

New South Wales



**APPENDICES
TO THE SHARE
OFFER DOCUMENT**

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The Offer Document and the Appendices are dated 4 May 1998. Unless otherwise specified, statistical and operating information relating to TAB is as at 31 March 1998.

Unless otherwise indicated, statistics on revenue and turnover in the Australian wagering and gaming industries are derived from information provided by TGC.

APPENDIX 1

Regulatory and Gaming Industry Overview

Wagering and Gaming Industry Overview

The Australian wagering and gaming industries generated revenue of approximately \$10.0 billion in FY1997, with wagering representing 17% and gaming 83% of revenue.

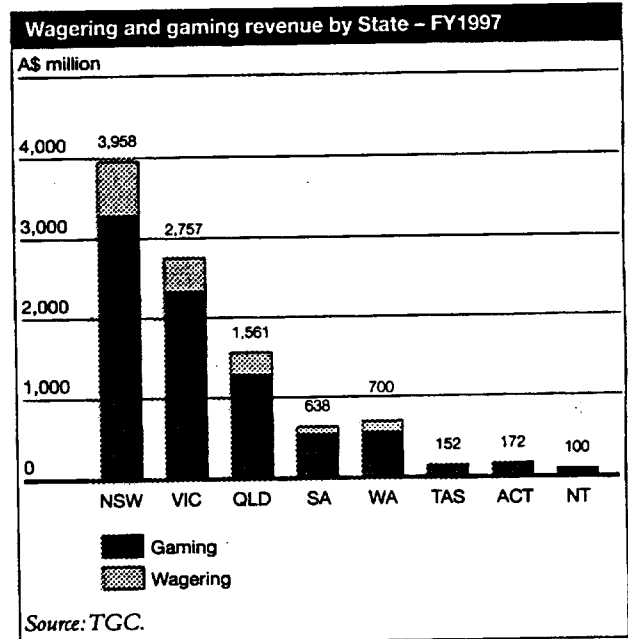
Revenue on wagering and gaming is measured by the difference between turnover, being the amount wagered, and the amount returned to bettors or players as winnings.

Wagering includes the conduct of off-course and on-course totalizators and fixed-odds wagering on thoroughbred, harness and greyhound racing and wagering on sporting events, such as cricket, rugby league, rugby union, Australian Rules football, golf and motor racing. The Australian wagering industry generated revenue of \$1.7 billion in FY1997.

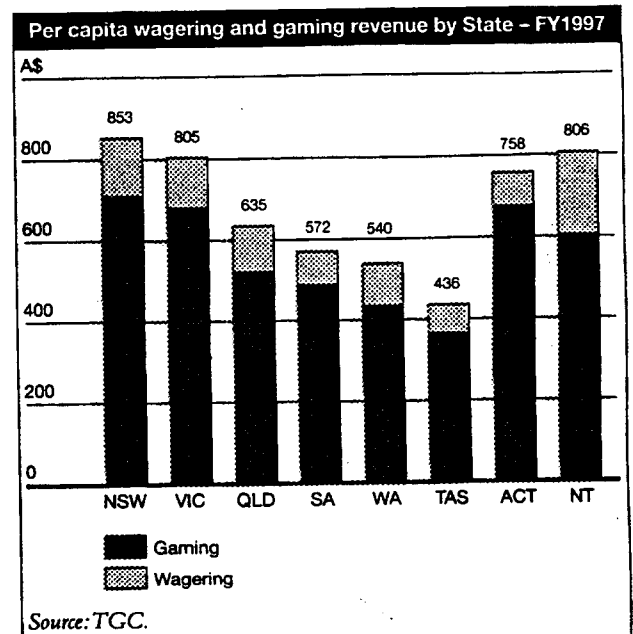
The main forms of gaming in Australia are the operation of gaming machines in hotels, casinos and clubs, the conduct of table games in casinos and other forms of gaming including lotto, lotteries, instant lotteries, pools, keno and bingo. The Australian gaming industry generated revenue of \$8.4 billion in FY1997.

Each State government regulates the conduct of wagering and gaming activities conducted in that State. State regulation has influenced the development of the wagering and gaming industries in the various States. In NSW, the Government regulates the permitted forms of wagering and gaming, issues licences to conduct such activities, specifies minimum payout ratios and sets the level of State wagering and gaming taxes. The NSW Government is also involved in the regulation and inspection of totalizator systems and in monitoring the integrity of all wagering and gaming systems.

The NSW wagering and gaming market is the largest in Australia, generating revenue of approximately \$4.0 billion in FY1997, more than \$1.2 billion higher than any other State.



Per capita wagering and gaming revenue in NSW during FY1997 was \$853 per person, the highest of any State.



Wagering in Australia

The principal form of wagering in Australia is totalizator wagering. In a totalizator, the operator pools all wagers and deducts a commission, with the remainder (exclusive of fractions) available to winning bettors. The amount of the winnings that bettors receive is not known until the totalizator pool is finalised at the commencement of the event.

Revenue earned by the totalizator operator is not directly related to the outcome of the event wagered upon, but is largely a function of the size of the pool and the rate of commission deducted. Therefore, revenue is a pre-determined percentage of the amount wagered and the totalizator operator's revenue is generally not affected by the result of the event.

An alternate form of wagering in Australia is fixed-odds wagering. Fixed-odds wagering differs from totalizators in that at the time a wager is placed, the bettor is informed as to the odds of the wager. The bettor's odds do not normally change, regardless of the pattern of wagering subsequent to the placement of this wager.

Operators of fixed-odds wagering can make a loss on any event they cover, and the extent of their profit or loss depends on the outcome of the event, the balancing of their book of wagers and the extent to which risk is laid off. Whilst fixed-odds wagering has historically been offered by bookmakers, some State-based totalizator operators have recently introduced fixed-odds wagering.

Traditionally, State-based totalizator operators have conducted off-course and on-course wagering businesses, Australian race clubs have operated on-course totalizators and bookmakers have taken fixed-odds wagers on racing and sporting events.

In Australia, there is one authorised off-course totalizator operator in each State. These totalizator operators can accept off-course totalizator wagers from people within the State (through any distribution channel) and from people interstate and overseas (through telephone or internet-accessed wagering accounts). Some state-based totalizator operators also operate on-course totalizators in Australia.

Australian race clubs are authorised to operate on-course totalizators. These clubs either operate the on-course totalizator themselves, or appoint a third party to operate the on-course totalizator on their behalf. Australian race clubs can accept on-course totalizator wagers from people present either at a race meeting or, in some States, at a wagering facility on an otherwise dormant racecourse.

Bookmakers can also take fixed-odds wagers on-course from patrons at the racecourse and, in some States (including NSW), receive fixed-odds wagers on racing and sporting events by phone at a racecourse.

Wagering in NSW

Wagering in NSW is governed principally by the Totalizator Act and the Gaming and Betting Act.

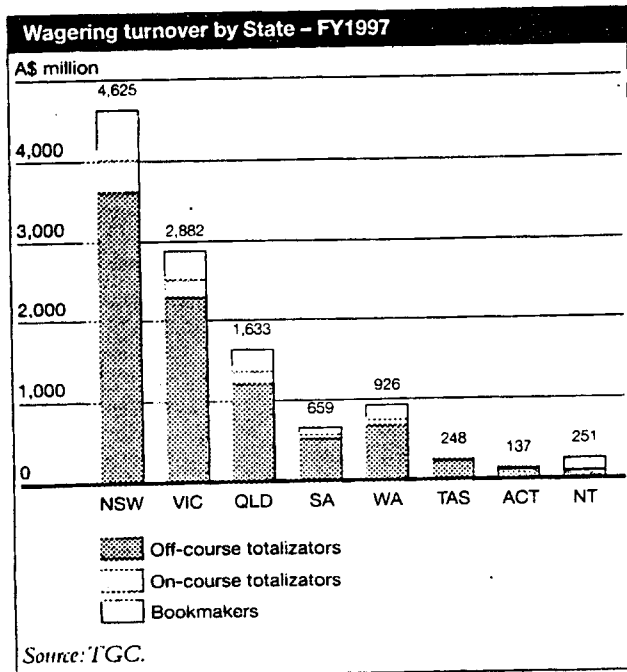
Only the holder of a licence under the Totalizator Act may conduct a totalizator in NSW. However, this restriction does not prevent interstate and international totalizator operators receiving wagers from people in NSW through telephone or internet-accessed wagering accounts.

The Totalizator Act prevents anyone other than TAB being granted an off-course totalizator licence in NSW before 2013. During that period, no-one except TAB and racing clubs may be granted on-course totalizator licences in NSW. Other than racing clubs, any holder of a totalizator licence in NSW must have and give effect to commercial arrangements with an entity nominated by the Racing Controlling Bodies and certain major racing clubs as the 'racing industry' for the purpose of the licence. Consistent with that requirement, TAB has entered into the RDA with NSW and the Racing Controlling Bodies.

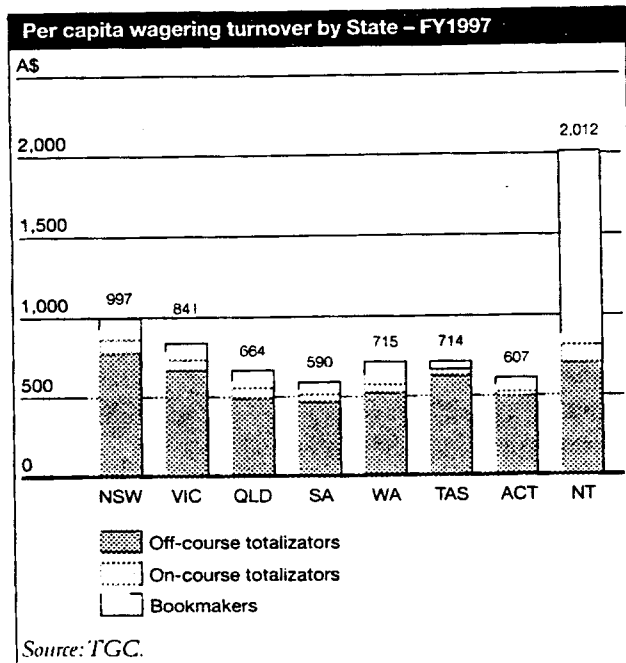
The Gaming and Betting Act provides for the licensing of bookmakers and Authorised Betting Auditoriums. The Gaming and Betting Act also regulates the advertising of wagering activities.

NSW is Australia's largest wagering market. In FY1997, approximately \$4.6 billion was wagered in NSW, with totalizators taking approximately \$4.0 billion and bookmakers taking the balance. Turnover generated by TAB, on-course totalizators and on-course bookmakers in NSW is substantially higher in each case than in any other State. The divergence in turnover between States partly reflects both the larger population base of NSW and the relatively higher propensity of people in NSW to wager.

Wagering and Gaming Industry Overview

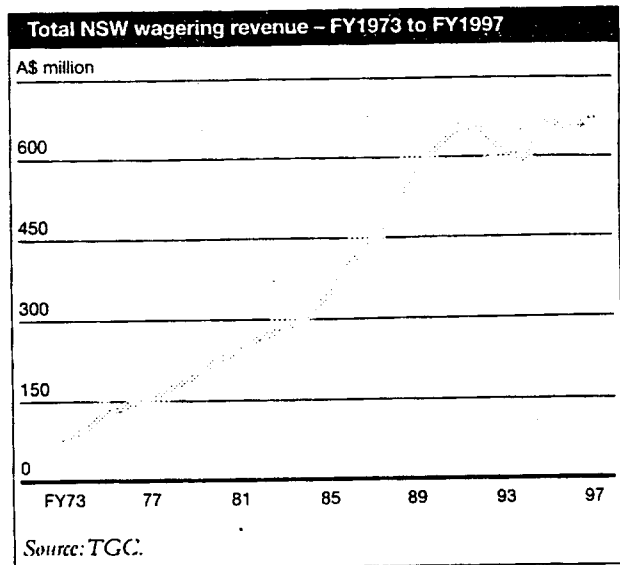


Per capita turnover from off-course totalizators is highest in NSW. Per capita turnover generated by on-course totalizators and bookmakers is highest in the Northern Territory. This in part reflects both the low population base of the Northern Territory and the large amount of wagers Northern Territory bookmakers receive from interstate and overseas bettors.



The NSW wagering market generated revenue of \$0.7 billion in FY1997. Approximately 86% of NSW wagering revenue in FY1997 was generated by TAB. Aggregate revenue from wagering in NSW has increased substantially between FY1973 and FY1997, with TAB's share of wagering revenue in NSW increasing from 63% to 86%. In the same period, bookmakers' market share has fallen from 25% to 5%.

During the 1990s, growth in wagering in NSW has slowed. Over this period, inflation has been relatively low and wagering revenue has also been affected by new sources of gaming competition, such as the opening of the Sydney casino and the introduction of poker machines into hotels. TAB believes that wagering growth has also been adversely affected by a decline in the attractiveness of the NSW Racing Industry product.



The NSW Racing Industry

The NSW Racing Industry comprises thoroughbred, harness and greyhound racing.

Each racing code has a Racing Controlling Body whose responsibilities include the regulation and control of the code, the provision of stewards for races and the registration and licensing of racing clubs and participants.

In FY1997, the NSW Racing Industry conducted 3,146 race meetings. These were held on 224 licensed racecourses.

NSW race meetings				
FY1997	Racing Code			Total
	Thoroughbred	Harness	Greyhound	
Racecourses	136	43	45	224
Race meetings	986	563	1,597	3,146

Source: DGR.

Increases in prize money on NSW thoroughbred races have not kept pace with increases in other States over the past five years. The offer of higher prize money has resulted in some trainers relocating and racing their horses in other States. The decrease in the number and quality of horses racing in NSW has led to a reduction in the size of fields for some races, which can result in reduced turnover on those races.

In December 1997, TAB entered into the RDA with NSW and the Racing Controlling Bodies. The basis of the RDA is that, in exchange for the staging of races and the provision of NSW race information, TAB will pay NSW fees calculated by reference to TAB's Net Wagering Revenue, Wagering Earnings and Gaming Earnings. These payments will then be divided between the three racing codes. A more detailed explanation of the RDA and these payments is provided in Appendix 4.

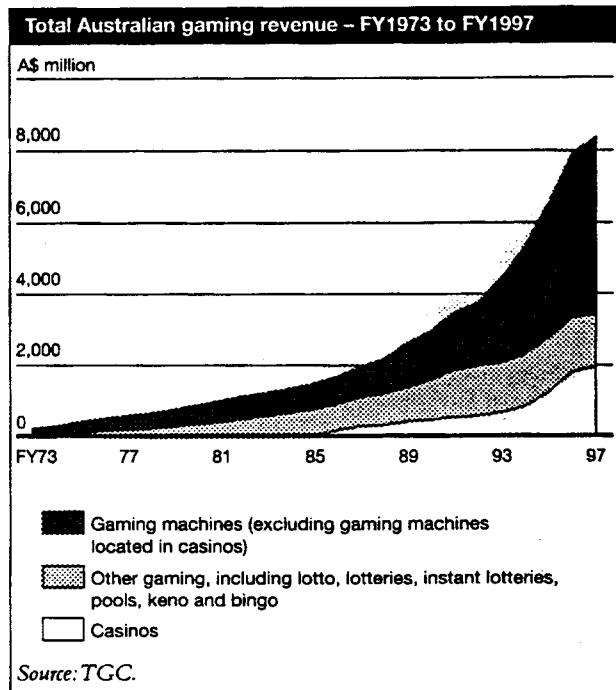
Under the RDA, TAB expects the NSW Racing Industry will receive more money from TAB than previously. TAB anticipates that the increased funding to the NSW Racing Industry may result in increased prize money, although there is no obligation for the NSW Racing Industry to do so. TAB believes increased prize money may contribute to improvements in the attractiveness of racing in NSW.

Gaming in Australia

Due to the substantial variation in the percentage return to players on the various gaming products, the discussion in the Appendices and the Offer Document in relation to gaming focuses on revenue, rather than turnover.

The gaming market in Australia is significantly larger than the wagering market. In the period from FY1973 to FY1997, Australian gaming industry revenue grew from \$0.2 billion per annum to \$8.4 billion per annum. The most significant period of growth in gaming has been since the mid 1980s with Australian annual gaming revenue increasing by over \$6.0 billion since FY1986.

The growth in gaming has primarily been due to the introduction of gaming machines in several States during this period and an increase in the number of casinos in Australia from four in 1984 to 14 at present.



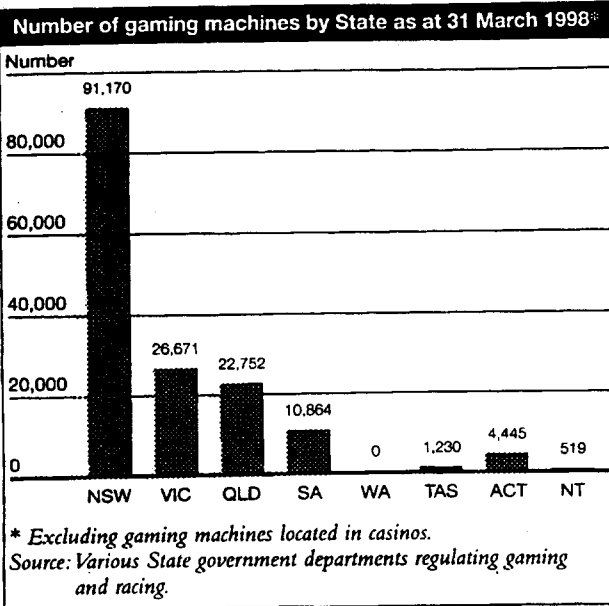
TAB expects that rates of growth in the Australian gaming market in future years may decrease, due to a reduction in the rate of installation of gaming machines and because casinos are now established in every State and capital city.

Gaming machines in Australia

There were almost 158,000 gaming machines (excluding gaming machines located in casinos) in operation as at 31 March 1998.

The regulatory regimes applying to gaming machines vary among States. Differences include the number of machines permitted in individual venues, the number and type of venues in which machines are permitted, the minimum return to players, State taxation rates and the permitted ownership of machines.

Wagering and Gaming Industry Overview



Other gaming in Australia

Casinos in Australia operate gaming machines and table games, such as blackjack, roulette and baccarat, typically as part of an integrated entertainment complex.

The Australian casino industry has expanded significantly since the first casino was opened in Hobart, Tasmania in 1973. With the growth in the industry, there has been a movement to larger casinos offering a greater range of entertainment. There are now 14 casinos in Australia, including one casino in every State capital city.

Other gaming activities such as lotto, lotteries, instant lotteries, pools, keno and bingo, offer large prizes to winners but often at high odds and at lower returns to players. These activities are generally operated by State governments or licensed third parties, including charities and sporting associations.

Gaming in NSW

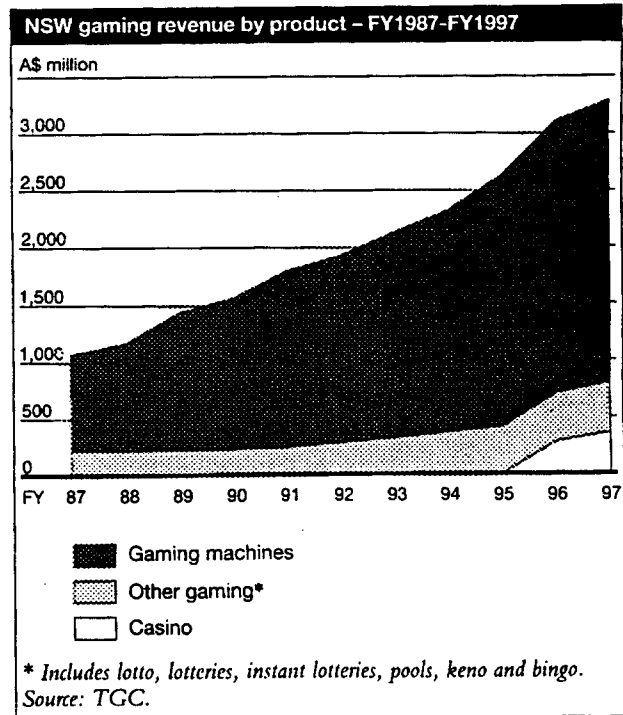
Gaming in NSW is governed by a number of statutes including the Liquor Act, the Registered Clubs Act, the Gaming and Betting Act, the *Casino Control Act 1992 (NSW)* and the *Public Lotteries Act 1996 (NSW)*. These statutes regulate matters such as the licensing of gaming activities, integrity requirements for gaming operators and gaming operations and NSW Government taxes and duties.

Gaming machines in hotels and registered clubs are regulated primarily by the Liquor Act and Registered Clubs Act. Those Acts also regulate matters such as the supply of

gaming machines, the maintenance of gaming machines and the technical standards applicable to gaming machines.

The NSW gaming market generated revenue of \$3.3 billion in FY1997. Approximately 76% of NSW gaming revenue in FY1997 was generated by gaming machines.

While revenue from other gaming products, such as lotteries, lotto and pools, has increased slowly over the last ten years, revenue from gaming machines has risen significantly in that period.



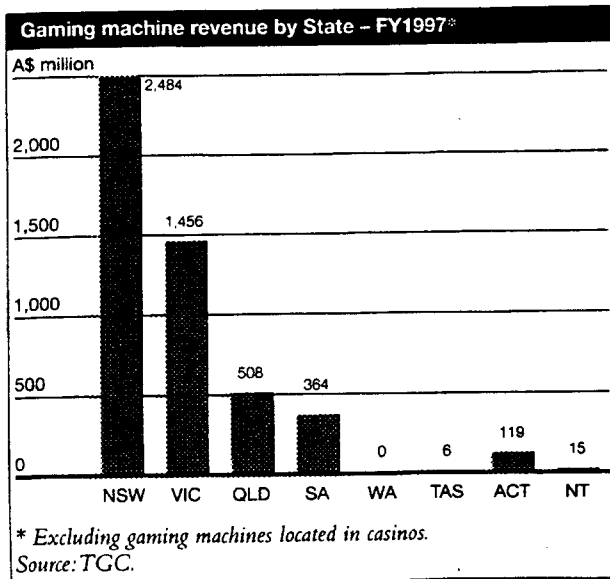
Gaming machines in NSW

Gaming machines have operated in NSW registered clubs since 1956 and in hotels since 1985.

Gaming machine revenue in NSW of approximately \$2.5 billion in FY1996 was more than \$1.0 billion higher than that in any other State, reflecting, amongst other things, the larger number of gaming machines operated in NSW.

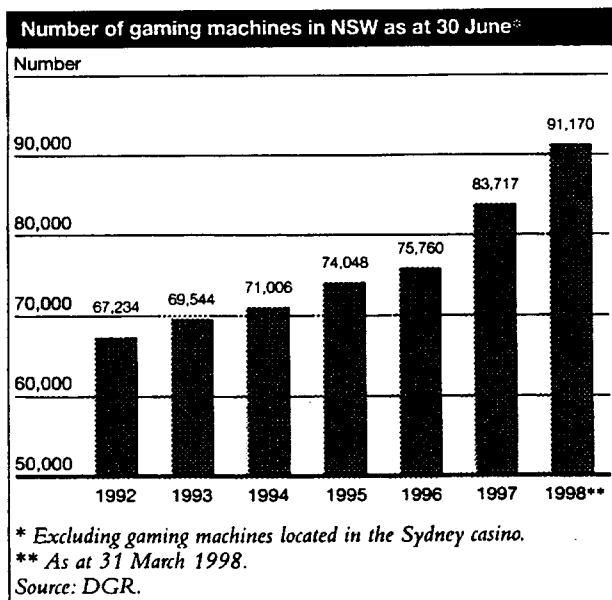
As at 31 March 1998, registered clubs and hotels operated 67,305 and 23,865 gaming machines respectively. In addition, the Sydney casino operated 1,500 gaming machines.

Registered clubs in NSW are not restricted in the number of gaming machines they may operate, whereas hotels are currently permitted to operate a maximum of 30 gaming machines.



Further growth in gaming machine revenue is expected to be driven by the installation of additional poker machines into hotels. Prior to 1997, hotels were permitted to operate only approved amusement devices (a specific form of gaming machine), subject to a maximum of 10 machines per hotel. From 1 April 1997, the limit on gaming machines in hotels was increased to 30 with hoteliers permitted to operate up to 15 poker machines, provided they operated at least an equal number of approved amusement devices.

The increase in the number of machines permitted in hotels has contributed to a 10.5% increase in the number of gaming machines in NSW during FY1997.



Proposed legislation currently before the NSW Parliament will, if passed, enable hoteliers to operate up to 15 poker machines and 15 approved amusement devices without the requirement that the hotel have at least as many approved amusement devices as poker machines. In addition, the proposed legislation will provide for hoteliers to acquire permits to increase the number of poker machines which they are entitled to operate within their limit of a total of 30 gaming machines. Each permit would entitle the hotelier to operate one additional poker machine above the standard allowance of 15 poker machines.

Subject to the passage of this legislation, during the balance of 1998, the NSW Government is planning to conduct an auction of additional permits to operate an aggregate of 2,300 poker machines for hoteliers who wish to operate more than 15 poker machines. Each hotelier would be limited to bidding for permits to operate a maximum of 15 poker machines per hotel.

Other gaming in NSW

The permanent Sydney casino opened in November 1997, and is licensed to operate a maximum of 1,500 gaming machines and 200 gaming tables. It replaced the temporary casino which opened in September 1995. The casino operator has the exclusive right to operate a casino in NSW until 2007, and its casino operating licence expires in 2093. The casino currently operates less than 2% of the total number of gaming machines in NSW.

Other gaming activities conducted in NSW include lotto, lotteries, instant lotteries, pools, keno and bingo. Statewide keno was available in over 900 registered clubs as at 30 April 1998.

Revenue on other gaming activities in NSW in FY1997 totalled \$803 million.

Competition in and across wagering and gaming markets

Competition in and across wagering and gaming markets in Australia has increased in recent years and is predominantly focused at the State rather than national level.

State-based totalizator operators currently operate off-course totalizator wagering activities exclusively in their respective States. They generally compete with gaming providers in their own State and, to some extent, with providers of other forms of leisure and entertainment. They also compete with operators of authorised betting auditoriums, on-course totalizators and

Wagering and Gaming Industry Overview

bookmakers in their own State. To some extent, State-based totalizator operators compete with interstate and international wagering operators, as bettors can place wagers with interstate or international wagering operators using telecommunications media such as telephones and personal computers.

Competition in gaming markets has intensified in recent years with the introduction of gaming machines into several States in the 1990s, the opening of new casinos and the expansion of lottery products, such as instant lotteries. Statewide keno games are also now in operation in most States. There are also several internet sites based outside Australia offering Australians wagering and gaming opportunities.

Appendix 2

Additional Financial Information

Additional Financial Information

The additional financial information provided in this Appendix supplements the financial information disclosed in Section 5 of the Offer Document. This additional financial information should be read together with Section 5 and the

Risk Factors in Section 6 of the Offer Document and the other information contained in the Offer Document and the Appendices.

Pro-forma financial information

Year to 30 June \$ million	1995 pro-forma	1996 pro-forma	1997 pro-forma	1998 pro-forma forecast ⁽¹⁾⁽²⁾
Off-course turnover	3,492.4	3,590.3	3,644.6	3,598.0
On-course turnover ⁽³⁾	-	-	-	303.0
Total wagering turnover	3,492.4	3,590.3	3,644.6	3,901.0
Less bettor returns ⁽⁴⁾	(2,928.2)	(3,009.2)	(3,053.7)	(3,268.4)
Total wagering revenue⁽⁵⁾	564.2	581.1	590.9	632.6
Sky Channel revenue ⁽⁶⁾	-	-	-	14.5
Other	3.4	5.0	7.1	2.9
Total revenue	567.6	586.1	598.0	650.0
Less				
NSW state wagering tax	156.6	161.3	164.0	175.6
NSWR Fees	147.2	151.6	153.6	161.5
Other operating expenses:				
Distribution network	105.8	109.1	113.6	122.7
Salaries, wages and related costs	35.4	37.1	39.8	42.2
On-course ⁽³⁾	-	-	-	14.8
Sky Channel expenses ⁽⁶⁾	-	-	-	10.5
Other	10.6	15.2	17.2	14.1
Total operating expenses	455.6	474.3	488.2	541.4
EBITDA	112.0	111.8	109.8	108.6
Depreciation	17.7	14.5	13.8	13.9
Amortisation ⁽⁶⁾	-	-	-	3.5
EBIT	94.3	97.3	96.0	91.2

- (1) The pro-forma forecast for FY1998 is based upon audited results for the six months to 31 December 1997 and unaudited results for the three months to 31 March 1998 adjusted as set out on page 34 of the Offer Document and forecast results for the three months to 30 June 1998.
- (2) The Forecast Reported Result for FY1998 is for EBIT of \$47.4 million and profit after income tax of \$47.4 million. Of this latter amount, \$20.7 million was distributed to the NSW Racing Industry in respect of the period to 30 September 1997.
- (3) On-course wagering turnover, revenue and operating expenses are included from 1 October 1997.
- (4) Net of fractions and unclaimed bettor returns.
- (5) Revenue and expenses for Sky Channel are included from 15 April 1998.
- (6) Wagering licences were acquired by TAB on 6 March 1998 and have been amortised from that date. Goodwill on the acquisition of Sky Channel has been amortised from the date of acquisition by TAB. Amortisation of these licences and goodwill is not deductible for Federal income tax purposes.

Half yearly analysis and Forecast Reported Result

The table below discloses the split of the pro-forma forecast for FY1998 between the six months to 31 December 1997 and the pro-forma forecast result for the six months to 30 June 1998.

The table also discloses the Forecast Reported Result for FY1998, which is the result expected to be reported by TAB in its 1998 annual report and reflects the actual arrangements in place during FY1998.

Pro-forma and Forecast Reported Result

\$ million	Pro-forma 6 months to 31/12/97 ⁽¹⁾	Pro-forma forecast 6 months to 30/6/98 ⁽²⁾	Pro-forma forecast 12 months to 30/6/98	Forecast Reported Result 12 months to 30/6/98
Off-course turnover	1,859.3	1,738.7	3,598.0	3,598.0
On-course turnover ⁽³⁾	107.8	195.2	303.0	303.0
Total wagering turnover	1,967.1	1,933.9	3,901.0	3,901.0
Less better returns	(1,648.5)	(1,619.9)	(3,268.4)	(3,296.4)
Total wagering revenue	318.6	314.0	632.6	604.6
Sky Channel revenue ⁽⁴⁾	-	14.5	14.5	14.5
Other	1.2	1.7	2.9	22.9
Total revenue	319.8	330.2	650.0	642.0
Less				
NSW state wagering tax	88.4	87.2	175.6	250.0
NSWR fees	81.8	79.7	161.5	122.9
Other operating expenses:				
Distribution network	62.0	60.7	122.7	122.7
Salaries, wages and related costs	21.2	21.0	42.2	42.2
On-course ⁽³⁾	5.3	9.5	14.8	14.8
Sky Channel expenses ⁽⁴⁾	-	10.5	10.5	10.5
Other	8.1	6.0	14.1	14.1
Total operating expenses	266.8	274.6	541.4	577.2
EBITDA	53.0	55.6	108.6	64.8
Depreciation	6.9	7.0	13.9	13.9
Amortisation	-	3.5	3.5	3.5
EBIT	46.1	45.1	91.2	47.4
Net interest (income)/expense				(1.6)
Profit before income tax				49.0
Income tax				1.6
Profit after income tax				47.4
Distributions to NSW Racing Industry ⁽⁵⁾				20.7
Profit after income tax and distributions				26.7

- (1) The pro-forma results for the six months to 31 December 1997 are set out in the Investigating Accountants' Report in Appendix 3.
- (2) Pro-forma forecast results for the six months to 30 June 1998 are based on three months actual (unaudited) results to 31 March 1998 adjusted as set out on page 34 of the Offer Document, plus three months forecast results to 30 June 1998.
- (3) On-course wagering turnover, revenue and expenses are included from 1 October 1997.
- (4) Revenue and expenses for Sky Channel are included from 15 April 1998.
- (5) Distributions paid in respect of the period to 30 September 1997.

Additional Financial Information

The difference between the Forecast Reported Result and the pro-forma forecast for FY1998, presented in the table above, arises because the Forecast Reported Result reflects the following:

- for the period 1 July 1997 to 5 March 1998, TAB operated under the Totalizator (Off-Course Betting) Act, and made payments to the NSW Government at a different rate and on a different basis to the rate of NSW state wagering tax now payable under the Totalizator Act. From 6 March 1998, the Totalizator Act imposed a 28.2% NSW state wagering tax on wagering revenue exclusive of unclaimed bettor returns. Previously TAB paid a commission to the NSW Government based on wagering turnover;
- for the period 1 July 1997 to 30 September 1997, distributions were made to the NSW Racing Industry in accordance with the Totalizator (Off-Course) Betting Act. With effect from 1 October 1997, the payment by TAB of the Product Fee and Wagering Incentive Fee to NSWGR commenced in accordance with the RDA;
- the recognition of a one-off contribution of \$19.4 million from the NSW Government to TAB in FY1998 to facilitate the payment of amounts due to NSWGR in accordance with the transitional arrangements under the RDA; and
- profit on sale of TAB's Hungarian totalizator project.

Supplementary pro-forma financial information

TAB acquired Sky Channel on 15 April 1998 and hence the forecast for FY1999 incorporates the first full year contribution to earnings from Sky Channel. To assist in analysing the impact of the acquisition of Sky Channel on TAB, the following table has been prepared to provide supplementary pro-forma financial information in relation to FY1997 and FY1998 as if Sky Channel had been acquired on 1 July 1996.

This supplementary table reflects:

- TAB's pro-forma result for FY1997;
- TAB's pro-forma result for the six months to 31 December 1997 and pro-forma forecast result for the six months to 30 June 1998;
- Sky Channel's audited result for FY1997 and the six months to 31 December 1997 as presented in the Sky Channel financial statements;
- Sky Channel's forecast result for the six months to 30 June 1998; and
- pro-forma consolidation adjustments to remove the effect of inter-company revenue and expenses and to include goodwill amortisation.

Supplementary pro-forma financial information⁽¹⁾

\$ million	Supplementary	Supplementary	Supplementary	Supplementary
	pro-forma 12 months to 30/6/97 ⁽²⁾	pro-forma 6 months to 31/12/97 ⁽²⁾	pro-forma forecast 6 months to 30/6/98	pro-forma forecast 12 months to 30/6/98 ⁽³⁾
Revenue	598.0	319.8	315.7	635.5
TAB	67.2	36.2	36.7	72.9
Sky Channel	(5.8)	(2.9)	(2.8)	(5.7)
Elimination on consolidation ⁽⁴⁾				
Pro-forma combined revenue	659.4	353.1	349.6	702.7
Operating expenses⁽⁵⁾	488.2	266.8	265.2	532.0
TAB	50.9	27.0	25.7	52.7
Sky Channel	(5.8)	(2.9)	(2.8)	(5.7)
Elimination on consolidation ⁽⁴⁾				
Pro-forma combined expenses	533.3	290.9	288.1	579.0
EBITDA before abnormal items	109.8	53.0	50.5	103.5
TAB	16.3	9.2	11.0	20.2
Sky Channel				
Pro-forma combined EBITDA	126.1	62.2	61.5	123.7
Depreciation	13.8	6.9	6.7	13.6
TAB	1.3	0.7	0.7	1.4
Sky Channel				
Pro-forma combined depreciation	15.1	7.6	7.4	15.0
Goodwill amortisation	-	-	1.0	1.0
TAB	-	-	-	-
Sky Channel	11.9	5.9	6.0	11.9
Pro-forma goodwill amortisation ⁽⁶⁾				
Pro-forma combined amortisation	11.9	5.9	7.0	12.9
EBIT before abnormal items	96.0	46.1	42.8	88.9
TAB	15.0	8.5	10.3	18.8
Sky Channel	(11.9)	(5.9)	(6.0)	(11.9)
Pro-forma goodwill amortisation ⁽⁶⁾				
Pro-forma combined EBIT before abnormal items	99.1	48.7	47.1	95.8

- (1) The supplementary pro-forma financial information does not necessarily reflect the combined results of operations that would have occurred had Sky Channel been wholly owned by TAB from 1 July 1996.
- (2) Sky Channel's results for FY1997 and the six months to 31 December 1997 are sourced from Sky Channel's financial statements which have been audited by Ernst & Young.
- (3) The supplementary pro-forma forecast for FY1998 is based upon audited results (excluding abnormal write-offs after tax of \$4.9 million for Sky Channel) for the six months to 31 December 1997 and unaudited results for the three months to 31 March 1998 adjusted as set out on page 34 of the Offer Document, and forecast results for the three months to 30 June 1998.
- (4) Elimination on consolidation reflects inter-company charges between Sky Channel and TAB in respect of site subscription revenue and domestic transponder subletting costs.
- (5) Includes NSW state wagering taxes, NSW fees and other operating expenses.
- (6) Goodwill arising from the acquisition of Sky Channel has been amortised from 1 July 1996 as if Sky Channel had been acquired on that date.

Additional Financial Information

Performance review – TAB

In recent years, TAB has focused on growing turnover through coverage of additional race meetings and the promotion of new and existing wagering products.

The major variable expenses of TAB reflected in the pro-forma financial results are NSW state wagering taxes payable to the NSW Government, fees payable to NSWGR, other operating expenses and depreciation. NSW state wagering taxes are set at 28.2% of wagering revenue exclusive of unclaimed bettor returns generated from totalizators and 20.0% of fixed-odds sports wagering revenue exclusive of unclaimed bettor returns. The fees payable to NSWGR are a function of the wagering revenue generated by TAB and the earnings derived by TAB's wagering business. Therefore, the focus of this performance review is on wagering turnover, TAB's other operating expenses and depreciation.

Other operating expenses include:

- distribution network expenses (including commissions payable to agents, ClubTABs and PubTABs and communication costs);
- salaries, wages and related costs of TAB employees; and
- other expenses.

For a further description of TAB's operating expenses, see Section 4 of the Offer Document.

A summary of TAB's financial performance for the three years to FY1997 and the six months to 31 December 1997 is provided below.

Comparison of FY1996 to FY1995

Off-course wagering turnover increased by 2.8% to \$3,590.3 million in FY1996 from \$3,492.4 million in FY1995. The increase in turnover was due, in part, to the coverage of additional race meetings.

The rate of turnover growth was affected by increased competition from the opening of the temporary Sydney casino in September 1995, a significant number of race meetings being cancelled due to inclement weather and the partial erosion of customer confidence due to uncertainty associated with racing conducted in adverse weather conditions.

Other revenue increased by 47.1% to \$5.0 million in FY1996 from \$3.4 million in FY1995 principally due to an increase in the proceeds of sale on the disposal of fixed assets from \$1.7 million in FY1995 to \$3.3 million in FY1996.

TAB's other operating expenses increased by 6.3% to \$161.4 million in FY1996 compared with \$151.8 million in FY1995.

Distribution network expenses increased by 3.1% to \$109.1 million in FY1996 from \$105.8 million in FY1995. This increase was attributable to an increase in variable expenses associated with higher turnover, principally agents' commissions, offset in part by an increased percentage of turnover generated through lower cost distribution channels. In FY1996, PhoneTAB turnover increased by 5.8% and turnover through PubTABs and ClubTABs increased by 10.3% while turnover in agencies and branches, decreased by 1.1%. This decrease was partially attributable to the closure of 25 agencies.

Off-course wagering turnover

	FY1995 \$m	FY1996 \$m	% change	Increase/ (decrease) in outlets
Agencies, branches and sub-agencies	2,135	2,111	(1.1)	(25)
PubTABs and ClubTABs	961	1,060	10.3	62
Account sales	396	419	5.8	-
Total	3,492	3,590	2.8	37

Salaries, wages and related costs increased by 4.8% to \$37.1 million in FY1996 from \$35.4 million in FY1995, principally due to an increase in permanent staff numbers from 474 to 489, and a 3.0% remuneration increase for most staff employed pursuant to industrial awards.

Other expenses increased by 43.4% to \$15.2 million in FY1996 from \$10.6 million in FY1995. This was due mainly to a \$0.8 million increase in advertising expenses, a \$1.7 million increase in the value of fixed assets disposed of from \$1.4 million to \$3.1 million and the benefit in FY1995 of a net refund of sales tax previously provided for.

Depreciation decreased by 18.1% to \$14.5 million in FY1996 from \$17.7 million in FY1995, principally due to a reduction in computer equipment depreciation of \$3.3 million as a result of TAB's computerised selling terminals and other computer hardware being fully depreciated.

As a result of the above, TAB's pro-forma EBIT increased by 3.2% to \$97.3 million in FY1996 from \$94.3 million in FY1995.

Comparison of FY1997 to FY1996

Off-course wagering turnover increased by 1.5% to \$3,644.6 million in FY1997 from \$3,590.3 million in FY1996. The increase in turnover was due, in part, to the coverage of additional Sunday race meetings.

The rate of turnover growth was adversely affected by the occurrence of certain events beyond TAB's control. These included a large number of race meetings being cancelled due to inclement weather, reduced patronage associated with the impact of the television broadcasts of the Atlanta Olympic Games and increased competition from the first full year of operation of the temporary facilities of the Sydney casino.

Other revenue increased by 42.0% to \$7.1 million in FY1997 from \$5.0 million in FY1996. The increase was mainly attributable to an increase in the proceeds of sale on the disposal of fixed assets from \$3.3 million in FY1996 to \$5.7 million in FY1997 resulting from the disposal of the TAB car fleet.

TAB's other operating expenses increased by 5.7% to \$170.6 million in FY1997 compared with \$161.4 million in FY1996.

Distribution network expenses increased by 4.1% to \$113.6 million in FY1997 from \$109.1 million in FY1996. This was primarily attributable to an increase in the rate of commission payable to agents. In FY1997, turnover in PubTABs and ClubTABs increased by 7.0% to \$1,134 million following the 10.3% increase in FY1996, while turnover in agencies and branches decreased by 0.8%. An additional 33 agencies were closed.

Off-course wagering turnover

	FY1996 \$m	FY1997 \$m	% change	Increase/ (decrease) in outlets
Agencies, branches and sub-agencies	2,111	2,095	(0.8)	(33)
PubTABs and ClubTABs	1,060	1,134	7.0	16
Account sales	419	416	(0.7)	-
Total	3,590	3,645	1.5	(17)

Salaries, wages and related costs increased by 7.3% to \$39.8 million in FY1997 from \$37.1 million in FY1996 principally due to the incremental costs associated with an increased number of Sunday race meetings covered by TAB and a 3.0% increase in salaries and wages for most staff employed pursuant to industrial awards. Permanent staff numbers remained constant over the period.

Other expenses increased by 13.2% to \$17.2 million in FY1997 from \$15.2 million in FY1996, principally due to an increase in the value of fixed assets disposed of from \$3.1 million to \$5.9 million from the sale of TAB's car fleet. The increase was matched by an increase in other revenue in FY1997 as described above.

Depreciation decreased by 4.8% from \$14.5 million in FY1996 to \$13.8 million in FY1997 principally due to lower motor vehicle depreciation resulting from the disposal of the TAB car fleet and computer equipment during FY1996.

As a result of the above factors, TAB's pro-forma EBIT decreased by 1.4% to \$96.0 million in FY1997 from \$97.3 million in FY1996.

Results for six months ended 31 December 1997

Off-course wagering turnover for the first six months of FY1998 was \$1,859.3 million. As TAB previously prepared its management accounts on a four-weekly cycle, results for the corresponding period in FY1996 are not comparable.

Turnover for the six months to 31 December is historically higher than during the second half of the year, primarily reflecting the increased turnover associated with the Spring Racing Carnival.

TAB became entitled to the economic benefit from the operation of on-course totalizators for events on which TAB conducted off-course totalizators from 1 October 1997. Therefore, on-course wagering turnover of \$107.8 million was included in the result for the six months to 31 December 1997.

Other revenue of \$1.2 million primarily comprised rent on properties owned by TAB and asset sales.

Other operating expenses for the six months to 31 December 1997 were \$96.6 million compared to \$107.7 million forecast for the remainder of FY1998.

Distribution network expenses were \$62.0 million and are forecast to be marginally lower in the second half of FY1998 as a result of the settlement of the agents' claim in the first half of FY1998.

Salaries, wages and related costs were \$21.2 million and are comparable to those forecast for the second half of FY1998.

On-course expenses for the six months to 31 December 1997 of \$5.3 million were lower than the forecast for the remainder of FY1998 of \$9.5 million as TAB only incurred these expenses from 1 October 1997.

Additional Financial Information

Other expenses of \$8.1 million for the first six months of FY1998 were higher than the \$6.0 million forecast for the second half of FY1998 as a result of the reversal of a sales tax accrual in the second half of FY1998.

Depreciation for the first six months to 31 December 1997 of \$6.9 million was comparable to the forecast for the second half of FY1998.

As a result of the above factors, TAB's pro-forma EBIT was \$46.1 million in the six months to 31 December 1997, which is forecast to decrease to \$44.6 million for the remainder of FY1998, before amortisation and the effects of the Sky Channel acquisition.

Performance review – Sky Channel

The following performance review is based on the financial statements of Sky Channel for FY1996, FY1997 and the six months ended 31 December 1997, each audited by Ernst & Young and the unaudited results of Sky Channel for the six months ended 31 December 1996.

Comparison of FY1997 to FY1996

Sky Channel's revenue increased by 2.8% to \$67.2 million in FY1997 from \$65.4 million in FY1996 principally due to an increase in subscription rates for hotels and clubs and State-based totalizator operators. Excluding the effect of \$4.3 million in other revenue in FY1996 resulting from a contribution by a new shareholder, revenue would have increased by 10.0%.

Sky Channel's operating expenses decreased by 4.3% to \$50.9 million in FY1997 from \$53.2 million in FY1996. The decrease was principally due to costs associated with the rationalisation of the Sky Channel international telecast service in FY1996.

As a result of the foregoing, EBIT increased by 44.2% to \$15.0 million in FY1997 from \$10.4 million in FY1996. Federal income tax attributable to operating profit increased to \$5.4 million in FY1997 from \$2.4 million in FY1996 principally due to the increase in operating profit and the other revenue of \$4.3 million in FY1996 (described above), which was non-assessable to income tax. As a result, operating profit after income tax increased by 15.7% to \$9.6 million in FY1997 from \$8.3 million in FY1996.

Result for the six months ended 31 December 1997

Sky Channel revenue increased by 9.7% for the six months ended 31 December 1997 to \$36.2 million from \$33.0 million in the corresponding period in the prior year.

Sky Channel's operating expenses of \$27.0 million for the six months ended 31 December 1997 were 5.9% higher than the \$25.5 million in the corresponding period in the prior year due to annual increases in rights fees payable to Australian race clubs pursuant to fixed price increases contained in their programming agreements. Operating expenses for the six months to 30 June 1998 are forecast to fall by 4.8% to \$25.7 million due to the additional programming costs incurred in the six months to 31 December associated with the Melbourne Cup.

As a result of the above factors, Sky Channel's EBIT before abnormal items of \$8.5 million for the first six months of FY1998 was 25.0% higher than the \$6.8 million in the corresponding period in the prior year. EBIT before abnormal items is forecast to increase by 21.2% to \$10.3 million for the remainder of FY1998.

Included in the results for the six months to 31 December 1997 were abnormal items of \$7.3 million (\$4.9 million after tax), of which \$6.1 million (\$3.9 million after tax) related to previously deferred pay television costs considered to be no longer recoverable. The remainder related to write-offs of software development and links and bearer costs. These write-offs resulted from a change in the Directors' strategy in relation to the commercial exploitation of pay television rights.

Forecast Reported Result cash flow

The table below discloses the pro-forma forecast cash flow for FY1998 as set out in Section 5 of the Offer Document along with the Forecast Reported Result cash flow for FY1998.

Pro-forma forecast and Forecast Reported Result cash flow		
Year to 30 June \$ million	1998 pro-forma forecast cash flow⁽¹⁾	1998 Forecast Reported Result cash flow
EBITDA	108.6	64.8
Decrease/(increase) in working capital	0.5	12.8
Operating cash flow before interest and income tax	109.1	77.6
Purchase of property, plant and equipment		
Wagering	(17.1)	(17.1)
Gaming	(3.3)	(3.3)
Sky Channel	-	-
Proceeds from sale of non-current assets	1.6	1.6
Net cash flow before interest and income tax	90.3	58.8
Net payments for Sky Channel ⁽²⁾		(100.6)
Interest income		2.1
Net cash flows from financing activities		121.5
Distribution to Racing Industry		(55.4)
Payments for licences ⁽³⁾		(80.6)
Net cash flow		(54.2)

- (1) Cash flows relating to Sky Channel are only included from 15 April 1998 and the investment and financing cash flows associated with the acquisition of Sky Channel and the wagering and gaming licences are excluded.
- (2) The acquisition of Sky Channel for a total consideration of \$257.1 million will be satisfied in part by shares to be issued to PBL and News (at the same time as Shares are transferred pursuant to the Offer) with a value of \$100 million (net of a related cash adjustment) and deferred consideration with a fair value of \$54 million.
- (3) The acquisition of the wagering and gaming licences for a total consideration of \$338 million was satisfied in part by Shares issued with a value of \$238 million and the set-off of a one-off NSW Government revenue contribution of \$19.4 million as a consequence of the revised racing industry arrangements.