



24 October, 2012

## **TATTS GROUP LIMITED'S 2012 ANNUAL GENERAL MEETING**

### **Chairman's and Chief Executive's Presentations**

Attached are copies of the Chairman's and Managing Director and Chief Executive's Addresses to be presented at the Tatts Group Limited's Annual General Meeting, commencing at 2.00pm (Brisbane time), Wednesday 24 October, 2012.

A copy of the slide presentation which accompanies these Addresses will follow.

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**TATTS GROUP LIMITED  
ABN 19 108 686 040  
ANNUAL GENERAL MEETING  
24 OCTOBER 2012**

**CHAIRMAN'S ADDRESS AND MANAGING DIRECTOR AND CHIEF  
EXECUTIVE'S ADDRESS**

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**CHAIRMAN'S ADDRESS**

Good afternoon Ladies and Gentlemen.

My name is Harry Boon, and I am Chairman of your Company, Tatts Group Limited. On behalf of my fellow Directors, I am pleased to welcome you to the 2012 Annual General Meeting here in our new home city of Brisbane. This meeting is also being web cast live, so a warm welcome also to everyone watching or listening on-line.

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

The Notice of Meeting and the Annual Report were sent to shareholders and the ASX on 20 September 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. From the far left of the stage are:

- Mr Kevin Seymour
- Ms Lyndsey Cattermole
- Chief Financial Officer, Mr Ray Gunston
- Managing Director and Chief Executive, Mr Dick McIlwain
- General Counsel and Company Secretary, Ms Penny Grau
- Mr Robert Bentley
- Mr Julien Playoust

I note that our remaining director, Mr Brian Jamieson is currently overseas and is therefore unable to attend today's meeting. Brian has requested that his apology be noted in the record.

Also present today we have Anton Linschoten representing our external auditors PricewaterhouseCoopers.

We are also joined today by a number of senior staff members from Tatts, who will be available to chat with shareholders after the meeting. We have Barrie Fletton - Chief Executive Wagering, Bill Thorburn - Chief Executive Lotteries, Michael Carr -

Chief Executive Maxgaming, Stephen Lawrie - Chief Information Officer, and Maree Patane, our Chief Auditor.

### **Agenda - Year in Review**

Before our Managing Director and Chief Executive, Mr Dick McIlwain provides his final update on the Group's performance, I would like to briefly provide an overview of our financial results, key strategic initiatives, our capital position, head office relocation, and our new Chief Executive.

**Firstly, our financial Results -** By virtually any measure, the 2012 financial year was an extremely rewarding year for Tatts and our shareholders.

For the 12-months to 30 June 2012, Tatts delivered:

- Revenue of \$3.9 billion, up 6.3%;
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$650 million, up 5.5%;
- Net Profit After Tax of \$319 million, up 15.9%;
- Earnings per Share of 23.8 cents, up 12.3%; and
- Dividend per Share of 23.0 cents, up 7.0%

These strong results will be further enhanced in 2013 by a full 12 months contribution from Tote Tasmania, with EBITDA in excess of \$12 million, and anticipated reduction in restructuring costs by over \$10 million.

Tatts is currently in the top 25 highest dividend yielding companies in the ASX200, with a very healthy dividend yield over 8.0%. Of course, with the cessation of the Tatts Pokies business in Victoria in August this year, our profits and dividends flowing from this business will terminate. Even so, our future dividend yield is anticipated to exceed the 4.5% average of the ASX200 index over the past six years.

Every year since 2007 has seen our dividend payout exceed 95% of profits, with this year no exception at 97.5%. As a comparison, the average dividend payout ratio across all companies in the ASX200 in 2012 was just 62%. The strong profitability and cash flow generated by Tatts gives your Board confidence that a high dividend payout ratio can continue into the foreseeable future.

Pleasingly, the rewards for shareholders have not been limited to dividends alone. Tatts' share price over the 12 month period to 30 June 2012 increased by over 9% to \$2.62, and has since continued to strengthen, closing at \$2.90 yesterday.

Another more complete measure of company performance is Total Shareholder Returns, or TSR, which measures the combined return to shareholders from share price movement and dividends over any given period. As this graph demonstrates, where Tatts is represented by the red line, Tabcorp the green line and the ASX200 the blue line, Tatts TSR of 24.3% over the last year to 30 June 2012, and almost 48% over the last three years, exceeds both Tabcorp and the ASX200 index.

**The Future is Now** - Our 2012 Annual Report was sent to shareholders in September under the banner "**The Future is Now**", to reflect the significant developments that are re-defining our business and our preparedness to embrace the future from a position of strength.

The 2012 year has seen significant developments that are benefitting our customers and shareholders. In particular, I refer to:

- the acquisition and successful integration of Tote Tasmania, and the 25 years extension of our Queensland sports betting licence;
- the expansion and integration of our Tatts Lotteries business, including a new 20-year agreement in the Northern Territory;
- the launch of **Tatts.com**, our integrated online wagering and lottery service;
- the introduction of the TattsBet Android and iPhone apps;
- the smooth and clean exit from the Tatts Pokies business, including the profitable sale of gaming machines;
- the diversification of our capital base through the Tatts Bonds retail offer; and
- the appointment in September this year of our new Chief Executive.

Now, I'd like to pick up a few of these highlights:

**Tatts.com** was launched in October 2011 to provide a one stop shop for customers to purchase both our lottery and wagering products, with an integrated single payment and collection process. The launch followed a major technology investment undertaken internally that significantly enhances the service offered to our existing customers, and extends our reach to potential new customers. The launch of mobile applications for **Tatts.com** will further improve this online service. If you haven't already done so, at the conclusion of the meeting I encourage anyone interested to look at the demonstrations of **Tatts.com** at the back of the room.

**Tatts Lotteries** is expected to deliver more than \$240 million EBITDA in 2013, exceeding the combined EBITDA from lotteries and gaming in 2006, our first year after listing on the ASX. Importantly, the Tatts Lotteries business has long term licences including 60 years in Queensland, 38 years in New South Wales, 6 years in Victoria, and a new 20 year arrangement in the Northern Territory. Queensland and New South Wales, where we hold the longest licences, delivered over 75% of our Lotteries EBITDA in 2012. Our strategic intent is to continue to seek opportunities to further bolster our growing lotteries business.

**TattsBet** recently secured the Tote Tasmania wagering licence for 50 years with a further 49 year option, and has accelerated its movement into the online market. The launch of our Android and iPhone apps has already proven very successful in a short period of time. Self-service wagering terminals have been launched and will be rolled out in coming years, subject to state regulatory requirements. Our Queensland sports betting licence has been extended for a further 25 years.

Meanwhile, the regulatory landscape for wagering continues to be tested in the courts, notably the High Court's decision on race field fees and the recent Federal

Court decision which in effect upheld retail wagering exclusivity in Victoria. Importantly, our mix of exclusive long term retail licences and expanded online services means TattsBet is well positioned to capitalise on any future wagering environment.

**Maxgaming** has meanwhile continued to improve profitability through prudent cost management and investment in technology during a period of continued regulatory uncertainty surrounding the Poker machine environment, particularly the political back and forth about pre-commitment.

**Bytecraft**, our service and repair business, has secured a major new Telstra contract to continue its strong and consistent growth of the past few years.

**Talarius**, our gaming business in the United Kingdom, has added seven new facilities in Motorway Service. There has been some modest growth during the year and this positions us for a sustainable recovery when the UK economy eventually improves. Some head winds are starting to turn our way, such as recent UK regulatory and taxation changes which will benefit Talarius.

**Financial Management** - Our balance sheet has been prudently positioned with three key objectives in mind:

1. maintaining our commitment to a high dividend payout ratio;
2. ensuring a smooth closure of the Tatts Pokies business whilst maintaining financial gearing ratios well within investment grade and complying with all bank covenants; and
3. preserving financial capacity to invest in future growth opportunities.

I am pleased to report that, at 30 June 2012, our debt to EBITDA ratio was a prudent 1.8 times, and our interest cover a healthy 6.3 times. These measures are expected to remain within investment grade levels even after the loss of the profits from the Tatts Pokies business.

In June 2012, longer term debt was secured through the issue of seven-year Tatts Bonds, raising \$194.7 million. We now have \$700 million in available funding capacity, and the flexibility to retire existing debt if no acquisitions are forthcoming, or to refinance that debt if required for acquisitions.

The strong cash flow generated by our business has been supplemented by the issue of shares to the 30% of shareholders who participate in our Dividend Re-investment Plan (DRP). Since being activated in April 2009, the DRP has seen Tatts retain almost \$280 million cash, a key balance sheet initiative in anticipation of the end of the Tatts Pokies business.

**Head Office relocation** - In many ways, this AGM is a form of homecoming for Tatts! As announced on 14 August, we are relocating Tatts' head office from Melbourne to Brisbane during the 2013 financial year. Queensland now represents over 50% of Tatts revenue, and more than half our Australian based employees are located in Queensland. Tatts will become the third largest Queensland-based ASX listed company. The costs associated with the move will continue to be expensed as

incurred, but will be no more material than the routine restructuring costs incurred in previous years as part of our ongoing business management.

**Corporate Social Responsibility and Diversity** - As a company involved in the gambling business, Tatts actively promotes the responsible use of our services. Responsible Gambling Codes of Conduct exist in each state and territory, and our growing online presence incorporates measures to empower customers to manage their maximum spend limits or to self-exclude altogether.

We believe that our people are a key asset of Tatts business and, to assist in attracting and retaining the most capable people, Tatts provides a broad array of employment opportunities, with flexible working arrangements wherever practicable. Our Australian workforce is comprised of 40% women, and 21% of our Senior Executives are women, along with 87% of our part-time and 68% of our casual workforce. Importantly, Tatts has implemented a number of initiatives around recruitment and development to foster a pool of talented women able to compete more effectively for senior roles in the future.

Finally, as reported in our Annual Report, despite having a relatively small environmental footprint, we do continue to seek ways to further reduce our impact. Rationalisation of office utilisation is a part of this, along with the ongoing review of our company vehicle fleet.

### **Questions on Notice**

The Notice of Meeting sent to all shareholders included an invitation to send questions in advance of the meeting. I thank those who took the time to respond.

Several questions were received regarding the payment of future dividends. As I stated earlier, the Board currently sees no reason to alter our practice of paying around 90% of profits to shareholders as a dividend. In fact, the past five years has seen Tatts pay over 95% of profits as a dividend. Of course a natural consequence of the Tatts Pokies business ending on 15 August this year is that group profit will be lower and therefore the dividend per share paid to shareholders will be lower.

This leads me to the other prominent question from shareholders, which concerned compensation from the Victoria Government for the non-renewal of the Gaming Operator's licence beyond 2012. We previously committed to vigorously pursue compensation that we believe Tatts is rightly entitled to, and, as announced on 16 August, Tatts has now commenced formal Supreme Court proceedings against the State of Victoria for more than \$490 million. At this stage it is not possible to know how long these proceedings will take or the likelihood of success. We need to be patient and allow the legal process to take its course.

### **Acknowledgements**

Before closing, I would like to thank my fellow directors and Tatts' management and staff who have again worked tirelessly in pursuit of improved outcomes for shareholders. This has been a difficult year for our people, with the closure of the

Tatts Pokies business, the acquisition of Tote Tasmania, various system integrations and implementations, and the announcement of our head office relocation. Through all this, Tatts people have ensured that we continue to deliver the required level of performance across the business. To each and every one of them, I say "thank you".

On the subject of people, I will also take this opportunity to advise shareholders that today will be Ray Gunston's last AGM as Chief Financial Officer. Ray will not be relocating from Melbourne to Brisbane, and will leave Tatts early next year. Ray has agreed to make himself available as and when required thereafter for a number of matters which he has led, including the US Private Placement Notes and the recent Tatts Bonds issue.

The former Tattersall's beneficiaries and initial Tattersall's shareholders will surely acknowledge Ray for the excellent work he did on the initial ASX listing of Tattersall's in 2005 and the subsequent merger of Tattersall's and UNiTAB in 2006. Ray has been an important and respected member of the management team at Tatts, and the Board thanks Ray for his contribution to the company and wishes him well for the future.

Financial management responsibilities will be taken over by our current Group General Manager Finance, Neale O'Connell. Neale joined Tatts in 2004 and has spent the past 8 years working closely with Ray and the team in meeting our accounting and finance needs. Neale will become Tatts' Chief Financial Officer in December this year as part of a structured and careful transition of that role.

Finally, as flagged at our AGM last year, our Managing Director and Chief Executive Dick McIlwain is retiring from Tatts after a long and distinguished career. Dick was the inaugural Chief Executive of UNiTAB when it first listed in 1999, with a market capitalisation of \$260 million. Dick has played a pivotal role in significant industry rationalisation, including the 2006 merger between UNiTAB and Tattersall's to form Tatts Group, and has since then presided over a period of substantial growth and acquisitions. Dick leaves Tatts in fantastic shape: market capitalisation around \$3.8 billion, a strong balance sheet, and an exciting future. On behalf of all shareholders I thank you Dick for your outstanding contribution and wish you well in your retirement.

As announced on 18 September, after an extensive global search, the board appointed Robbie Cooke to assume the reins as Chief Executive of Tatts early in 2013. Robbie has been Chief Executive of ASX-listed Wotif.com since 2007, and prior to that was the head of strategy and general counsel at UNiTAB. In now returning to the expanded Tatts Group, Robbie will bring a blend of experience in traditional retail wagering, as well as extensive online expertise, and, importantly, generational change at a time of a fast-changing business environment.

It is now my pleasure to hand over to Dick McIlwain, who will provide his final observations as Chief Executive and Managing Director of Tatts.

Thank you ladies and gentlemen.

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## MANAGING DIRECTOR AND CHIEF EXECUTIVE'S ADDRESS

Thank you Chairman!

The Chairman has outlined the financial results for FY2012. I will not take time today to rehash them or reinterpret them. I can add greater value by using them as the basis for some discussion about how the company is performing so far in FY2013.

The headlines to the media releases used for the first half and full year results for the last financial year tell a story about the potential of the Tatts Group businesses. These releases described the first half last year as a "good half". You could be forgiven for thinking that a good first half last financial year is going to mean that the first half this year will not produce too many gains. This view may even be more apparent than first thought when we see that the mid-year Saturday Megadraw fell into the second half of FY2012 rather than the first half of this financial year.

This Megadraw hurdle will distort any comparisons with the previous financial year. However, it always seems to be that some good comes with the bad when we compare one year with another. For example, TattsBet's fixed price book is producing much better win rates this financial year than last. TattsBet is also getting the benefit of a largely integrated Tote Tasmania business. Simultaneously, Bytecraft has started to see the benefits from a major pay phone maintenance contract from Telstra.

These outcomes are evident from the new benchmarks we claimed to have set when we released the full year results. So, let's set aside the micro impacts and look at whether the new benchmarks are sustainable.

Notwithstanding the loss of the end of year Megadraw, **Tatts Lotteries** has begun FY2013 as it left FY2012. Already, revenue growth is tracking the record levels set in FY2012. Improved EBITDA and EBIT are stronger as a result of the completion of the NSW Lotteries system integration. They are already ahead of the figures delivered for the corresponding period last year.

**TattsBet** has also enjoyed a wonderful start to the year with revenue up 9% on the same period last year. Tote Tasmania and the much better fixed price betting win rates this year are driving revenue and providing the base for improved EBITDA and EBIT. They were up by more than 15% on the same period last year. We expect that Tote Tasmania's EBITDA this financial year will exceed \$12M with totalisator and fixed price win rates from this business improving at a time when we are entering the primary southern racing season in Australia.

The new **Tatts Online** single wallet and the introduction of the Tatts.com internet site to NSW lottery players are helping both Tatts Lotteries and TattsBet. The ability of longstanding wagering account holders to use their account to purchase both lottery and wagering services in a single session from a single wallet is helping Tatts Lotteries more than TattsBet so far. However, the more popular and better known

Spring racing events are presenting us with an opportunity to showcase our streamlined and easy-to-use internet service to our lottery players wherever they live.

Meanwhile, the TattsBet App is about to become a Tatts.com App. The new App will offer users the same opportunity to buy lottery tickets and have a bet in a single session after it is released early next year. We are extremely confident that the online marketing opportunities it offers will deliver both growth and reduce service delivery costs in an environment where we have the opportunity to offer an unmatched suite of lottery, totalisator, and fixed price racing and sports wagering services from a single wallet. Already, 370,000 accountholders have signed on for a single wallet account, 42,000 have downloaded the TattsBet App and we have 70,000 followers on Facebook.

The enthusiasm for these convenient and less expensive digital service delivery channels needs to be tempered with the knowledge that our lottery and wagering businesses were built in the neighbourhoods covered by our licences. Recreational punters and lottery players continue to dominate our sales and attract a significant annual investment in facilities. They are the back bone of our business and are entitled to get the benefit of better facilities and operating systems. Last financial year alone, we re-equipped NSW Lotteries, introduced fully electronic TattsBet information displays throughout Tasmania, and commenced the extension of the TattsBet network with modern self-service facilities which are able to extend trading hours and economically support lower volumes at smaller venues. This is a fair reward for our retail customers who contributed 74% of TattsBet and 93% of Tatts Lotteries' sales last financial year.

Meanwhile, **Maxgaming** continues to hold its ground. Its EBITDA has slipped a little so far this year. EBIT is ahead of the same period last financial year off a marginally lower revenue base. We expect the full year outcome will be similar to the outcomes we achieved in FY2012.

**Bytecraft** is now over the worst of the cost for taking on a significantly increased work book. Revenue is up more than 25% for the first quarter. Margins have not moved significantly as a result of the initial establishment costs incurred for the Telstra PayCo contract.

**Talarius** has now fully cycled the VAT increases which held back growth in 2011 and is about to gain some benefit from the conversion from machine taxes to a gross profits tax. It has also seen off the distraction of the Olympics.

UK revenue was flat for the first 12 weeks of the current financial year before blossoming on the back of five new motorway sites and the acquisition of a small number of adult gaming centres in Cornwall. The set up costs hampered profit growth for the first four four week periods of the current financial year. The weeks from here on in are expected to show the benefit from sales at the extra sites, ongoing growth being produced by the continuing venues and better returns from *quicksilvergames.co.uk*.

**Tatts Pokies** ceased operations on 15 August. The transitional arrangements now in place are scheduled to end in the middle of February. This business and the transitional arrangements are expected to deliver EBITDA and EBIT a little above \$30M in the current financial year. Just over \$66M was collected for the sale of unwanted gaming machines.

There has been no change to our earlier advice on capital expenditure or interest expense for the financial year.

It is not our practice to give profit guidance. However, we are conscious of the changes flowing from the end of Tatts Pokies and its impact on profitability. Analysts who offer views on these matters think that EBITDA from our operations in FY2013 will be between \$471M and \$508M. The middle of this range of \$489M is a reasonable representation of the potential of the company based on trading for the first three months of the financial year. Without any accounting adjustments or contribution from any changes in the asset mix, this would be expected to convert into profit after tax of around \$215M. Using a dividend payout ratio somewhere within the 95% range, it implies a total dividend of around 15 cents per share.

We are in Queensland today, and we have quite a few of the initial TABQ Limited shareholders here. It is worth my while reflecting just a little on the merger which took the company away from Queensland in 2006. The merger gave UNiTAB shareholders 4.33 TTS shares for the \$2 they paid when TABQ listed in November 1999. A TTS dividend today of 23 cents would equate to a fraction of a cent short of \$1 on that 1999 share. Not a bad outcome. This outcome is even better when we think that these old \$2 shares have accumulated the equivalent of \$7.68 in fully franked dividends to date. And, by the way, with a TTS share price of around \$2.90 it means that each of the old \$2 shares are worth \$12.56.

I am very pleased to provide you with these numbers on my final appearance before shareholders at an AGM. Growth and sustainable shareholder returns have always been foremost in my mind as your chief executive. More importantly, from where I stand today, the company looks to be in pretty good shape with a good future.

Thank you, and good investing!

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