

MANAGING DIRECTOR'S MESSAGE



David Attenborough

Managing Director and
Chief Executive Officer

During the year Tabcorp pursued opportunities to drive growth, and deliver sustainable returns for Tabcorp shareholders and our business partners.

We invested in our core businesses and strategies; deepened our capabilities in technology, marketing, risk and compliance; introduced a range of innovative and engaging products; and launched new initiatives to foster deeper, aligned relationships with our venue partners.

Tabcorp reported a Net Profit After Tax (NPAT) loss of \$20.8 million, which was adversely impacted by a number of significant items after tax of \$199.7 million. NPAT before significant items was \$178.9 million, down 3.8%. Statutory Group revenues were \$2,234.1 million, up 2.1%.

BUSINESSES IN REVIEW

Our core businesses – TAB, Media, Gaming Services and Keno – are in good shape. However, there were some discrete parts of the Group that underperformed during the year, namely Luxbet, Trackside and Sun Bets. We have clear plans to improve performance across all of these areas in FY18.

In Wagering and Media, the key performance metrics in our core TAB business were strong with digital turnover growth of 13.9% and fixed odds revenue growth of 15.0%

Across all of our businesses, we made good progress towards harnessing the power of our integrated digital and retail platforms. In Wagering and Media, we launched a digital commissions model for our retail partners. This enables venues to benefit from ongoing commissions from customers that they sign up to a TAB account, as well as on bets that customers place in their venue

through TAB's digital channels. The initiative is significant as it aligns our venue partners with our digital growth strategy. We also launched new and innovative products such as Quaddie Cash Out and Check and Collect, which differentiate us in a competitive market.

We continued to ensure the appeal of our Sky Media channels, securing key media rights in Western Australia and South Australia.

Performance in our UK start-up Sun Bets was disappointing. We have taken steps to reset its leadership and operations to drive improved performance in FY18, and the business is focused on customer acquisition and product development.

In Gaming Services, we progressed the geographic expansion of TGS, which substantially expanded its NSW presence with a five-year deal with Panthers Group covering four venues. TGS now has 10,650 electronic gaming machines under contract. Gaming Services also benefited from the acquisition of

Intecq, a complementary business in the sector.

Keno continued its recent transformation with Queensland joining in the pooling of jackpots between NSW, Victoria and the ACT. This creates bigger, faster-building Keno jackpot pools and a more appealing customer offer. In addition, we launched the new Mega Millions game in NSW and the ACT and went live with an in-venue digital play offer in more than 200 NSW clubs.

These initiatives were all aimed at building stronger product platform and organisational capability, which will drive a more sustainable business mix in the long-term.

Operating expenses at 22.5% of revenue in FY17 were driven by the acquisition of Intecq and investment in technology, marketing, risk and compliance. We expect our investment in these areas to reduce the risk associated with the Tatts integration. A thorough review of our cost base is underway, and we remain focused on disciplined expense

management in FY18.

SIGNIFICANT ITEMS

Tabcorp's FY17 statutory result was adversely impacted by a number of significant items of \$199.7 million after tax. In summary, these predominantly relate to costs associated with the AUSTRAC civil proceedings, which were settled earlier in the year, and the AFP Cambodia investigation; costs associated with our proposed combination with Tatts Group; and a larger than expected operating loss and related impairment for our UK start-up business, Sun Bets.

The combination with Tatts will create a company with a complementary, better balanced portfolio of gambling entertainment businesses and we expect it will deliver significant value to both Tabcorp and Tatts shareholders, and other stakeholders. This year we recognised significant items (after tax) of \$53.9 million related to the Tatts transaction, which

reflect the cost of the specialised legal, financial and advisory capability required to bring the combination to fruition, and the expenses incurred in relation to the structured financial instrument used to acquire a stake in Tatts as part of our transaction strategy.

Two significant items in relation to Sun Bets have adversely impacted our FY17 results, being the operating loss of \$47.6 million (after tax) and the impairment of the Sun Bets assets of \$20.7 million (after tax). While we had hoped for a better start to the business in its first 11 months of operation and with performance below expectations, we are confident that the steps that we have taken to recalibrate Sun Bets' leadership and operations will deliver an improved performance in the year ahead.

The statutory result also reflects the impact of a significant item of \$63.7 million (after tax), which relates to the AFP Cambodia investigation and the costs

incurred in responding to and settling the AUSTRAC civil proceedings, which were concluded in February 2017. Under the settlement Tabcorp paid a penalty of \$45.0 million, plus AUSTRAC's legal costs on an agreed basis. We are pleased to have concluded the proceedings and remain firmly committed to being an industry leader in regulatory compliance across all of our operations.

WIN-WIN PARTNERSHIPS

Core to Tabcorp's commercial success is the strength of our partnerships. Tabcorp is the largest financial contributor to the Australian racing industry. In FY17, Tabcorp distributed \$813.0 million to Australian racing from our operations, up 3.3% on last year.

During the year Tabcorp extended arrangements with important partners such as the Australian Hotels Association (NSW and Victoria), Clubs Queensland and Community Clubs Victoria. We

also extended our support of organisations such as the Australian Trainers Association and the National Jockeys Trust.

OUR EMPLOYEES AND PARTNERS

I would like to acknowledge the significant efforts of our more than 3,000 team members. Pleasingly, our employee engagement measures continued to improve in FY17. We are committed to making Tabcorp a great place to work and were once again the only company in the gambling sector recognised as an Employer of Choice for Gender Equality by the Workplace Gender Equality Agency.

I would also like to recognise the ongoing support of our many industry and business partners with whom we collaborate to deliver our products and services.

THE FUTURE

As we look to FY18, we are focused on completing our combination with Tatts. At the same time, we have a clear set of priorities to drive performance in our core businesses and deliver sustainable returns for our shareholders and partners.

Thank you for your support of Tabcorp.



David R H Attenborough
Managing Director and
Chief Executive Officer