western Australia.
- We partner with in excess of 4,200 agents in selling our products.
- The average spend by our customers per entry in the year was \$12.34 - down marginally on last year's \$12.35.
- Our online average spend is a little higher at \$13.03 also down a little on last year's \$13.62. This suggests online customers are more responsive to higher jackpot levels.
- We received over 2.4 million visits to our lotteries website every month during the year. This being driven in no small way from our extensive database of more than 1 million registered players on Tatts.com and 2.3 million lotto card members.

Off the back of this powerful platform, and despite a significantly less favourable jackpot run, our lotteries team delivered record EBIT of \$271.5 million.

We did indicate in our annual report in August last year that it would be unreasonable to assume the FY13 jackpot sequence would be replicated in FY14 and this view was correct.

36 jackpots at or above the \$15 million mark occurred in FY14 compared to 39 similar level jackpots in the prior year. Most significantly the quantum of 1st division pools was considerably lower, with the average value sitting at \$25.7 million as against \$29.0 million in FY13. This 11% decline in average pool size meant it was impossible to generate the same sales momentum experienced a year ago.

Actions that to some extent offset this challenge included:

- The introduction of Monday Lotto in Queensland in October 2013.
- The excellent run of jackpots generated in the \$5 New South Wales Lucky Lotteries game.
- A lift in marketing and promotional campaigns undertaken.
- Implementation of more sophisticated direct marketing.
- The introduction of Autoplay – a feature enabling lotteries customers to set perpetual entries online.
- The roll out of our Scratch-its on a multi- jurisdictional basis.
- The launch our new SA lotteries website.

So whilst revenues dropped 4.3% due to the challenge presented by the jackpot sequence last year, our revenues were still a very healthy \$1.92 billion. With the benefit of a full year contribution from SA Lotteries this generated, as I mentioned, \$271.5 million in EBIT - up 0.8%. EBIT margins continued to improve lifting from 13.4% a year ago to 14.1%.

Moving to our wagering operation.

WAGERING

Wagering is a significant contributor to Group earnings, generating 30% of our EBITDA and has significant potential as we progress the transformation program we commenced about a year ago.

We have a significant geographic footprint, with retail exclusivity in Queensland, South Australia, the Northern Territory and Tasmania. This sees us controlling a retail network of over 1,400 venues.

The operating landscape for our wagering division remains as competitive as ever – with online corporate bookmakers being the challengers. These players have until recently been able to operate with more beneficial tax regimes, providing an ability to out-spend on marketing. As was the case at half-year our wagering division revenues were down 2% to \$642.3 million reflecting the reality of this operating environment.

Wagering EBIT was down 7.4% at \$144.1 million - consistent with the previously flagged 'up scaling' of our wagering operations to compete. Our cost base now reflects the expanded bookmaker and marketing teams. The margin levels achieved in FY14 were consistent with the levels we flagged at half year.

Migration from pari-mutuel betting to fixed-price continued in the year as expected – with fixed-price sales up 19.1% exceeding \$1.3 billion, and pari-mutuel sales down 7.4%. Fixed-price in FY 14 represented 37% of all wagering sales compared to 31% in the prior year.

Our racing fixed-price win-rates remained strongly double digit in FY14 but were softer than that achieved in FY13 – racing currently makes up 80% of our book. Our win-rates for sport remained double digit in FY14.

Online generated 22.9% of our wagering sales in the year, compared with 20.2% in FY13. As expected some of this growth came from customers switching from our high touch / high cost phone based service – evident in the 12.1% drop in sales via this channel. Pleasingly the switch to online is outpacing the sales drop by phone almost 4 to 1. “Bricks and mortar” sales have reduced as well with the retail sales dropping 1.4% across our 4 operating jurisdictions.

Our wagering renewal program is well advanced - this has seen a number of initiatives already introduced including:

- A close to 50% increase in our team of bookmakers enabling us to go 24/7, cover all racing codes, and to increase the sporting contingencies on offer.
- Our digital team expand to 52, up from 20 a year or so ago.
- An online marketing team established.
- A world leading CRM system put in place along with a dedicated CRM team.
- A new wagering App successfully launched which is now installed on more than 332,000 devices.
- A wagering marketing team of 8 put in place, up from one part-timer a year back.
- A leading advertising agency hired.

Moving to our gaming operation.

GAMING

Our Gaming unit includes three related operations - Maxgaming, Bytecraft and Talarius.

Maxgaming is our gaming venue services division. We monitor approximately 131,000 gaming machines in more 3,800 venues. Our franchise is exclusive in New South Wales and the Northern Territory, whereas in Queensland we have an 80% segment share. Our revenue is generated:

- 54% from monitoring;
- 22% machine maintenance;
- 24% value-add services (such as loyalty systems).

Maxgaming has lifted its revenues by 0.9% to \$114.2 million - the first time in 4 years the business has achieved revenue growth. EBIT lifted by 3.3% to \$49.7 million.

Talarius is our UK based slots operation. Initiatives introduced by our team in the UK have turned this operation around with revenues up 32.8% to \$103.6 million (on a same currency basis revenue growth was 14.6%), generating EBIT of \$4.1 million (up 507%). This is the first positive full-year contribution to Group EBIT by Talarius since it was acquired in 2008.

Bytecraft is our field services operation and is mid-way through a turnaround strategy. Revenues were down 7.8% to \$106.9 million and at an EBITDA level the result was a loss of \$0.4 million. If restructuring costs of \$1.2 million are eliminated the underlying EBITDA was \$0.8 million. An extensive review of the business has resulted in a decision to refocus on

core competencies of providing time critical support to gaming and networked infrastructure operators. Positively Bytecraft has entered the New South Wales gaming machine maintenance segment under the Maxgaming banner and contracted to one of the State's largest pub groups.

QUEENSLAND WAGERING FRANCHISE

It is worthwhile briefly running through the new arrangements that secure our Queensland wagering franchise. After more than 6 months of negotiation these new arrangements not only see the retention of our Queensland retail exclusivity on a long term basis but most importantly has established a fiscal structure which will enable Tatts to more effectively compete - with significantly reduced wagering tax rates and the retention of our ability to offset race field fees. This well positions us to reinvest in our wagering operation for growth.

Our sports wagering licence term was extended by 61 years bringing its expiry date in line with our race wagering licence - both licences now continuing until 2098 and both now attracting 30-year exclusivity periods. I am pleased to be able to report that the amendments to the Wagering Act required to implement the extension to our exclusivity were passed by Parliament on 15 October and are awaiting proclamation.

Significantly the GST inclusive tax rates drop from 20% to 14% for pari-mutuel betting and from 20% to 10% for fixed-price betting. This combines with the preservation of the right to offset race field fees against the product fee we pay the industry.

The deal sees enhanced funding to Racing Queensland with the most significant item being a new fixed product fee of \$15 million per annum indexed to 80% of CPI.

One of the intangible benefits of the new deal is that we have come out of what were not easy negotiations with a vastly improved relationship with our racing industry. The new arrangements have produced a partnering approach with Racing Queensland – with a strong alignment in desired outcomes.

A \$150 million fee for the licence is payable to the State over 9 years in 4 equal instalments.

Clearly the deal generates an improved margin for Tatts providing the financial firepower to fight back against the competitor set and to reinvest for growth. We have made commitments in relation to expanding our network and the implementation of self-service terminals – along with planned increases in marketing and resourcing.

Our arrangements provide for two exciting joint venture opportunities with the Industry that will require regulatory approval to pursue. One of these is virtual racing and virtual sports betting.

The arrangements also see the ending of the litigation between us regarding the ability to offset race field fees.

LOOKING FORWARD

We have a full pipeline of initiatives for the current financial year, which will position us well for the future.

- On the wagering front we will be launching our new website soon. We have just completed our 'alpha' release for the new site. It is focused on delivering a vastly

improved customer experience, enhanced functionality and is built in a manner to enable us to rapidly iterate, innovate and improve.

- Our new wagering brand will be revealed in the next month. We will be providing a seamless customer experience across all our touch points whether in-store, online or by phone.
- The year will also see our 'future state' retail concept move from prototype to reality. With our retail presence now certain in Queensland we will start the rollout of this new store format in a programmed manner that will continue over the next 5 years. Our new retail model will include self-service terminals with cash handling and ticket-in-ticket-out capability, virtual sport and racing consoles and new technologies so as to deliver an experience not able to be had elsewhere.
- Our other major wagering initiative for the year is implementing our 'nextgen' sports betting platform. We have a dedicated team working on this important project and we are on track to launch in the second half of the year. This project will deliver a significantly enhanced sports betting capability to the Group.
- Lotteries also have a full program of initiatives scheduled. This includes the rollout of a new retail channel in convenience fuel outlets. We believe this presents an opportunity to grow the lotteries category.
- Our team is well advanced with an exciting and innovative new draw game that will operate nationally. This is awaiting regulatory approvals.
- In addition we are aiming to roll out the very popular New South Wales Lucky Lotteries game across all our markets.
- We will in the year also be working on a new lotteries website to provide our customers with a 'state of the art' online experience.

In terms of trading performance I am pleased to be able to report that the strong start to the year, that we reported back in August when announcing our FY 14 result, has continued. Of particular note:

Our lotteries operation has experienced a strong run of jackpots with 10 jackpots at or above \$15 million mark year-to-date versus 8 last year. With 1st division pools averaging \$28.5 million which compares very favourably to the same time last year which averaged \$23.1 million. This performance has delivered a 12% lift in 1st quarter lotteries revenues on the same period last year.

We have seen a positive turnaround in wagering with 1st quarter wagering revenue up 1% on the prior corresponding period.

Finally in closing, and as you may have seen in the weekend papers, the Victorian Government has approved a variation to Tatts' public lotteries licence in Victoria expanding our authorised product offering to include scratch-its and daily keno. This action followed a decision by Intralot to no longer offer these products for sale in Victoria and Tasmania. We are delighted to have been provided with the opportunity to return to selling scratch-its in Victoria along with daily keno. These products are highly complementary with our existing portfolio of lottery games in Victoria, which includes the ever popular TattsLotto, Powerball and Oz Lotto.